



**a2a**

SHAPING THE FUTURE TODAY

2019

# Report on Operation



# Report on Operations 2019

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This is a translation of the Italian original “Relazione sulla Gestione 2019” and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available at the website [www.a2a.eu](http://www.a2a.eu).

## Letter to Shareholders

During 2019, A2A consolidated the process, started in previous years, of territorial aggregation of the main Lombardy public utilities and laid the foundations for further development of the Group on the “Multi-utility of Territories” model.

It also strengthened the basis for growth by increasing investment by 25% and promoting M&A operations.

Economic and financial results exceeded expectations: net profit increased by 13% compared with the previous year and EBITDA was in line with the excellent result of 2018 (1,234 million euro, +3 million euro compared with the previous year), despite the lower contribution of more than 100 million euro from environmental incentives and certificates.

Net Financial Position at December 31, 2019 amounted to 3,154 million euro: the strong operating cash flow generated in the year was used to finance the significant capex, with cash generation outflows, net of the changes in the consolidation scope and the effects of the introduction of IFRS 16, of 76 million euro.

A2A also confirms its green vocation by continuing its growth strategy in the renewable energy sector and its role as an active operator in energy transition, as well as expanding waste treatment capacity with the aim of closing the environmental cycle. This is evidenced by some important transactions concluded in 2019: the start-up of the plastic treatment and sorting plant in Muggiano (Milan) and the Nuvolera (BS) purifier, the acquisition of Electrometal, a company specializing in the recovery and treatment of industrial waste, the entry into the Suncity Energy Group, active in energy efficiency and distributed generation services for small and medium enterprises, the agreement signed in 2019 with the Talesun Group to develop new photovoltaic projects for a total capacity of 1 Gigawatt. Particularly important, as part of the energy transition, are the path undertaken for the complete decarbonization of Brescia's Energy Environment system, participation in the capacity payment market and the construction of synchronous compensators at the Brindisi power plant to guarantee the voltage regulation service for the National Transmission Grid. The role of innovation is central to all this. In this regard, in 2019, the Group launched A2A Horizon, the Corporate Venture Capital initiative, through which it intends to invest in start-ups that operate in strategic areas for the evolution of its business.

A2A's ESG (Environmental Social Governance) performance improved in 2019. The Group generated and distributed to stakeholders gross global added value of 1,927 million euro (+6% compared to 2018). The Group has distributed wealth also through the 1.3 billion euro spent on orders, 96% of which for the benefit of Italian companies. 62% of total investments made in 2019, equal to 385 million euro, come under the scope of ESG (Environmental Social Governance) criteria and are tied to Sustainability Plan objectives/actions. The accident frequency and severity indexes improved (-14% compared to the previous year). The Group's CO<sub>2</sub> emission factor (the ratio of direct CO<sub>2</sub> emissions to total electricity and heat production) was reduced by 11% compared to 2018, and 99.9% of the municipal waste collected was sent for material or energy recovery. A2A Energia was the best performer of the companies involved in the ARERA investigation into the quality of call centre, with 98.1% of customers satisfied (+5.8% more than the national average). Visits to Group plants and environmental education initiatives involved more than 72 thousand people (+12% vs 2018). The Banco dell'Energia has consolidated itself as a social innovation initiative of excellence, capable of providing concrete answers to the problem of energy poverty.

With reference to the evolution of the financial markets, a sign of their appreciation of A2A's path towards sustainability was the extraordinary response to our first issue of a Green Bond, 400 million euro and 10-year maturity, which collected requests eight times the amount offered in July. In September the green bond was included in the Bloomberg Barclays MSCI Green Bond Index.



In recent years, consistency with clear and shared strategic guidelines has paid off in terms of economic and financial results and the creation of consensus among stakeholders, laying the foundations for a new season of development, which will seize the opportunities deriving from continuously evolving economic, technological and social scenarios.

Chairman of the Board of Directors  
Giovanni Valotti

General Manager  
Luca Valerio Camerano

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Shareholders

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# Corporate boards

## BOARD OF DIRECTORS

CHAIRMAN
Giovanni Valotti
DEPUTY CHAIRMAN
Stefania Bariatti
CEO AND GENERAL MANAGER
Luca Camerano
DIRECTORS
Giambattista Brivio
Giovanni Comboni
Enrico Corali
Luigi De Paoli
Alessandro Fracassi
Maria Chiara Franceschetti
Gaudiana Giusti
Secondina Giulia Ravera
Norberto Rosini

## BOARD OF STATUTORY AUDITORS

CHAIRMAN
Giacinto Gaetano Sarubbi
STANDING AUDITORS
Maurizio Leonardo Lombardi
Chiara Segala
ALTERNATE AUDITORS
Sonia Ferrero
Stefano Morri

## INDEPENDENT AUDITORS

EY S.p.A.
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Key figures  
of the A2A Group

# Business Units

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

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

## Generation and Trading

- Thermoelectric, hydroelectric and other renewable plants
- Energy Management

## Market

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

## Waste

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

## Networks and District Heating

- Electricity networks
- Gas networks
- Integrated water cycle
- District Heating services
- Heat management services

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

## International

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

## A2A Smart City

- Development and management of technological infrastructures for integrated digital services

## Corporate

- Corporate services







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*Business Units*

*Geographical areas of activity*

*Group structure*

*Financial highlights at December 31, 2019*

*Shareholdings  
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*Alternative Performance Indicators (APM)*

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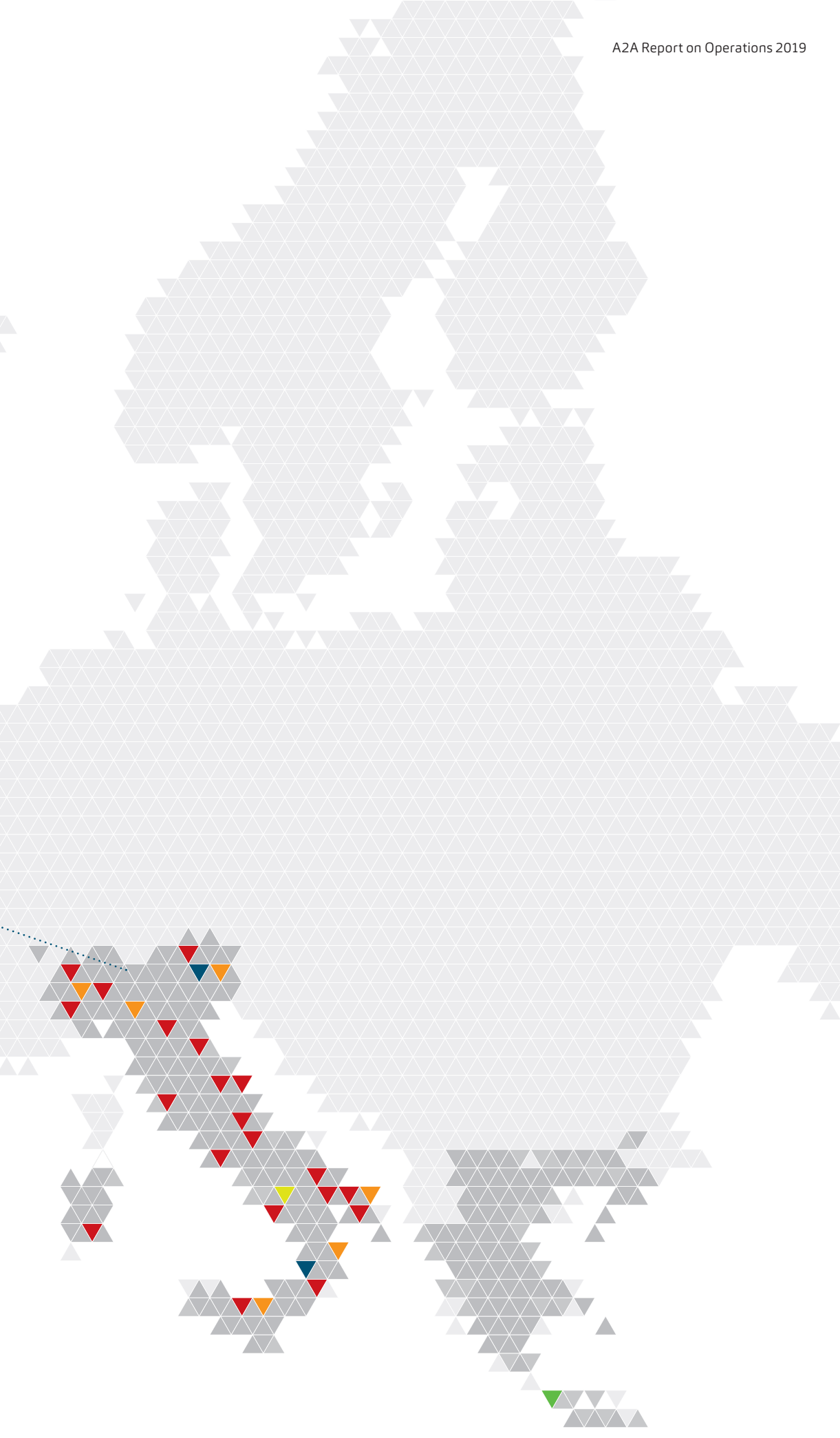
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# Geographical areas of activity

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

Updated to December 31, 2019





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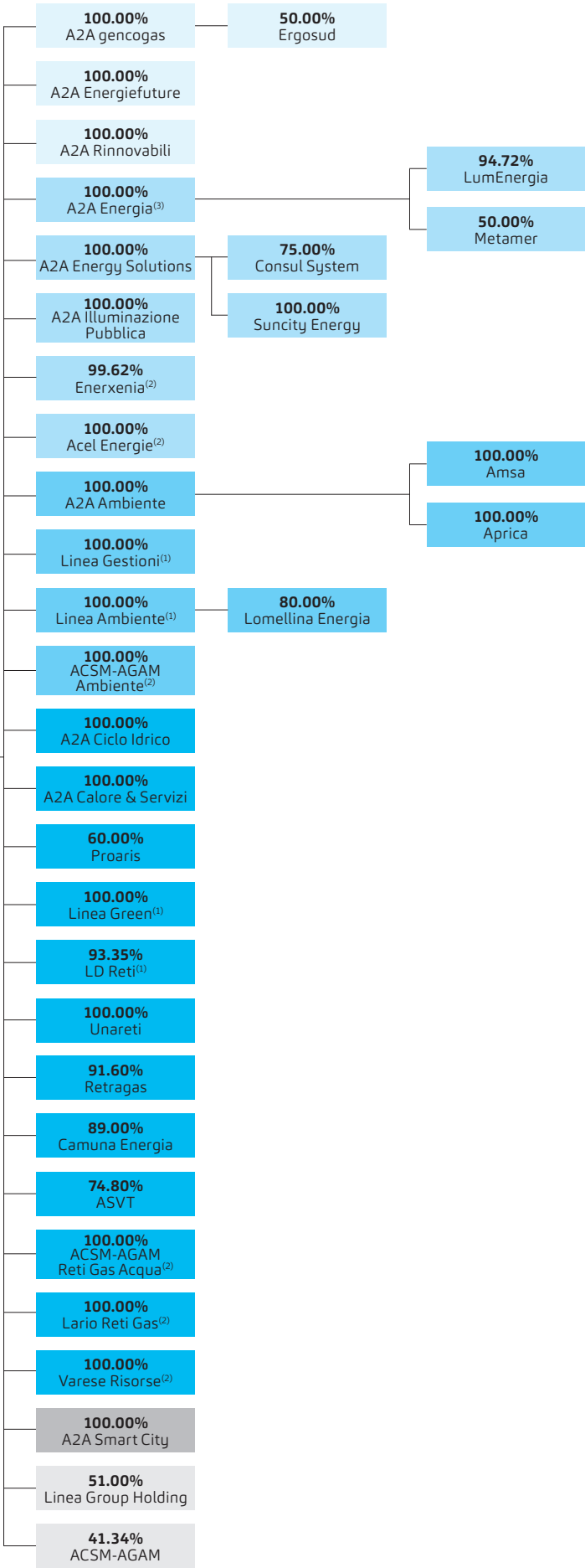
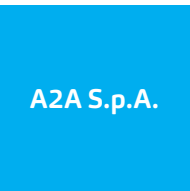
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# Group structure

- Generation and Trading
- Market
- Waste
- Networks and District Heating
- A2A Smart City
- Other Companies



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

This chart shows the most significant shareholdings of the A2A Group. Reference is made to annexes 3, 4 and 5 of the file of the Consolidated Financial Statements for a complete detail of shareholdings.

# Financial highlights at December 31, 2019 (\*\*)



7,324

millions of euro

REVENUES



1,234

millions of euro

GROSS OPERATING  
INCOME



389

millions of euro

RESULT OF THE YEAR



0.0775

euro per share

DIVIDEND

## Income statement figures millions of euro

01 01 2019  
12 31 2019

01 01 2018  
12 31 2018

Revenues	7,324	6,494
Operating expenses	(5,390)	(4,598)
Labour costs	(700)	(665)
Gross operating income - EBITDA	1,234	1,231
Depreciation, amortization, provisions and write-downs	(547)	(643)
Net operating income - EBIT	687	588
Result from non-recurring transactions	4	14
Financial balance	(110)	(112)
Result before taxes	581	490
Income taxes	(189)	(157)
Net result from discontinued operations	1	21
Minorities	(4)	(10)
Group result of the year	389	344
Gross operating income/Revenues	16.8%	19.0%

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

Balance sheet figures

millions of euro

12 31 2019

12 31 2018

Net capital employed	6,805	6,545
Equity attributable to the Group and minorities	3,651	3,523
Consolidated net financial position	(3,154)	(3,022)
Consolidated net financial position/Equity attributable to the Group and minorities	0.86	0.86
Consolidated net financial position / EBITDA	2.6	2.5

Financial data

millions of euro

01 01 2019  
12 31 2019

01 01 2018  
12 31 2018

Net cash flows from operating activities	932	1,023
Net cash used in investing activities	(683)	(510)
Free cash flow (Cash Flow Statement figure)	249	513

Key indicators

12 31 2019

12 31 2018

Average 6-month Euribor	(0.302%)	(0.266%)
Average price of Brent (US\$/bbl)	64.1	71.6
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	52.3	61.3
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	58.4	68.0
Average price of coal (Euro/tonne)	54.4	78.0
Average price of gas to the PSV (*) (Euro/MWh)	16.0	24.2
Average price of emission certificates EU ETS (**) (Euro/tonne)	24.9	15.9

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

(\*\*) EU Emissions Trading System

Group's key operational indicators	12 31 2019	12 31 2018
Generazione and Trading		
Thermoelectric production (GWh)	13,353	12,948
Hydroelectric production (GWh)	4,619	4,539
Electricity sold to wholesale customers (GWh)	11,474	11,622
Electricity sold on the Power Exchange (GWh)	14,409	12,422
Market		
Electricity sold to retail customers (GWh)	13,656	10,826
POD Electricity (#/1000)	1,174	1,135
Gas sold to retail customers (Mcm)	2,454	1,925
PDR Gas (#/1000)	1,488	1,511
Waste		
Waste collected (Kton)	1,708	1,671
Residents served (#/1000)	3,634	3,530
Waste disposed of (Kton)	3,340	3,547
Electricity sold by waste-to-energy (GWh)	1,780	1,807
Networks and District Heating		
Electricity distributed (GWh)	11,735	11,913
Gas distributed (Mcm)	2,963	2,745
Water distributed (Mcm)	78	72
RAB Electricity (M€)	641	646
RAB Gas (M€)	1,426	1,395
Heat sales (GWht)	2,783	2,768
Cogeneration production (GWh)	316	317

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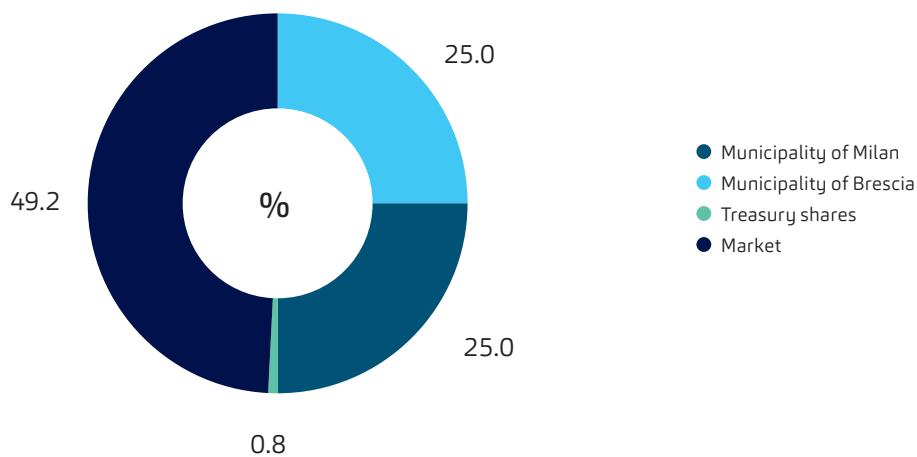
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## Shareholdings (\*)



(\*) Source CONSOB for stakes higher than 3% (update at December 31, 2019)

Key figures of A2A S.p.A.	12 31 2019	12 31 2018
Share Capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	23,721,421	23,721,421

# A2A S.p.A. on the Stock Exchange

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

Market capitalisation at December 30, 2019 (millions of euro)	5,238
Share capital at December 30, 2019 (shares)	3,132,905,277
2019	
Average market cap (millions of euro)	5,011
Average daily volumes (shares)	9,593,175
Average price (€/share)	1.60
Maximum price (€/share)	1.81
Minimum price (€/share)	1.43

Source: Bloomberg

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

On May 22, 2019 A2A distributed a dividend equal to 0.070 euro per share.

## A2A forms part of the following indices

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

## Ethical Indices

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

Source: Bloomberg and company information

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

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

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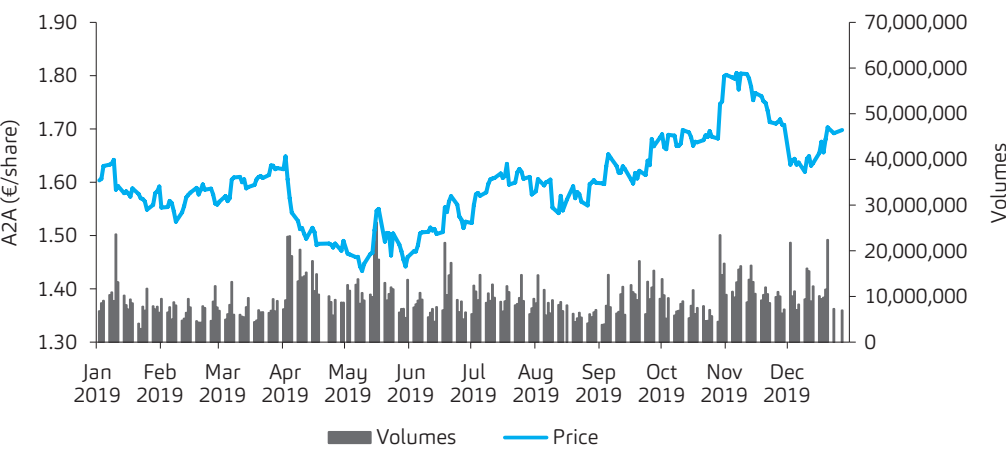
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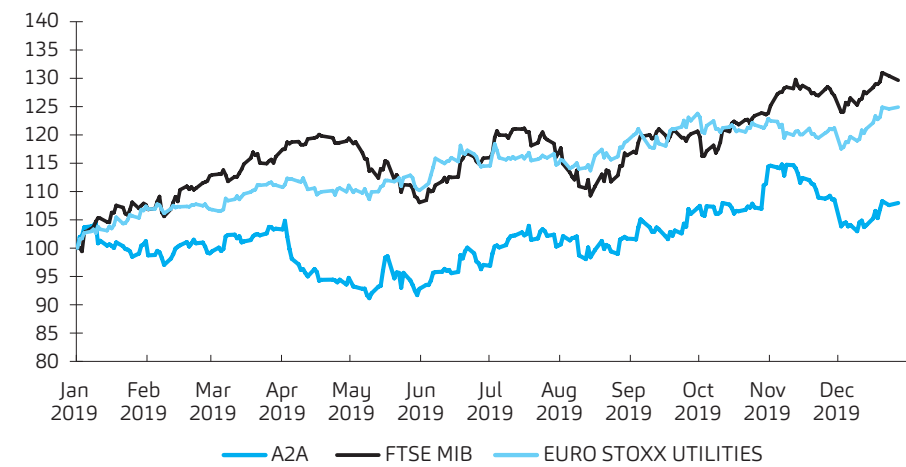
A2A: price and volumes



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price December 28, 2018 = 100)

Historical volatility in 2019  
A2A: 18.5%  
FTSE MIB: 15.3%



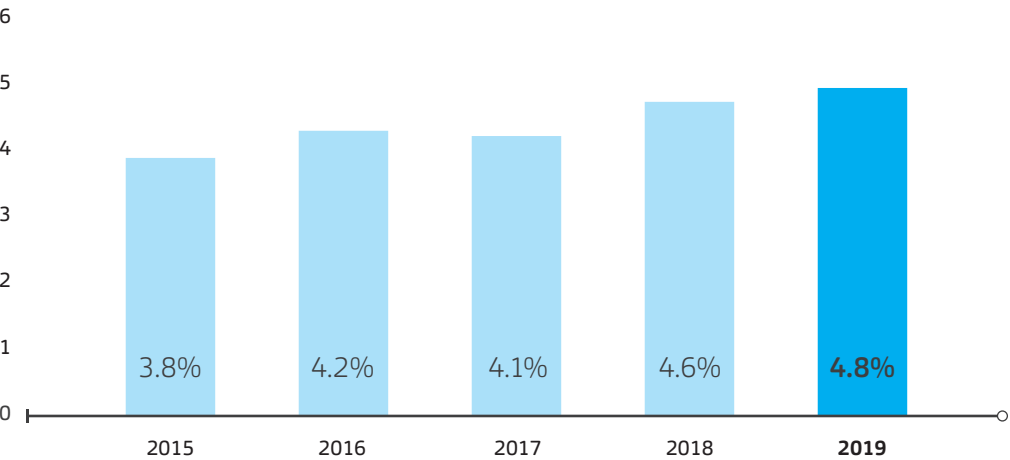
Source: Bloomberg

Rating

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

Source: Rating agencies

Dividend/average share price for the year (dividend yield)



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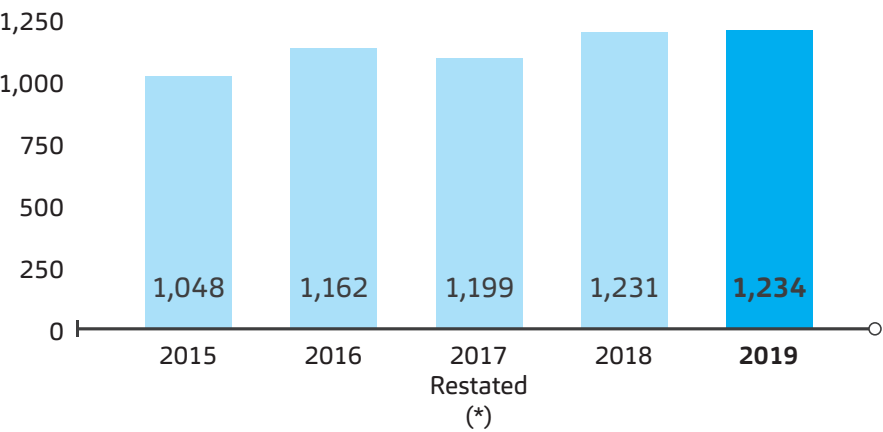
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## Alternative Performance Indicators (APM)

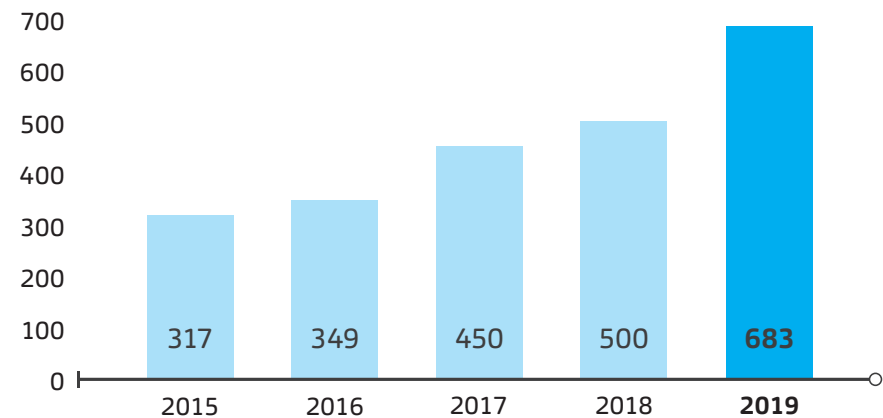
### Gross Operating Income

millions of euro



### Net Investments

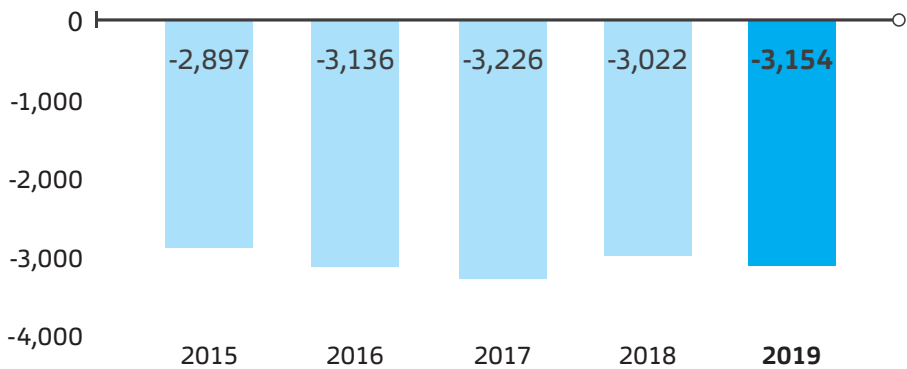
millions of euro



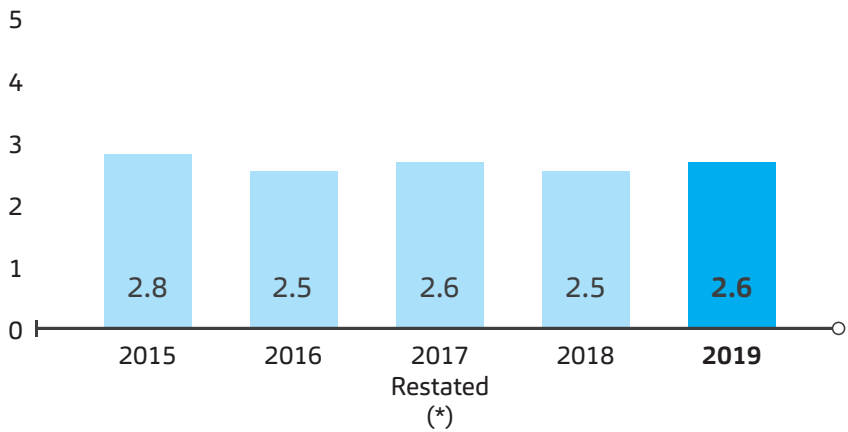
(\*) The values at December 31, 2017 include the economic effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

Net Financial Position

millions of euro

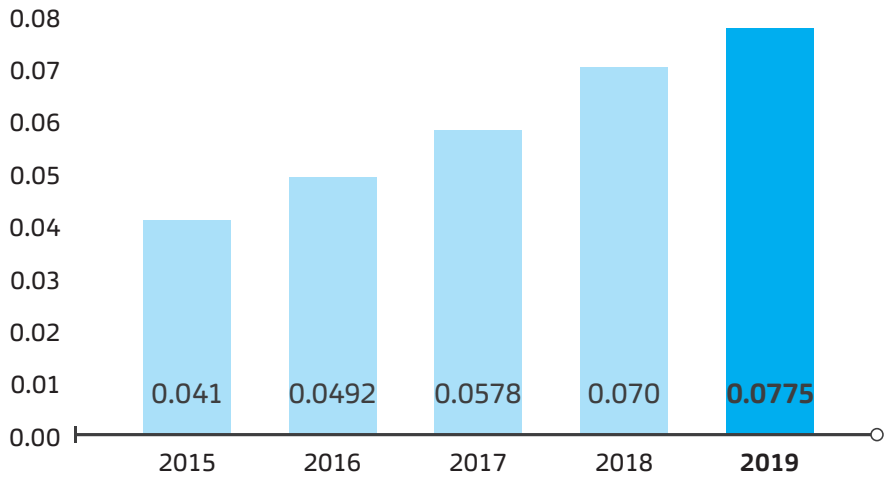


Net Financial Position / EBITDA



Dividend

euro per share



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## Alternative Performance Indicators (APM)

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

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

These indicators are shown in the “Summary of results and financial position of the A2A Group”. For the Income Statement and the Balance Sheet, the comparative values refer to December 31, 2018.

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

In accordance with the Guidelines, the descriptions, content and bases of calculation used for the construction of the alternative indicators of performance adopted by the Group are described below.

### Gross operating margin

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

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

### Result from non-recurring transactions

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

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

Net fixed assets

**Net fixed assets** is determined as the algebraic sum of:

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

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

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

Working capital

**Working capital** is determined as the algebraic sum of:

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

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

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

Invested capital/Net invested capital

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

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

Sources of funds

**Sources of funds** are calculated by adding “Shareholders’ Equity” and “Total Net Financial Position”.

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

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## Net financial position/Net financial debt

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

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

Total current net debt is derived from the algebraic sum of:

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

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

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

## Investments in tangible and intangible assets

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

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

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

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



2

Scenario  
and market

# Macroeconomic scenario

## Overview

According to estimates by the International Monetary Fund, the development of the global economy reached +2.9% in 2019, the lowest economic growth trend since the financial crisis to date.

As far as the advanced economies are concerned, US GDP is expected to reach +2.3% in 2019, down from +2.9% in 2018 due to the drop in exports and domestic demand. As for the other countries, the Chinese economy slowed down in 2019 as never before in the last 30 years and grew by +6.1%, penalized by the trade war with the United States and even more so by a series of internal problems, such as the decline in investment, credit and consumption. Growth declined significantly in India, with GDP expected to increase to +4.8% by 2019, and remained modest in both Russia and Brazil (source: International Monetary Fund).

The GDP of the Eurozone for the year 2019, according to the preliminary estimate contained in the Eurozone Economic Outlook by Ifo Institute and Istat, will show +1.2% compared to +1.9% recorded in 2018 due to the weakness of the industrial sector where activity declined in the summer months, with a marked drop especially in Germany. German GDP grew by 0.6% in 2019, the lowest increase in the last 6 years and a significant differential from 2018 and 2017, when it grew by +1.5% and +2.5% respectively.

ISTAT's estimate of Italian GDP for the entire year 2019 is +0.2% on average, after +0.8% in 2018. For the fourth quarter of the year, the forecast is for a 0.3% decrease compared to the previous quarter, showing a marked decline in industry and agriculture against a substantial stagnation in the tertiary sector.

With regard to the consumer price index in the Eurozone, Eurostat reported that inflation stood at +1.3% in December, up from the +1.0% recorded in November thanks to the increase in energy prices. The average inflation for the year is equal to +1.2%.

According to preliminary estimates by ISTAT, in December 2019, the national consumer price index in Italy (NIC) stood at +0.5%, up from +0.2% in November thanks to the acceleration in fuel prices, which have reversed the trend in recent months. On average for the year, consumer prices rose by 0.6% or half the 1.2% recorded in 2018, confirming the weakness shown by the index during 2019.

At its meeting of March 12, 2020, the Governing Council of the European Central Bank (ECB) maintained the key interest rates on the main refinancing operations, the marginal lending facility and the deposit facility (0.00%, 0.25% and -0.50% respectively). In addition, aiming to support struggling businesses, the ECB has launched a series of special measures to deal with the Coronavirus emergency, which include an additional 120 billion Quantitative Easing, new auctions to inject liquidity into the banking system and more favourable conditions for Tltro (Targeted Longer Term Refinancing Operations) loans, to support credit to the economic system during the crisis.

At its meeting on March 15, 2020, the Federal Reserve (FED) unexpectedly cut interest rates in the 0% - 0.25% range, which means a one-percenter cut from the level set on March 3, bringing the cost of money to an all-time low only seen during the recession that followed the collapse of Lehman Brothers in 2008.

The average EUR/USD exchange rate stood at 1.12 dollars in 2019, down 5.2% from the previous year, continuing the depreciation trend of the single currency that began in the second half of 2018 as a result of the uncertainties surrounding the Eurozone, such as the slowdown in economic growth and political tensions.

Outlook

2020 had begun with a stabilizing phase of the global economy and recovery confidence thanks, above all, to the easing of trade tensions between China and the United States and greater clarity on the path for Brexit. The health emergency linked to the Covid-19 virus, which spread starting from China and rapidly to the entire globe, has had enormous repercussions on the world’s economic and financial situation with effects difficult to estimate yet, given the uncertainties that remain about the extent and duration of the phenomenon.

The OECD has intervened on the expansion estimates for 2020 with a cut of half a percentage point. Global GDP growth is therefore expected to reach +2.4% this year, compared to the already weak +2.9% in 2019. The OECD estimates that this forecast could plummet to 1.5% if growth prospects weak furtherly due to a longer and more intense outbreak of the virus, broadly spreading in the Asia-Pacific, Europe and North America regions. For 2021, provided that the effects of the epidemic do not become more lasting and more intense, also thanks to well-targeted strategic actions by governments, the OECD expects a recovery and the world GDP to growth +3.3%, higher than the +3% forecast in last November.

China is forecasted to growth below 5% (at +4.9%), compared to +5.7% indicated in November, while for 2021 a rebound to +6.4% is expected, increasing 0.9 points compared to last autumn’s estimates. Also the United States is not escaping the forecast adjustment, with +1.9% (from +2%) for this year, followed by +2.1% (+0.1 points) for the next. Japanese GDP has been cut to +0.2% (from +0.6%) for 2020, while it remains at +0.7% for 2021. India, which is already experiencing a slowdown due to stress in the non-bank financial sector and weak rural income growth, is expected to grow by +5.1% in 2020 and +5.6% in 2021.

A substantial stagnation is expected in Europe, with a significant fall for the more fragile economies, such as Italy. The mechanisms fuelling the crisis are first and foremost the interruption of part of production and the stoppage of consumption during the epidemic most acute spread phases. The Eurozone will have to settle for a 0.8% increase in GDP in this year (compared to +1.1% forecast in November) and 1.2% next year (unchanged estimate). Germany is expected to growth +0.3% in 2020, against to +0.6% in 2019 and a +0.4% forecast in November, while for 2021 it is estimated to rebound to +0.9%, unchanged from three months ago. UK growth estimates are also down, with growth in 2020 and 2021 expected to grow by 0.8% (+1.4% in 2019) compared to +1.0% estimated in November.

The OECD indicates that Italy’s growth is zero this year (from +0.4%) while for 2021 it is confirmed at +0.5%.

According to the ECB experts’ December forecast, inflation in the Eurozone is expected to remain contained over the three-year period 2020-22 in line with moderate growth in economic activity. The expected values are 1.1% in 2020, 1.4% in 2021 and 1.6% in 2022.

Inflation dynamics in Italy are expected to remain moderate and recover gradually. Consumer prices are expected to increase by 0.7% on average this year, but with strong potential for further emergency-related price reductions; the forecast is 1.1% in 2021 and 1.3% in 2022, mainly as a result of a recovery in wages and profit margins that would benefit from the better cyclical phase (source: Bank of Italy).

Another mechanism, the most dangerous, designed to aggravate the crisis is that of finance. Between February 19 and March 12, the S&P500 index lost 25% on the NY Stock Exchange, while in London the fall of the FTSE100 index was 28% and the FTSE MIB index lost 40% on the Milan Stock Exchange. The financial instability is destined to grow as it has not been stopped by new issues of liquidity by the US Federal Reserve, amounting to 1,500 billion dollars, and less so by the European Central Bank, with only 120 billion euro issued for the whole of 2020, without any reduction in interest rates.

The Federal Reserve (FED) not only announced that it will continue to maintain this level of interest rates until the economy overcomes the epidemic, but also launched a massive 700 billion dollars Quantitative Easing program to support the economy and protect it from the pandemic’s impact. The European Central Bank (ECB) as well points out that interest rates will remain at their current or lower levels until the inflation outlook converges firmly to a level close enough to, but below, 2% over the projection horizon.

The macroeconomic projections, formulated by European Central Bank experts in December, indicate a EUR/USD exchange rate of 1.12 over the three-year period 2020-22 in line with the expectations of accommodative monetary and financial policies by the respective central banks.

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## Energy market trends

### Electricity

As far as the national electricity market is concerned, in Italy in 2019 there was a net requirement of 319,597 GWh (source: Terna), substantially in line (-0.6%) compared to 2018; in seasonally adjusted terms and corrected for calendar and temperature, the change remains unaltered.

Net energy production in 2019 was 283,846 GWh, up 1.4% compared to the previous year. Specifically, renewable sources of production, both wind power (+14.3%) and photovoltaic (+9.3%) are up; the hydroelectric source is down (-5.9%). Thermoelectric production is up slightly, rising by 1.3% compared with the previous year to 186,811 GWh. National production, excluding pumping, accounted for 88.1% of the demand for electricity, while net imports satisfied the remainder.

In terms of electricity prices, the average value of the Base Load PUN (Single National Price) in 2019 shows a decrease of 14.6%, amounting to 52.3 €/MWh against 61.3 €/MWh in 2018. This trend, which is in line with the prices on the main nearby power exchanges, primarily reflects a reduction in the cost of natural gas, down to a level close to the historical low recorded in 2016. Downward trend also for average prices in high load time slots (-14.2% for the Peak Load PUN reaching 58.4 €/MWh). The average price in low load time slots (Off-Peak PUN) shows a decrease of 14.9% to 49.0 €/MWh. For 2020, forward curves indicate Base Load PUN prices with average values close to 42.6 €/MWh.

### Natural Gas

In 2019, natural gas consumption in Italy resumed the growth trend interrupted the previous year, reaching 73,764 Mcm and showing an increase of 2% (source: Snam Rete Gas). This growth was driven exclusively by consumption in the thermoelectric sector (+10.4%), favoured by the bearish cost of natural gas, which reached an all-time low in the third quarter of the year. Consumption in the industrial sector is down slightly, by 1.9% to 14,002 Mcm, and in the civil sector by 31,649 Mcm (-2.1%).

On the supply side, growing demand in the period under review continues to be sustained by imports of natural gas, which accounted for 94.0% of national demand net of storage trends; domestic production, which satisfied the remainder, decreased by 11.9% to an all-time low of 4,514 Mcm. The increase in imports was met in particular by regasifiers (+61%), while there was a decrease in imports by pipeline (-4%).

Regarding prices, the average price of gas to the TTF for 2019 amounted to 13.5 €/MWh, down 40.6% over 2018. The price at PSV, which in January was 23.7 €/MWh, was down 12 €/MWh in the first eight months of the year, and in August, it was at the lowest level ever (11.4 €/MWh); prices rose slightly in the last quarter of the year, albeit still at low levels. Specifically, the average price of gas to the PSV for 2019 amounted to 16.0 €/MWh, down 33.6% compared to 2018. For 2020, forward curves indicate prices with average values close to 11.7 €/MWh a significant decrease compared to the previous year also due to the effects of the health emergency caused by Covid-19 virus spread.

The trend in the respective prices resulted in a PSV-TTF differential of 2.5 €/MWh for the reporting period, up compared to the differential of 2018 (+1.3 €/MWh). The PSV gas market tends to confirm a structural spread with respect to the TTF also for the year 2020: the forward curves forecast a differential of around 1.5 €/MWh.

### Oil and coal

After a period of moderate but steady growth during the first few months of the year, culminating in April and May prices exceeding 70 \$/bbl, the price of crude oil began to fall, reaching a low of 59.5 \$/bbl in August. In September, oil prices rose sharply to 62.2 \$/bbl due to strong geopolitical tensions in the Middle East, closing the year with prices close to 65.0 \$/bbl. On average in 2019, the price stood at 64.1 \$/bbl, showing a decrease of 10.4% compared to the figure of the previous year (71.6 \$/bbl). The depreciation of the Euro against the dollar mitigated the decrease in prices expressed in €/bbl (-5.5%). The forecasts prepared by the Energy Information Administration (EIA) predict that the average market price of Brent crude will be 65.0 \$/bbl in 2020 (compared with a value of the current forward curves close to 43.1 \$/bbl) to reach 68.0 \$/bbl in 2021.

According to as communicated by the Energy Information Administration (EIA), global demand for oil averaged 100.8 million barrels a day in 2019, compared to 99.9 million barrels a day in 2018. For the current year, after the Coronavirus epidemic spread beyond China’s borders, oil demand is expected to decrease for the first time since 2009, with an expected contraction of approximately 1.1 million barrels per day (during the first quarter of 2020, demand in China fell by 1.8 million barrels per day, while global demand fell by 2.5 million barrels per day); demand should return to normal during the second half of the year, consistent with the duration and extent of the crisis linked to the virus emergency. OPEC, in its March Monthly Oil Market Report, predicted an increase in global oil demand in 2020 of 0.06 million barrels per day.

During 2019, coal showed a downward trend, recording a low in June, with a price close to 48.0 \$/tonne; it rose in September to 60.1 \$/tonne and then fell back in the last quarter of the year to an average value of 55.2 \$/tonne. On average in 2019, the price stood at 60.2 \$/tonne, showing a decrease of 34.4% compared to the same period of the previous year (91.7 \$/tonne). The depreciation of the single currency against the dollar mitigated the decline in euro prices (-31%) compared to 2018. For the current year, forward curves indicate prices with average values close to 50.0 \$/tonne.

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# 3

Evolution  
of the regulation  
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## EU Green Deal

The Green Deal (GD) is a Communication with the Von der Leyen Commission's priorities, focused on re-founding the European commitment to sustainable development and the fight against climate change with the aim of strengthening the EU's leadership as the largest global market with the ability to influence international policies shared with local communities.

The GD requires all EU policies to be consistent with environmental objectives and is an integral part of the UN strategy for the Agenda 2030 with reference to sustainable development goals, providing for work alongside Member States under the new governance, with specific focus on the energy, transport and circular economy sectors.

Among the measures that will guide policies from a transversal perspective, after analysis of socio-economic and environmental trade-offs, is the promotion of: regulation and standardization, investment in innovation, national reforms (industrial and fiscal policy), social dialogue and with international partners.

### Targets and tools

The Commission will launch by March 2020 a Climate Pact with the first Climate Law, which will pursue the objective of climate neutrality by 2050: by that date, the objective is to zero net CO<sub>2</sub> emissions and to achieve decoupling between GDP and CO<sub>2</sub>.

As CO<sub>2</sub> emissions would only be reduced by 60% by 2050 under current policies, the commitment needs to be reinforced: to this end, the Commission will present a plan in summer 2020 to accelerate the emission reduction path with a target of 50%-55% by 2030 compared to 1990. In the transport sector, the target is -90% emissions by 2050.

By summer 2021, the main policies related to energy and climate issues will be reviewed, including the Emission Trading System (ETS), with the aim of ensuring effective carbon pricing for the economy and increasing the commitment of all productive and non-productive sectors (e.g. residential), as well as promoting the creation of a global carbon market. At the same time, the need to preserve security of supply and the competitiveness of Europe's industrial fabric is recognized.

The Commission's commitments include the revision of some legislative measures to ensure compliance with the GD objectives, including the Energy Taxation Directive, the State Aid Guidelines (in 2021), the revision of the Sustainable Finance Strategy (3Q 2020), the strengthening of commitments on renewables and energy efficiency, building renovation, transport (SPL, electrical and biofuels) and circular economy (in line with the waste hierarchy and the development of markets for recovered materials).

### Financing and opportunities

One of the pillars of the GD is the Sustainable Europe Investment Plan. Achieving the EU's sustainability objectives will require a major financial effort across all sectors of the economy. In particular, the new climate and energy commitments to be achieved by 2030 will require additional investments of about 260 billion euro per year by that date. Therefore, the European Union will allocate 25% of its budget to supporting the environment and climate.

Altogether, around about 1,000 billion euro will be mobilized over the next 10 years. To ensure that no country is left behind, a part of the Sustainable Europe Investment Plan is represented by the Just Transition Mechanism, which will mobilize around 100 billion euro over 7 years (143 billion euro over 10 years) for a fair transition, respecting the different starting conditions and paying attention to the most impacted regions.

## Integrated National Energy and Climate Plan (PNIEC)

At the beginning of January 2020, MiSE submitted to the European Commission the Integrated National Plan for Energy and Climate (PNIEC) containing national policies and measures aimed at achieving European objectives to 2030 in relation to decarbonization, efficiency, energy security, internal energy market, research, innovation and competitiveness. The PNIEC, mandatory under the RED Directive (Directive 2009/28/EC) and valid for the period 2021-2030, requires, among other things, that 30% of gross final energy consumption be covered by renewable sources, the reduction of primary energy consumption by 43% and the reduction of greenhouse gases for non-ETS sectors by 34.6%.

On January 8, 2020, the Strategic Environmental Assessment (SEA) Reasoned Opinion Decree issued by MATTM in agreement with MIBACT was also published. It represents one of the steps of the



institutional consultation on the PNIEC that will lead to the final approval of the Plan, subject to the green light of the EU Executive.

The PNIEC will guide Italian policies in the energy and climate sector to reach European targets by 2030 in view of the 2050 road map.

Strategic Framework 2019-2021 of the Regulatory Authority for Energy Networks and Environment (ARERA)

With Resolution 242/2019/A, ARERA approved the Strategic Framework 2019-2021 where the Objectives and the Lines of Intervention in the various regulated sectors are identified with the relative implementation timing. The main elements on which the action of the Regulator will focus, also identified after a cycle of hearings with stakeholders, are:

- **the “renewed” need for investment:** sustainable development and a circular economy require new investment both in regulated segments (e.g. water supply and purification, DSO-TSO networks for the management of non-programmable renewables) and in contestable segments (in addition to generation, also waste treatment/disposal activities). The regulation should encourage technological innovation, also through experiments (Terna pilot projects) and special regulatory sandboxes on the Anglo-Saxon model;
- **guarantee long-term signals and certainty of the rules:** in a context of profound change, it is difficult to identify the scenarios on which to carry out cost/benefit analyses, while investment choices (typically capital intensive) require a stable framework. The regulation should be flexible to take advantage of technological opportunities (digitization, storage development, sector coupling, etc.) but avoid situations of technological lock in and stranded cost;
- **competition and consumers:** in the energy sectors, the objective is to accompany the process of liberalisation of retail markets by making consumers increasingly aware and providing them with adequate means of protection. The main drivers will be the evolution of smart metering and the Integrated Information System to facilitate the transfer of information and price signals to consumers, and the definition of enhanced protection for the most vulnerable consumers. The growing role of the consumer in the energy market will also have to be intercepted. ARERA offers its technical support for a possible “partial transfer” of system charges to general taxation. Appropriate standards of service quality and management efficiency should be defined in environmental sectors;
- **infrastructure development:** ARERA’s objective is to align the interests of regulated entities with those of the system and of consumers, through output-based tools (overcoming the different treatment of OPEX vs CAPEX in the direction of TOTEX systems). Emphasis is placed on the importance of digitisation to streamline processes and actively manage networks. Finally, the regulation will have to integrate into the system the new production and consumption configurations (also with reference to the energy communities introduced by the Clean Energy Package) and the recharging of electric vehicles;
- **waste:** definition of an “asymmetric” regulation consistent with multi-level governance and the technical-managerial characteristics of the different contexts, which goes beyond the TARI-tribute in favour of the tariff and promotes the capacity of the local system to manage waste in its entirety and plant adequacy in a manner consistent with the objectives of the circular economy. Starting in 2020, tariff regulation for collection and transport services will be introduced, based on efficient costs and identified quality parameters, while tariff regulation for treatment plants is planned from 2021;
- **Integrated Water Service:** after the important results achieved in terms of stability of the rules and, therefore, promotion of investments, ARERA identifies the actions necessary to improve the conditions of access to the resource, complete the regulation on the user side (per capita rate, reduced rate band, arrears, etc.), overcome infrastructure deficiencies (regional water divide), improve the mechanisms of bonuses/penalties on the basis of the technical performance of operators, encourage technological development and digitisation, with particular reference to the measure. Action is planned to encourage the recovery of sewage sludge;
- **energy markets:** the shift in value from commodities to availability at particular times and with certain characteristics of flexibility makes it necessary to operate the capacity market and reform the Dispatching Services Market - MSD with opening up to all resources (also on the basis of Terna’s pilot projects). Underway are: the drafting of the new Testo Integrato Dispacciamento Elettrico - TIDE (Integrated Electricity Dispatching Act), the revision of the rules governing imbalances, and

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the immediate launch of the intra-day market, which is being continuously negotiated at the Italian borders. In the case of gas, too, the difficulty of the current system in producing long-term signals for investments is recognised and this situation may require specific regulatory instruments. Especially in the new market segments of flexibility, particular attention will be paid to market monitoring (REMIT), also with support from ARERA to ensure the compliance of operators;

- **district heating networks:** considered drivers for decarbonisation. The regulation must protect the consumer by providing clear and simple information for aware participation in the market for air conditioning services; in this perspective, attention is also provided to the issues of metering and demand side management. The development of the networks must be assessed in synergy with the tenders for the distribution of gas in order to support the objectives of environmental sustainability. Finally, the regulation will have to ensure technical and economic conditions for the integration of new installations into the networks, subject to an assessment of the costs and benefits for the system.

# Generation and Trading Business Unit

## Remuneration of production capacity availability

The mechanism for the remuneration of the availability of production capacity in force until 2021 (Resolution 437/2019/R/eel has, in fact, extended the mechanism to the two-year period 2020 and 2021) is the Capacity Payment defined in 2003 by Legislative Decree no. 379 as an administered, transitional system aimed at ensuring the adequacy of the electricity system during critical days, identified by Terna with reference to which the difference between supply and demand could be at minimum levels.

This mechanism has been operating since 2004 as a result of Resolution 48/04, which provides that the Authority determines ex ante a specific revenue (about 180-200 million euro/year) collected through electricity bills and paid in the form of two payments (CAP1 and S) to generation plants authorized for the provision of dispatching services and that are available on critical days.

Resolutions 30/2019/R/eel and 206/2019/R/eel settled the items relating to the capacity payment for 2018 (CAP1 and S) for a total amount for the A2A Group of around 28.2 million euro (with a contingent asset of around 8.2 million euro).

Resolution 233/2019/R/eel ordered the payment of the CAP1 amount for 2019 by September 30, 2019 (the A2A Group collected about 18 million euro), while Resolution 289/2019/R/eel established to pay the S amount by April 30, 2020.

Legislative Decree no. 379 of 2003 had also required that, under regime, the availability remuneration was to be based on a market mechanism (capacity market), which was subsequently envisaged by Resolution ARG/elt 98/11. This mechanism technically consists of a one-way contract for differences, that is an auction in which operators awarded acquire the right to receive a bonus (in euro/MW/year) with respect to the obligation to offer all the capacity committed in the MGP and the capacity not accepted as a result of the energy markets (MGP and MI) on (MSD), returning to the counterparty Terna the difference - if positive - between the market benchmark prices and a strike price (in euro/MWh).

After lengthy informal discussions with the European institutions and numerous consultations within the Italian context, the Italian Ministry of Economic Development (MiSE) approved Terna's regulation with Ministerial Decree of June 28, 2019 (after ARERA's positive opinion issued with Resolution no. 281/2019/R/eel), providing:

1. insolvency proceedings in 2019 for deliveries 2022 and 2023;
2. participation in auctions of existing, new, refurbished, repowered or upgraded capacity. New capacity, which has not been granted an authorization but for which the relevant procedure has been initiated on the qualification date, can be selected in an additional session of the auction that is activated only if the capacity requirements below which the system is inadequate are not met, i.e. the quantity guaranteeing a maximum of 6 h/year of detachment for each area of the market (see point 5);
3. exclusion from participation of existing capacity exceeding both of the following emission limits (i.e. coal and oil) simultaneously: emissions exceeding 550 gr CO<sub>2</sub>/kWh (certification at qualification stage), emissions exceeding 350 kg CO<sub>2</sub>/kW/average year (ex-post verification). New capacity is excluded only when the emission limit of 550 g CO<sub>2</sub>/kWh is exceeded;
4. non-cumulation of the consideration with certain incentives provided by the GSE during the delivery period (tariffs, Dedicated Withdrawal and Exchange on Site);
5. the target value of the LOLE indicator (loss of load expectation), which expresses the level of adequacy of the Italian electricity system of 3 h/year, is confirmed. The Ministerial Decree establishes an additional level of adequacy of the system, below the target level of 6 h/year, used for the definition of capacity requirements and below which the system is inadequate, is also indicated.

By Resolution 363/2019/R/eel, ARERA subsequently set:

- cap on the premium: 75,000 euro/MW/year for new capacity, 33,000 euro/MW/year for existing capacity (same as for foreign capacity);

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- minimum investment value for new capacity that may require 15-year contracts of 209,000 euro/MW;
- criteria for determining the strike price through the use of indexing of the element to cover the monthly rather than quarterly gas price, in order to better reflect market trends, in addition to the provision of a price risk mitigation mechanism in the event of a gas emergency.

With Resolution no. 364/2019/R/eel ARERA expressed its opinion on compliance with the Technical Operating Provisions, which Terna consulted and which are an integral part of the capacity market regulations.

Lastly, Resolution 365/2019/R/eel established the methods for determining and covering the net expenses arising from the mechanism for the years 2022 and 2023 (pursuant to art. 14 of Resolution ARG/elt 98/11). In particular, the following are envisaged:

- recovery of net expenses through a fee charged to the dispatching user in withdrawal, exempting users in withdrawal assignees in the capacity market;
- 70% of the total net expense is covered according to the dispatching user's withdrawals during peak hours set by Terna when the stress on the electricity system is greatest;
- annual update of the peak unit fee (70%) and quarterly update of the off-peak unit fee (30%). Variable fees, penalties and other economic items that cannot be determined annually are applied in updates of the off-peak unit fee.

During the auctions held on November 6 and 28, A2A S.p.A. was awarded all the capacity offered nationwide, i.e. around 5 GW/year for a total of 340 million euro bonus over the two-year period 2022-2023. Approximately 0.24 GW for 2023 and 0.12 GW for 2022 are related to new capacity. The award price was 33,000 euro/MW/year for existing capacity and 75,000 euro/MW/year for 15 years for new capacity.

Some operators (including Tirreno Power S.p.A. and Axpo Italia S.p.A.) and Associazione Italia Solare filed an appeal for the annulment of the Ministerial Decree Ministry of Economic Development of June 28, 2019 and all related acts of ARERA and Terna. In all cases, an initial appeal has been filed with the Regional Administrative Court, in advance of the auctions, accompanied by a request for suspension, which the plaintiffs have waived in view of a hearing on the merits of the case to be held shortly: the Regional Administrative Court will rule on February 26. According to the information received, Tirreno Power S.p.A. also appealed before the European Court of Justice. A2A S.p.A. came forward as the opposing party defending the legitimacy of the award decision.

## Remuneration of plants essential for the safety of the electricity system

By means of Resolution 803/2016/R/eel, the 220 kV plant of the San Filippo del Mela power plant (groups 2, 5 and 6) was contracted by Terna under essentiality regime with the reintegration of costs for the five-year period 2017-2021 in consideration of the fact that the Sorgente-Rizziconi power line connecting Sicily to the Continent may not always be available (for example for maintenance) and the market in the Sicily area is currently still short in terms of supply. The Resolution also establishes that group 1 at 150 kV plays a back-up role in the event of unavailability of group 2.

Also envisaged is the commitment by A2A Energiefuture S.p.A. to contain the requests reinstatement of costs below a cap proposed by the company that ensures at the same time the coverage of fixed costs, variable costs of management and equitable remuneration, as well as a saving for the system as said level of reinstatement is lower with respect to the calculation provided by the standard must-run regime (referred to in Resolution 111/06). The long-term contractualization of San Filippo del Mela therefore allows the company to manage the plant in profit ensuring to the system the maintenance of safety with a benefit in terms of overall cost savings.

By way of Resolutions 101/2019/R/eel and 111/2019/R/eel, Terna settled the balance for 2016 for an amount of approximately 11 million euro. By Resolutions 459/2019/R/eel and 506/2019/R/eel, the first 2019 advance payment (approximately 37 million euro) and the second 2018 advance payment (approximately 24 million euro) were settled respectively.

Valuation of electrical imbalances

Resolution no. 111/06 defines the rules for the calculation of imbalance prices to be applied to the differences between the feed-in and consumption plans and the actual production and withdrawals. The containment of these imbalances is desirable because it favours the reduction in costs that fall on the bill of end customers as Terna, in the face of more accurate forecasts by dispatching users, uses fewer resources for balancing the system in real time.

For this reason, the discipline of these imbalances has been the subject of several amendments by the Authority in order to align the regulation to the need for an efficient market configuration, pushing operators to make increasingly better production and consumption forecasts, avoiding arbitrage between prices on different markets.

Period July 2012-August 2014 (excluding June 2014)

Relating to the period July 2012 - August 2014 (excluding June 2014), by way of the appeal filed by some operators, Resolutions no. 342/2012/R/eel, no. 239/2013/R/eel and no. 285/2013/R/eel were annulled by the administrative judge for non-justification on the urgency of measures and for non-consultation. Terna therefore made recalculations of imbalance prices applying the discipline in force before and the adjustment invoices - despite the objections by the A2A Group companies - were directly compensated at 30 June 2015 (for a gross amount of approximately 6.8 million euro).

In response also to the solicitations of other dispatching users, the Authority initiated a process for the valorization of the actual imbalances between 2012 and 2014, by means of Resolution 333/2015/R/eel. A2A Trading S.r.l. (now A2A S.p.A.), Edipower S.p.A. (now A2A S.p.A.) and A2A Energia S.p.A. appealed to the Lazio Regional Administrative Court against the recalculations carried out by Terna as it did not take into account this initiation of proceedings. After about a year of consultations, Resolution 333/2016/R/eel closed the valuation process of imbalances for the period 2012-2014 and ordering no later than November 1, 2016, repayment by Terna to the A2A Group companies of the amount compensated in June 2015.

Despite having collected the amounts from Terna, the dispute is still pending because several operators, following independent paths, have appealed against the aforementioned Resolution 333/2016/R/eel, invoking its suspension, which was denied by the Regional Administrative Court but granted, for some and following the provision of guarantees, by the Council of State. At present, the meetings of the Lombardy Regional Administrative Court have, in most cases, rejected the requests of the recurrent operators, but the outcome of the appeals before the Council of State is still awaited.

Period January 2015 - June 2016

In June 2016, given the significant increase in imbalance costs, the Authority launched a survey in order to verify possible conduct on wholesale markets detrimental to the right of end users and other operators for correct determination of the value of dispatching resources, as well as to cancel any impacts of said conduct in terms of increased imbalance prices.

As part of this investigation, by means of Resolutions 342/2016/E/eel and 459/2016/E/eel, numerous individual proceedings were initiated for the adoption of prescriptive and/or asymmetrical regulation measures. In particular, proceedings were opened for the A2A Group with respect to:

- A2A Energia S.p.A., A2A Trading S.r.l. (now A2A S.p.A.), Linea Più S.p.A. (now A2A Energia S.p.A.) and Enercity S.r.l. (now Suncity Energy S.r.l.), which was notified Resolution 342/2016/E/eel;
- A2A Energiefuture S.p.A., which was notified Resolution 459/2016/E/eel.

These proceedings have been concluded with:

- filing for A2A Energia S.p.A. as there are no conditions for the adoption of prescriptive measures or to initiate sanction proceedings;
- adoption of a prescriptive measure against Linea Più S.p.A. (now A2A Energia S.p.A.), which requires Terna to repay approximately 3.9 million euro;
- adoption of a prescriptive measure with respect to Enercity S.r.l. (now Suncity Energy S.r.l.), which requires the return to Terna of approximately 737 thousand euro;
- filing for A2A Energiefuture S.p.A. following the subjection of the San Filippo del Mela plant to the essential regime pursuant to Resolution 803/2016/R/eel;

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In the context of Resolution no. 342/2016/E/eel, the Authority also initiated numerous sanction proceedings that concerned the A2A Group:

- A2A Trading S.r.l. (now A2A S.p.A.) for violation of article 14.6 of Resolution 111/06 (“diligent planning”). Although the Authority found that the conditions for adopting a prescriptive measure did not exist, by way of Resolution 122/2018/S/eel it imposed on the company a reduced pecuniary administrative sanction of 22,500 euro;
- Linea Più S.p.A. (now A2A Energia S.p.A.) for violation of article 14.6 of Resolution 111/06 (diligent planning) with the imposition of a fine of approximately 1.5 million euro (Resolution 164/2018/S/eel);
- Enercity S.r.l. (now Suncity Energy S.r.l.) for violation of art. 14.6 of Resolution 111/06 (“diligent planning”), with measure DSAI/81/2017/eel. In this case, the proceedings have not yet been concluded.

Linea Più S.p.A. has appealed to the courts against both the prescriptive measure and the sanction measure and to date, appeals against both the prescriptive measure and the sanction measure are pending before the Council of State (following the rejection of the relative appeals before the Lombardy Regional Administrative Court). In both cases, the company has already paid the amounts due to both Terna and ARERA. Suncity Energy S.r.l. has also appealed against the prescriptive measure and the appeal to the Council of State is currently pending. Also in this case, Suncity Energy S.r.l. has already paid Terna the amounts due.

### Terna pilot projects to open up the market for dispatching services (MSD) to new resources

By means of Resolution 300/2017/R/eel, the Authority launched a process to open up the market for dispatching services (MSD) to new resources, mandating Terna to prepare pilot projects (subject to ARERA approval) that operators can voluntarily join to provide resources through production units (UP), consumption units (UC) and storage. Participation and provision of services may also take place in aggregate form.

To date, Terna has proposed 6 pilot projects:

1. UVAC (Virtual Consumption Enabled Units), approved by Resolution 372/2017/R/eel, which provides access to MSD for UC that, even aggregated, exceed 1 MW of adjustable power. Remuneration is “on demand”, but Terna also provides for forward contracts (in the form of a one-way contract);
2. UVAP (Virtual Production Enabled Units), approved by Resolution 583/2017/R/eel, which provides for the voluntary enabling of UP, even if not relevant, that, aggregated, exceed 1 MW of adjustable power. Remuneration is only on demand;
3. UPR (Relevant Production Unit), approved with Resolution 383/2018/R/eel, which provides access to MSD for relevant UP not currently enabled (renewable non-programmable, UP not obligatorily enabled);
4. UPI (Integrated Production Units), approved by Resolution 402/2018/R/eel, which provides for the possibility of providing primary control at enabled UP or UPR through integrated storage, thereby freeing the control half-band of 1.5% of the power that enabled UP are obliged to reserve for Terna (30 MW limit to the power that can be qualified on the Continent);
5. UVAM (Mixed Virtual-Enabled Units), approved by means of Resolution 422/2018/R/eel, which provide for:
  - overcoming UVAC and UVAP projects through the definition of UVAM which may include UC and UP: UVAC and UVAP holders had limited time to comply with the UVAM Regulation and not forfeit their MSD entitlement;
  - forward bargaining, the same as for UVAC and remuneration “on demand” on MSD;
6. Fast Reserve (ultra-rapid reserve for frequency regulation), in consultation by Terna until January 17, 2020. This project envisages:
  - forward supply of capacity for ultra-fast frequency regulation, with the obligation to make this capacity available for 1,000 hours/year against payment of a fixed annual fee (cap to be defined, between 78,000 euro/MW/year and 108,000 euro/MW/year) determined following a

downward auction (pay as bid remuneration). The contract awarded may have a duration of 3 (or 4) years, from January 1, 2022 until December 31, 2024 (or 2025). The auctions are expected to be conducted by the end of 2020;

- a quota - which can be modified by Terna up to 60 days before the auction - equal to 200 MW for Continent and Sicily and 30 MW for Sardinia. The qualified power per unit (Fast Reserve Unit) shall be between 5 MW and 25 MW and each participant may not offer more than 75% of the available quota per allocation area.

A2A S.p.A, after having taken part in the UVAP and UVAC projects, qualified its own UVAM which was awarded the bonus for the months from April to October 2019. Initially, UVAM was qualified with a capacity of 3 MW and since May, it has been expanded to 6 MW.

Forward procurement of resources for voltage regulation in the Brindisi area

Resolution 675/2018/R/eel approved the Regulations and the Draft Contract proposed by Terna for the forward procurement of resources for voltage regulation in the Brindisi area. The supply of reactive energy is necessary not only to maintain the stability of voltage in the area, compromised by the presence of intermittent renewable sources, but also to reduce dispatching costs in the shortest possible time. The following are the main characteristics of the auction:

- quota of 500 MVar/year and contract duration of 10 years;
- spending cap: 500 MVar\*Reservation Price (RP in euro/MVar/year) or maximum price selectable, not known to participants, defined by Terna on the basis of the benefits expected from the forward contract and approved by the Authority;
- pay as bid auction with selection of bids not exceeding the RP and priority to resources available from March 1, 2020, in ascending order of price, then to resources available from July 1, 2020 and finally from October 1, 2020 (three time windows for entry);
- envisaged up to 4 rounds of competition. The selection ends in round 1 if the target quantity is reached while respecting the RP and spending cap. Alternatively, we proceed with 3 more rounds.

The auction was held on February 20, 2019 and A2A Energiefuture S.p.A. was awarded 286 MVar of reactive energy at a weighted average price of 28,098 euro/MVar/year; the two contractual devices will enter into service on March 1, 2020 and July 1, 2020, respectively, with the willingness to carry out tests two months before they enter into service.

The contract must guarantee the supply of continuous and automatic voltage regulation, without active input, for a value no lower than the contracted power (net of scheduled maintenance and periods of accidental unavailability subject to deductibles). The remuneration is composed of a fixed part - to cover the investment/remuneration and equal to the product between the capacity committed and the price offered - and a variable part - to cover the costs related to the withdrawal of electricity necessary for the operation of the device - net of any penalties. The economic adjustment is made on a monthly basis.

Programmed and accidental unavailability up to a certain threshold is not subject to a penalty, while beyond this threshold there are penalties, which can reach, for each calendar year, up to 120% of the remuneration for each unavailable device. Finally, the guarantee requested by Terna is equal to 120% of the remuneration covered by the contract.

Incentives for production from renewable sources

Legislative Decree March 3, 2011, no. 28, in implementation of Directive 2009/28/EC, defined the framework of incentive schemes for electricity production from renewable sources in order to pursue the European strategy for the development of the sector. This Legislative Decree was followed by the Ministerial Decree of July 6, 2012 and June 23, 2016 relating to new investments in plants from renewable sources other than photovoltaic.

As of January 1, 2016, plants from renewable sources that began operating before December 31, 2012 and that are part of the previous incentivizing scheme of Green Certificates (GC) are recognized an incentive paid by the Energy Services Manager (GSE) on net production for the entire remaining period of the right to GCs and that is added to the sales revenues on the market. Said incentive (I) is equal to:

- $I = k \times (180 - Re) \times 0.78;$

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- $k$  = technological coefficient of 1 for plants that entered into operation by December 31, 2007 and for subsequent ones, it assumes the values defined by Law no. 244/2007;
- $Re$  = is the sale price of electricity on the market, recorded in the previous year and communicated by the Authority.

In 2019, the incentive ( $I$ ) was 92.11 euro/MWh.

A similar instrument is granted to plants that benefited from the GCs issued on cogeneration combined with district heating for which the incentive ( $I$ ) is set at 84.34 euro/MWh (calculated with respect to the average market price recorded in 2010).

As of January 1, 2016, incentives are paid quarterly by the GSE by the second quarter following the reference one and on the basis of the signing of an Agreement and upon registration and validation of the plants on the GSE portal.

With reference to the production of energy from grid-connected photovoltaic plants, Legislative Decree December 29, 2003, no. 387, introduced the Energy Account mechanism, providing for an operating incentive paid by the GSE in the form of feed-in-premium (i.e. a production premium that is added to the selling price on the market, differentiated according to the size of the plant and its innovative characteristics paid for 20 years). From 2005 to 2013, 5 Energy Accounts were introduced, each one updating the previous one. The incentives of the 5th and last Energy Account have no longer been applied since July 6, 2013 due to the achievement of the ceiling of 6.7 billion euro of annual expenditure provided by the Ministerial Decree of July 5, 2012.

On June 14, 2019, the EU Commission approved, under the State Aid Guidelines, the new support scheme for renewable electricity and on August 9, 2019, published in the Official Journal by MiSE, in agreement with MATTM, was RES1 Ministerial Decree, which defines the incentive framework for RES considered mature and with low or decreasing fixed costs: wind, hydroelectric, sewage biogas and PV - the latter was excluded from the previous Ministerial Decrees and benefited from the Energy Account. For other RES, to follow is an additional Ministerial Decree (RES 2)

For plants with a power of less than 1 MW, incentives are granted through registration in registers, while for plants with a higher power there is a downward auction (7 tenders until 2021, the first one on September 30, 2019), with bonus mechanisms (e.g. self-consumption, PV with asbestos removal), specific priority criteria for access and remuneration up to 20/30 years.

The incentive mechanism is of the Contract for Differences type: the operator is awarded a tariff (strike) and the GSE pays, if positive, the difference between the strike and the zonal hourly price while, if negative, the operator returns to the GSE. The total expenditure ceiling is always 5.8 billion euro for a maximum quota of 8,000 MW that can be allocated to new/renovated plants that will be commissioned by 2022/2023, depending on technology and size.

The GME - as foreseen by MD RES1 - has launched a public consultation for the creation of a market platform for the negotiation of long-term contracts for energy from renewable sources (Power Purchase Agreement - PPA).

On December 19, 2019, the GSE launched a public consultation on the definition of the standard contract for the allocation of incentives: this private law contract, as provided for in art. 24 of Ministerial Decree of June 23, 2016, must be entered into by the person responsible for each individual plant following the achievement of the right of access to the incentives and will be approved by ARERA.

The first session for access to the incentives was opened by the GSE on September 30, 2019 and closed on November 4, 2019: the results will be published by the end of January.

At December 31, 2019, the incentives granted by the GSE to the A2A Group amounted to around 55 million euro.

GSE incentive type  
millions of euro

Feed-in tariff	25.5
All-inclusive rate	4.9
Energy account (FV)	24.4
Total	54.8

GSE verifications: positive conclusion for Helios 1 S.r.l. photovoltaic plants

The photovoltaic plants Zollino 2 and Torchiarolo owned by Helios 1 S.r.l., a subsidiary of A2A Rinnovabili S.p.A., which became operational in 2011 and benefited from the second Energy Account, were the subject of an audit by the GSE, which began on November 2, 2016. After various documentary additions sent by the company, on January 14, 2019, the GSE concluded the verification procedure with a negative result, representing the failure to comply with standard IEC EN 61215 for some modules provided by Ecoware S.p.A. and ordering the recovery of all incentives granted.

On February 12, 2019, Helios 1 S.r.l. obtained from the GSE the opening of a review of the proceedings by virtue of the retrieval of further documentation and, in order to safeguard its rights, it nevertheless presented an extraordinary appeal to the President of the Republic against the negative conclusion of the proceedings.

On September 20, 2019, the GSE successfully concluded the review request and reactivated the issue of the incentives established during the qualification of the plant.

Large hydroelectric derivation concessions

With Law no. 12/2019, converting D.L. December 14, 2018, no. 135 (Simplification DL), the Legislator intervened in article 11-quater with an overall reorganization of the regulations concerning large-scale diversion hydroelectric concessions (> 3 MW).

In recent years, the failure to implement the primary rules aimed at allowing tenders for the award of expired concessions had led to the temporary continuation of management by the current owners. Article 12 of Legislative Decree 79/1999, in its previous version, provided that the Regions should allocate concessions on the basis of criteria that should have been defined by a Ministerial Decree agreed between MiSE and MATTM, and adopted in agreement with the Unified State-Regions Conference, which was never issued, thus resulting in a de facto extension of the management of concessions expired under paragraph 8-bis of said article 12, which provided for the exercise of the concession by the outgoing concession holder until reassignment, under unchanged conditions.

On September 26, 2013, as part of infringement procedure no. 2011/2026, the European Commission sent Italy a letter of formal notice, alleging that certain aspects of national legislation were not compatible with EU law. The Government had therefore proposed to the Commission an overall reorganization of the sector.

The new rules, introduced in the aforementioned art. 12 by Law no. 12/2019, provide that the Regions regulate with their own laws the methods, procedures and criteria for the allocation of concessions, which may be entrusted to economic operators identified through a tender, or to public/private joint ventures with selection of the private partner through a tender, or through forms of partnership under Legislative Decree 50/2016.

The procedure for awarding the contract must be started within 2 years of the entry into force of the Regional Laws mentioned above and, in any case, no later than March 31, 2022. The duration of the new concessions will be between 20 and 40 years, with possible extension of the maximum period by a further 10 years depending on the complexity of the project proposal and the amount of investment.

The State fee to be paid to the Regions on a six-monthly basis will also be redefined by regional law (after consultation with ARERA), and is divided into a fixed component linked to the average nominal power of the concession and a variable calculated as a percentage of normalized revenues.

The Regions may also require concessionaires to supply 220 kWh per year free of charge for each kW of average rated power of concession.

For expired concessions, an additional fee will be paid and a free supply of energy will be possible within the terms indicated above.

Within 180 days from the entry into force of Law no. 12/2019, a MiSE Ministerial Decree must be issued, after consultation with the ARERA and the opinion of the Unified State-Regions Conference, which must establish the minimum amounts of both the fixed part of the State fee and the additional fee. After the expiry of this deadline, the Regions may set these amounts at not less than 30 euro/kW for the fixed component of the State fee, and 20 euro/kW for the additional fee.

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With regard to compensation to outgoing operators, the new law, recalling RD 1775/1933, prescribes:

- for wet works, the transfer without compensation of ownership of the Regions, and in the case of investments - provided they are defined in the deed of concession or authorized by the granting body - an indemnity equal to the value of the part of the asset not depreciated;
- for dry works, the recognition of a residual value derived from accounting records or certified appraisal, net of depreciated assets. In the event of non-use by the incoming concessionaire, removal and disposal of movable property is envisaged at the expense of the proposer, while immovable property remains the property of the entitled parties.

In view of this new regulatory framework, on March 7, 2019, the European Commission sent a second complementary letter of formal notice<sup>(1)</sup> in which it complained that the Italian Government:

- continuously extended expired concessions, failing to establish transparent and impartial selection procedures for the award;
- imposed on the incoming concessionaire, with particular reference to “dry” works
  - i. the obligation to pay compensation in excess of the unamortised value of the assets, in asymmetry of treatment with as provided for in the event of taking over by the Regions,
  - ii. the cost of removing and disposing of assets not intended to be used in the concession project.

On May 10, with reference to the criticisms raised by the European Commission, the Italian Government sent a specific letter of reply.

ARERA, pursuant to art. 12, paragraph 1-quinquies, of Law no. 12/2019, with Resolution no. 490/2019/I/eel approved the preparatory Guidelines for the issue of a non-binding opinion on the regional legal schemes regarding state property fees, which must be issued within 20 days from the date of receipt of said scheme (in the event that ARERA's instructions have been complied with) and within 40 days in other cases. The Authority has expressed the following position:

- i. the variable part<sup>(2)</sup> of the state fee should be equal to a percentage, however defined by the Regions, of the sum of the products between the hourly quantity of electricity fed into the grid and the corresponding hourly zonal price recorded on the Day Before Market (MGP);
- ii. with reference to the free transfer of energy, its monetization should be preferred instead of its physical supply, based on the hourly zonal price recognized to the plant, to be determined as final balance, as the average of the hourly zonal prices formed on the MGP, weighted on the quantity of energy fed into the grid on an hourly basis.

In compliance with the provisions of the legislative framework in force and in line with the provisions of the aforementioned Authority Resolution, the Lombardy Region, with art. 31 of Regional Law 23/2019 di Assestamento al Bilancio (Budget Reconciliation) 2020-22, has defined, starting from 2020, the obligation to supply free energy to the Region by all holders of concessions of large derivation, whether they are exercised before or after expiry, providing both the physical delivery and its monetization (even in full) to be calculated on the basis of an average hourly zonal price weighted on the quantity of electricity fed into the grid by the plant.

The concessions for large-scale diversion of water held by A2A S.p.A. located in Valtellina (for a nominal capacity of the concession of approximately 200 MW) have for the most part expired<sup>(3)</sup> and exercised in “temporary continuation” regime, also under the terms of Presidential Decree no. X/7693 of January 12, 2018 of the Lombardy Region, which has already requested the payment of an additional fee provisionally determined at the rate of 20 euro/kW, in addition to the non-application of the partial exemption from the state fee on the Premadio 1 and Grosio plants. A2A S.p.A. has not yet paid this fee and has continued to consider the benefit of the partial exemption to be in force, having challenged all the resolutions before the Superior Court of Public Waters<sup>(4)</sup> on the basis of the cited

<sup>1</sup> Again on March 7, 2019, the Commission also issued formal notice to Austria, France, Germany, Poland, Portugal, the United Kingdom and Sweden to “ensure that public contracts in the hydroelectric energy sector are awarded and renewed in accordance with EU law”.

<sup>2</sup> The fixed component of the fee should derive from environmental and/or water-related assessments that are outside the Authority's remit.

<sup>3</sup> The concessions of Grosotto, Lovero and Stazzona expired 12/31/2010 while the one of Premadio 1 at 07/28/2013 (Premadio 2 has validity until 12/31/2043). The Grosio concession expired on 11/15/2016.

<sup>4</sup> For information, reference should be made to the section entitled “Update of the main legal and tax disputes still pending”.

paragraph 8-bis of art. 12 of Legislative Decree 79/1999, which provided for the continuation under unchanged conditions (more than 31 million euro claimed by the Region for the period January 1, 2011 - December 31, 2019, however allocated to the financial statements).

Other A2A S.p.A. concessions (plants in Mese, Udine and Calabria with a total nominal concession capacity of about 345 MW) expire in 2029. In addition, there are the three large derivations of Linea Green S.p.A. (Resio, expired and under temporary continuation regime until December 31, 2020, Mazzuno and Darfo not yet expired) and the concession of Gravedona of ACSM-AGAM S.p.A. expiring in 2029.

Transport and metering of natural gas for the fifth regulatory period (2020-2023)

With Resolution 114/2019/R/gas, the Authority approved the tariff regulation criteria for the natural gas transport and metering service for the fifth regulatory period (RTTG 2020-2023), while with Resolution 201/2019/R/gas, it approved the recognized revenues of transport companies and determined the fees for 2020. In accordance with the provisions of the TAR Code (EU Regulation 460/2017 establishing a network code for harmonised tariff structures for the transport of gas), the Resolutions introduced some methodological innovations, which are summarised below.

With reference to recognised revenues:

- only costs relating to the purchase of peak capacity for hourly modulation, excluding costs relating to peak capacity, peak injection and space, shall be recognised to the largest transport company;
- the current method of recognising in kind costs relating to network losses, self-consumption and unrecognised gas (GNC) has been exceeded, providing that transmission companies (through Snam Rete Gas) are to procure the necessary quantities of gas necessary on the organized market; these items are valued on the basis of the weighted average price of forward products with delivery to the PSV in the tariff year in question. In addition, a specific mechanism is provided for the recognition of costs for the procurement of Emission Trading System (ETS) securities, granting transport companies a quantity of securities determined according to standard logic and neutralizing the related price risk.

With reference to the structure of the transport tariff:

- the division of the tariff structure and the fees that make it up between capacitive components (applied at the points of entry and exit from the network) and components linked to the volumes transported is confirmed. In relation to the capacitive components, the allocation of the costs entry-exit 40(entry)-60(exit) of costs relating to the national network is confirmed, while, unlike the previous tariff period, the costs of the regional network are attributed 100% to the exit component. The overall ratio is 28(entry)-72(exit). The capacitive components applied at the exit points (CPu) thus cover the capital costs (as well as those relating to the hourly balancing of the network) of both the national and regional transport networks (the volumetric CR<sub>f</sub> fee is therefore eliminated);
- for the purpose of calculating the unit fees of the tariff, the Authority adopted the CWD - Capacity-Weighted Distance method, exceeding the current matrix method. In the new scenario, the Authority applied a 50% discount to the entry/exit fee to storage facilities resulting from the application of the CWD method. Finally, it should be noted that, in application of the new calculation method, it has (i) reduced the entry/exit points from storage from 3 to 1, (ii) reduced the exit areas from 6 to 1 and (iii) merged the entry points from domestic production into 10 hubs;
- a bundled tariff (single fee that includes exit and redelivery fees) is defined as from October 2020, in parallel with the application of the single transfers at the exit point. For the thermal year 2019-2020, capacity transfers will continue to be made at both exit and redelivery points and for the transitional period from January 1 - September 30, 2020, the pro-forma fees will be applied (applied to transfers to exit points of interconnections between the national and regional networks) and (applied to regional network transfers). In relation to the latter, two distinct fees are determined >15 km and <15 km depending on the distance of the redelivery points from the national network;
- the variable fee called CV<sub>u</sub> is used to cover operating costs, GNC, self-consumption, losses and ETS costs and is applied to the quantity of gas withdrawn from a network exit point (including exit points to storage facilities and points of interconnection with foreign countries) and no longer to the volumes injected into the national network;

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- a new volumetric fee, called  $CV_{FC}$ , is introduced for the purpose of recovering sums relating to revenue adjustment factors, applied to redelivery points and exit points to storages. This amount is zero in 2020.

With reference to the metering tariff: a tariff structure is adopted which, in exchange for the possibility for end customers directly connected to the transport network to transfer ownership and management of the metering plant to the transport company, provides for the introduction of a  $CM^{CF}$  tariff component, applied only to the redelivery points for which the metering plant has been transferred.

With reference to the tariff components covering the general costs of the gas system: some new features have been introduced, including the elimination of the tariff component  $\psi$  and the creation of the new "Transport expense account" to replace the current "Transport equalisation imbalance account". The  $CRV^{FG}$  component is applied to the redelivery points that supply the distribution networks and to those that supply end customers directly connected to the regional networks (it is no longer applied to the volumes of gas fed into the national network).

In terms of process, by May 31 of each year, the Authority will determine and publish the transport and metering tariffs valid for the following year.

Regarding the expected impacts of the tariff forecasts for the fifth regulatory period:

- estimate of a general increase in fees compared to 2019. Entry points were the most penalised (+20% Tarvisio, +96% Passo Gries) and there was a partial reabsorption of the tariff differences between North and South. The costs of entry from the re-gasification terminals are also clearly increasing (+290% Olt), while more limited increases in exit except for exit storage (+71%) are recorded. The tariff increase is due to both the new tariff method adopted and the increase in revenues to be paid to transport companies;
- for the thermoelectric plants of the A2A Group: it is estimated - on a like-for-like basis for capacity booking of approximately 6,000 MW - that fixed costs will fall by approximately 7.6 million euro by 2021 and that variable costs will rise by 10 million euro by 2020 (with a potential increase in the wholesale price of the electricity market).

## Settlement gas: new regulation from January 1, 2020

Settlement gas is the regulation defined by ARERA aimed at ensuring the efficient provision of natural gas balancing services, in particular with regard to the determination of physical and economic items for each user (carriers, users of balancing, users of distribution, sellers and end customers).

By way of Resolutions 72/2018/R/gas and 148/2019/R/gas, ARERA approved the new regulation on settlement gas, which will be in force as of January 1, 2020 and which:

- confirms the structure based on monthly balancing sessions with subsequent adjustment sessions (one for the annual adjustment and one for the multi-annual adjustment);
- simplifies procedures for the determination of economic and physical balancing items;
- establishes the adjustment of the deviation fees and the variable fees on the basis of the daily allocation as a result of the adjustment session;
- introduces the temperature factor ( $Wkr$  parameter) for the correction of the sampling profiles based on the climatic trend, determined and published by the Balancing Manager;
- assigns Snam Rete Gas S.p.A. the task of supplying the difference between the quantities withdrawn from the city gates and the sum of expected consumption;
- assigns to the Integrated Information System of Acquirente Unico S.p.A. the activities of profiling, aggregation of measures, calculation of the annual withdrawal and allocation of withdrawal profiles.

With Resolution 451/2019/R/gas, the Authority has defined the methods of procurement by Snam Rete Gas S.p.A. of the quantities of gas necessary for the functioning of the system - so-called system gas ( $\psi$ ). This quantity is the sum of self-consumption, network losses, CNG, linepack variations, difference between gas injected and withdrawn in the distribution networks.

From January 1, 2020, the procurement of  $\psi$  is carried out in a compartment of MP-GAS referred to as AGS (system gas procurement), through two bilateral auctions at marginal price, one on day G-1 at 1:30 pm and the other on day G at 1:30 pm, without any continuous trading market suspension. Snam Rete Gas S.p.A.'s sales offers are valued at 0 euro/MWh while purchase offers are equal to the average weighted average price of title products (SAP) of the 7 days prior to the trading day, increased by 30 euro/MWh. However, transactions concluded as a result of these auctions are not included in the SAP price formation.

Resolution 147/2019/R/gas provided for the reform of the conferments at the redelivery points (PdR) underlying the city gates, including:

- ex officio determination of the transport capacity of the PdR underlying the city gates;
- allocation of capacity by the transport company to each BU for the supply of the PdR served (on the basis of the correspondence reports and related monthly updates);
- overcoming the variance penalties system for the PdR underlying the city gates.

Lastly, by Resolution 538/2019/R/gas, the Authority provided transitional solutions to limit any negative impacts for operators resulting from the application of the new settlement method as of January 1, 2020, in the presence of capacity transfers made in an earlier period. Specifically, the Authority provided:

- decriminalization of overcapacity: the overcapacity penalties will be determined at the minimum value between the penalty calculated on the basis of the allocation according to the new methodology and the penalty calculated on the basis of the allocation re-proportioned on the daily input;
- introduction of transfer sessions for upward capacity revision until May 31. These capacity increases shall apply retroactively until October 2019.

### Closing of the dispute concerning Resolution ARG/gas 89/10 and settlement of amounts

By means of Resolution ARG/gas 89/10, in the presence of a cyclical phase characterized by a reduction in gas consumption, by an excess of supply and a widespread downward renegotiation of take-or-pay contracts, the Authority had decided to immediately transfer to customers the potential benefits determined by this situation introducing, for thermal year 2010-2011, a reduction coefficient  $k$  of 0.925 applied to the indexed component of the QE (variable fee of the final tariff to cover gas procurement costs). This revision was confirmed by the subsequent Resolution ARG/gas 77/11, which provided for an extension until September 30, 2012 of said mechanism, revising slightly upward the value of the coefficient  $k$  (from 0.925 to 0.935).

The sales companies of the A2A Group had appealed against both resolutions, contesting the arbitrariness of the value of the  $k$ . Following a lengthy dispute, the Council of State, by sentence no. 4825 of November 18, 2016, confirmed the claimants' reasons.

By means of Resolution 737/2017/R/gas, the Authority redetermined the coefficient  $k$ , setting it at 0.952 for both thermal years 2010-2012, while by means of Resolution 32/2019/R/gas, it introduced a mechanism for recognising the amounts due to sellers by establishing a socialization component on the distribution tariff and gas metering paid by customers with consumption up to 200,000 Smc/year (sub-component of  $UG_2$  called  $UG_{2k}$ ). The collection of revenue will take place over a period of 3 years starting on April 1, 2019.

On May 31, A2A Energia S.p.A., Lumenergia S.p.A., ACEL Energie S.p.A. and Enerxenia S.p.A. applied to the CSEA for access for a total of 21.7 million euro, which will be settled in three sessions between April 1, 2020 and December 31, 2021.

It should be noted that, following the appeal filed in March by the General Confederation of Crafts and Enterprises (Confartigianato) against Resolution 32/2019/R/gas, the Lombardy Regional Administrative Court (TAR) with sentence no. 38/2020 partially annulled the measure regarding the scope of application of the socialization component (which according to the judges should be extended), without prejudice to the right of sales companies to collect the amounts.

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### Application for restitution of part of the administrative sanction imposed on Plurigas S.p.A.

With Resolution no. 229/06, the Authority imposed an administrative sanction on Plurigas S.p.A. (currently in liquidation) of 1.5 million euro for non-compliance with certain requests for information. The company had started a dispute on the methods of quantifying the fine, which in the meantime had been paid for an amount of 1,522,083.33 euro (including interest).

With sentence no. 1084/2012 of February 27, 2012, the Council of State, at the end of the ongoing dispute, annulled the aforementioned Resolution no. 229/06 in the part relating to the quantification of the amount of the sanction, requiring the Authority to recalculate it taking into account the effective economic capacity of Plurigas S.p.A.. On December 15, 2016, by way of Resolution 755/2016/S/gas, the Authority, in compliance with the sentence of the Council of State, recalculated the amount of the sanction in the amount of 980 thousand euro.

On February 21, 2017 Plurigas S.p.A. submitted a request for reimbursement to the Revenue Office in response to the compliance measure. It was only in May 2019 that the Revenue Agency forwarded the request for reimbursement to the MiSE, currently the competent body in this regard. The Authority then gave the MiSE the go-ahead and revised the amount to be repaid to the extent of 530,001.14 euro in order to take account of the statutory interest due on account of the late payment of the penalty.

On November 19, 2019, the Ministry of Economy and Finance paid the amount. The amount of the legal interest accrued from the date of the ARERA clearance until the date of the transfer is currently being determined.

# Market Business Unit

## 2017 Competition Law and termination of price protections for electricity and gas

The Law August 4, 2017, no. 124 (Competition Law 2017) contains provisions aimed at removing regulatory barriers to the opening of markets, promoting the development of competition and guaranteeing the protection of consumers. Article 1, from paragraphs 59 to 85, introduces relevant provisions concerning the energy market, providing for:

- the end of the electricity and gas price protection regimes as of July 1, 2019 (deadline subsequently extended to January 1, 2022 under Decree Law no. 162/2019 (Milleproroghe);
- provisions regarding mandatory contractual conditions and comparability of offers;
- promotion of buying groups;
- establishment of a list of subjects authorized to sell electricity (Vendor List);
- redefinition of the mechanisms to support citizens on fuel poverty;
- provisions aimed at combating the phenomenon of so-called maxi-bills;
- access by utilities to databases containing information on the credit and the identity of customers.

The Authority has fulfilled the following obligations required by the 2017 Competition Law:

- with Resolution 555/2017/R/com, it regulated a specific type of offer on the free market under similar conditions of protection (PLACET offers) and identified the minimum contractual conditions for all free market contracts for electricity and natural gas;
- by means of Resolution 746/2017/R/com, it imposed information obligations on suppliers regarding gas protection and operators of greater electricity protection to inform customers of the overcoming of price protections;
- by means of Resolution 762/2017/I/eel, it proposed to the MiSE the criteria, methods, technical, financial and honorability requirements for registration and the permanence in the Electricity Sales List;
- by means of Resolution 51/2018/R/com, it defined the operating requirements of the Offers Portal for the collection and publication of commercial offers managed by Acquirente Unico S.p.A.;
- submitted to the MiSE the 117/2018/I/com Report on the monitoring of retail markets for electricity and gas necessary for the purpose of verifying the achievement of the objectives set by the 2017 Competition Law;
- by means of Resolution 59/2019/R/com, it approved the voluntary guidelines for the promotion of electricity and natural gas offers in favour of purchasing groups aimed at domestic end customers and small businesses.

The requirements for the MiSE are still pending:

- approval of the Electricity Sales List;
- social bonus reform;
- MD on the modalities of implementation of the end of price protection schemes according to mechanisms that ensure competition and plurality of suppliers and offers in the free market, referred to in art. 1, paragraphs 59, 81 and 82 of the Law as supplemented by the aforementioned Milleproroghe Decree.

Finally, by means of Resolution 270/2019/R/com, ARERA entrusted Acquirente Unico S.p.A., once it had obtained the favourable opinion of the Guarantor for the protection of personal data as indicated by the 2018 Budget Law, with the creation of the Consumption Portal to increase consumer awareness: in this first phase, the customer may view the historical data of electricity and gas consumption, readings and self-readings of the last 12 months. The granularity of the available data will depend on the type of meter installed and the frequency of making available the readings to the Integrated Information System.

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## Brand Unbundling between greater electricity protection and free market

By means of Resolution 296/2015/R/com (also TIUF - Functional Unbundling Integrated Text), the Authority adopted provisions on brand unbundling for free market vendors also exercising the electricity greater protection service by providing:

- by June 30, 2016, date later extended to January 1, 2017 in accordance with Resolution 327/2016/R/eel: the use of different communication policies and trademarks for the conduct of each of the two activities, while always respecting the uniqueness of the trademarks of the company;
- by January 1, 2017: that the respective commercial activities are carried out through the use of information channels, physical spaces and separate staff.

A2A Energia S.p.A. appealed art. 17.9 of Resolution 296/2015/R/com that introduces an obligation for sellers to use information channels, physical and personal spaces separated between sale on the free market and greater protection service without providing coverage of the costs. A postponement of the hearing was requested (previously scheduled for May 12, 2016), considering that Resolution 659/2015/R/eel provided that, under the annual updates of the RCV, the Authority took into account the costs relating to debranding between free market and greater protection. In implementation of this provision, the Authority, as part of the annual update of the RCV component for 2019 established by means of Resolution no. 706/2018/R/eel, granted operators the greatest protection for the costs incurred in 2017 in implementation of the aforementioned TIUF provisions.

A2A Energia S.p.A. has since followed up the requirements of the measure. Among the measures adopted, it is noted that the physical spaces that host the customer contact counters were reconsidered and the channels for the communication of information to customers were separated. In particular, the measures consist in the revision of the website and the creation of a web page dedicated to end customers in greater protection, in the expansion of the call center with additional reference numbers for customers in protection, and in attention to the layout of billing documents so as not to create any confusion with the company's activities on the free market.

Resolution 561/2018/E/eel approved a programme of controls on the separation of trademarks and communication policies with regard to companies operating in the free market and higher protection sales activities, which will be completed by June 30, 2019. A2A Energia S.p.A. (like other operators), following a specific request from the Authority, submitted a Report in January 2019 setting out how the baseline requirements have been implemented.

By Resolution 96/2019/E/eel, a programme of inspections was approved, with access to the retailer's commercial spaces impacted by the brand unbundling provisions. A2A Energia S.p.A., like other operators, was inspected in April 2019 and is now awaiting the Authority's assessment of the remedies proposed with reference to what emerged during the inspection visit.

## Charge of the RAI fee in the electricity bill

Article 1, paragraphs 152-164 of Law no. 208/2015 (2016 Stability Law) governed the charging of the RAI fee through the bills issued by electricity companies to its resident customers (if not exempt) starting from July 2016. For the implementation of the above, the MiSE, in consultation with the Ministry of Finance, issued Ministerial Decree on the "Regulations implementing article 1, paragraph 154, of Law December 28, 2015, no. 208 (RAI fee in the bill)".

The Ministerial Decree of the Ministry of Economic Development provides for the recognition of costs to companies collecting the fee for a maximum total of 14 million euro/year and for the two-year period 2016 and 2017 only. Resolution 291/2017/R/eel defined the criteria for the allocation of this contribution: the amounts due to each company are calculated by the Single Buyer S.p.A. and communicated to the Revenue Agency which, in December 2017, liquidated A2A Energia S.p.A. 551,558 euro in relation to the 2016 contribution, while the 2017 contribution was paid in March 2019 in the amount of 545,220 euro (the 2017 contribution paid to ACEL Energie S.p.A. and Enerxenia S.p.A. amounted to approximately 60,000 euro).

## Components to cover marketing costs on the electricity protected market, on the free electricity market and on gas protection

Resolution 706/2018/R/eel updated for 2019 the RCV and PCV components to cover marketing costs, respectively, for greater electricity protection and for the free electricity market. The total impact for A2A Energia S.p.A. was about 4.9 million euro and about 350,000 euro for ACEL Energie S.p.A. and

Enerxenia S.p.A.. As part of this update, the Authority granted operators greater protection also for the costs incurred for the implementation of debranding (formerly TIUF) to the extent of the increases recorded with reference to the operating costs inferable from the accounting unbundling.

Resolution 576/2019/R/eel has decided to update these components for 2020, resulting in an overall impact at A2A Group level of 800,000 euro.

PCV euro/POD/year	2019	2020
Domestic POD	65.38	65.12
Various use POD	121.84	125.64

RCVsm euro/POD/year	2019		2020	
	C-North	C-South	C-North	C-South
Domestic POD	39.77	42.53	41.55	44.10
Various use POD	71.81	116.30	69.67	101.78

Resolution 707/2018/R/gas updated for 2019 the QVD component to cover retail marketing costs. The impact for A2A Energia S.p.A. was about 300,000 euro and about 50,000 euro for ACEL Energie S.p.A. and Enerxenia S.p.A..

Resolution 577/2019/R/gas has decided to update this component for 2020, resulting in an overall impact at A2A Group level of 4.7 million euro.

QVD	2019		2020	
	€/PDR/year	c€/mc	€/PDR/year	c€/mc
Domestic PDR	60.23	0.7946	63.61	0.7946
PDR condominium home use<200,000 Scm/a	79.11	0.7946	83.55	0.7946

Additional mechanisms to cover efficient costs on the electricity protected market

With reference to the additional cost compensation mechanisms for the greater protection service as per the TIV, the following is noted:

- in April, A2A Energia S.p.A. submitted a request for access to the mechanism to compensate for arrears of end customers of the TIV, aimed at recognizing any charges related to arrears exceeding the unpaid ratio already considered for the purpose of updating the RCV component (COMP 2018), for an amount equal to 8.2 million euro. ACEL Energie S.p.A. submitted a request for an amount of approximately 100,000 euro;
- in March, A2A Energia S.p.A. submitted a request for access to the mechanism regarding the exit of customers from the greater protection service, aimed at recognising the additional fixed cost connected to a customer exit rate towards the free market greater than that implicitly recognised in the definition of the RCV component (PUC 2018), for an amount equal to 0.5 million euro.

Two-year prescription for the consumption of electricity and natural gas

Article 1, paragraphs 4-10 of the 2018 Budget Law introduced a two-year prescription for contracts for the supply of electricity, gas and water services in relations between customers and the seller, in relations between the distributor and the seller, and in relations with the transport operator and other parties in the supply chain, as well as the suspension of payments (and reimbursement of payments made) in the case of AGCM procedures for the detection of violations of the consumer code in relation to invoicing, until the legitimacy of the operator’s conduct has been verified.

The Law provided that the prescription not be recognized to the customer in the event that the missed or erroneous collection of consumption data was attributable to the customer; however, paragraph 295 of art. 1 of the Budget Law 2020 removed this case, providing for the recognition of the two-year prescription period even in cases of ascertained liability of the customer.

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The entry into force is differentiated: from March 1, 2018 for the electricity sector and from January 1, 2019 for the gas sector and from January 1, 2020 for the water service.

The Authority has given an initial implementation of the relevant provisions:

- Resolution 97/2018/R/com, it defined the scope of application, reaffirmed the timing of entry into force and introduced disclosure obligations on the part of sellers to end customers in order to make them aware of the possibility of objecting to the two-year prescription;
- by means of Resolution 264/2018/R/com, it introduced a transitional measure that allows the transport user, in the event of non-collection due to an exception of prescription raised by the end customer due to settlements and adjustments attributable to the responsibility of the distributor, to request the distribution company to recalculate the amounts;
- by means of Resolution 569/2018/R/com, it introduced new and additional information requirements and defined the procedures for objecting to the prescription in cases where the responsibility for the delay in invoicing is attributable to the seller, the distributor or presumably the customer;
- Resolution 683/2018/R/com extended also to the gas sector the possibility for sellers to request the distributor to refund sums paid in excess in the event of non-payment due to the exceptions of prescription raised by end customers, linked to recalculations for which the responsibility is attributed to the distributor, confirmed the adoption of the per-day criterion for the purposes of identifying the period covered by prescription and postponed to a subsequent measure the definition of the timing and methods by which users of electricity dispatching and users of natural gas balancing, in the event of non-collection due to an exception of prescription raised by the end customer for the responsibility of distributors, are entitled to request Terna and Snam Rete Gas, respectively, to review the economic items.

## Award of the safeguard service for the two-year period 2019-2020

The Law August 3, 2007, no. 125/07 established a safeguard service for all companies and public bodies without an electricity supplier and that have at least one medium or high voltage supply point or only low voltage points with more than 50 employees or an annual turnover of more than 10 million euro.

A2A Energia S.p.A. was selected, through a public tender procedure, for the period January 1, 2019 - December 31, 2020, as the electricity supplier for the safeguard service in the Marche, Umbria and Tuscany regions for about 200 GWh (estimate 2019). The prices charged are determined in accordance with the Authority's rules and the calculation methods laid down by the MiSE and include wholesale electricity costs, dispatching and commercialization costs.

In particular, A2A Energia S.p.A. applies to the energy supplied and the related grid losses:

- a consideration equal to the average monthly purchase price on the GME market, differentiated by time slot and increased by the omega parameter ( $\Omega$ ) equal to 15.90 euro/MWh;
- the sum of the fees to cover the costs of the dispatching service (excluding the costs for the actual imbalance and the non-arbitrage fee);
- fees to cover the costs of transmission, distribution and metering and system charges and surcharges defined in Annex A to Resolution 654/2015/R/eel;
- the CSAL fee to cover the charges for late payment, applied in accordance with article 29(11) of the TIV (Full text of the provisions of the Authority for the supply of electricity sales services of greater protection and safeguarding).

## Initiation of sanctioning and prescriptive proceedings for the invoicing of consumption

By means of Determination DSAI/65/2018/com, the Authority initiated sanctioning and prescriptive proceedings against A2A Energia S.p.A. aimed at ascertaining violations in relation to the invoicing of energy consumption, in relation to the application of specific fees to end customers for the receipt of invoices in paper format.

On December 14, 2018, the company submitted a proposal for commitments, integrated in July 2019. The proposal provides for: (i) the return to customers of the additional fees charged; (ii) the elimination of the IT constraint that activates the bollett@mail service only in the presence of bank direct debit,

and recognition to all customers active on the free market who decide to activate this service of a one-off bonus of 6 euro, and (iii) the recognition to customers subject to the application of the mailing fees of an additional one-off bonus of 12.00 euro.

By Resolution 389/2019/S/com, ARERA approved the company’s proposal for commitments, making it binding and thus closing the related penalty proceedings.

Closing of the AGCM PS10728 investigation against A2A Energia S.p.A. for the application of online payment service costs by credit card

At the end of a proceeding started in April 2017, with a provision dated September 20, 2017, the AGCM imposed a fine of 220,000 euro to A2A Energia S.p.A. for violation of the provisions of art. 62 of the Consumer Code on the application of surcharges for the use of the credit card for the payment of bills via the website.

The company filed an appeal before the Lazio Regional Administrative Court: the surcharge for the online card payment service was not due to the use of the payment instrument, but to the provision of a service that brings with it an objective added value (also considering that since January 1, 2017, the company has discontinued the function of collection at the physical counters). Moreover, art. 19 of Directive 2011/83/EU (Consumer Rights Directive), implemented by the rule in art. 62 of the Consumer Code, provides that Member States prohibit professionals to impose on consumers, in relation to the use of certain payment instruments, fees that exceed those incurred by the professional for the use of such instruments thus legitimizing the conduct of A2A Energia S.p.A..

AT the beginning of January, the Council of State accepted the appeal filed by ACI (Automobile Club d'Italia) against the decision of the Lazio Regional Administrative Court, which had confirmed the validity of the measure by means of which AGCM had sanctioned the operator for violation of the aforementioned provision of the Consumer Code.

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# Waste Business Unit

## Attributions to ARERA of regulation and control powers in the urban waste sector

Article 1, paragraph 527, of Law no. 205 of 2017 (Budget Law 2018) assigned to ARERA powers to regulate and control the integrated waste cycle, including differentiated, urban and similar waste.

In 2019, ARERA published the first measures on tariff regulation and transparency towards users, following the convening of technical meetings with stakeholders, the publication of consultation documents (DCO) and consultation documents which, given the complex governance of the sector, were sent to the MATTM, the MEF, the Presidency of the Council of Ministers, the Regions and the ANCI.

## Operator Database: opening to Integrated Service Managers

The Operator Database is the only point of access to online services and data collection established by ARERA, created with the aim of dematerializing information flows, so as to make them increasingly secure and confidential from an IT point of view. All subjects that carry out activities in the electricity, gas, water, district heating and cooling and waste sectors, also differentiated, urban and similar, must be in the Operator Database in order to be able to access the individual data collections of the Authority.

Since July 3, 2019, ARERA, in application of Resolution 715/2018/R/Rif, has extended the obligation to be entered in the Database also for operators, including municipalities, which manage in economy the services related to the waste cycle, also differentiated, urban and similar, and who carry out the activities of collection and transport, street sweeping, cross-border shipping, recovery and disposal as well as the Government Bodies of the Optimal Territorial Ambits (EGATO).

## Data collection

### Request for information about the service of treatment of urban and similar waste

Resolution no. 714/2018/R/rif sent a request for information to be sent to the parties involved in the treatment of municipal and similar waste (TMB plants, incineration plants and landfills - at a later date, a request is also expected to be sent to plants treating differentiated fractions) by means of special forms subsequently adopted with Determination no. 1/2019.

The survey is aimed at acquiring the functional elements both for the regulation of access conditions and for the performance of the control functions of the Authority, with particular reference to the prices charged by operators to users.

### Request for information on the quality of the urban waste management service for subjects that carry out collection and transport and/or sweeping and washing activities

Following Resolution 226/2018/R/rif, Determination no. 3/2019 initiated a request for information from operators that, at December 31, 2018, carried out collection and transport and/or sweeping activities (including municipalities in the economy), in relation to the guaranteed quality indicators and standards and related application methods (including, among the information requested, also information on the quality of the tariff management service and relations with users when carried out by subjects receiving collection), with the aim of verifying the dissemination of the Service Quality Charters, identifying any relations between the service organization model and the quality provided and identifying obligatory and homogeneous quality standards throughout the country.

### Request for information on the quality of the urban waste management service for subjects that only carry out the activity of tariff management and relations with users

Following an examination of the sector, which showed that in most cases tariff management and relations with users is carried out by the municipalities, the Authority deemed it appropriate to complete the acquisition of data on the quality of service by providing with Determination 4/2019 the completion of the above collection also for subjects that, at December 31, 2018, only carried out tariff management and relations with users.



Waste Pricing Method for the period 2018-2021 (MTR)

Resolution 443/2019/R/rif defined the Tariff Method for the Integrated Waste Management Service (IMW), defining “the criteria for the recognition of efficient operating and investment costs for the period 2018-2021”. The measure, which is the result of the proceedings initiated by Resolution no. 225/2018/R/rif and defined downstream of DCO 713/2018/R/rif and 351/2019/R/rif, applies to tariff revenues for 2020, compatibly with the time frame provided for in the regulations for the approval of the TARI by the Municipal Councils, the deadline for which was extended to April 30, 2020 following the law converting Fiscal Decree Law no. 124/2019.

MTR requires costs recognized to Operators to be determined starting from the actual costs recognized in the reference year (a-2) resulting from obligatory<sup>5</sup> accounting sources and those relating to integrated waste management, which includes the following activities:

- sweeping and street cleaning,
- collection and transport,
- treatment and recovery of urban waste,
- treatment and disposal of urban waste,
- tariff management and relations with users.

Other activities, such as deratization, snow clearance, mosquito pest control, garden cleaning, etc., are considered external to the integrated urban waste cycle and therefore not subject to regulation.

The costs of treatment and disposal are defined on a transitional basis as is pending the setting of criteria for the determination of tariffs for access to facilities in 2020 with effect from January 1, 2021.

MTR is based on the principle of full cost recovery and establishes that tariff revenues can grow year on year through the application of the price cap mechanism within a certain maximum limit to the increase. The competent territorial entities may submit to the ARERA a request for the exceeding of this limit, if they deem it necessary to ensure the achievement of the expected quality improvements or to support the integration process of the activities managed.

Below are the main features of the new method:

- rab-based with recognition of operating costs, amortization and return on invested capital (WACC at 6.3%, plus 1% for investments after December 31, 2017 related to the regulatory lag);
- incentive costs (COI) based on forecasting logic that allow the inclusion in the tariff of forecast costs not yet finalized, without prejudice to subsequent verification mechanisms;
- sharing of revenues from the sale of materials and energy in a range between 40%-70%, which allows Operators to retain a portion of the income, also depending on the quality of differentiation conferred. The percentage of sharing must be established by the territorially competent entity;
- adjustments over the years 2018 and 2019, calculated on the basis of the difference between the costs provided for in the 2018 and 2019 PEF and the actual costs in 2017 inflated, to be applied according to gradual mechanisms on the basis of management efficiency indicators taking into account the evaluations of the territorially competent entity.

The approval procedure provides for the transmission of the PEF by the Manager to the competent local authority which - after checking the correctness, completeness and congruity of the data - sends it, together with the tariff fees, to ARERA for approval.

On December 30, 2019, AMSA S.p.A. and A2A Ambiente S.p.A. appealed against Resolution 443/2019/R/rif to the Lombardy Regional Administrative Court individually and for various reasons. The appeals are supplemented by a request for precautionary suspension of the effectiveness of the measure in view of the potential economic damage caused to companies<sup>6</sup>.

<sup>5</sup> MTR is in continuity with Presidential Decree no. 158/99 of April 27, but provides for the use of obligatory accounting sources for the preparation of the PEF and not forecast costs.  
<sup>6</sup> Since many variables will be defined as a result of discussions with the competent local authorities, the economic effect of the measure will be known by April 30, the deadline for the Manager to send the PEF.

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### Integrated text on transparency towards users in the waste management service (TITR)

Resolution 444/2019/R/rif regulates transparency obligations towards users through the establishment of the *Integrated Text on transparency in the waste management service* (TITR) for the regulatory period April 1, 2020 - December 31, 2023 (on an experimental basis until December 31, 2020). The obligations apply to the Integrated Waste Service Operator (including municipalities in economy) and to the Operator that carries out tariff management and relations with users, where these activities are managed by separate entities (including municipalities that often own this activity).

The Operators shall activate all the necessary tools to make the documents and information accessible and understandable to users, through the publication of obligatory minimum information content to be made available (i.e. regarding the general aspects of operational service management, the Service Quality Charter, the method of calculating the TARI, the environmental performance of management, etc.) through websites, collection documents and communications to users for significant changes in the performance of activities. In addition, the timing of information exchange is regulated in the case of various operators for individual waste management service activities.

### Contribution to the expense for the operation of ARERA

With Resolution no. 355/2019/A on “Provisions on the contribution for the functioning of the Regulatory Authority for energy networks and environment due for the year 2019 by subjects operating in the relevant sectors”, ARERA established for the first time the rate of the contribution for the Authority's operating expenses also borne by subjects operating the waste cycle equal to 0.30‰ of the revenues resulting from the financial statements for the years 2017 and 2018 for the calculation of the contributions for the years 2018 and 2019. These amounts will be covered by tariff revenue.

### Incentive of biomethane used in the transport sector

Ministerial Decree of March 2, 2018 reforms the incentive regulation of biomethane, orienting it exclusively to use in the transport sector, to help achieve the 10% target for renewable energy consumption in transport in 2020, as foreseen by Directive 2009/28/EC. In particular, the Ministerial Decree:

- modifies the minimum percentages of the obligation to release biofuels and advanced biofuels for fuel distributors (to be carried out directly or through Consumption Feed-in Certificates - CIC). In particular, an obligatory portion of at least 75% must be met through the introduction of advanced biomethane, i.e. biomethane obtained from waste and organic residues and agriculture (including FORSU);
- revises the separate incentive mechanisms for biomethane and advanced biomethane, produced by new plants to be commissioned by December 31, 2022, or by existing plants powered by biogas subject to conversion. The incentives apply up to a maximum amount of biomethane feed-in of 1.1 billion cubic meters/year.

Regarding biomethane that is not advanced, the producer directly sells gas to owners of fuel distribution plants, and in addition obtains the release of the CIC corresponding to the biomethane fed into the network, to the extent of 1 CIC for 10 GCal of fuel.

As far as advanced biomethane is concerned, as an alternative to direct sales (however possible), dedicated withdrawal by the GSE is envisaged, up to the maximum incentive quantity threshold equal to the 75% obligation portion above. The GSE pays to the producer for 10 years a price equal to the weighted average price recorded on the spot market of natural gas (MP-GAS) of the GME in the month of sale, reduced by 5%, and in addition recognizes a CIC value equal to 375 euro/certificate, counting 1 certificate for 5 GCal of advanced biomethane (double counting with respect to the valorization of biomethane that does not qualify as advanced). In the case of advanced biomethane, for each plant it will not be possible to access the incentives for the part exceeding the maximum annual production of 150 thousand tons of biofuels.

The GME will have to provide and manage a market platform for the negotiation of the CIC recognized to biomethane and advanced biomethane that does not access withdrawal by the GSE.

On June 18, 2018, the GSE published the Application Procedures for the qualification of production plants and the incentive of biomethane through the attainment of the CIC. From July 2018, the Biomethane Portal is also available to send requests for plant qualification.

To complete the incentive framework, in December 2018, the contract schedules were published that the GSE will enter into with producers to regulate the incentive for the release for consumption of advanced biomethane in the natural gas network, with a specific destination in transport by recognizing the value of CICs.

A2A Ambiente S.p.A. is planning the construction of plants for the production of biomethane by FORSU, using anaerobic fermentation processes, for a total annual production of 20 million cubic meters of gas. The biomethane produced will be used for transport purposes, partly also for the fleet of methane vehicles of the A2A Group. Critical aspects include the timing of Integrated Environmental Authorizations (IEAs), which can extend the time for plants to start operating near the deadline for obtaining incentives to 2022.

The A2A Group’s interest in the biomethane chain is also confirmed by the signing, on June 20, 2018, of the Memorandum of Understanding with Coldiretti, Bonifiche Ferraresi, Snam and GSE to create the first Italian agricultural biomethane chain. Starting from the use of waste from crops and farms, the initiative aims to create new plants for the production and distribution of biomethane to fuel private cars, public transport fleets and agricultural machinery. A2A, in light of the path already taken in the circular economy, will pool its know-how as a reference utility for sustainable models of production, distribution and recycling.

End of Waste status

Following Council of State Sentence no. 1229/2018 (February 2018) - according to which article 184-ter of Legislative Decree 152/2006 would not allow local administrations to authorize the end of waste status (EoW) on a case-by-case basis, as said criteria is necessarily established at State or European level -, a regulatory “deadlock” and significant uncertainty for investments in the waste recovery sector has been created.

This situation appeared even more paradoxical since the new Directive 851/2018 of the EU Circular Economy Package (which will be transposed by July 2020) provided the “case-by-case”, thus having in nuce the potential for a resolution of the issue raised by the sentence of the Council of State.

To overcome this impasse, following the significant concern of the sector, as part of the conversion of the “Unblock Site” Decree, an amendment was approved that revises paragraph 3 of art. 184-ter of Legislative Decree 152/2006. The scope of this provision is nevertheless limited: in fact, it takes as a reference the types of waste, recovery operations and products obtained regulated by Ministerial Decrees of February 5, 1998, June 12, 2002, no. 161, and November 17, 2005, no. 269, without intercepting the aspects of technological innovation that characterised the new recovery technological processes activated in the period between the publication of the aforementioned Decrees and today. With this amendment, the processes not provided for in the simplified rules (Ministerial Decree of February 5, 1998) could not have recourse to the possibility of applying for case-by-case authorizations issued by the competent local authorities.

In addition to this was the risk of revocation for the case-by-case authorizations already issued: the regulation introduced refers to the MATTM for the issue of the Ministerial Decree containing the guidelines on the basis of which, within the next 12 months, the holders of new authorizations issued in accordance with the aforementioned Ministerial Decree must submit a request for updating to the competent Authority.

In the meantime, with Decree no. 6785 of May 15, 2019, the Lombardy Region has provided that the competent authorities may authorise the production of biomethane, including from waste treatment plants, using the criteria set out in the Ministerial Decree of March 2, 2018 (see previous paragraph). In June, the same measure was adopted by the Lazio Region. The compliance of these decrees with art. 184-ter of Legislative Decree 152/2006 is, however, controversial.

Once again acknowledging the industry’s concerns about the continuing uncertainty over investments, Law 128/2019 was published on November 2, 2019, converting DL *Salva Imprese* (Save Companies), which in art. 14 contains the reform of the “cessation of the qualification of waste” with which, in accordance with Directive 851/2018, the previous measure contained in DL *Sblocca Cantieri* (Unblock Sites) is repealed and the possibility of case-by-case in ordinary proceedings (pursuant to art. 208 TUA or AIA) is reintroduced for the competent administrations (Province/Region), in compliance with certain requirements. The Decree also includes authorizations in place and those in the process of renewal (or for which renewal will be requested within 120 days of the measure coming into force).

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However, at central level (MATTM), tasks are assigned for assessment and control, to be carried out with the support of ISPRA, regarding compliance with the requirements of Directive 851/2018 and compliance with the authorizations issued, which may lead to binding requirements for Administrations and companies until revocation of the authorizations. This provision, which is included to ensure central coordination of authorizations issued at local level, does not eliminate the risk to investments arising from the possible ex post revocation of the authorization.

### Relapse of the dispute concerning Resolution ARG/gas 89/10 on the rules governing incentives for facilities operating in CIP6 regime

The resolution of the dispute relating to the introduction of reduction coefficient  $k$  to the indexed component of the QE (gas raw material) for the thermal years 2010-11 and 2011-12 referred to in Resolution ARG/gas 89/10 (see the dedicated paragraph in the section GENERATION AND TRADING BU) also had an impact with reference to the methods for quantifying the CEC component of the sale price referred to in the CIP 6/92 Provision, determined on the basis of the values of the QE published by the Authority pursuant to MD MiSE of November 20, 2012.

The Lazio Regional Administrative Court, when examining the appeals filed by companies of the A2A Group against MD MiSE of November 20, 2012, rejected the profiles of illegality highlighted by the claimants, with the sole exception of the reason inherent in the application of the coefficient  $k$ . The Regional Administrative Court, while confirming the validity of the Ministerial Decree's referral to the TIVG for the quantification of the price of natural gas, reaffirmed the illegality of the coefficient  $k$ , which had already been stated in previous rulings TAR 665/13 and Council of State Cds 4825/16.

Due to the recalculation, now for then, of the coefficient  $k$  made by the Authority by means of Resolution 737/2017/R/gas, on January 8, 2018, a request for adjustment was sent to the GSE with reference to the CEC paid to the waste-to-energy plants of the A2A Group that at the time were in CIP 6/92 regime.

GSE, MiSE, ARERA and CSEA appealed to the Council of State against the above sentence by the Lazio Regional Administrative Court, which had upheld the appeals presented by the A2A Group companies limited to the findings relating to the  $k$  coefficient, contesting the extension of the litigation relating to Resolution ARG/gas 89/10 to the environmental sector. The setting of a hearing is pending.

### EU package on the circular economy and the path to its transposition into national law

On June 14, 2018, the EU Circular Economy Package was published consisting of:

- 4 Waste Directives (Directive 2018/849 on end-of-life vehicles/waste batteries/WEEE, Directive 2018/850 on landfills, Directive 2018/851 on waste, Directive 2018/852 on packaging);
- 1 Regulation on the approval and market surveillance of vehicles.

The measures are aimed at promoting the application of the waste hierarchy (prevention, reuse, recycling, energy recovery, landfill) also through appropriate legislative and financial instruments, and in this context, some common objectives are set for the European Union:

- recycling of at least 55% of municipal waste by 2025. This portion is destined to rise to 60% by 2030 and to 65% by 2035;
- recycling of 65% of packaging waste by 2025 (70% by 2030) with material-specific targets.

The new rules also concern landfills and provide for a binding target of reducing landfill disposal: Member States will have to ensure that recyclable waste is no longer transferred to landfills in 2030 and that as of 2035, the total portion of municipal waste destined for landfills does not exceed 10%.

Central to the application of the waste hierarchy is the strengthening of the principle of Extended Producer Responsibility, through which producers are called upon to participate in the organizational and financial management of the life cycle phase in which the product becomes waste.

The Directives must be implemented in the regulations of Member Countries by July 5, 2020. To this end, Law no. 117 of October 4, 2019 (also European Delegation Law 2018) sets out in articles 14, 15 and 16 the principles and criteria that Parliament addresses to the Government for the delegation of the implementation of the aforementioned EU directives.

At the same time, the MATTM has launched a consultative process with the various stakeholders to assess the (extensive) amendments that will have to be made to Legislative Decree no. 152 of 2006 (Consolidated Environment Act TUA) to incorporate the EU provisions, as well as the interventions to adapt the regulatory framework to the new needs of the sector.

Closure of the I831 AGCM investigation against Linea Ambiente S.r.l., LGH S.p.A. and A2A S.p.A. (with the involvement of A2A Ambiente S.p.A. in the inspection activities) for hypothesis of agreement in the tenders called by AMA S.p.A. for the assignment of treatment and disposal services

On December 12, 2018, AGCM initiated proceedings against Linea Ambiente S.r.l., LGH S.p.A., A2A S.p.A., CORE S.p.A., Herambiente S.p.A., Hera S.p.A., Rea Dalmine S.p.A. and Sogliano Ambiente S.p.A. to ascertain an alleged agreement restricting competition, in violation of article 101 TFEU.

AGCM has taken action following a report by AMA S.p.A. (a company wholly owned by the Municipality of Rome and operating in the environmental services sector) regarding the outcome of two tender procedures (nos. 17 and 40/2018) launched by the same company for the treatment of undifferentiated waste (RUR) and the recovery or disposal of waste, FOS (Stabilized Organic Fraction) and CDR produced by TMB owned by AMA, as well as the transport of these materials to the treatment plants.

The measure assumed that the companies under investigation had carried out a coordination activity aimed at refraining from participating in the aforementioned tenders, with the consequent awarding of the same services following private negotiations at more onerous conditions. Finally, AMA S.p.A. had contracted some of the services with an RTI (already a provider of treatment and disposal services following a call for tenders in 2016), which also includes Herambiente S.p.A. and Linea Ambiente S.p.A..

The Authority therefore decided to carry out inspections on December 18, 2018. The premises of LGH S.p.A. were not subject to verification, while A2A Ambiente S.p.A. was also involved in the inspection activities. A2A Ambiente S.p.A. is not a party to the proceedings, since the Authority considered that it could be in possession of documents relevant to the correct reconstruction of the facts.

By Measure of December 20, 2019 and notified to the Parties on January 14, 2020, the AGCM closed proceeding I831 without finding the alleged infringements in the opening.

In fact, the Authority considered that the exchanges of information between the members of the RTI in relation to the tenders of AMA S.p.A. as from 2016 do not reveal any anti-competitive content, intended as a willingness to abstain from tenders jointly. Moreover, the ascertainties carried out have confirmed the plausibility of the reasons given by the parties for their decision not to respond to AMA S.p.A.'s tenders, which is supported by technical considerations (operational criticalities experienced in the past with the company that entail increased costs for the supplier) and economic considerations (basic auction amounts not compatible with market dynamics and, therefore, not adequately remunerative in relation to the contract).

Ministerial Decree no. 62 of May 15, 2019 - Regulations governing the cessation of the qualification as waste of personal absorbent products (PAP), pursuant to art. 184-ter, paragraph 2, of Legislative Decree no. 152 of April 3, 2006

The Regulation governing the cessation of the qualification as waste of personal absorbent products (PAP) was published in the Official Journal no. 158 of July 8, 2019 and came into force on July 23, 2019. According to the new regulations, personal absorbent products, in order to cease to be considered waste and instead be qualified as heterogeneous plastics based on polyolefins, super absorbent polymer (Sap) or cellulose, must be treated in compliance with the general technical requirements set out in Annex 1 of the measure and the specific technical requirements for the three materials indicated in Annexes 2, 3 and 4 respectively.

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### Regulation CEE/EU June 5, 2019 no. 1009 - Regulation EU 2019/1009 of the European Parliament and of the Council of June 5, 2019, laying down rules concerning the provision of EU fertilizers on the market, amending Regulations EC no. 1069/2009 and EC no. 1107/2009 and repealing Regulation EC no. 2003/2003

The Regulation defines harmonized conditions for provision on the European market of fertilizers made from recycled or organic materials, in order to encourage their use in a circular economy. The Regulation applies to fertilizer products bearing the CE marking, while it does not apply to animal by-products or plant protection products. In particular, the Regulation defines, in art. 19, the end of waste criteria for waste contained in EU compliant fertilizer products. The waste in question ceases to be waste when the EU declaration of conformity of the fertilizer product is drawn up (Annexes 4 and 5). Art. 19 and the annexes thereto shall be effective from July 16, 2022.

### Law no. 117 of October 4, 2019 - Delegation to the Government for the transposition of European directives and the implementation of other acts of the European Union, European Delegation Law 2018

Law no. 117 of October 4, 2019 came into force on November 2, 2019, which contains some very important amendments, with particular reference to the Circular Economy directives. Since this is a delegated law, it obliges the Government to issue, within four months prior to the date of transposition indicated in each of the directives referred to in Annex A of the decree, or by February 2, 2020 in the case of directives whose deadlines have already expired, legislative decrees transposing numerous European directives, most of them in the environmental field.

Among the articles of the European delegation law, probably the most relevant is art. 16 as it contains the guiding criteria to transpose, by April 5, 2020, EU Directive 2018/851 (on waste) and Directive 2018/852 (on packaging) and therefore determines the principles to be contained in the following Legislative Decrees. To date, said principles do not have a “preceptive” value, but a mere “interpretative” value, moreover of primary value.

The article deals with many issues of interest such as the reform of extended product producer responsibility, the computerized waste traceability system (with particular reference to FIR and MUD), the acquisition of authorization data in the national electronic register, the revision of the penalty system, as well as the reform of definitions and classifications and the amendment of the regulation of the similarity of special waste to municipal waste. Of absolute importance are also the new provisions on the subject of EoW, which envisage that *“all the authorizations in existence on the date of entry into force of the Legislative Decree are subject to and may be renewed, together with the authorizations for which the request for renewal was submitted on the same date, pending the adoption of the decrees”* and *“in compliance with the general criteria set out in art. 184-ter of the TUA”*.

### Directive EU 2019/1937 of the European Parliament and of the Council of October 23, 2019 - On the protection of persons reporting violations of EU law

The main purpose of the Directive is to protect employees from reports made in relation to violations of environmental law in the course of their work, through the whistleblowing system that was introduced in Italy by Law no. 179/2017. Companies, if not already present in relation to their own organization and control models (MOG 231), must adopt a reporting communication system for protection of workers and defense against any retaliation for the activity of the reporting party. The terms and conditions under which the reporting of the violation by external parties will be admissible should also be provided for.

### Decision CEE/CEEA/CECA November 12, 2019, no. 2010 - Best Available Techniques (BAT) for waste incineration in accordance with Directive 2010/75/EU of the European Parliament and of the Council

By this Decision, the Commission approved the conclusions on Best Available Techniques (BAT) for waste incineration set out in the Annex to the Decision. The conclusions on best available techniques serve as a reference for setting authorization conditions for installations covered by Chapter II of Directive 2010/75/EU on industrial emissions. Competent authorities should therefore set emission



limit values to guarantee that, under normal operating conditions, the emission levels associated with the best available techniques as set out in the BAT conclusions are not exceeded. Existing plants (i.e. those authorized before the publication of the BAT conclusions) have four years to comply with the new standards, whereas new installations (i.e. those authorized for the first time after the publication of the BAT conclusions) have to comply immediately with the new requirements.

### Resolution SNPA of November 27, 2019 no. 61 - Guidelines on the classification of waste

On December 24, 2019, this Resolution was published on the SNPA website. Its purpose is to dictate guidelines on the classification of waste. The main objective of the Guideline is to produce manuals for the harmonization, effectiveness, efficiency and homogeneity of the control systems and their management in the national territory, as well as the continuous updating, consistent with the national and supranational regulatory framework, of the operating procedures of the national system and the activities of other technical subjects operating in the environmental field. The measure consists of 4 chapters and 4 appendices and, in addition to analyzing the reference regulatory framework, identifies a methodological approach for the classification of waste, including procedural schemes useful for the attribution of the code and for the assessment of hazardousness. It provides an annotated version of the European list of waste set out in Decision 2000/532/EC, gives examples of the classification of certain types of waste of particular relevance and identifies methodological criteria for the assessment of individual hazard characteristics and persistent organic pollutants.

### Legislative Decree Government December 5, 2019, no. 163 - Sanctioning discipline for violation of the provisions of Regulation EU no. 517/2014 on fluorinated greenhouse gases and repealing regulation EC no. 842/2006

On January 17, 2020, the Regulation providing for sanctions on fluorinated greenhouse gases came into force and is in line with Regulation EU/517/2014 and Presidential Decree 146/2018.

The text provides for administrative sanctions for violation of obligations regarding emission prevention and leakage detection systems.

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# Networks and District Heating Business Unit

## Functional Unbundling and Brand Unbundling

By means of Resolution 296/2015/R/com (TIUF - Functional Unbundling Integrated Text), the Authority attributed to the Independent Operator the responsibility for the proper implementation of regulation in regard including the obligation of separation of the brand and communication policies with respect to the sale company and the use of information channels, physical and personal spaces separate from those of the sales activity to avoid the risk of confusion in the end customer.

Also in consideration of these new regulations and in accordance with the provisions of art. 8, paragraph 1 of the TIUF that allows the shared management by the vertically integrated company of infrastructure activities carried out under monopoly, Unareti S.p.A. was established, operative since April 1, 2016, which now manages the distribution and metering of electricity and gas.

The procedures for recovering costs incurred in order to comply with the provisions under examination have been the subject of consultation since 2017 with the start of various data collections. The Authority is oriented to consider the efficient cost data of the operators, possibly deducted of the costs already recognized by other regulatory mechanisms. The amounts are expected to be settled by 2020.

## 2019 provisional reference tariffs for the distribution and metering of natural gas

Resolution 128/2019/R/gas approved the 2019 provisional reference tariffs for natural gas distribution and metering activities (based on the 2018 pre-balance investments).

The DCVER component to cover the operating costs related to metrological testing has been zeroed, as these costs will be recognized on the basis of a methodology that will consider the costs actually incurred by operators (see next paragraph). Similarly, as established by Resolution 904/2017/R/gas, the operating and capital costs relating to the remote management/remote reading of electronic meters will continue to be recognized until 2020.

The 2019 provisional tariffs underlie a WACC of 6.3% for distribution activities and 6.8% for metering (Resolution 639/2018/R/com updating WACC as of 2019).

RAB GAS value underlying 2019 provisional tariffs <i>millions of euro</i>	Unareti	ASVT	LD Reti	ACSM-AGAM Group (*)	Total
Cap. Centralized	49	1	11	13	74
RAB Gas Distribution	810	11	161	181	1,163
RAB Gas Metering	136	1	23	24	184
<b>Total</b>	<b>995</b>	<b>13</b>	<b>195</b>	<b>218</b>	<b>1,421</b>

(\*) includes the companies Le Reti S.p.A. (established January 1, 2020 from the merger between Acsm-Agam Reti Gas Acqua S.p.A. and Lario Reti Gas S.r.l.), Serenissima Gas S.p.A. and Reti Valtellina Valchiavenna S.r.l..

Lastly, Resolutions 711/2018/R/eel and 571/2019/R/gas determined the obligatory tariffs for final customers for gas distribution and metering services for 2019 and 2020, respectively.

## Recognition of the operational costs of natural gas metering, relating to remote metering / remote management systems and concentrators for the years 2011-2016

Following specific data collection carried out by ARERA during 2018, and following the transmission of the relevant preliminary findings in July 2019, Resolution 537/2019/R/gas defined the amounts paid to operators to cover the operating costs relating to remote metering/remote management systems and concentrators incurred in the years 2011-2016 and not already covered by the ordinary tariff system.

These amounts, together with those relating to the period 2011-2013, already recognized previously and possibly not yet paid, amount to a total of approximately 3.2 million euro for the A2A Group's

distributors (of which 2.1 million euro relating to Unareti S.p.A.) and will be considered in addition to the restriction on revenues allowed to cover measurement costs and managed by CSEA as part of the 2019 measurement revenue equalization and, consequently, collected at the end of 2020.

Data collection for the same costs incurred in 2017-2019 is expected to start in 2020.

**New regulatory period for tariffs relating to the gas distribution and metering service, for the 5th regulatory period (2020-2025)**

Resolution 570/2019/R/gas approved the RTDG 2020-2025 by which ARERA defined the regulatory framework applicable to gas distribution and metering service tariffs for the years 2020-2025. Although the characteristics of the current regulation are confirmed, the main amendments can be summarized as follows:

- operating costs recognized: update of operating costs recognized from 2020 using the average (50:50) between the actual costs recorded in 2018 and the costs recognized in the same year as the basis of calculation. The update was carried out using the price-cap method taking into account, in addition to the inflation recorded during the period, also an X-Factor differentiated by activity (distribution, marketing and metering) and, limited to distribution, operator size (large, medium, small). Compared with the previous regulatory period, there has been a considerable reduction in the operating costs recognized for each operator cluster/territory density served and an increase in the X-Factors relating to distribution and marketing, while the current level is confirmed for metering (in the case of Unareti S.p.A. it went from 32.79 euro/PDR recognized in 2019 to 26.55 euro/PDR in 2020);
- capital costs: revision of the beta parameter for the calculation of WACC in metering activity to 6.3%, i.e. the same level as for distribution activity. For the purpose of calculating the invested capital subject to remuneration, as well as the related amortization, a specific mechanism is defined for the gradual release, over a long period of time that goes beyond the individual regulatory period, of the amount of contributions existing at December 31, 2011, currently not considered in the calculation of tariffs.

Further interventions of interest have included:

- adoption of recognition mechanisms for investments in turbo-expanders based on standard costs that reflect the avoided cost of installing traditional expanders. In addition, the compatibility of the electricity production activity of gas distributors with the regulatory requirements for functional unbundling will be examined in greater detail;
- the recognition of costs related to switch metering that exceed in number, those in 2018. The value of single metering that exceeds the level of 2018 is equal to 5 euro per switch metering, in line with the previous regulation;
- confirmation of the current standard costs valid for the purposes of determining investments in gas smart meters and modification of the weights for weighting these costs with those actually incurred by operators (from the current 40 (standard): 60 (actual) at 30:70);
- confirmation of the final recognition, within the limits of a decreasing cap over time, of the operating costs not already covered by the tariffs for the remote metering / remote management of gas smart meters and the provision, pending the definition of the amounts to be paid to individual operators, of a system of advances calibrated on the basis of the latest data available (currently 2016);
- recognition at the end of the list of costs related to the metrological verifications provided for by the regulations in force for the three-year period 2020-2022. Pending the definition of the precise amounts to be paid to individual operators, a system of payments on account is established.

The Authority, with the same resolution approving the new RTDG, has also started:

- a procedure aimed at introducing incentive regulation schemes for capital costs related to the distribution service, based on standard cost recognition logics, providing that it can be applied starting from the investments made in 2022;
- a procedure for the reform of the tariff system (possibly with effect from 2023), considering, among other things, the possibility of establishing a portion of the constraint according to the volumes distributed, as well as a possible revision of the tariff areas, with a view to reducing the socialization areas to the limits of the ATEM concession.

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## New regulatory period for quality of the gas distribution and metering service, for the 5th regulatory period (2020-2025)

Resolution 569/2019/R/gas approved the RQDG 2020-2025 by which ARERA defined the regulatory framework applicable to the technical and commercial quality of the gas distribution and metering service for the years 2020-2025. Although the characteristics of the current regulation are confirmed, the main amendments concern the technical quality and can be summarized as follows:

- technical quality: two new safety indicators relating to the average residual life of the managed network are introduced, as well as a new service obligation relating to the elimination of leaks detected within the time limits set by the technical standards in force pro tempore. In addition, specific obligations are introduced with regard to the monitoring of the operating pressure of the low pressure network, the effective cathodic protection of the low pressure steel network and the replacement or rehabilitation of the network in materials not permitted by the relevant technical standards. It is planned to update some relevant parameters of the existing penalty-premium mechanisms and to provide incentives for the number of measures for the degree of gas odorization and the reduction of dispersions. Finally, the gradual decrease in any premiums in the event of a gas accident is changed.

## Adjustment of the measurement performance for the redelivery points connected to the natural gas distribution networks

Resolution 522/2017/R/gas made some amendments to the 2014-2019 RQDG aimed at favouring the improvement of the performance of the metering of natural gas:

- with effect July 2017, for accessible meters, the "*Measurement collection frequency for accessible meter*" standard is replaced by the "*Measurement collection for accessible meter*" standard;
- the minimum number of readings to be collected for accessible meters is that established by art. 14.1 (traditional meters and smart meters gas < G10) and 14-bis.1, letter a) (smart meters >= G10) of the TIVG. In the event of non-compliance with this standard, an automatic indemnity of 35 euro is provided (the Authority considers smart gas meters accessible in any case, regardless of their actual physical location).

With effect from 2018 and with reference to distribution companies with more than 50,000 end customers at December 31, 2016, the obligation to ensure at least one successful reading during the year is introduced for each active PDR with a traditional meter that is partially accessible or not accessible. Otherwise, for these points the distributor is obliged to replace traditional meters with electronic meters (in addition to the obligations already provided for by Resolution 631/2013/R/gas - smart meter gas directives). In case of non-fulfilment of the additional replacement obligations, a yearly penalty will be charged to the distributor equal to 4 euro for each non-replaced meter, until replacement of the meter.

Specific monitoring of the performance of the measurement service has been introduced with the same starting date with a view to a possible comparative publication of these indicators.

With the approval of the new RQDG 2020-2025 (see previous paragraph), the Authority amended the regulatory framework described above with effect from January 1, 2020 with a view to an overall revision of the regulation applicable to the gas metering process. The existing rules on the obligations to collect metering data from partly or non-accessible meters and the associated penalties - as described above - are confirmed on a transitional basis, while the monitoring and reporting obligations relating to accessible meters are removed. In light of these changes, the scope of this regulation is also adjusted, excluding natural gas distribution companies with less than 50,000 end customers at December 31, 2019.

## Criteria for tariff regulation for the natural gas transport and metering service for the fifth regulatory period (2020-2023) and 2019 and 2020 reference tariffs

Resolution 114/2019/R/gas, the Authority approved the rules applicable to the definition of natural gas transport tariffs for the period 2020-2023 (5th regulatory period - RTTG). The main additions introduced are summarised below:

- definition of eligible revenues: the method adopted, similar to the current one, provides for the calculation of eligible revenues as the sum of the (i) return on net invested capital (WACC: 5.7%, as

- updated by Resolution 639/2018/R/com), (ii) depreciation rate (useful life substantially unchanged) and (iii) operating costs (calculated from actual costs ex unbundling 2017). The provisions of Annex A to Resolution 468/2018/R/gas are valid for admission to the tariff recognition of investments relating to specific interventions on the transport network. Incentive mechanisms for infrastructure development are provided for (initially input-based and then moving to an output-based logic during the regulatory period);
- recognition of costs relating to network losses, self-consumption and gas not accounted for: the current method of recognition in kind of these items is exceeded, moving to monetary recognition based on the weighted average price of forward products with delivery to the PSV in the reference tariff year;
  - equalization mechanisms: in addition to the pre-existing mechanisms relating to the equalization of revenues relating to the regional network (between TSO and CSEA) and the variable unit fee (between TSO), a new monthly flow from transport companies other than Snam Rete Gas S.p.A. is introduced for the latter for the equalization of national network revenues relating to the revenues associated with the exit fees, aimed at transferring the share of revenues pertaining to the national network from the transport companies that collect the revenues deriving from the CPu fee to the companies that carry out the transport activity on the national network.

The new RTTG has introduced a series of additions regarding the calculation of the tariff (from the “matrix” method to the CWD - Capacity Weighted Distance method), the tariff structure (the CRr component disappears, since the total costs of the regional network are completely allocated to the CPu capacity component applied to the exit from the network, the CVfc volumetric component is introduced) and the application methods (application of the CPu to the exit points from the network, CV applied to the volumes withdrawn, etc.).

The new RTTG has also provided for a new way of managing the Corrective Factors (FC) of the eligible revenues, i.e. elements aimed at ensuring, annually and for each operator, equality between the eligible revenues and the revenues actually obtained from the application of the tariffs fixed by the Authority, including revenues from deviations:

- until the end of the fourth regulatory period: these amounts were paid in 4 annual instalments. The amount relating to a single year was then subtracted directly from the eligible revenue for that year;
- from the fifth regulatory period: elimination of instalments and management of these differences directly with the CSEA in the year following the reference year. Eligible revenues are not netted of this amount.

This implies, therefore, (i) the need to close items still open in 2019 (i.e. the entire amount of FC for 2018 and the remaining instalments for the period 2014-2017) and (ii) the increase in total eligible revenues in 2020 compared to 2019. However, in view of this increase, it should be remembered that the management of FC is carried out on an annual basis directly with the CSEA. This resulted in a cash outflow for Retragas S.p.A. in 2019 of approximately 3 million euro, pertaining to 2020.

Following the definition of the new regulatory framework, Resolution 201/2019/R/gas approved the revenues recognised and the tariff fees for the activity of natural gas transport and metering for 2020, while those for 2019 had been approved by Resolution 390/2018/R/gas.

RAB value for Retragas S.p.A. underlying 2019 final tariffs and 2020 provisional tariffs		
millions of euro	2019	2020
RAB Trasporto Gas	41	43
RAB Misura Trasporto Gas	2	1
Totale	43	44

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## Criteria for regulation of quality of the natural gas transport and metering service for the fifth regulatory period (2020-2023)

Resolution 554/2019/R/gas defined the regulatory framework for the technical and commercial quality of the gas transport service for the years 2020-2023. Although the characteristics of the current regulation are confirmed, the main amendments concern the strengthening of safety provisions and the rationalization and simplification of certain aspects of service continuity and commercial quality regulation:

### Safety:

- introduction of new indicators, related calculation methods and supporting documentation for surveillance and inspection, even invasive, of the managed network;
- introduction of new and additional disclosure obligations in favour of stakeholders with regard to odorization, with the provision, in particular, of the drafting and publication on its website of a detailed half-yearly Odorization Plan;
- introduction of the obligation to have appropriate operating procedures in place, in compliance with current technical standards, relating to the main and most critical TSO operating processes (including emergency response/service emergencies/gas accidents; gas odorization where applicable; surveillance and inspection, invasive and non-invasive, of the network, etc.).

### Continuity:

- overall revision of the provisions regarding the alternative transport services by tank wagon, with the allocation of the relevant responsibilities to the TSO, as well as the obligations of loyal and factual cooperation on the part of transport users, who must, inter alia, periodically declare explicitly that they do not wish to use this service;
- gradual reduction (in 2 years) of the capacity threshold allocated to PDR above which there is an obligation to monitor the value of the minimum pressure on an hourly basis, with specific communication and transparency obligations;
- differentiation of automatic indemnities by type of PDR (end customer directly connected to the transport network or city gate) and definition of specific rules for the payment of indemnities related to city gates (intended for the “gas service quality account”). The indemnity is now set at the exit fee from the transport network.

### Commercial Quality:

- introduction of new specific standards and related calculation methods. In particular: (i) standard relating to the reasoned response time to requests for revision of the transported gas accounting relating to adjustment sessions; (ii) standard relating to the duration of the malfunctioning of an IT application; (iii) standard relating to the reasoned response time to written complaints. In addition, the level applicable to the standard “reasoned response time to written requests for the metering report” is reduced from 15 to 10 working days. Finally, some pre-existing standards are unified in the standard “reasoned response time to written requests”.

## Assignment and performance of the natural gas distribution service

Following the reform of the means of allocating the natural gas distribution service, 177 “Minimum Territorial Ambits -ATEM” were defined (Ministerial Decree January 19, 2011 and Ministerial Decree October 18, 2011), where tenders will be called for the allocation of the service in accordance with the requirements of the Tender Regulation (Ministerial Decree November 12, 2011 no. 226). Regulations have also been adopted to protect the jobs of the employees of the operators involved in the restructuring of the sector (Ministerial Decree April 21, 2011).

In recent years, several provisions have intervened amending Legislative Decree no. 164/2000 and Ministerial Decree 226/2011 with particular reference to the procedures for determining the reimbursement to be paid to the outgoing manager (VIR) and calling tenders. Ministerial Decree May 22, 2014 approved the Guidelines relating to the criteria and application methods for the purposes of determining the VIR, while Ministerial Decree May 20, 2015, no. 106, amended Ministerial Decree 226/2011 so as to implement the amendments on the VIR calculation (especially the treatment of contributions), the application of the Guidelines, the maximum percentage of the fee, the recognition of the underlying costs of the energy efficiency projects to be realized in the ATEM and offered during tenders.

Decree Law 210/2015 (Milleproroghe 2016), granted a further extension of deadlines for the publication of tender notices by Contracting Stations and the penalizations previously envisaged of the defaulting ones were eliminated.

Ministerial Decree of January 11, 2017 also only partially resolved the uncertainty about the coverage, in terms of tariff contribution, of the securities generated by the energy efficiency projects (WC) proposed in the tender. In particular, the Ministerial Decree provided that any WC issued with respect to these projects and cancelled by GSE in the reference year will also reduce, by the same amount, the overall savings obligations of the following year. However, there are some remaining uncertainties, including the territorial constraint on the ATEM of the interventions offered as part of the tender.

Lastly, it is noted that the standard on gas distribution tenders introduced in the correction of the Procurement Code confirms the validity of the activity carried out so far by Contracting Stations in the production of tender documents and the maximum duration of 12 years of assignments also remains unchanged.

As part of the tasks assigned to the regulator by the legislator, the Authority, by means of Resolution 514/2012/R/gas, drew up the draft standard service contract for the regulation of relations between local authorities that grant concessions and operators of natural gas distribution services, a contract that was later approved by the Ministry of Economic Development by Ministerial Decree of February 5, 2013. Subsequently, Resolution 571/2014/R/gas proposed an amendment regarding the recognition of amortization quotas in favour of the granting bodies; however, this amendment was not implemented by the MiSE (Ministry of Economic Development).

Finally, following the amendments introduced by the Competition Law 2017 regarding the simplification of the procedure for the evaluation of reimbursement values and calls for tenders, the Authority adopted Resolution 905/2017/R/gas with which it rationalized the regulation relating to its tasks by articulating the provisions on the subject in 2 integrated texts containing the rules, respectively, for the evaluation of the reimbursement and for the evaluation of the call for tenders.

It is noted that A2A Reti Gas S.p.A. (now Unareti S.p.A.) had challenged the Guidelines and Ministerial Decree May 20, 2015, no. 106 (TAR Lazio) and all the deeds of the Contracting Authority of the ATEM Milano 1 related to the definition of the VIR (TAR Lombardy). However, the Lazio Regional Administrative Court, with Sentence no. 10286 of October 14, 2016, rejected this appeal, considering the grounds unfounded. Unareti S.p.A. appealed to the Council of State which, with Sentence no. 05736/2017 of December 5, 2017, referred the case to the European Court of Justice requesting to verify consistency between European and national legislation regarding deduction - retroactive - of public and private contributions from the reimbursement value. The European Court of Justice, with sentence of March 21, 2019, declared its compatibility and the matter, therefore, returned to the Council of State which, with sentence 6315 published on September 23, 2019, rejected the appeal brought by the Company.

With regard to the Lombardy Regional Administrative Court, also in light of the ruling by the Council of State, the joint request to postpone the hearing for the discussion of the pending appeal was upheld by an order dated December 23, 2017. The hearing has been postponed several times, also to take account of the outcome of the award of the tender for ATEM Milano 1 (see next paragraph) and is currently set for September 30, 2020.

Area tenders for the natural gas distribution service: ATEM Milan 1

At the end of 2015, the first tenders were published for the concession of the natural gas distribution service on the basis of areas. Among these, some are related to areas in which Unareti S.p.A. is the current manager, including Milan 1 - City and Plant of Milan (EU Official Journal of December 26, 2015).

The contract amount for the entire period of the assignment amounted to 1,369 million euro for 12 years. The tender notice outlines the disagreement between the Contracting Authority and Unareti S.p.A. (formerly A2A Reti Gas S.p.A.) regarding the amount of the VIR of the plants because of the treatment of contributions regarding which the aforementioned dispute is pending.

After several extensions, the deadline for receipt of tenders was set at January 16, 2017. In compliance with this deadline, Unareti S.p.A. and 2i Reti Gas S.p.A., which managed a single location of ATEM (Cinisello Balsamo, equal to about 4% of the PDR tendered), filed their offers. On September 5, 2018, the Municipality of Milan awarded the tender to Unareti S.p.A. with a total score of 98.12 points out of 100.

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2i Reti Gas filed an appeal before the Lombardy Regional Administrative Court also contesting the admission of Unareti S.p.A. to the tender. Against this, Unareti S.p.A. filed an incidental appeal, highlighting the illegality, in various respects, of the admission of 2i Rete Gas to the proceeding. With sentence 02398 published on December 5, 2019, the Lombardy Regional Administrative Court upheld both appeals, excluding both competitors but without prejudice to the possibility of further measures by the contracting authority regarding the reasons that led to the exclusion of Unareti S.p.A. from the tender.

### Application for restitution of part of the administrative sanction imposed on AEM Gas S.p.A. for violation of the provisions on technical quality and safety of the natural gas distribution service following the 2006 Via Lomellina in Milan event

In June 2019, Unareti S.p.A. submitted a request to MiSE for the repayment of part of the sanction of 1,493,000 euro, paid on July 25, 2008 by the company (formerly A2A Reti Gas S.p.A.), formerly AEM Distribuzione Gas e Calore S.p.A.) to the Revenue Agency, pursuant to Resolution VIS no. 46/08, for violation of certain provisions concerning the technical quality and safety of the natural gas distribution service following the event in Via Lomellina in Milan in 2006.

In fact, the sanction was subsequently subject to redetermination, in the amount of 734,000 euro, by order of the Authority no. 569/2013/S/gas, in compliance with Council of State Sentence no. 03007/2011, of the annulment of the previous resolution - in the part relating to the determination of the amount.

The amount to be returned, equal to the difference between the sanction imposed in 2008 and the sanction recalculated in 2013, amounts to 759,000 euro, in addition to the legal interest accrued from the date of payment of the sanction initially determined, until the date of return of the amount unduly paid.

### Penalty procedure, closed with simplified procedure, for the detection and availability of natural gas metering data

In February 2017, the Authority carried out an inspection visit at Unareti S.p.A. to verify the consistency, with respect to the provisions of the regulation, of the methods for collecting, storing and providing gas metering data adopted by the company for the years 2014-2016. In particular, the verification concerned carrying out the minimum number of attempts to collect metering data, the respect of the maximum interval between two consecutive attempts, the provision of the data to sellers and the payment of automatic compensation. Subsequently, further requests for data integration were made, to which the company has always provided rapid and complete feedback.

As a result of the checks and analysis of the data, some limited cases of non-compliance with the regulatory provisions of the TIVG have emerged. Consequently, with Determination 13/2019 DSAI, the sanction was determined and, considering the nature of the procedure, Unareti S.p.A. was granted the possibility to make the payment of the same in the reduced amount of one-third, equal to 32,000 euro, renouncing to the further formalities and taking steps to remedy the disputed conduct. The payment of the sanction, made within the time limits set by the decision, has led to the extinction of the sanctioning procedure.

### 2019 provisional reference tariffs for the distribution and metering of electricity

Resolution 117/2019/R/eel approved the 2019 provisional reference tariffs for the electricity distribution and metering service (based on the 2018 pre-balance investments).

The 2019 provisional tariffs were determined using a WACC of 5.9% (as updated by Resolution 639/2018/R/com as of 2019) and based on the tariff regulation of Resolution 654/2015/R/eel (TIT 2016 - 2019).



2019 RAB EE value (*) underlying 2019 provisional tariffs <i>millions of euro</i>	Unareti	LD Reti	Reti Valtellina Valchiavenna	Total
RAB EE Distribution	529	34	12	575
RAB EE Metering	61	3	2	66
Total	590	37	14	641

(\*) Company estimate.

With regard to operators up to 25,000 POD, Resolution 237/2018/R/eel defined the criteria for the recognition of operating and capital costs in the tariff. In particular, the tariffs for the distribution activity will be calculated using a parametric method whereby the recognized opex and capex will be fixed taking into account certain relevant quantities such as distributed energy and user density (opex) and, together with the previous ones, the age of the networks (capex), while those for the metering activity will take into account a conventional profile of installation of the LV electronic meters and their average cost). The transition to this method will take place gradually over the period 2018-2023. At the moment, decisions approving the tariffs are awaited. The same Resolution provided that for distributors serving at least 25,000 PODs and up to 100,000 PODs, the individual regime applies.

Resolutions 671/2018/R/eel and 673/2018/R/eel defined the 2019 obligatory tariffs for non-domestic and domestic final customers respectively, while Resolution 568/2019/R/eel fixed them for the year 2020.

### Infra-period updating of tariff regulation of electricity transmission, distribution and metering services

Resolution 568/2019/R/eel approves the tariff regulation for electricity transmission, distribution and metering services for the 2020-2023 (NPR2) regulatory half-period and the related TIT, TIME and TIC<sup>7)</sup> integrated texts. The measure - which is substantially in line with the criteria adopted in the first half-period 2016-2019 (NPR1) - defines in particular:

- the initial levels, referring to 2020, of the cost recognized to cover operating costs, a profit sharing with symmetric distribution (50:50) between distribution companies and end users of any increased efficiencies achieved in the previous NPR1 and the productivity recovery rate (X-Factor) for their annual update. The new X-Factor applicable to electricity distribution activities is 1.3% (1.9% in the previous half-period), while the X-Factor applicable to metering activities is 0.7% (1% in the previous half-period);
- a mechanism for distributing net revenues from the joint use of electricity infrastructures for purposes other than those subject to tariff recognition (e.g., use by TELCO), which may be activated only if the amount is greater than 0.5% of the revenue allowed to cover the costs of the distribution service;
- incentives for aggregations between distribution companies, giving priority to smaller ones, with the possibility of using the contractual instrument of the “Network Contract”;
- a mechanism for the recovery of bad debts relating to network tariffs not yet covered, access to which by distributors is subject to the fulfilment of specific conditions;
- a revision of the tariff regulation for withdrawals and injections of reactive energy, based on a gradual application (between 2021 and 2022) to take account of the issues raised during the consultation.

Limited interventions have also been carried out regarding tariff design, in particular for the recharging of electric vehicles.

Finally, the Authority deemed it appropriate to delegate to subsequent documents for consultation the issue of the gradual introduction of the new regulatory approach, defined “*Regulation by expenditure and service objectives*”, based on total cost efficiency, medium-term planning and enhancement of the level of service rendered, through output-based incentives (TOTEX).

7 TIT (Provisions for transmission and distribution services), TIME (Provisions for the metering service), TIC (Economic Conditions for the connection service).

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## Electrical Quality Integrated Text 2016-2023 and its update for the semi-period 2020-2023

Resolution 646/2015/R/eel (TIQE 2016-2023) introduced numerous provisions aimed at selective (and innovative) promotion of investments in distribution networks.

With Resolution 566/2019/R/eel ARERA updated the TIQE for the regulatory half-period 2020-2023 with particular focus on the introduction of specific measures aimed at reducing service continuity gaps between the various areas of the country, through *ad hoc* regulatory instruments. In particular, a special voluntary regulation has been defined for the areas with the highest number of interruptions:

- a) the payment of a premium at the end of the period (2023), if the target level set by ARERA is reached and a penalty if it is not reached;
- b) the possibility of requesting the Authority to postpone the target year to 2025, upon presentation by the distributor of a Technical Report proving the reasons; if the request is accepted, the trends would be recalculated at the same time.

What is indicated in letter b) would have a positive impact for Unareti S.p.A. especially with regard to the Milan area, which in 2018 was subject to penalties of approximately 986,000 euro.

Moreover, with particular reference to the number and duration of interruptions, the Authority has also ordered the start of a regulation for experiments, mutually exclusive with the special regulation described above, in areas identified by distributors. In detail, without prejudice to the achievement of the target level set for the year 2023, the distributor has the opportunity to propose an improvement path different from that defined by the current ordinary regulation, presenting innovative solutions from a technological point of view for the improvement of service quality. Also in this case it is foreseen to recalculate the trends, deactivated in the years of experimentation.

For the purpose of adhering to the mechanism, precise time windows shall be established: by April 30, 2020 for application from 2020 and by February 28, 2021 for application from 2021. In the event of failure to achieve the improvement commitment presented by the distributor, no premium will be paid while the penalties that would have been achieved in the same period, in the absence of the temporary derogation granted to ordinary regulation, will be paid.

Finally, with regard to the regulation of service quality and, in particular, that applicable in the event of prolonged interruptions following disruption due to force majeure, Resolution 553/2019/R/eel implemented sentence no. 1901/2019 of the Lombardy Regional Administrative Court annulling Resolution 127/2017/R/eel, which had significantly increased the indemnities to be paid to LV and MV users by distributors, thereby reducing the latter's ability to socialize the burden through recourse to the Exceptional Events Fund. The Authority, also following a consultation phase and a request for information to companies, confirmed, as from December 20, 2019, the guidelines set out in Resolution 127/2017/R/eel by introducing improvements aimed at removing some disproportion in the amount of the indemnities due to users.

## Resilience Plans for the electrical network

TIQE 2016-2023 also contains initiatives aimed at increasing the resilience of the electricity system: specifically, Title 10 was the subject of significant additions aimed at defining the scope of application of resilience obligations, the content and timing of implementation of the action plan and appropriate incentive mechanisms.

Determination 2/2017 DIEU approved the *"Guidelines for the presentation of work plans for increasing the resilience of the electrical system - part one"*. This document, which was also issued as a result of the findings of a specific technical panel (Terna, CEI, RSE, distributors with more than 50,000 PODs, including Unareti S.p.A.), illustrates the methodology for identifying priority interventions to address the issue of grid resistance, and to estimate the costs and related benefits associated with these interventions.

The Authority subsequently implemented DCO 645/2017/R/eel regarding the resilience of the transmission and distribution networks and the MiSE also intervened on the matter with its own guidance document on prevention and management of adverse weather events that required electricity distribution service concessionaires to integrate their development plans with a special section that is very analytical and subject to monitoring, dedicated to interventions to increase the resilience and robustness of the network.

Following this, Resolution 31/2018/R/eel: i) introduces the obligation for all the main distribution companies<sup>(8)</sup> to draw up, and periodically communicate to the Authority, resilience plans for at least three years and coordinated with Terna or with the reference distributor; ii) provides for a single reputational incentive mechanism consisting of the obligation to publish the resilience plan on the website by June 30 of each year.

In addition, Resolution 668/2018/R/eel defined a bonus/penalty type economic incentive for resilience enhancement interventions based on:

- a) specific criteria aimed at identifying which interventions can be considered eligible for the incentive mechanism;
- b) a method of calculating bonuses and penalties respectively at a percentage share of the net benefit of the individual intervention carried out within the established time frame and of the net present value of the actual costs based on the extent of the delay.

At the moment, the obligations to develop the resilience plans refer only to the aspect of the validity of distribution networks to mechanical stress (i.e. to specific critical risk factors such as floods, fall of out-of-band trees, ice sleeves and heat waves), while for that relating to the timeliness of the restoration of the supply, please refer to subsequent measures.

Unareti S.p.A. sent the 2019-2021 Plan by June 30, 2019.

Resolution 534/2019/R/eel defines the measures to increase the resilience of E-Distribuzione S.p.A., Areti S.p.A., Unareti S.p.A., Ireti S.p.A. and SET Distribuzione S.p.A. in relation to the 2019-2021 Plans eligible for premium and/or penalty payments. Moreover, in addition to the ceiling already in force for the total net premiums of each distributor, ARERA has confirmed the definition of the maximum limit to the premium of a single intervention, making it equal to the cost of the same (in order to avoid the recognition of over-remuneration higher than the cost of the intervention already covered in RAB).

Finally, with reference to the methods and timing of payment of the premiums and penalties, the Resolution provided that, by December 31, of each year from 2020 to 2025, the Authority shall determine for each main distributor the premiums and penalties to be paid into the “Quality of electrical services” account with the CSEA, relating to eligible interventions, with date of actual completion in the previous year. By subsequent Resolution 566/2019/R/eel, it is established that premiums for increasing the resilience of distribution networks will be financed by the MV Users Fund.

### Remediation of the old riser columns of the electricity distribution network in condominiums

Resolution 467/2019/R/eel defined an experimental three-year regulation (January 1, 2020 - December 31, 2022) on the modernization - with or without centralizing the meters - of the old riser columns of the electricity distribution network in condominiums, required of all distributors, regardless of their size in terms of POD served. The Resolution completes a very long process, which began in 2016 when the current regulatory framework on the quality of service was defined and then continued through intensive discussions, including specific consultations, with operators.

In order to overcome any reluctance on the part of condominiums to carry out such interventions, the Authority has provided an incentive mechanism whereby the distributor:

- will have to pay the condominium an amount to cover the costs incurred by the latter in relation to the demolition/restoration works (and possibly electrical works in the case of centralization) in an amount equal to the lesser of the amount actually spent and a parametric amount calculated on the basis of the number of users and the level of value of the building);
- this amount will be recognised under the tariff mechanisms<sup>(9)</sup>, subject to completion by September 30, 2022 of the obligatory census of its old riser columns.

8 The “main distribution companies” are those with: i) more than 300,000 users; ii) more than 100,000 users; iii) less than 100,000 users directly connected to the National Transmission Grid.

9 The construction works will be recognized in RAB through their accounting in the fictitious asset “Old riser columns”, while the costs incurred for the census of the riser columns will be covered with a contribution of 20 euro/condominium surveyed (linked to the completion of the census, as well as the proper storage of information for 5 years) and with a further contribution of 70 euro/condominium surveyed to be included among the costs capitalized in the aforementioned asset “Old riser columns”.

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The majority of the interventions will be carried out by Unareti S.p.A. in the Milan area, the most critical due to the greater number of “single users” connected to the network through a riser column owned by the distributor (an initial recognition led to the quantification of about 16,800 buildings in Milan for over 27,000 riser columns).

## LV electricity 2.0 meters and related smart metering systems

In implementation of Legislative Decree July 4, 2014, no. 102, Resolution 87/2016/R/eel, defined, in view of the replacement of the first-generation electrical meters (1G) that will have completed the useful life provided for regulatory purposes (15 years):

- a. functional requirements and specifications enabling the immediately available version of electricity meters in LV (version 2.0);
- b. expected levels of performance of the related second-generation smart metering systems (2G metering systems).

With regard to the functional requirements, the Authority, following appropriate investigations carried out also with AGCOM, with Resolution 409/2019/R/eel considered it inappropriate to provide for specific obligations regarding a “2.1” version of the 2G smart meter, while at the same time mandating the CEI to set up a working group to verify the feasibility of the realization, by third parties with respect to the distribution companies, of a “smart terminal cover” (i.e. a terminal cover that integrates the user device and that is easy to install).

Resolution 646/2016/R/eel defines the cost recognition procedures applicable to 2G smart meters, subsequently updated for the period 2020-2022 by Resolution 306/2019/R/eel to take into account, among other things, the differences between the main DSO (which has developed and launched its own plan for the commissioning of 2G smart meters in 2017) and the remaining operators.

The main provisions on the recognition of costs can be summarized as follows:

- the presence of obligations relating to the start/conclusion of the massive phase of the replacement plan. In particular, for distributors >100,000 PODs, it is assumed that the massive phase will start by 2022 with the objective of replacing at least 90% of the existing meters by 2025. The obligations for distributors < 100,000 POD will be defined by a subsequent measure;
- obligation to prepare detailed and documented plans for the commissioning and public consultation of a 2G smart metering system (PMS2), in the terms and manner defined by the Authority;
- determination of a single threshold for all operators for the calculation of the maximum capital expenditure condition for admission of its plan to a fast track assessment. This threshold is equal to 130 euro/meter, thus exceeding the previous method which provided, in addition to a fixed part, also a variable part specific for the individual operator;
- specific methods for recognizing investments in 2G smart meters, with the possibility of obtaining premiums or penalties based on the degree of consistency between the unit costs actually incurred and those agreed with the Authority, which in turn are defined on the basis of the unit costs estimated by the operator and those estimated by the Authority. In addition, a specific mechanism is provided for the definition of the maximum number of 2G meters of first installation recognizable in tariff for each year of the plan (Conventional Plan - PCO, defined according to the tariff profile for the installation of 1G meters). In this context, in light of the critical issues arising from the method previously adopted, a corrective mechanism for the PCO has been introduced, which is modulated so as to anticipate from the end to the beginning of the period the tariff recognition of part of the total quantity of meters to be replaced;
- presence, starting from the 4th year of the plan, of a penalty mechanism in case of non-compliance with the performance levels set by Annex B to Resolution 87/2016/R/eel (% of readings collected within 24 hours and % of success of remote management operations within 4 hours). The annual penalty is based on the capital expenditure allowed for tariff recognition and the level of non-compliance. There is also provision for a penalizing mechanism in the event of non-compliance with the progress of the PMS2. There are, however, annual and multi-year ceilings on the penalties that may be imposed on the operator.

Finally, there are specific provisions for reporting both the capital and operating costs actually incurred in each year of the plan and the physical quantities of meters actually installed.

Unareti S.p.A. submitted its plan for approval within the set deadline and held a public meeting with stakeholders on November 4, 2019. It involves the replacement of about 1.3 million meters with a massive phase foreseen in the period 2020-2024. The plan is currently being evaluated by the Authority.

Pending the start of the replacement plans, the Authority has established the modalities for the recognition of investments in 1G meters for the years 2017-2020, limiting the recognized unit cost to 105% of the unit cost of 1G meters for the year 2015. Similarly, the method for the recognition of investments in 2G meters made outside the replacement plan and relating to “ordinary user management” (see TIME 2020-2023) was defined. The maximum recognizable gross investment value per 2G meter installed in the years 2018 and -2020 is equal to the sum of:

- 125% of the average unit cost incurred by the distribution company in 2015 for the supply of 1G meters of first installation;
- 105% of the gross investment per 1G meter, net of the average cost for the supply of installed meters, incurred in the same year 2015 (therefore equivalent to the cost of installation).

Standard network code for the electricity transport service and collection of the General System Charges (OGS)

Article 3, paragraph 11, of Legislative Decree no. 79/99 provides that the collection of the revenue necessary for the coverage of OGS is through an increase in the tariff fee for access to the network. The methods of collection are defined by articles 40 and following of the Integrated Text of the provisions for the delivery of electricity transmission and distribution services (TIT) and provide that the distributor pays to CSEA/GSE the OGS collected by the sellers at end customers (in both cases regardless of the actual payment).

The Lombardy Regional Administrative Court, in accepting appeals submitted by some sellers, declared Resolution 268/2015/R/eel (CADE - Standard network code for electricity transport) illegitimate in the part in which it provides that the guarantees that sellers are required to provide to the distributor must cover the OGS in addition to transport fees. This ruling clarified that end customers are the subjects of the electricity supply chain obliged, from a legal and economic point of view, to incur OGS, highlighting the absence of rules that provide the conferment to sellers of this obligation and not conferring to the Authority the power to integrate contracts between distributor and seller. The decision of the Council of State no. 5620/2017 of November 30, 2017 rejected the Authority’s appeal confirming the annulment of Resolution 268/2015/R/eel and orientations outlined above.

The Authority intervened transitionally with Resolution 109/2017/R/eel reducing the quantification of guarantees and at the same time initiating proceedings aimed at identifying mechanisms for recognizing adequate compensation to sellers and distributors for any non-collection of tariff components to cover OGS.

Pending a multi-party legislative reform of the discipline, Resolution 50/2018/R/eel introduced a mechanism for the compensation of OGS paid but not collected by distributors. The mechanism is aimed at distribution companies that have fulfilled their obligations to pay the OGS starting from credits accrued since January 1, 2016 in relation to transport contracts terminated for non-fulfilment for at least 6 months, and is financed by an account set up with the CSEA, partly implemented by any amounts collected by distributors after recognition of the amount for previous years, and by the tariff revenue implemented by the components to cover the OGS.

At the hearing on November 7, 2018, the Lombardy Regional Administrative Court, rejecting the appeal filed by Codacons, upheld the validity of the mechanism introduced by Resolution 50/2018/R/eel. The validity of Resolution 109/2017 was then further reconfirmed also by the Lombardy Regional Administrative Court in February 2019 with sentence no. 270/2019, which rejected Gala S.p.A.’s appeal. However, the same Lombardy Regional Administrative Court subsequently annulled it in July 2019 following the appeal filed by Repower Vendita Italia S.p.A., reiterating the same grounds as those of the 2017 sentences, and therefore the disputed transfer of an obligation falling on end customers to the sellers.

Due to the outstanding amounts recorded in 2017 by some Transport Users, Unareti S.p.A. submitted a request to the CSEA, collecting in 2018, about 14.5 million euro to cover the OGS paid but not collected from sellers. Following the settlement agreement subsequently entered into with Gala S.p.A., part of this compensation was, however, returned to CSEA as part of the request that Unareti S.p.A. submitted in July 2019.

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Energy efficiency certificates and tariff contribution recognized to distributors for fulfilment of the obligation

Energy Efficiency Certificates (TEE) or White Certificates (WC) are negotiable certificates issued by the GSE that certify the achievement of energy savings in final uses through the realization of energy efficiency interventions. The system was introduced by Ministerial Decrees July 20, 2004 as amended, and provides for electricity and natural gas distributors to reach annual quantitative targets for primary energy savings, expressed in tonnes of oil equivalent (TOE) saved. A TEE/WC is equivalent to 1 TOE.

Electricity and gas distributors can fulfil the obligation by directly realizing energy efficiency projects that entitle the issue of WC or by purchasing WC from other entities that generate them on the market (typically from Energy Service Companies – ESCO). The Authority defines the methods for determining and paying the tariff contribution to be paid to distributors and the revenue is collected through fees applied to electricity and gas bills.

The table shows the energy saving target level in Italy and for electricity and gas distributors for the years 2017-2020 defined by MiSE Ministerial Decree January 11, 2017.

		National Energy Saving Targets	Targets for distributors of electricity <sup>(1)</sup>	Targets for distributors of gas <sup>(1)</sup>	Minimum target <sup>(2)</sup>	Period to compensate the residual obligatory portion <sup>(2)</sup>
		(Mtep/year)	Millions of WC	Millions of WC	(%)	(no. years)
Ministerial Decree December 28, 2012	2013	4.60	3.03	2.48	50%	2
	2014	6.20	3.71	3.04	50%	2
	2015	6.60	4.26	3.49	60%	2
	2016	7.60	5.23	4.28	60%	2
Ministerial Decree January 11, 2017	2017	7.14	2.39	2.95	60%	1
	2018	8.32	2.49	3.08	60%	1
	2019	9.71	2.77	3.43	60%	1
	2020	11.19	3.17	3.92	60%	1

1 Obligated entities: electricity and gas distributors with more than 50,000 final customers.  
2 Minimum target and compensation period: the obliged entity that achieves an obligation portion of less than 100% but still at least the minimum target set by the Ministerial Decree (50% or 60%) may offset the residual portion in the two-year period (n+2) or in the following year (n+1) without incurring penalties.

The Ministerial Decree of May 10, 2018 amended the Ministerial Decree of January 11, 2017, providing, from June 1, 2018, for the setting of a maximum value (cap) for the tariff contribution of 250 euro/WC. In addition, from May 15 to May 31, the GSE issues WC to the overrun to distributors that request it at a value equal to the difference between 260 euro/WC and the value of the tariff contribution for the year of obligation, up to a maximum delta of 15 euro.

The obliged parties can request the WC to the overrun until the minimum obligation is reached, provided they are already in possession of a WC amount of at least 30% of the minimum obligation on their ownership account. For the cancellation of these WC for the purpose of fulfilling the obligation, the tariff contribution will not be recognized. Distributors can then redeem all or part of the amount paid for the purchase of WC from the GSE for delivery of WC generated by projects or bought on the market. The redemption takes place from the first WC and is possible only if the obliged party holds a number of WC exceeding the minimum obligation for the current year of obligation. However, it is not possible to proceed with the redemption in the same year of obligation in which the WC were issued.

The tariff contribution for the current year will be paid for the WC cancelled as replacement of the GSE ones. The return of the sum paid to the GSE is made by an adjustment to the tariff contribution.

For each obligated party, the possibility of fulfilling on November 30 of each year up to 40% of the obligation of the current year and 75% of any remaining quotas of the previous obligatory years is confirmed. The Ministerial Decree of May 10, 2018 reintroduces the possibility of offsetting the residual compulsory portion in the following two compulsory years.



With the new Ministerial Decree is the publication of the types of incentive intervention with the standardized mode and the related files containing the methods of calculation (including installation of LED for street lighting and conduct measures) applicable to interventions with starting date of realization subsequent to the date of entry into force of the Ministerial Decree.

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism.

The energy efficiency obligations attributed to Unareti S.p.A. for obligation year 2018 (June 1, 2018 - May 31, 2019) amount to 294,019 TEE. At November 30, 2018, Unareti S.p.A. had already cancelled 78,300 TEEs (equal to about 26% of the 2018 obligation), collecting 13.7 million euro from CSEA (against an advance payment of 175 euro/TEE, defined in Resolution 487/2018/R/efr). As of May 31, 2019, the TEEs corresponding to the 2016 compensation (92,739 TEEs) were cancelled and the minimum obligation (60%) of 2018 was reached thanks to the purchase from the GSE of a quantity of TEEs (98,080) to the overrun. The other obligated parties of the A2A Group (Acsm-Agam Reti Gas Acqua S.p.A., Lario Reti Gas S.p.A. and LD Reti S.p.A.) have also correctly fulfilled their obligation, including the compensation for the year 2016.

In 2019, approximately 59.5 million euro was therefore paid to the A2A Group’s distributors by CSEA as a tariff contribution.

With Determination of July 10, 2019, no. 4/2019/DMRT/efc, the Authority set the tariff contribution for obligation year 2018 at 248.89 euro/TEE against a market price of 259 euro/TEE. Because of the cap on the tariff contribution at a level lower than the average market price (or bilateral contracts), the regulatory mechanism does not allow the coverage of costs, generating an economic loss for distributors of more than 11 euro/TEE for both WC purchased on the market and those “overdrawn” from the GSE.

Determination 1/2019 defined the quantities of WC to be annulled for obligation year 2019:

Obligated Party	TEE 2019 Obligation
Unareti S.p.A. (Ele + Gas)	322,008
Acsm-Agam Reti Gas Acqua S.p.A.	33,022
Lario Reti Gas S.p.A.	20,649
LD Reti S.p.A.	71,121
Total	446,800

On May 2, the Ministry of Economic Development published the Directorial Decree containing the Operational Guide provided for in article 15 of the Ministerial Decree of January 11, 2017, as amended by the Ministerial Decree of May 10, 2018. The Guide consists of three sections: a) clarifications for the presentation of projects; b) sector guides; c) list of ineligible operations. At the same time, the list of project types that access the mechanism has been updated.

On May 13, the MiSE also published the Operational Guide for the issuance of WC to the overrun in which it is expected that the request that the obliged party can make to the GSE from May 15 to 31 concerns the year of obligation in progress (compensation for past years of obligation is therefore excluded), after verification of the achievement of 30% of the minimum obligation (60%).

Resolution 209/2019/R/efr intervened on the method of calculating the tariff contribution, valid from June 1, 2019. In particular, the calculation will include the quantities of TEE traded bilaterally, limited to those at a price below 250 euro/TEE. This change is necessary for the development of bilateral agreements, the level of which has frequently been above 250 euro/TEE, thus risking misaligning the magnitudes of the relationship between quantity (which under the current system also includes trades above 250 euro/TEE) and prices (which do not consider trades above 250 euro/TEE) within the calculation formula. As a result of this intervention and, therefore, of the reduction in the weight of bilateral contracts (below the cap threshold of 250 euro/TEE), a positive effect is estimated in the formula for calculating the tariff contribution of about 1 euro/TEE (at current market conditions, the tariff contribution should come close to the cap).

On November 28, 2019, the Lombardy TAR (Regional Administrative Court) with sentence no. 2538, in relation to the appeal filed by Acea S.p.A. in its capacity as Areti S.p.A.’s agent, accepted the profiles of illegality in setting the cap of 250 euro/toe at the price of WC traded on the market and considered

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to be considerable for the purposes of calculating the tariff contribution in implementation of the MD MiSE May 10, 2018 (see previous paragraphs). As a result of this sentence, the aforementioned cap is annulled as the MiSE has no specific tariff powers on the subject and the Authority would have abdicated the exercise of its regulatory power. The sentence also annuls Resolutions 487/2018/R/efr and 209/2019/R/efr (limited to the amendments made to 487/2018), as well as Determination 4/2019/DMRT/efc that set the tariff contribution for obligation year 2018.

By Resolution 529/2019/R/efr, ARERA initiated proceedings for the reform of the tariff contribution in execution of Lombardy Regional Administrative Court sentence no. 2538, confirming the current method for the tariff contribution on account relating to the November 2019 session, in addition to the “Rules for the functioning of the market for energy efficiency certificates” and the “Regulation for the registration of bilateral transactions in energy efficiency certificates”.

In the initiation of proceedings, a path is indicated to restore a certain regulatory framework that will lead to the establishment of a value of the 2018 tariff contribution that may provide for possible adjustments for the obligated parties, as well as consider as the *“most correct driver for the definition of the overall cost of the mechanism [...] the cost incurred by distributors that take advantage of the possibility to purchase TEE not corresponding to projects”* by virtue of the fact that the unavailability of TEE is directing the market towards such price signals equal to the difference between 260 euro/TEE and the value of the contribution - up to a maximum of 15 euro/TEE (a situation that already occurred in the last year of obligation).

## Activities of ARERA in the regulation and control of the Integrated Water Service (SII)

### Entrustment of the SII in the province of Brescia and referendum of November 18, 2018

Following the referendum in June 2011, the legislative provisions referred to in the questions involved were repealed, including article 23-bis of Decree Law no. 112/2008 on the assignment of local public services of economic importance.

Regarding existing management, as enshrined in art. 34 of Decree Law 179/12 converted into Law no. 221/12 and supplemented by Law July 29, 2015, no. 115, art. 8 paragraph 1, assignments of services to listed companies and subsidiaries of listed companies, such as those relating to the assignments to A2A S.p.A., will remain active until natural expiry on the basis of the deeds regulating the relationship with the individual Municipalities.

The Board of Directors of the Ambit Government Entity (EGA) of Brescia, also in execution of the additions to Legislative Decree 152/2006 introduced by art. 7 of Decree Law no. 133/14 as amended, at the meeting of September 17, 2015, by Resolution no. 14, chose as form of single management of the SII in the Province of Brescia, the mixed company, with the consequent elimination (subject to the safeguards of law) of the other various forms of management present on the territory of competence.

By means of Resolution no. 35 of October 2016, the EGA subsequently assigned the SII to Acque Bresciane S.r.l., total public capital company that has all the subjective and objective conditions to ensure full compliance with the so-called in house providing model. The same resolution provides, in a second phase, the completion of the tender for the selection of the private partner to allow the achievement of management in the form of a public-private mixed company. Moreover, it is established that the ambit management, so-called aggregated to A2A Ciclo Idrico S.p.A., entrusted to Acque Bresciane S.r.l. will be taken over by the company only following the recognition to the outgoing operator of the residual value of takeover, determined by the EGA, under the Convention for the management of the SII, which must be completed no later than the end of the current regulatory period (2016-2019).

On November 18, 2018, a consultative referendum was held on the fully public management of the SII in the province of Brescia, following the approval, by the Provincial Council, of the proposal presented by the Public Water Committee by 54 Brescia municipalities, representing at least 33% of the population living in the province of Brescia. The consultation was attended by 23% of those entitled to vote with “YES”.

However, the meeting of auditors must approve the final decision on the management model (mixed or in-house providing) of the SII to be implemented in the province of Brescia following the referendum outcome of November 18, 2018.

Tariff updates 2018-2019 and Constraints to Operator Revenues (VRG)

Resolution 918/2017/R/idr defined the procedures to update the tariffs for the two-year period 2018-2019 from the accounting data that can be deduced from the 2016 and 2017 financial statements. By means of the same Resolution, the parameters of the Water Risk Premium were updated (from 1.5% to 1.74%), as well as the inflation rates to update operating costs, gross fixed investment deflators, and rate  $t_c$  for the calculation of financial and fiscal charges. Therefore, the component covering financial and tax charges is 5.33%.

Resolution 86/2019/R/idr confirmed for both A2A Ciclo Idrico S.p.A. and ASVT S.p.A. the annual tariff increases of 8.5% also for 2018-2019, already approved by Resolution 807/2016/R/idr. At the same time, as of January 1, 2017, A2A Ciclo Idrico S.p.A. has been proceeding with the billing of the previous items relating to the 2007-2011 period approved by the EGA Council with Resolution July 5, 2016, no. 16 and equal to about 10 million euro/year for 5 years.

With regard to the ACSM-AGAM Group:

- after the approval of the 2012-2019 tariffs by the former Aspem S.p.A. by EGA of Varese, the Assembly of Municipalities and the Province, the process is expected to be completed by the end of 2019 also by ARERA (7.9 million euro was also recognized for previous items).
- on October 16, 2019, Acsm-Agam Reti Gas Acqua S.p.A. sent to the EGA of Como the tariff proposals restated for the period 2012-2019 and is awaiting their validation;
- on December 16, 2019, the EGA of Varese approved the update of the term of assignment for the water service provided by Acsm-Agam Reti Gas Acqua S.p.A. in the municipalities of Casciago and Luvinate for the period January 1, 2020 - December 31, 2023.

millions of euro	VRG 2018	VRG 2019	RAB 2016 (underlying 2018 tariffs)	RAB 2017 (underlying 2019 tariffs)
A2A Ciclo Idrico S.p.A.	91.4	99.7	257	265
ASVT S.p.A.	8.4	9.03	11.9	15
Acsm-Agam Reti Gas Acqua S.p.A. (not including Como)	21	23.6	32.2	39

On December 5, 2019, Garda Uno S.p.A. filed with the Regional Administrative Court (TAR) a declaration of lack of interest in the appeal against the resolution of the Board of Directors of the Brescia Ambit Office no. 12 of September 17, 2015, concerning “Approval of the quantification pursuant to article 31 of Annex A of AEEGSI resolution 643/13 of the tariff adjustment items relating to the period prior to the Authority’s regulation”. The waiver of the TAR allowed A2A Ciclo Idrico S.p.A. to settle the provision previously set aside of approximately 3.8 million euro.

Approval of the water tariff method for the third regulatory period MTI-3

Resolution 580/2019/R/idr approved the SII Tariff Method (MTI-3) for the third regulatory period (2020-2023), defining the rules for calculating the costs eligible for tariff recognition, as well as the limits to the applicable tariff increases (reduced compared to the maximum levels provided for in the previous regulatory period).

In the same Resolution, the parameters were updated of the Water Risk Premium (1.7%), beta (relative riskiness of the SII equal to 0.79), inflation rates to update operating costs, gross fixed investment deflators, and rate  $t_c$  for the calculation of financial and fiscal charges. Therefore, the component covering financial and tax charges is 5.2%.

The regulations, in line with the previous one, confirmed the four-year duration of the regulatory period as well as the time frame for the EGA tariff provisions (April 30), with an update every two years.

The main additions concern:

- the change in the recognition of financial charges on Work in Progress (LIC):
  - LIC with balances that have remained unchanged for more than 4 years excluded from tariff recognition;
  - application to LIC of a lower rate compared to fixed assets entered into operation and decreasing over time;

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- the drafting, in addition to the Plan of Interventions, of a Plan for Strategic Works (POS) 2020-2027 containing the forecast of infrastructural interventions dedicated to complex works with a useful life greater than/equal to 20 years priority for the quality of service. The LIC of the works contained in the POS benefit from full (and not decreasing) tariff recognition;
- the modification of the regulatory useful lives, for assets that came into operation in 2020, dividing the assets between aqueduct, sewerage, purification and common activities and associating them with the relative macro-indicator of technical and commercial quality;
- the introduction of an incentive for the measures put in place by the Operator to make users more aware of their consumption and to encourage the procedures for limitation in case of default and selective disconnection of supply;
- in the calculation of the adjustments of the *other water activities*, the activities linked to energy and environmental sustainability objectives have been separated, to which the Manager is granted a sharing equal to 75% of the difference between revenues and costs incurred. The benefits of this "incentive" will apply in the tariffs 2022 (a+2).

Initial assessments estimate that for the new regulatory period, the tariffs of A2A Ciclo Idrico S.p.A. and ASVT S.p.A. will have a lower annual growth than the previous one.

### Review of the tariff structure

In order to harmonize the tariff structure applied to end users throughout the national territory, Resolution 665/2017/R/idr approved the Integrated Text of Water Service Fees (TICSI) in force since January 1, 2018. The TICSI introduces the concept of standard per-capita tariff and includes:

- the distinction between resident and non-resident, condominium and non-domestic users;
- the application to resident domestic users of a standard per capita tariff for a transitional period (2018-2021), defined on a typical family of 3 members (with the first subsidized band equal to 55 m3/year) and an actual per capita tariff (subsidized band calculation: 18.25 m3/y per member) only in the case of self-declaration by the user regarding the number of members of the family unit;
- the regime tariff structure as from 2022 with the application of the effective per capita tariff to all resident domestic users;
- the rationalization of tariff types for uses other than domestic;
- the application of a trinity tariff (fixed portion, capacity portion and variable portion) uniform at national level for industrial users related to discharges of waste water authorized to discharge into public sewers. This tariff is designed to intercept with the variable portion, quality in terms of pollution of the discharge, with the capacity portion, the correct allocation of the costs to use the treatment capacity of the plant destined to receive the discharges, and with the fixed portion, the coverage of administrative and metering costs;
- the assessment of the effects of the new tariff structure on the revenues of the manager, providing for two checks, one ex ante and one ex post.

The tariff structure is adopted by the EGA on the basis of the data provided by the operators and was to be submitted to the Authority by June 30, 2018. In the event of delay in approval by the EGA, the annuities for 2018 and 2019 will have to be reconciled with the subsequently approved tariff schedules. In the areas in which the A2A Group companies operate, the Varese area is the only one in which the process of approving the tariff structure in accordance with TICSI was completed, with the approval of the Province on July 30, 2019.

Following the proceedings initiated with Resolution 636/2018/R/idr, in May 2019, the Authority carried out a specific recognition activity at the EGA in order to highlight the tariff application in accordance with TICSI by the EGA.

### Social water bonus

Resolution 897/2017/R/idr implements the compensation system of the expense incurred for the supply of water to domestic users in conditions of economic difficulty (water social bonus) as envisaged by Prime Ministerial Decree October 13, 2016.

From January 1, 2020, the facility may be accessed by households resident with ISEE of less than 8,265 euro<sup>(10)</sup>, which rises to 20,000 euro for a family with at least 4 dependent children for tax purposes, in addition to those with income and citizenship pension. In addition, also from January 1, 2020, fiscal decree DL 124/2019 extended the reductions provided for the social water bonus in addition to water consumption (as provided until now) also to the costs of sewerage and purification services.

The request must be submitted to the municipality of residence (or the Caf delegated) together with the application for the electricity and/or gas bonus and will allow taking advantage of a discount in the bill equal to the cost of 18.25 m3/a for each family member. The discount will be paid directly in the bill for those who have a direct contract, while indirect users (those that live in a condominium and do not have an individual contract) will receive the bonus in a single solution with the methods identified by the Operator.

The EGAs have the right to introduce (or confirm, if already provided for) a supplemental water bonus on a local basis, as a measure of further protection compared to the minimum provided for users in conditions of economic vulnerability by sector regulations, recognizing to users an additional amount or by expanding the expected ISEE threshold.

Extension of alternative dispute resolution to SII

Resolution 55/2018/E/idr defined the transitional rules in force from July 1, 2018 until June 30, 2019 for the extension to the SII of the consumer protection system and for the extra-judicial settlement of disputes already active in the electricity and gas sectors (Resolution 209/2016/E/com or Integrated Conciliation Text - TICO).

The regulation has established for SII, by analogy with the other regulated sectors, as of July 1, 2018, the Authority's Conciliation Service through which an attempt at conciliation may be made for disputes arising between a water user and its operator. This discipline has been integrated with Resolution 142/2019/E/idr "Methods of implementation in the water sector of the system of protection for complaints and disputes of customers and end users of the regulated sectors", which provides for a gradual application of the obligatory nature of the conciliation attempt.

As of July 1, 2019, although conciliation is not yet a procedural condition for access to ordinary justice, a participatory obligation has been established before the Conciliation Service at the Consumer Desk for all Operators serving at least 300,000 resident inhabitants (A2A Ciclo Idrico S.p.A. falls under this obligation).

For sub-threshold operators, there is a voluntary participatory obligation, provided that this commitment lasts for two years. It is, however, possible for such Operators not to adhere to the voluntary participation obligation and to decide each time whether or not to adhere to the conciliation at the Conciliation Service.

Integration of the contractual quality discipline of the SII (RQSII)

Resolution 547/2019/R/idr supplemented the regulation of the contractual quality of the SII in order to strengthen the protection of users' interests and the guarantee of adequate levels of performance of Operators, introducing a new mechanism of premiums and penalties in compliance with the minimum standards set out in Resolution 655/2015/R/idr (RQSII).

The new incentive mechanism is based on the development of 2 macro-indicators, MC1 and MC2, obtained by aggregating the 42 simple indicators provided by RQSII (28 specific standards, already associated with automatic indemnities in case of non-compliance, and 14 general standards):

- MC1 - "Start and termination of the contractual relationship": composed of indicators relating to the provision of estimates, the execution of connections and works, the activation and deactivation of the supply;
- MC2 - "Management of the contractual relationship and accessibility to the service": composed of performance indicators relating to appointments, billing, meter and pressure level checks, replies to written requests and management of contact points with users.

The mechanism is similar to that for technical quality, where premiums and penalties are defined through subsequent stages of evaluation, distinguished by level of evaluation (basic and excellence) and by starting level (maintenance or improvement objectives). It will apply from January 1, 2020 but

10 Resolution 499/2019 raised the ceiling of the ISEE value in order to benefit from the bonus on electricity, gas and water bills: the new value goes from 8,107.5 euro to 8,265 euro.

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the quantification of premiums and penalties will take place from 2022 on the basis of performance in the previous two years. For the starting levels of the first year, the 2018 contract quality data already sent to ARERA in May 2019 will be used.

The Resolution also extends the protection of RQSII to subjects that, although not under contract, require the provision of certain services preparatory to the conclusion of the supply contract.

#### Extension of the two-year prescription also to SII

Resolution 547/2019/R/idr, in addition to supplementing the RQSII regulations, introduced, as from January 1, 2020, disclosure obligations for the Operator in the event of a two-year prescription for consumption, as governed by Law no. 205 of December 27, 2017.

In analogy to the regulations already introduced in other regulated sectors (electricity and gas), the Authority has ordered that in the case of billing amounts relating to consumption dating back more than two years, the Operator is required to provide adequate evidence of their presence on the bill, differentiating them from those relating to consumption dating back less than two years. It has also been provided that the amounts subject to the prescription cannot be collected using pre-authorized SEPA *Direct Debit* - SDD (bank, postal or credit card) collection methods.

The Law provided that the prescription not be recognized to the customer in the event that the missed or erroneous collection of consumption data was attributable to the customer; however, paragraph 295 of art. 1 of the Budget Law 2020 removed this case, providing for the recognition of the two-year prescription period even in cases of ascertained liability of the customer.

#### Settlement of default in SII

Prime Ministerial Decree of August 29, 2016, entrusts to the Authority the definition of forms of containment of default, access to the vital minimum quantity of water (equal to 50 litres/day per capita) for all resident home users at a facilitated tariff (amount to be guaranteed even in case of default) and the definition of customers that cannot be disconnected.

Following the publication of three DCO, Resolution 311/2019/R/idr (REMSI) defined the rules for the management of default, which will come into force on January 1, 2020:

- a specific procedure, with clearly defined timelines (e.g. an amicable reminder, notice of default, payment in instalments, etc.), that the Operator must adopt before the suspension of service. If the procedure is not followed, the user is entitled to a specific indemnity;
- for households (other than those that cannot be switched off), the suspension of the service is only possible after the limitation procedure;
- for condominium users, the Operator may not proceed to limit/suspend the supply against partial payments equal to at least half of the amount and made within the deadline provided for in the notice of default.

### 2018 Budget Law: National plan for action in the water sector

Article 1, paragraph 516, of Law 205/2017 requires, for the purpose of planning and implementing the measures necessary to mitigate the damage related to the phenomenon of drought and to promote the strengthening and adaptation of water infrastructures, with a specific Prime Ministerial Decree adoption of the “*National Plan of Action in the Water Sector*”, divided into two sections: “aqueducts” section and “reservoirs” section, for the achievement of the following priority objectives:

- a) achievement of adequate levels of technical quality;
- b) recovery and expansion of the maintenance and transport of the water resource, also with reference to the storage capacity;
- c) dissemination of tools aimed at saving water in agricultural, industrial and civil uses.

The measures contained in the National Plan and reported by the EGAs are financed with public resources.

With Report 268/2018/R/idr, the Authority drew up a first list of necessary and urgent measures. The list shows the construction of the aqueduct, sewerage and treatment network, which is currently completely absent, in the municipality of Calvisano (BS) managed by A2A Ciclo Idrico S.p.A., to which a loan of approximately 22 million euro is allocated. The total investment (21.8 million euro for the aqueduct alone, plus 23.5 million euro for sewerage/treatment) will be developed in the next regulatory period 2020-2023.



The following Report 252/2019/R/idr has detailed the amounts for each of the two Chapters of expenditure 2019 and 2020: for the Municipality of Calvisano, a disbursement of two tranches is planned for 2019 and 2020 of 3.8 million euro.

With Prime Ministerial Decree of August 1, 2019 “Adoption of the first excerpt of the National Plan of interventions in the water sector - aqueducts section”, 26 interventions were definitively approved (among which the intervention for the Municipality of Calvisano is confirmed) for a total amount of 80 million euro for the two years 2019 and 2020.

Resolution 425/2019/R/idr defined the rules for the disbursement of the resources necessary to carry out the interventions and, to this end, the “Account for the financing of the interventions of the National Plan, Aqueducts section as per Law 205/17” was established at the CSEA. Subsequently, ARERA published Resolution 512/2019/R/idr with which it authorizes CSEA to grant the first tranche of financing to the approved interventions.

Activities of the Authority in the regulation and control of the district heating/cooling sector (or district heat)

Legislative Decree no. 102/2014, which transposes Directive 2012/27/EC on energy efficiency, granted the Authority specific powers to regulate and control under articles 9, 10 and 16, including in the district heating/cooling sector, even if only on specific aspects, since this is not a RAB-based regulation, as the current one for other network services.

The powers concern, in fact, the preparation of measures on connection and disconnection from the networks, commercial and technical quality of service, the way in which operators make public the prices of the supply of heat.

The Authority is also entrusted with the task of implementing the provisions on metering, billing, access to consumer data for buildings connected to district heating/cooling networks in order to increase customer awareness and change consumer behaviour.

After an initial measure (Resolution 282/2017/R/tlr) on the sub-billing of district heating costs between real estate units in condominiums, Resolution 24/2018/R/tlr (TUAR) defined the criteria for determining connection fees and the procedures for the exercise by the user of the right of withdrawal.

Operators can freely determine the connection fees in compliance with a consistency constraint between costs and revenues (pending the conclusion of the proceeding initiated by means of Resolution 111/2017/R/tlr regarding the separation of accounting and administration in the district heating service, the criteria for the attribution of indirect costs can be defined independently by the operators). At the same time as the connection estimate, specific information obligations are introduced towards customers regarding the binding economic conditions of service provision, so as to allow an assessment of the overall cost-effectiveness of the same and ensure maximum transparency on the contents and associated costs.

It is possible for the customer to withdraw from the contract with 30 days’ notice, without payment of any fee or penalty by requesting the operator, alternatively, to deactivate the supply or disconnect from the network; in the case of deactivation, only the suspension of the supply is envisaged while in the case of disconnection, the operator is required to remove the thermal energy meter and any other parts of the plant. Customers with a contractual power of more than 1,200 kW are excluded from the right of withdrawal. Lastly, specific reporting obligations to the Authority are envisaged for operators in order to allow monitoring of the sector and compliance with the regulation.

By means of Resolution 277/2018/R/tlr, the Authority postponed the entry into force of the TUAR from June 1, 2018 to October 1, 2018 with the end of the regulatory period December 31, 2021.

Resolution 661/2018/R/tlr defined the regulation of the commercial quality (RQCT) for the period July 1, 2019 - December 31, 2021. The scope of application of the regulation with regard to end customers depends on the size of the operators determined on the basis of the total contractual power of the customers served: micro operators up to 6 MW, medium operators over 6 MW and up to 50 MW and larger operators over 50 MW.

Services subject to commercial quality include: quotes, execution of works, activations, complaint handling, as well as prompt intervention.

Automatic compensation is provided in the event of non-compliance with specific standards for reasons attributable to the operator, the value of which is commensurate with the power contractually committed by the user, in order to consider the size of the user affected by the violation. For users

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with contractually committed power up to 50 kW (single-family users and small condominiums) the compensation is equal to 30 euro. For users with contractually committed power exceeding 50 kW and up to 350 kW, the compensation is equal to 70 euro.

Resolution 574/2018/R/tlr approved the “Information obligations for entities operating in the district heating and cooling sector (OITLR)”, at the same time providing for the repeal of previous Resolutions 339/2015/R/tlr and 23/2018/R/tlr with a view to rationalizing the provisions.

Resolution 313/2019/R/tlr approved the “*Integrated text on the transparency of the district heating and cooling service (TITT)*” for the regulatory period January 1, 2020 - December 31, 2023. The measure defines the minimum contents of supply contracts and billing documents, the methods of publication of the prices charged by operators and other information on service quality and environmental performance. The Authority is also planning to launch a price monitoring system.

Resolution 548/2019/R/tlr defined, for the period July 1, 2020 - December 31, 2023, the regulation of the technical quality of the district heating and cooling service (RQTT) with reference to safety and continuity of service. The planned interventions are aimed at guaranteeing a greater degree of protection for users and encouraging the dissemination of the service through a progressive increase in the performance of the sector and the definition of minimum uniform standards at national level, with a consequent improvement in users’ perception of the quality of the service.

The Resolution introduced obligations for the operator on emergency response, management of disruption (with a specific general quality standard) and dispersion as well as obligations to record safety and quality information for annual reporting to the Authority.

## New incentives for the development of district heating networks

Article 19-decies of the Law of December 4, 2017, no. 172, introduces a new type of plant intervention on cogeneration units aimed at rewarding through the recognition of WC CAR, the extension of district heating networks within “efficient district heating” systems. The incentive scheme to which the standard refers (and which must be supplemented) is that provided for by Ministerial Decree of September 5, 2011 concerning the incentive for high-yield cogeneration (CAR) through the issue of energy efficiency certificates/WC (Ministerial Decree CAR).

Article 19-decies of the Law defines interventions that can benefit from incentives on cogeneration units and that possess (all) the following characteristics:

- they do not classify as “upgrading” under CAR MD;
- they entail an increase in the thermal producibility of the cogeneration unit, aimed at maintaining or achieving an efficient district heating system configuration;
- they are combined with the extension of the heat distribution network, in terms of transport capacity.

For the aforementioned interventions, the CAR MD will apply “according to the yield values established in the delegated regulation (EU) 2015/2402”: this represents the most recent standard for updating efficiency values of “separate” production (i.e. not in cogeneration) of electricity and heat.

The new law will have to be implemented through a specific MD amending MD CAR that the MiSE was required to adopt within 90 days from the entry into force of the Law (i.e. 90 days from December 4, 2017).

## GSE checks: cogeneration plant combined with district heating in Canavese (MI)

The cogeneration plant combined with district heating in Canavese (MI), belonging to A2A Calore e Servizi S.p.A., obtained the IAFR 5072 qualification from the GSE for the purpose of obtaining GC pursuant to Law no. 239 of August 23, 2004, and the subsequent implementing Ministerial Decree of October 24, 2015. The disbursement period of the incentive started on January 1, 2011 for a duration of 8 years.

On March 12, 13 and 14, 2018, the GSE began a verification process by means of a site visit to analyse both the CAR qualification and the obtaining of GC.

A first outcome letter sent by the GSE on March 25, 2019 communicated a recalculation of GC for the years 2011-2016, considering that the quantities of heat supplied to users connected to the

network laid after December 31, 2009 cannot be eligible for GC (i.e. this deadline must refer to the commissioning not only of the production plant but also of the distribution network laid up to that moment).

The company sent a letter of comments on June 24, in which, in addition to contesting the late interpretation of the GSE, regarding the exclusion from the calculation of the incentive the heat pertaining to users laid after December 31, 2009, it requested a recalculation of the GC following an update of the map and pointed out some inconsistencies in the calculation method proposed by the GSE.

In any case, 12.5 million euro of funds have been set aside in the budget to cover any amounts that may be returned to the GSE (and which for the period 2011-2016 amount to 11.1 million euro).

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## International Business Unit

The International Business Unit includes the activities carried out by the Group in relation to the management of the investments held by A2A in foreign companies, together with the oversight of international development activities.

Therefore, the Business Unit analyzes and selects the market opportunities, such to allow the provision of know-how and technological systems deriving from the A2A core business; particular focus is on the realization of high-tech waste treatment plants.

On July 1, 2019 was the effectiveness of the transfer of the International Business Unit of A2A in favour of the newly incorporated A2Abroad S.p.A., which will be responsible for the A2A Group's international development activities.

In 2019, the supply was completed for the design, supply, realization and start-up, as a sub-appointed supplier, of a waste treatment plant with 150,000 t/y of MSW in Spain. It is expected to reach final testing of the plant by 2020.

In June 2019, an additional contract was awarded for the design, supply, realization and start-up, as a sub-appointed supplier, of a waste treatment plant with 78,000 t/y of MSW in Croatia.

With reference to the service activity on waste treatment plants in the United Kingdom, in December 2018, a contract was signed for the provision of services and assistance on plants owned by the customer Renewi with a duration of three years, with the option of extending it for a further two years.

A contract was also stipulated in Scotland in 2019 for on-site and remote assistance services with the Dumfries and Galloway Council.

Preliminary activities and necessary for participation in other international tenders were also carried out.

The background is a blue-tinted photograph of a modern glass skyscraper. The building's facade is composed of a grid of windows, reflecting the sky and surrounding environment. On the left side of the image, there is a white, angular, geometric shape that appears to be a stylized architectural element or a graphic design element. The overall composition is clean and professional, typical of a corporate report cover.

# 4

## Consolidated results and report on operations

## Summary of results, assets and liabilities and financial position

### Results

The consolidation scope at December 31, 2019 changed compared to the corresponding year due to the following operations:

- acquisition and line-by-line consolidation of the company Bellariva Enertel 07 S.r.l., owner of a photovoltaic plant;
- acquisition by A2A Energy Solutions S.r.l. (100% owned by A2A S.p.A.) of 100% of Suncity Energy S.r.l. (line-by-line consolidation) and 26% of Suncity Group S.r.l. (consolidated using the equity method), groups active in the field of energy efficiency and dispatching;
- line-by-line consolidation of the company Yada Energia S.r.l., incorporated in June 2019;
- acquisition of 45% and valuation at equity of ASM Energia S.p.A., a commercial company, by A2A Energia S.p.A.;
- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A..

Moreover, the economic data at December 31, 2019 are not homogeneous with respect to the previous year due to the following contributions:

- line-by-line consolidation of the ACSM-AGAM Group as of July 1, 2018;
- line-by-line consolidation of a group of companies that own 5 photovoltaic plants in Italy through A2A Rinnovabili S.p.A. and Fair Renew S.r.l. held (60%), incorporated in July 2018;
- acquisition and line-by-line consolidation, from December 2018, by the subsidiary A2A Rinnovabili S.p.A. of TS energy Italy S.r.l., the holding company of nine project companies owning photovoltaic plants;
- line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A., in order to provide environmental sanitation services;
- line-by-line consolidation of the NewCo A2Abroad S.p.A., incorporated in December 2018.



The results of the A2A Group at December 31, 2019 are set out below together with comparative figures for the previous year.

<i>millions of euro</i>	<b>01 01 2019 12 31 2019</b>	<b>01 01 2018 12 31 2018</b>	<b>Change</b>
<b>Revenues</b>	<b>7,324</b>	<b>6,494</b>	<b>830</b>
of which:			
- Revenues from the sale of goods and services	7,122	6,271	851
- Other operating revenues	202	223	(21)
Operating expenses	(5,390)	(4,598)	(792)
Labour costs	(700)	(665)	(35)
<b>Gross Operating Income - EBITDA</b>	<b>1,234</b>	<b>1,231</b>	<b>3</b>
Depreciation, amortization and write-downs	(511)	(623)	112
Provisions	(36)	(20)	(16)
<b>Net Operating Income - EBIT</b>	<b>687</b>	<b>588</b>	<b>99</b>
<b>Result from non-recurring transactions</b>	<b>4</b>	<b>14</b>	<b>(10)</b>
Net financial charges	(114)	(116)	2
Affiliates	4	4	-
<b>Result before taxes</b>	<b>581</b>	<b>490</b>	<b>91</b>
Income taxes	(189)	(157)	(32)
<b>Result after taxes from operating activities</b>	<b>392</b>	<b>333</b>	<b>59</b>
Net result from discontinued operations	1	21	(20)
Minorities	(4)	(10)	6
<b>Group result of the year</b>	<b>389</b>	<b>344</b>	<b>45</b>

In 2019, the **Revenues** of the A2A Group amounted to 7,324 million euro, up 12.8% on the previous year.

The increase in revenues was mainly due to greater sales made on the free market, in particular large customers and revenues from gas sales thanks to higher volumes sold on the free market and intermediated on the wholesale market, partially offset by lower revenues related to environmental markets.

The ACSM-AGAM Group's revenues, consolidated starting July 2018, came to 420 million euro (187 million euro at December 31, 2018 referring only to the second half of the year after the aggregation).

**EBITDA** came to 1,234 million euro (1,231 million euro at 31 December 2018). The contribution of the ACSM-AGAM Group, consolidated starting July 1, 2018, was 69 million euro (41 million euro in 2018).

Net of non-recurring items (39 million euro in 2018; 42 million euro in 2019), EBITDA was in line.

The following table highlights the composition by Business Unit:

<i>millions of euro</i>	<b>12 31 2019</b>	<b>12 31 2018</b>	<b>Delta</b>	<b>Delta %</b>
Generation and Trading	301	370	(69)	(18.6%)
Market	229	206	23	11.2%
Waste	271	268	3	1.1%
Networks and District Heating	461	410	51	12.4%
A2A Smart City	11	11	-	0.0%
International	(3)	-	(3)	n.s.
Corporate	(36)	(34)	(2)	5.9%
<b>Total</b>	<b>1,234</b>	<b>1,231</b>	<b>3</b>	<b>0.2%</b>

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EBITDA of the Generation and Trading Business Unit amounted to 301 million euro, a decrease of 69 million euro compared to the previous year. Before non-recurring items (equal to +14 million euro in 2019 and +11 million euro in 2018), Ordinary EBITDA dropped by 72 million euro.

This year was very much penalised by the loss of the contribution, which had been significant during the previous year (approximately 100 million euro) made by green certificates and other incentives (feed-in tariff for the Mese plant).

The ensuing reduction in margins, amplified by the lesser margins recorded on the ancillary services market ("MSD") and by conventional thermoelectric plants was significantly limited by the Generation and Trading Business Unit, thanks to the positive results achieved by the combined cycle thermoelectric plants, the greater hydroelectric production and the greater contribution made by the photovoltaic sector.

EBITDA of the Market Business Unit came to 229 million euro (206 million euro in the previous year).

Net of non-recurring items (+22 million euro in 2019 and +30 million euro in 2018), Ordinary EBITDA for the Business Unit grew by 31 million euro (+18% on the previous year). The variation was determined by a considerable increase in margins in the energy retail segment (+38 million euro) and public lighting (+3 million euro) and a decline in the energy solutions segment (-10 million euro).

The increase in the energy retail segment is partly due to the contribution made by the ACSM-AGAM Group, equal, net of the contribution made by the former Aspem Group in the first half of 2018, to 17 million euro and partly to the excellent performance of the traditional segment (+21 million euro). In 2019, in fact, the contribution margins of the electricity and gas segments showed significant growth (+40 million euro), thanks to the increase in the number of customers on the free market the greater volumes sold to large customers that more than offset a decline in unitary gas consumptions, the increase in unitary margins of customers on the free market, above all gas, and the adjustment of RCV and PCV prices (Resolution 706/2018/R/eel) to cover the costs of marketing electricity. The growth was only partially reduced by higher costs, mainly for marketing and external communication to attract new customers.

The higher margins of the public lighting sector are linked to the issue of a larger number of white certificates in 2019, as well as a greater quantity of extraordinary maintenance works.

The reduction in margins in the energy solutions segment was due to the lesser opportunities that white certificates market has offered to operators, both in terms of price and volumes exchanged, also following approval of the Decree by the Ministry of Economic Development on May 10, 2018, which regulated the price of sale of Energy Efficiency Certificates (EECs) and the methods of procurement by distributors obliged to cancel the certificates.

The EBITDA of the Waste Business Unit equalled 271 million euro (268 million euro at December 31, 2018).

The greater margin in the collection segment, the positive dynamics of conferral prices (in particular municipal-like waste), the prices of the sale of electricity produced by the waste-to-energy plants and the greater revenues from conferral of industrial processing plants, all helped towards the year's result.

These positive effects were almost entirely offset by the higher disposal costs and lower revenues from the transfer to the Group's depleted landfills (Grottaglie, Barengo and Comacchio).

EBITDA of the Networks and District Heating business unit amounted to 461 million euro (410 million euro at December 31, 2018).

Net of non-recurring items (+19 million euro in 2019 and +3 million euro in 2018), Ordinary EBITDA for the Business Unit grew by 35 million euro (+9% on 2018).

The change in margins is especially attributable to the district heating segment: the increase in unit margins more than offset for the higher environmental costs (CO<sub>2</sub>) and the lack of revenues from green certificates in Canavese.

A positive contribution towards the Business Unit results was mainly due to: the increase in allowed revenues for gas distribution, revenue growth in the water segment following the increase in the tariffs resolved by the Regulatory Authority, the reduction in fixed costs and the change in scope determined by the different consolidation periods of the ACSM-AGAM Group.

EBITDA of the International Business Unit was negative for 3 million euro (nil in the previous year).  
The change is mainly due to the prosecution of certain activities and the postponement of international tenders, which saw a substantial misalignment between costs incurred and the related revenues.

A2A Smart City recorded EBITDA of 11 million euro in 2019, in line with the previous year.

**“Depreciation, amortization provisions and write-downs”** totaled 547 million (643 million euro at December 31, 2018), of which 44 million euro from the first-time consolidation of the ACSM-AGAM Group, representing a decrease of 96 million euro.

**“Depreciation, amortization and write-downs”** totaled 511 million (623 million euro at December 31, 2018), of which 40 million euro from the consolidation of the ACSM-AGAM Group, recording an overall decrease of 112 million euro.

Amortization of intangible assets totaled 123 million euro (91 million euro at December 31, 2018), 26 million euro of which deriving from the consolidation of the ACSM-AGAM Group. The item includes higher amortization for 32 million euro, of which 14 million euro relating to the consolidation of the ACSM-AGAM Group (of which 3 million euro relating to the effects of Purchase Price Allocations), 6 million euro relating to the plan to replace gas meters, 1 million euro relating to the water distribution network and 9 million euro relating to the implementation of information systems.

Depreciation of tangible assets show an increase of 7 million euro compared to December 31, 2018 and mainly includes:

- higher depreciation of 23 million euro following the application of IFRS 16, including 2 million euro for the ACSM-AGAM Group;
- higher depreciation resulting from the consolidation of the companies operating in the photovoltaic sector acquired starting from the second half of 2018 for 4 million euro;
- higher depreciation of 3 million euro, mainly relating to capex that went into production after December 31, 2018;
- higher depreciation of 6 million euro, relating to the consolidation of the ACSM-AGAM Group;
- lower depreciation of 17 million euro for the Monfalcone power plant as a result of the write-down made in 2018;
- lower depreciation of 11 million euro resulting from the complete write-down of the Grottaglie landfill;
- lower depreciation of 1 million euro for the San Filippo del Mela power plant.

Net write-downs for the year totaled 9 million euro, reflecting both the effects of the Impairment Test, which produced a positive result of 39 million euro, and the write-down of 48 million euro recognized on the Grottaglie landfill site in view of its reduced future income generating capacity, following the rejection of the appeal filed by the Council of State against the Sentence of the Regional Administrative Court (T.A.R.) of Lecce no. 143/2019 and the consequent confirmation of the annulment of DD 45/18, which had allowed a substantial modification of the Integrated Environmental Authorization (AIA) relating to the landfill with the consequent resumption of disposal activities.

The Impairment Test process involved:

- 127 million euro write-downs of the 400 MW units of the Mincio, Chivasso and Sermide thermoelectric power plants. These plants had been entirely written-off during previous years, following their preservation; this year, they were written-back due to their correct function, the changed (increased) prospects of use, also connected with the envisaged phase-out of coal, scenario and remuneration offered by the capacity market mechanism, already assigned for 2022 and 2023 and expected for subsequent years;
- 85 million euro write-down of goodwill relating to the “A2A Reti Elettriche” CGU;
- 3 million euro write-down of capex for the Monfalcone power plant.

In the previous year, write-downs amounted to 160 million euro and mainly referred to the write-down of the Monfalcone plant and the write-down of goodwill relating to the “A2A Reti Elettriche” CGU.

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The balance of “Provisions for risks” shows a net effect of 21 million euro (positive for 5 million euro at December 31, 2018) due to allocations in the year of 40 million euro, offset by the surpluses of 19 million euro since some ongoing disputes have ceased to exist.

Allocations for the year included 9 million euro allocation for public water diversion fees, 13 million euro allocation to tax provisions, 6 million euro allocation to provisions for landfill closure and post-closure expenses, 2 million euro allocation to provisions for lawsuits and labour disputes and 10 million euro allocation to provisions for other disputes. Surpluses of provisions for risks amounted to 19 million euro and refer mainly to surpluses of provisions for tax disputes and with social security institutions.

The “Bad debts provision” shows a balance of 15 million euro (25 million euro at December 31, 2018), of which 4 million euro deriving from the consolidation of the ACSM-AGAM Group, determined by the allocation for the year.

As a result of these changes “**Net operating income**” amounted to 687 million euro (588 million euro at December 31, 2018).

The “**Result from non-recurring transactions**” amounted to 4 million euro and refers entirely to the badwill resulting from the acquisition of the shareholding in Biofor by the LGH Group and subsequently merged into Linea Ambiente. In the previous year, this item amounted to 14 million euro and referred for 6 million euro to the income from the sale of the shareholding held in Rudnik Uglja ad Pljevlja and for 8 million euro to the income from the acquisitions made during the year of the companies of the Rinnovabili Group.

“**Net financial expenses**” amounted to 114 million euro (116 million euro at December 31, 2018), representing a decrease of 2 million euro. This item includes the total costs incurred for the early settlement of the existing bond at the Talesun Group, amounting to 9 million euro.

The “**Affiliates**” was positive for 4 million euro (positive for 4 million euro at December 31, 2018), and is mainly attributable to the positive valuation of the shareholding held by the LGH Group in Asm Codogno.

“**Income taxes**” for the year amounted to 189 million euro (157 million euro at December 31, 2018).

The “**Net result from discontinued operations**” was positive and amounted to 1 million euro and referred to the collection of dividends and the proceeds from discounting to adjust the value to fair value of the shareholding held in EPCG.

In the previous year, the item in question was 21 million euro and included for 16 million euro the collection of dividends by the investee company EPCG and for 5 million euro the discounting proceeds to adjust the value of the shareholding of EPCG at fair value following the renegotiation of the agreement with the Government of Montenegro, and approved by the same on April 27, 2018, which provides for the execution of the put option exercised by A2A S.p.A. on July 3, 2017 in four tranches in the period between May 1, 2018 and July 31, 2019, with an acceleration compared to the terms set by the Shareholders’ Agreement of August 29, 2016 (i.e. 7 tranches from May 1, 2018 to May 1, 2024).

The “**Group result for the year**”, after the minorities were deducted, was positive and amounted to 389 million euro (positive for 344 million euro at December 31, 2018).

## Balance sheet and financial position

It is noted that the consolidation scope at December 31, 2019 changed compared to December 31, 2018 for the following operations:

- acquisition by A2A Rinnovabili S.p.A. (100% owned by A2A S.p.A.) and line-by-line consolidation of Bellariva Enertel 07 S.r.l., a project company that owns a photovoltaic plant;
- acquisition by A2A Energy Solutions S.r.l. (100% owned by A2A S.p.A.) of 100% of Suncity Energy S.r.l. (line-by-line consolidation) and 26% of Suncity Group S.r.l. (consolidated using the equity method), groups active in the field of energy efficiency and dispatching;
- incorporation by A2A S.p.A. and full consolidation of Yada Energia S.r.l., the smart services company of the A2A Group;
- acquisition of 45% and valuation at equity of ASM Energia S.p.A., a commercial company, by A2A Energia S.p.A.;

- acquisition and line-by-line consolidation of 100% of Areslab S.r.l. and 90% of Electrometal S.r.l., companies active in the market for the treatment and analysis of industrial waste, by A2A Ambiente S.p.A.;
- the A2A Group has also exhausted the percentage of its shareholding in the company EPCG, following collection of the 4 sales tranches, in accordance with the agreement reached with the Government of Montenegro.

Net fixed assets

The “**Net fixed assets**” amounted to 6,470 million euro, up 339 million euro compared to December 31, 2018.

Changes are detailed below:

- Tangible assets increased by 249 million euro mainly due to:
  - capex amounting to 380 million euro, essentially in the Networks and District Heating Business Unit for 158 million euro, the Waste Business Unit for 93 million euro and the Generation and Trading Business Unit for 84 million euro. There were also capex of around 20 million euro in the Corporate Business Unit, 9 million euro in the Market Business Unit and 16 million euro in A2A Smart City S.p.A.;
  - net increase of 173 million euro for other changes, due mainly to the increase of 127 million euro following the application of IFRS 16 accounting standard, 109 million euro of which related to first-time application, the increase of 33 million euro in assets related to decommissioning provisions and provisions for landfill closure and post-closure expenses, following an update of estimates appraisals of the discount rates used to estimate future decommissioning and recovery costs, and the increase for other changes of 13 million euro relating to the LGH Group and the ACSM-AGAM Group;
  - net increase of 76 million euro attributable for 127 million euro to the restoration of the value of the Chivasso, Sermide and Mincio plants, partly offset by write-downs of 3 million euro for the Monfalcone plant and 48 million euro for the Grottaglie landfill;
  - first-time consolidation of acquisitions in 2019, accounting for an increase of 4 million euro;
  - decrease of 5 million euro arising from disposals in the year, net of accumulated depreciation;
  - a decrease of 379 million euro for the depreciation charge for the year;
- Intangible assets increased by 77 million euro on December 31, 2018, due to:
  - increase of 247 million euro generated by capex of the year, essentially in the Networks and District Heating Business Unit for 188 million euro, the Corporate Business Unit for 28 million euro, the Market Business Unit for 23 million euro and the Waste and Generation Business Units for a total of 8 million euro;
  - other increases of 24 million euro are mainly the result of an increase of 25 million euro in environmental certificates in the industrial portfolio and a decrease of 1 million euro due to reclassification to other items of the financial statements;
  - first-time consolidation of acquisitions in 2019, accounting for an increase of 18 million euro;
  - decrease of 85 million euro due to write-downs of the A2A Reti Elettriche CGU following the Impairment Test;
  - decrease of 4 million euro arising from disposals in the year, net of accumulated depreciation;
  - decrease of 123 million euro for the depreciation charge for the year;
- Shareholdings and other non-current financial assets amounted to 45 million euro, up 22 million euro compared to December 31, 2018, mainly following the acquisition of ASM Energia S.p.A. and Suncity Group S.r.l.;
- Other non-current assets and liabilities increased by 5 million euro mainly due to the increase in security deposits by A2A S.p.A. to Terna during the year for participation in capacity market auctions;

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- Deferred tax assets amounted to 277 million euro (264 million euro at December 31, 2018) and showed an increase of 13 million euro;
- Provisions for risks, changes and liabilities for landfills showed an increase of 34 million euro. The changes in the year are mainly due to net allocation of 21 million euro mainly due to supra-fees for public water derivation and tax disputes, utilizations of 36 million euro during the year and other changes of 49 million euro due mainly to the effects of updated plant decommissioning appraisals and updated discount rates for assets that have not been fully depreciated, with balancing entry under "Tangible assets";
- Employee benefits decreased by 7 million euro, due mainly to disbursements during the year and payments to pension funds, net of allocations and actuarial valuations.

#### Net Working Capital and Other current assets/liabilities

**Net working capital**, defined as the sum of trade receivables, closing inventories and trade payables, amounted to 555 million euro, unchanged compared to December 31, 2018. Comments on the main items are given below:

- "Inventories" amounted to 184 million euro (187 million euro at December 31, 2018), net of the related obsolescence provision for 18 million euro, up 1 million euro compared to December 31, 2018. The decrease is due mainly to the combined effect of the decrease of 17 million euro in fuel stocks (gas and diesel) and the increase in coal stocks held by third parties for 7 million euro and the increase in material stocks for 6 million euro.
- "Trade receivables" amounted to 1,852 million euro (1,781 million euro at December 31, 2018), with an increase of 71 million euro mainly due to the decrease of the "Bad debt provision" for 55 million euro. The "Bad debts provision" amounted to 108 million euro showed a net decrease of 55 million euro compared to December 31, 2018, essentially due to provisions during the year for 15 million euro and uses for 68 million euro consequent to write-offs of receivables completely written down.
- "Trade payables" amounted to 1,481 million euro, an increase of 68 million euro.
- "Other current assets/liabilities" showed a net decrease of 33 million euro, mainly due to:
  - net increase of 42 million euro in tax receivables;
  - net increase of 2 million euro in payables to CSEA (Energy and Environmental Service Fund);
  - net increase of 20 million euro in tax payables for VAT, excise duties and other taxes;
  - net increase in derivative liabilities for 16 million euro;
  - increase in advances to suppliers for 4 million euro;
  - decrease in payables for Optimal Territorial Areas (A.T.O.) for 4 million euro;
  - decrease in payables deriving from the acquisition of companies in the photovoltaic sector for 7 million euro;
  - decrease in payables for compensation of excise duties and tariff components for 8 million euro;
  - other negative changes in current liabilities for 6 million euro.

**"Non-current assets held for sale"** had a zero balance at December 31, 2019. At the end of the previous year, the item in question amounted to 109 million euro and referred to the fair value of the shareholding in EPCG, held 18.70% by A2A S.p.A., which was reclassified as a discontinued operation in compliance with the provisions of IFRS 5, following the decision of July 3, 2017 of the management to exercise the sale put option on the entire shareholding package. The decrease compared to December 31, 2018 is due to collections during the current year.

The consolidated **"Employed capital"** at December 31, 2019 amounted to 6,805 million euro and was financed by Equity for 3,651 million euro and the Net Financial Position for 3,154 million euro.



Shareholders' equity

“Equity” amounted to 3,651 million euro and showed a positive change for a total of 128 million euro.

The following contributed to the change:

- the result of the year for 393 million euro (389 million euro pertaining to the Group and 4 million euro to minorities);
- reserves arising from the valuation of cash flow hedges and IAS 19 reserves, which showed a negative change of 28 million euro.

This performance was partially offset by the distribution of dividends for 218 million euro.

The “Net financial position” amounted to 3,154 million euro (3,022 million euro at December 31, 2018). The cash flow generated in the year was negative and amounted to 76 million euro, after the payment of dividends for 218 million euro and capex in the year for 627 million euro.

The changes in the scope of consolidation led to an improvement in the net financial position of 53 million euro due to the collection of the last instalments related to the EPCG put option for 109 million euro, partly offset by the acquisition transactions of the period for 56 million euro. The first-time application of IFRS 16 also resulted in a worsening of the net financial position totaling 109 million euro.

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<i>millions of euro</i>	<b>12 31 2019</b>	<b>12 31 2018</b>	<b>Change</b>
<b>EMPLOYED CAPITAL</b>			
<b>Net fixed assets</b>	<b>6,470</b>	<b>6,131</b>	<b>339</b>
- Tangible assets	4,869	4,620	249
- Intangible assets	2,379	2,302	77
- Shareholdings and other non-current financial assets (*)	45	23	22
- Other non-current assets/liabilities (*)	(117)	(122)	5
- Deferred tax assets/liabilities	277	264	13
- Provisions for risks, charges and liabilities for landfills	(676)	(642)	(34)
- Employee benefits	(307)	(314)	7
<i>of which with counter-entry to equity</i>	<i>(114)</i>	<i>(101)</i>	
<b>Net Working Capital and Other current assets/liabilities</b>	<b>335</b>	<b>302</b>	<b>33</b>
<b>Net Working Capital:</b>	<b>555</b>	<b>555</b>	<b>-</b>
- Inventories	184	187	(3)
- Trade receivables	1,852	1,781	71
- Trade payables	(1,481)	(1,413)	(68)
<b>Other current assets/liabilities:</b>	<b>(220)</b>	<b>(253)</b>	<b>33</b>
- Other current assets/liabilities (*)	(277)	(268)	(9)
- Current tax assets/tax liabilities	57	15	42
<i>of which with counter-entry to equity</i>	<i>(21)</i>	<i>(25)</i>	
<b>Non current assets held for sale (*)</b>	<b>-</b>	<b>112</b>	<b>(112)</b>
<i>of which with counter-entry to equity</i>	<i>-</i>	<i>109</i>	
<b>TOTAL EMPLOYED CAPITAL</b>	<b>6,805</b>	<b>6,545</b>	<b>260</b>
<b>SOURCES OF FUNDS</b>			
<b>Equity</b>	<b>3,651</b>	<b>3,523</b>	<b>128</b>
Total financial position beyond one year	3,294	2,968	326
Total financial position within one year	(140)	54	(194)
<b>Total Net Financial Position</b>	<b>3,154</b>	<b>3,022</b>	<b>132</b>
<i>of which with counter-entry to equity</i>	<i>24</i>	<i>19</i>	
<b>TOTAL SOURCES</b>	<b>6,805</b>	<b>6,545</b>	<b>260</b>

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

<i>millions of euro</i>	<b>01 01 2019 12 31 2019</b>	<b>01 01 2018 12 31 2018</b>
<b>NET FINANCIAL POSITION AT THE BEGINNING OF THE YEAR</b>	<b>(3,022)</b>	<b>(3,226)</b>
First-time consolidation effect	-	(142)
First-time application of IFRS 16	(109)	-
New contracts IFRS 16	(21)	-
Net result (**)	393	348
Depreciation/amortization	502	463
Write-downs/disposals of tangible and intangible assets	18	167
Affiliates	(4)	(4)
Net interest of the year	114	116
Net interest paid	(100)	(114)
Net taxes paid	(235)	(102)
Changes in assets and liabilities (*)	244	149
<b>Cash flow from operating activities</b>	<b>932</b>	<b>1,023</b>
Investments in tangible and intangible assets	(627)	(500)
Investments in shareholdings and securities	(56)	(25)
Disposals of fixed assets and shareholdings	-	13
Dividends received from shareholdings	-	2
<b>Net cash flows from investment activities</b>	<b>(683)</b>	<b>(510)</b>
<b>Free cash flow</b>	<b>249</b>	<b>513</b>
Dividends paid by the parent company	(218)	(180)
Dividends paid by the subsidiaries	(14)	(5)
Other non-monetary changes	(14)	3
<b>Cash flow from dividend distribution and other changes</b>	<b>(246)</b>	<b>(182)</b>
Changes in financial assets/liabilities with counter-entry to equity	(5)	15
<b>NET FINANCIAL POSITION AT THE END OF THE YEAR</b>	<b>(3,154)</b>	<b>(3,022)</b>

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

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

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## Significant events during the year

### A2A Group: 2018 preliminary consolidated results presented

On February 26, 2019, A2A S.p.A.'s Board of Directors met and examined the preliminary consolidated results for 2018.

Gross Operating Margin equalled 1.23 billion euro, an increase of 3% over the previous year. Before net non-recurring income of approximately 40 million euro in 2018 (+64 million euro in 2017), the Gross Operating Margin amounts to roughly 1.19 billion euro (1.14 billion euro in 2017), up 5%.

Capex amounts to 500 million euro, a 11% increase on the previous year. The growth is mainly due to the higher capex of the Networks and District Heating Business Unit (+14%) and the consolidation of the ACSM-AGAM Group capex in the second half of the year.

The Net financial position amounted to 3.02 billion euro (3.23 billion euro at December 31, 2017). Net cash flows of over 200 million euro were generated in the year.

### A2A Group: 2018 results approved

On April 3, 2019, the Board of Directors of A2A S.p.A. approved the drafts of the financial statements and of the consolidated annual financial report at December 31, 2018.

Gross operating profit and net income increased to 1,231 million euro (+3%) and 344 million euro (+17%) respectively.

In 2018, cash generation was 204 million euro with a Net Financial Position/Ebitda ratio down to 2.45x.

In addition, capex totaled 500 million euro during the year.

The Board of Directors proposed to the Shareholders' Meeting a dividend of 0.07 euro per share up 21% compared to the previous year.

### The Board of Directors of A2A S.p.A. has examined and approved the A2A Group's 2019-2023 Strategic Plan

The Board of Directors of A2A S.p.A. informed that the objectives of the first year of the 2018 - 2022 Strategic Plan "TEC", based on circular economy, energy transition and smart solutions, have been achieved.

The 2019-2023 Strategic Plan is an evolution of the 2018-2022 Plan approved in 2018 and confirms the three strategic guidelines:

- T: Transformation. Strengthening and evolution of our industrial model, leveraging the strengths of the A2A business lines.
- E: Excellence. Agile organization, operational excellence and efficiency in processes, reducing risk and enhancing business proximity.
- C: Community. Attraction and enhancement of our people, development of innovation by leveraging on the external ecosystem.

The three strategic guidelines are supported by the Sustainability framework, the guiding principle for the evolution and development of the A2A Group.

The main economic and financial objectives of the Group at 2023 are set out below:

- Ebitda at 1.5 billion euro and Net Profit at 0.46 billion euro;
- net Financial Position/Ebitda ratio down to 2.2x;
- Capex plan of about 4 billion euro, an increase of 22% compared to the previous plan;
- expected dividends rising to 7.75 cents per share in 2019 and 8 cents per share in 2020, with annual growth of 5% for the following years.

The 2019-2023 Sustainability Plan was also approved, with 670 million capex in the Circular Economy.

A2A S.p.A.: Governance

On May 7, 2019, the independent Director Alessandra Perrazzelli resigned from the positions of Director and Deputy Chair following further work assignments. Lawyer Perrazzelli consequently also resigned from the office of Chair of the Remuneration and Appointments Committee.

On May 15, 2019, the Board of Directors appointed Stefania Bariatti as non-executive Director and Deputy Chair of the Company to replace Alessandra Perrazzelli. At the same meeting, the following new composition for the Remuneration and Appointments Committee was also approved: Dina Ravera - Chair, Stefania Bariatti and Norberto Rosini.

Finally, it was resolved that the Internal Audit function should report functionally to the Board Director Enrico Corali, who will be paid, pro-rata, the supplementary compensation already approved for said appointment for a total of 40,000 euro.

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

On May 13, 2019, the ordinary Shareholders’ Meeting of A2A S.p.A. approved the 2018 financial statements.

The Board of Directors’ proposal to distribute a dividend per ordinary share of 0.07 euro was also approved.

The A2A S.p.A. Board of Directors has examined and approved the quarterly Information at March 31, 2019

On May 15, 2019, the A2A S.p.A. Board of Directors approved the quarterly Information at March 31, 2019

EBITDA totaled 328 million euro, while Group interest in net profit totaled 104 million euro: both results were down compared with the first quarter of 2018 due to the absence of the contribution of green certificates and abnormal weather conditions.

During the period, Capex totalled 109 million euro, up 43% compared to the first quarter of 2018 Cash generation, after capex, was positive for 24 million euro.

On a like-for-like basis, the Net Financial Position decreased to 2,998 million euro; also considering the effects of the application of IFRS 16, net debt amounted to 3,110 million euro.

Linea Ambiente S.r.l. - Grottaglie Landfill

On January 28, 2019, Linea Ambiente S.r.l., a wholly-owned subsidiary of Linea Group Holding S.p.A. controlled by A2A S.p.A., was notified of TAR Lecce Ruling no. 143/2019, which upheld the appeal filed by the municipalities of Grottaglie, San Marzano di San Giuseppe and Carosino for the annulment of the AIA decree issued by the Province of Taranto, on the basis of which the transfers to the Grottaglie landfill site were suspended. More detailed information about this issue and further developments that occurred in 2019 is provided in the section of the Consolidated Financial Statements entitled “Other Information - 9) Update of the main legal and tax disputes still pending” in the Consolidated Financial Report.

Reorganization of the urban hygiene service in the Municipality of Varese to modify the concession already granted to the former company Aspem S.p.A. (now Acsm Agam Ambiente S.r.l.)

Information about the progress made in reorganizing the urban hygiene service in the Municipality of Varese is provided in the section “Other Information - 9) Update of the main legal and tax disputes still pending” of the Consolidated Financial Report.

A2A successfully places Green Bond of 400 million euro, requests eight times the offer

On July 8, 2019, A2A successfully placed the first green bond, under the Green Financing Framework, exclusively for institutional investors under the Euro Medium Term Notes programme.

The issue, equal to 400 million euro with a 10-year maturity, has aroused significant interest from investors throughout Europe, receiving orders for 3.2 billion euro. The bonds have an annual coupon of 1.00% and were placed with a gross yield on maturity of 1.139%.

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The net income from emissions will finance and/or refinance environmental sustainability projects related to the circular economy, decarbonization and smartness in networks and services: capex in water and waste treatment, renewable energy development, energy efficiency, sustainable transport and network modernization.

### The A2A Group has built a plant in the Bollate prison for the treatment of electrical waste

On July 8, 2019, the plant built at the Milan Bollate prison for the treatment of electronic waste was presented. The construction of the plant, which began in April 2018, aims to promote the social and occupational inclusion of people in difficulty.

The plant occupies an area of about 3,000 square meters and has the authorization to treat 3,000 tons per year of electronic waste, and is also equipped with a photovoltaic system for the self-production of green energy. Thanks to the dismantling activities carried out by the workers employed, it is possible to recover ferrous and non-ferrous metals (copper, brass, bronze, tin), types of plastic polymers, rubber, as well as computer components such as electronic boards, hard disks, processors and power supplies. Waste treatment is carried out on two dismantling lines, the first dedicated to TVs, monitors and large household appliances such as washing machines and dishwashers (WEEE types R2 and R3), the other for small household appliances (type R4) such as mobile phones, personal computers and peripherals, audio and video equipment, tools and electric toys.

### Renewal for the period 2020-2023 of the Shareholders' Agreements in place between the Municipality of Milan and the Municipality of Brescia in relation to A2A S.p.A. shares.

On August 2, 2019, the agreement relating to the ownership and corporate governance structure of A2A S.p.A., signed on February 1, 2017, was renewed for the period 2020-2023.

The agreement relates to 1,315,820,218 ordinary shares of the company, representing 42% of the share capital.

### The Board of Directors of A2A S.p.A. has examined and approved the Half-year Financial Report at June 30, 2019

On August 2, 2019, the A2A S.p.A. Board of Directors approved the Half-year Financial Report at June 30, 2019.

EBITDA totaled 582 million euro, while Group interest in net profit totaled 166 million euro: both results were down compared with the first half of 2018 due to the absence of the contribution of green certificates and other incentives.

During the period, Capex totalled 252 million euro, up 35% compared to the first half of 2018. Cash generation, after capex and dividend payments, was negative for 19 million euro.

On a like-for-like basis, the Net Financial Position stood at 3,041 million euro; considering the effects of the application of IFRS 16, net debt amounted to 3,116 million euro.

### Starting from 2020, Unareti S.p.A. will replace 1.3 million meters with the latest generation of 2G Smart Metering devices

On October 2, 2019 Unareti S.p.A., a company of the A2A Group, presented its plan for the commissioning of the new smart electricity meters to the Regulatory Authority for Energy, Networks and the Environment.

The plan will start in 2020 and will lead to the replacement of 1.3 million meters with new 2G Smart Metering meters that will allow monitoring their daily consumption, collecting data every 15 minutes. The plan will be completed in 2025 and the planned capex for Milan and Brescia is 272.5 million euro.



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

On October 8, 2019, an agreement was signed whereby Italgas Reti (an Italgas Group company) undertakes to sell to A2A Calore & Servizi S.r.l. (an A2A Group company) all the district heating activities currently managed in the municipality of Cologno Monzese (Milan); at the same time, Unareti S.p.A., (an A2A Group company), undertakes to sell to Italgas Reti the natural gas distribution activities managed in seven municipalities belonging to ATEM Alessandria 4.

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

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

The agreement was finalized in January 2020.

A2A S.p.A. and Ambiente Energia S.p.A. sign letter of intent

On October 17, 2019, Ambiente Energia Brianza S.p.A. (AEB) and A2A S.p.A. approved the launch of a feasibility study that identifies a growth path capable of making the AEB Group, thanks to the support of A2A, a more competitive entity capable of enhancing its operational excellence and increasing its territorial presence.

The study, initially lasting 45 days and subsequently extended until December 31, 2019, will aim to define the possible structure and strategic guidelines of the Partnership, to identify industrial and operational objectives and the main benefits for shareholders and the territory.

Please refer to the “Significant events after December 31, 2019” section of this report for further information and developments on the partnership between the two industrial entities.

The A2A S.p.A. Board of Directors has examined and approved the quarterly Information at September 30, 2019

On November 13, 2019, the A2A S.p.A. Board of Directors approved the quarterly Information at September 30, 2019.

EBITDA totaled 886 million euro (875 million euro at September 30, 2018) and Group net profit was 250 million euro (335 million euro at September 30, 2018).

During the period, capex totalled 394 million euro, up 30% compared to the first nine months of 2018. Cash generation, after capex and dividend payments, was negative for 73 million euro.

On a like-for-like basis, the Net Financial Position stood at 3,095 million euro; also considering the effects of the application of IFRS 16, net debt amounted to 3,129 million euro.

A2A S.p.A. Financial Calendar

On November 21, 2019, the A2A S.p.A. 2020 financial calendar was published:

- February 25, 2020: Board of Directors on preliminary consolidated results of 2019;
- March 19, 2020: Board of Directors for approval of the draft financial statements and the 2019 consolidated financial statements;
- May 12, 2020: Board of Directors for approval of financial reporting at March 31, 2020;
- May 13, 2020 (second call, if applicable, May 14, 2020): Ordinary Shareholders’ Meeting for approval of the 2019 financial statements;
- July 30, 2020: Board of Directors for approval of the Half-Year Financial Report at June 30, 2020;
- November 12, 2020: Board of Directors for approval of financial reporting at September 30, 2020.

Any dividend for 2019 may be paid from May 20, 2020, with ex-dividend date May 18, 2020 (record date May 19, 2020).

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## A2A Group has signed an agreement to acquire 1000MW of photovoltaic projects

The A2A Group continues on its green path and reaffirms its desire for growth in the sector of energy produced from renewable sources and its role as an active operator in energy transition. Through the subsidiary A2A Rinnovabili S.p.A. an agreement was signed on December 3, 2019 with the Talesun Group that provides for the acquisition of a pipeline for the development of photovoltaic projects with a total capacity of around 1 GW. The agreement provides for the construction of plants without incentives and allows A2A to accelerate the decarbonization and renewal of generation capacity. The transaction will allow the Group to position itself among the leading operators in the sector in Italy.

## A2A awarded 5GW in the second capacity market auction

On December 4, 2019 it was announced that A2A was awarded the entire capacity offered, equal to 5GW, in the second auction, on November 28, 2019, of the capacity market called by Terna for the 2023 delivery year.

The tender price was 33,000 euro/MW for existing capacity and 75,000 euro/MW for 15 years of capacity to be realized.

The result is in line with as achieved by the A2A Group at the auction on November 6, 2019, with delivery 2022.

## The A2A Group consolidates its leadership in the circular economy

On December 23, 2019, the A2A Group, through its subsidiary A2A Ambiente, completed the acquisition of 90% of Electrometal S.r.l., a company specializing in the treatment and recovery of industrial waste, and Areslab S.r.l., a chemical analysis laboratory. The two realities are located in Castegnato in the province of Brescia.

The operation is in line with the objectives of the business plan, which provide for significant capex in treatment plants and in particular, to ensure the closing of the environmental cycle.

The acquisition will allow the Group to expand its plant portfolio, to guarantee strong synergies between its facilities and to consolidate its leadership in the environmental field, in particular by increasing the capacity to treat waste generated by industrial production and ensuring an important contribution in the most deficit sectors at national level.

# Significant events after December 31, 2019

## A2A S.p.A. and Ambiente Energia Brianza S.p.A. lay the foundations for an industrial partnership

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

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

According to this project, the business unit subject to demerger will be made up of a number of gas distribution assets in the provinces of Milan and Bergamo and the entire shareholding in the company dedicated to public lighting: AEB would thus benefit from 79,000 gas redelivery points and would become the Group's development hub in the public lighting segment, with more than 250,000 lights.

The project also envisages that, upon completion of the business combination process, A2A will enter the capital of AEB with 33.5%, becoming an industrial partner of the Company, with adequate governance prerogatives to allow consolidation. The partnership project will now be submitted for approval to the City Councils, the AEB Shareholders' Meeting and the A2A Board of Directors. Before it becomes enforceable, due diligence activities must also be completed and antitrust clearance must be obtained.

The parties have agreed the goal of completing the business combination project with effect from July 1, 2020.

The new post-combination AEB, thanks to A2A's contributions, will be able to count on an EBITDA of more than 50 million euro, attaining a significant size in the national panorama with the option to engage, from the outset, in commercial, industrial and operational synergies in all sectors.

## A2A S.p.A. acquires 4.16% of Ascopiave S.p.A.

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

The operation is part of the A2A Group's wider strategy of presence in Veneto and dialogue with the territory.

## The Board of Directors of A2A S.p.A. presents the preliminary consolidated figures for 2019

On February 25, 2020, the Board of Directors of A2A S.p.A. presented the preliminary consolidated figures for 2019.

EBITDA amounted to 1.23 billion euro, in line with 2018, despite the absence of the contribution of green certificates and other incentives for about 100 million euro.

Significant increase in capex, which amounted to 627 million euro, a 25% increase on the previous year and mainly concerned projects to promote decarbonization plan and renew power generation capacity, in addition to improving the efficiency of the distribution networks and expanding waste treatment capacity in order to close the environmental cycle.

The Net financial position amounted to 3.15 billion euro (3.02 billion euro at December 31, 2018). The strong operating cash flow generated in the year was used to finance the significant capex, leading to cash outflows, before the change in the consolidation scope and the effects of the first-time application of IFRS 16, of over 70 million euro.

The NFP/EBITDA ratio is 2.6x (2.5x in 2018).

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## LGH acquires the biomass plant Agritre

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

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

## Health Emergency COVID-19 Virus (Coronavirus)

With regards to the emergency status currently impacting Italy as a result of the spread of the COVID-19 virus and consequent measures adopted by the competent government bodies, the A2A Group, which is constantly monitoring the evolution of the situation, has implemented measures currently necessary, to guarantee business continuity and operation, as well as protecting its employees, customers and suppliers and all those otherwise called to interact with the various Group companies.

At the moment, the Group cannot exclude the possibility of a downturn to the volume of certain commercial and industrial businesses, whose impact on total results is expected to be limited, if the health emergency will not go beyond the end of the year, also thanks to the extensive diversification of the businesses, including regulated activities some of which are relevant. The impacts of the energy scenario may be more significant if the current weakness should continue or worsen, also due to the macroeconomic effects deriving from the continuation and global spread of the health emergency.

On the basis of the current situation and the sensitivity analysis carried out to understand potential impact related to the COVID-19 epidemic, A2A identified first steps to reduce the impact of potential adverse effects on financial/economic results of the current year.

A2A will monitor the evolution of the scenario, promptly taking any action necessary to limit impacts as far as possible.

The hypothesis as to the possible deferral of bill payment, which at the moment seems to be rather remote, must be considered with reference to the procedures and types of customers involved; in any case, it will be managed in the same way as other market participants.

# Outlook for operations

The significant uncertainties related to the COVID-19 health emergency, both in terms of the duration of the emergency and its impact at macroeconomic level, make it very complex to make a non-random forecast of the expected results for the current year. The Group is characterized by significant diversification of its activities, some of which are regulated and therefore potentially not subject to volatility, others based on concessions and therefore subject to very low volatility. On the other hand, the macroeconomic impacts related to the worsening of the already weak energy scenario in the early months of the year, could have further repercussions on the currently unforeseeable energy scenario. The Group closely monitors the evolution of the situation by updating the sensitivity analyses on the effects of the epidemic, and has identified the first measures to contain possible negative economic/financial effects during the current year.

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## Proposal for the allocation of net profit for the year ended December 31, 2019 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2019 show a net profit of 450,622,909.00 euro.

If you are in agreement with the criteria used to prepare the financial statements, with the accounting principles and methods used in those statements and with the measurement criteria adopted, we invite you to approve:

the allocation of the net profit for the year of 450,622,909.00 euro as follows:

- 22,531,145.00 euro to the legal reserve;
- 240,961,749.00 euro as an ordinary dividend payable to shareholders to ensure a remuneration of 0.0775 euro for each outstanding ordinary share;
- 187,130,015.00 euro to the extraordinary reserve.

By way of information, we bring to your attention that the number of shares currently outstanding is equal to 3,109,183,856 shares, taking account of the 23,721,421 treasury shares in the portfolio.

The Board of Directors resolved to meet on March 30, 2020 in order to decide the date of the Shareholders' Meeting which should be no later than June 11, 2020, with an ex-dividend date no later than June 15, 2020, unless new exceptional and extraordinary circumstances have arisen.

The Board of Directors





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# Summary of results sector by sector

millions of euro	GENERATION AND TRADING		MARKET		WASTE	
	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018
Revenues	4,399	3,854	2,724	2,230	1,047	1,022
- of which inter-sector	1,343	1,036	159	280	144	119
Labour costs	88	88	55	46	310	304
Gross operating income - EBITDA	301	370	229	206	271	268
% of revenues	6.8%	9.6%	8.4%	9.2%	25.9%	26.2%
Depreciation, amortization, provisions and write-downs	(36)	(293)	(60)	(37)	(159)	(87)
Net operating income - EBIT	265	77	169	169	112	181
% of revenues	6.0%	2.0%	6.2%	7.6%	10.7%	17.7%
Result from non-recurring transactions						
Financial balance						
Result before taxes						
Income taxes						
Result after taxes from operating activities						
Net result from discontinued operations						
Minorities						
Group result of the year						
Gross investments (1)	88	57	32	21	97	105

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

NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		INCOME STATEMENT	
01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018	01 01 2019 12 31 2019	01 01 2018 12 31 2018
1,096	1,110	63	53	244	220	3	8	(2,252)	(2,003)	7,324	6,494
340	329	36	31	230	208	-	-	(2,252)	(2,003)		
100	102	9	9	136	115	2	1			700	665
461	410	11	11	(36)	(34)	(3)	-			1,234	1,231
42.1%	36.9%	17.5%	20.8%	(14.8%)	(15.5%)	n.s.	n.s.			16.8%	19.0%
(254)	(200)	(7)	(5)	(30)	(21)	(1)	-			(547)	(643)
207	210	4	6	(66)	(55)	(4)	-			687	588
18.9%	18.9%	6.3%	11.3%	(27.0%)	(25.0%)	n.s.	n.s.			9.4%	9.1%
										4	14
										(110)	(112)
										581	490
										(189)	(157)
										392	333
										1	21
										(4)	(10)
										389	344
352	275	16	11	48	31	-	-	(6)	-	627	500

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	GENERATION AND TRADING		MARKET		WASTE	
	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018
Tangible assets	2,091	1,976	52	36	727	703
Intangible assets	79	81	207	244	55	42
Trade receivables and current financial assets	706	778	815	772	361	333
Trade payables and current financial liabilities	838	851	511	438	306	311

NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		TOTAL GROUP	
12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018	12 31 2019	12 31 2018
1,834	1,761	72	39	207	184	-	-	(114)	(79)	4,869	4,620
1,935	1,903	3	3	151	135	-	-	(51)	(106)	2,379	2,302
386	381	47	27	217	168	2	5	(672)	(667)	1,862	1,797
392	369	30	21	383	782	2	3	(677)	(668)	1,785	2,107

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## Results sector by sector

The A2A Group operates in the following “Business Units”:

### Generation and Trading Business Unit

The activity of the Generation and Trading Business Unit is related to the management of the generation plants portfolio<sup>(1)</sup> of the Group with the dual purpose of maximizing the availability and efficiency of the plants, minimizing operating and maintenance costs (O&M) and maximizing the profit deriving from the management of the energy portfolio through the purchase and sale of electricity and fuels (gaseous and non-gaseous) and environmental certificated on domestic and international wholesale markets. This Business Unit also includes the activity of trading on domestic and foreign markets of all energy commodities (gas, electricity, environmental certificates).

### Market Business Unit

The activities of the Market Business Unit are aimed at the retail sale of electricity and natural gas to customers in the free market and sale to customers served under protection scheme, the management of public lighting, traffic regulation systems, votive lamps. Furthermore, it deals with providing energy efficiency and electric mobility services.

### Waste Business Unit

The activities of the Waste Business Unit relates to the management of the integrated waste cycle, which ranges from collection and street sweeping to the treatment, disposal and recovery of materials and energy.

In particular, collection and street sweeping mainly refers to street cleaning and the collection of waste for transportation to its destination.

Instead, waste treatment is an activity that is carried out in dedicated centers to convert waste in order to make it suitable for the recovery of materials.

Lastly, disposal of urban and special waste in combustion plants or landfills ensures the possible recovery of energy through waste-to-energy or the use of biogas.

### Networks and District Heating Business Unit

The activities of the Networks and District Heating Business Unit mainly consists of the technical and operational management of networks for the distribution of electricity, the transport and distribution of natural gas and the management of the entire integrated water cycle (water captation, aqueduct management, water distribution, sewerage network management, purification). It is also aimed at the sale of heat and electricity produced by cogeneration plants (mostly owned by the Group), through district heating networks and ensures the operation and maintenance of cogeneration plants and district heating networks. Also included are the activities related to the management services for heating plants owned by third parties (heat management services).

### International Business Unit

The International Business Unit includes the provision of know-how and technologies for the realization of waste pre-treatment plants.

### A2A Smart City

The company is the reference operator within the A2A Group for the provision of telecommunications services. In particular, it provides services related to the management of fixed and mobile telephony and data transmission lines as well as services related to the management and development of infrastructure in support of communication. A2A Smart City is also a major provider in the realization and management of video surveillance and access control systems.

<sup>1</sup> Total installed capacity of 8.9 GW.



Corporate

Corporate services include the activities of guidance, strategic direction, coordination and control of industrial operations, as well as services to support the business and operating activities (ex. administrative and accounting services, legal services, procurement, personnel management, information technology, communications etc.) whose costs, net of amounts recovered from accrual to individual Business Units based on services rendered, remain the responsibility of the Corporate.

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# Generation and Trading Business Unit

The following is a summary of the main quantitative and economic data relating to the Generation and Trading Business Unit.

## Quantitative data - Electricity sector

Gwh	12 31 2019	12 31 2018	CHANGE	% 2019/2018
<b>SOURCES</b>				
Net production	18,095	17,551	544	3.1%
- thermoelectric production	13,353	12,948	405	3.1%
- hydroelectric production	4,619	4,539	80	1.8%
- photovoltaic production	123	64	59	92.2%
Purchases	33,284	33,758	(474)	(1.4%)
- stock exchange	15,854	12,364	3,490	28.2%
- wholesalers	3,913	3,089	824	26.7%
- Trading/Service portfolio	13,517	18,305	(4,788)	(26.2%)
TOTAL SOURCES	51,379	51,309	70	0.1%
<b>USES</b>				
Sales to Group Retailers	11,979	8,960	3,019	33.7%
Sales to other wholesalers	11,474	11,622	(148)	(1.3%)
Sales on the stock exchange	14,409	12,422	1,987	16.0%
Trading/Service portfolio	13,517	18,305	(4,788)	(26.2%)
TOTAL USES	51,379	51,309	70	0.1%

The sales figures are stated gross of any losses.

The Group's electricity output during the current year amounted to 18,095 GWh, to which should be added purchases of 33,284 GWh for a total availability of 51,379 GWh.

Thermoelectric production in 2019 amounted to 13,353 GWh (12,948 GWh at December 31, 2018): the higher output of combined-cycle power plants more than offset the decrease in production at the Monfalcone plant, which was penalized by an insufficiently profitable price scenario. In addition, hydroelectric production (+80 GWh) was up, thanks to higher production from the Calabria reservoirs, and production from photovoltaic sources (+59 GWh), following the acquisitions of companies operating in the sector at the end of last year, which led the Group to hold about 100 megawatts of installed solar capacity.

Purchases of electricity amounted to 33,284 GWh (33,758 GWh at December 31, 2018): more purchases on the stock exchange and wholesale markets were more than offset by lower volumes traded as part of trading/service activities.

Sales to the Market Business Unit increased in the period under review (+33.7%) and sales on IPEX increased (+16%). Wholesale sales were down slightly (-1.3%), while the quantities intermediated in service/trading activities decreased by 26.2%.

Overall in the period in question, electricity sales of the Generation and Trading Business Unit reached a total of 51,379 GWh (51,309 GWh at December 31, 2018).

## Quantitative data - Gas sector

<i>millions of cubic metres</i>	<b>12 31 2019</b>	<b>12 31 2018</b>	<b>CHANGE</b>	<b>% 2019/2018</b>
<b>SOURCES</b>				
Procurement	6,301	5,092	1,209	23.7%
Withdrawals from stock	(39)	30	(69)	n.s.
Internal consumption/GNC	(16)	(15)	(1)	6.7%
Trading/Service portfolio	8,905	5,267	3,638	69.1%
<b>TOTAL SOURCES</b>	<b>15,151</b>	<b>10,374</b>	<b>4,777</b>	<b>46.0%</b>
<b>USES</b>				
Market Business Unit uses	2,033	1,585	448	28.3%
Thermoelectric uses	2,357	2,098	259	12.3%
District Heating and Waste Business Unit uses	79	101	(22)	(21.8%)
Wholesalers	1,777	1,323	454	34.3%
Trading/Service portfolio	8,905	5,267	3,638	69.1%
<b>TOTAL USES</b>	<b>15,151</b>	<b>10,374</b>	<b>4,777</b>	<b>46.0%</b>

Quantities are shown in terms of standard cubic metres with an equivalent Gross Calorific Value (GCV) of 38100 MJ on redelivery.

The volume of gas sold in the year in question amounted to 15,151 million cubic meters, an increase of 46% over 2018 (10,374 million cubic meters).

In particular, there was an increase in the volume of gas sold to wholesalers (+454 million cubic meters), the quantities sold to the Market Business Unit (+448 million cubic meters) and the quantities traded in the Trading/Service Portfolio (+3,638 million cubic meters). Gas for thermoelectric uses increased by +12.3% due to higher consumption by combined-cycle facilities in the current year, while the quantities sold to the other Business Units of the Group decreased (-22 million cubic meters).

## Economic data

<i>millions of euro</i>	<b>01 01 2019 12 31 2019</b>	<b>01 01 2018 12 31 2018</b>	<b>CHANGE</b>	<b>% 2019/2018</b>
Revenues	4,399	3,854	545	14.1%
Gross Operating Margin - EBITDA	301	370	(69)	(18.6%)
% of Revenues	6.8%	9.6%		
Depreciation, amortizations, provisions and write-downs	(36)	(293)	257	(87.7%)
Net Operating Income - EBIT	265	77	188	n.s.
% of Revenues	6.0%	2.0%		
Investments	88	57	31	54.4%
FTE	1,092	1,103	(11)	(1.0%)
Labour costs	88	88	-	0.0%

Revenues amounted to 4,399 million euro, up 545 million euro compared to 2018. The increase was mainly due to higher volumes sold on wholesale markets, particularly gas, partly offset by lower revenues from environmental markets.

EBITDA of the Generation and Trading Business Unit amounted to 301 million euro, a decrease of 69 million euro compared to the previous year. Before non-recurring items (equal to +14 million euro in 2019 and +11 million euro in 2018), Ordinary EBITDA dropped by 72 million euro.

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This year was very much penalised by the loss of the contribution, which had been significant during the previous year (approximately 100 million euro) made by green certificates and other incentives (feed-in tariff for the Mese plant).

The ensuing reduction in margins, amplified by the lesser margins recorded on the ancillary services market ("MSD") and by conventional thermoelectric plants was significantly limited by the Generation and Trading Business Unit, thanks to the positive results achieved by the combined cycle thermoelectric plants, the greater hydroelectric production and the greater contribution made by the photovoltaic sector.

Depreciation, amortization, provisions and write-downs totalled 36 million euro (293 million euro at December 31, 2018). The decrease is mainly attributable to the reversal in value, in the current year, of 127 million euro relating to the 400 MW groups of Mincio, Chivasso and Sermide, against the write-down, in the previous year, of the assets of the Monfalcone power plant for a value of 116 million euro. The groups affected by the reversal had been written down in full in previous years following their conservation; in the current year, they were subject to reversal in view of their regular operation, of the changed (increasing) utilization prospects also related to the expected phase out from coal, scenario and remuneration provided by the capacity market mechanism, already assigned for the years 2022, 2023 and expected for the following years.

As a result of the above changes, net operating income amounted to 265 million euro (77 million euro at December 31, 2018).

Capex were 88 million euro in 2019, mainly related to extraordinary maintenance works carried out on the CCGT plants (approximately 48 million euro) and on the hydroelectric units of Valtellina, Mese, Udine and Calabria (approximately 14 million euro). Development works were also carried out for a total of 19 million euro, related to Brindisi plant (start of installation works on the synchronous compensators) and the other thermoelectric plants (capex to increase flexibility). Finally, in 2019 activities were carried out to comply with standards for approximately 4 million euro, of which 2 million euro relative to the combined cycle thermoelectric plant of Chivasso.

In the year under review, FTEs amounted to 1,092 units (1,103 FTEs in the previous year).

# Market Business Unit

The following is a summary of the main quantitative and economic data relating to the Market Business Unit.

## Quantitative data

	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Electricity Sales				
Electricity Sales Free Market (GWh)	11,994	9,192	2,803	30.5%
Electricity Sales under Greater Protection Scheme (GWh)	1,435	1,634	(199)	(12.2%)
Electricity Sales Safeguard Market (GWh)	227	-	227	n.s.
Total Electricity Sales (GWh)	13,656	10,826	2,831	26.1%
	12 31 2019	12 31 2018	CHANGE	% 2019/2018
POD Electricity				
POD Electricity Free Market (#/1000)	685	569	116	20.4%
POD Electricity under Greater Protection Scheme (#/1000)	489	566	(77)	(13.6%)
Total POD Electricity (#/1000)	1,174	1,135	39	3.4%
	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Gas Sales				
Gas Sales Free Market (Mcm)	1,875	1,338	537	40.1%
Gas Sales under Greater Protection Scheme (Mcm)	579	587	(8)	(1.4%)
Total Gas Sales (Mcm)	2,454	1,925	529	27.5%
	12 31 2019	12 31 2018	CHANGE	% 2019/2018
PDR Gas				
PDR Gas Free Market (#/1000)	744	633	111	17.5%
PDR Gas under Greater Protection Scheme (#/1000)	744	878	(134)	(15.3%)
Total PDR Gas (#/1000)	1,488	1,511	(23)	(1.5%)

The quantities are stated gross of losses.  
The data related to the POD and PDR does not include the numbers relating to large customers.

The Market Business Unit sold 13,656 GWh of electricity in the year under review, up 26.1% on the previous year. The increase is mainly attributable to the greater quantities sold to large customers in the free market, partially offset by lower sales to customers served under the protection regime.

Sales of natural gas totalled 2,454 million cubic meters, or 27.5% more than in 2018. This change is partly due to higher sales to the free market, particularly large customers, and partly to the contribution deriving from the consolidation of the ACSM-AGAM Group from July 2018.

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Lastly, there was a significant increase in the number of customers in the free mass market, both in the electricity and gas sectors: 227 thousand more than at the end of 2018, +205 thousand excluding the ACSM-AGAM Group.

Economic data

<i>millions of euro</i>	01 01 2019 12 31 2019	01 01 2018 12 31 2018	CHANGE	% 2019/2018
Revenues	2,724	2,230	494	22.2%
Gross Operating Margin - EBITDA	229	206	23	11.2%
% of Revenues	8.4%	9.2%		
Depreciation, amortizations, provisions and write-downs	(60)	(37)	(23)	62.2%
Net Operating Income - EBIT	169	169	-	0.0%
% of Revenues	6.2%	7.6%		
Investments	32	21	11	52.4%
FTE	862	829	33	4.0%
Labour costs	55	46	9	19.6%

Revenues were 2,724 million euro (2,230 million euro as at December 31, 2018), up 22.2% due to larger quantities sold of both electricity and gas and the twelve months of consolidation of the ACSM-AGAM Group.

EBITDA of the Market Business Unit came to 229 million euro (206 million euro in the previous year).

Net of non-recurring items (+22 million euro in 2019 and +30 million euro in 2018), Ordinary EBITDA for the Business Unit grew by 31 million euro (+18% on the previous year). The variation was determined by a considerable increase in margins in the energy retail segment (+38 million euro) and public lighting (+3 million euro) and a decline in the energy solutions segment (-10 million euro).

The increase in the energy retail segment is partly due to the contribution made by the ACSM-AGAM Group, equal, net of the contribution made by the Aspem Group in the first half of 2018, to 17 million euro and partly to the excellent performance of the traditional segment (+21 million euro). In 2019, in fact, the contribution margins of the electricity and gas segments showed significant growth (+40 million euro), thanks to the increase in the number of customers on the free market the greater volumes sold to large customers that more than offset a decline in unitary gas consumptions, the increase in unitary margins of customers on the free market, above all gas, and the adjustment of RCV and PCV prices (resolution 706/2018/R/eel) to cover the costs of marketing electricity. The growth was only partially reduced by higher costs, mainly for marketing and external communication to attract new customers.

The higher margins of the public lighting sector are linked to the issue of a larger number of white certificates in 2019, as well as a greater quantity of extraordinary maintenance works.

The reduction in margins in the energy solutions segment was due to the lesser opportunities that white certificates market has offered to operators, both in terms of price and volumes exchanged, also following approval of the Decree by the Ministry of Economic Development on May 10, 2018, which regulated the price of sale of Energy Efficiency Certificates (EECs) and the methods of procurement by distributors obliged to cancel the certificates.

Depreciation, amortization, provisions and write-downs totalled 60 million euro (37 million euro in 2018). The change is mainly related to higher provisions for tax reasons, as well as higher depreciation, amortization and write-downs following the consolidation of the ACSM-AGAM Group.

As a result of the above changes, the Net Operating Result amounted to 169 million euro, in line with the previous year.

Capex of the period of the Business Unit amounted to around 32 million euro. More specifically, approximately 20 million euro were related to the energy retail segment, mainly for evolutive maintenance and the development of the hardware and software platforms; approximately 7 million euro went to new projects to develop the public lighting segment and 5 million euro to improve energy efficiency in the New Energy Solutions segment.

In the year under review, the Market Business Unit's FTEs amounted to 862 units, an increase of 33 FTEs over the previous year. The increase is partly due to a change in the scope of consolidation (acquisition of the business unit X3Energy and Suncity Energy) and partly to greater hiring to strengthen certain areas of activity, in line with the development objectives of the Market Business Unit.

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## Waste Business Unit

The following is a summary of the main quantitative and economic data relating to the Waste Business Unit.

### Quantitative data

	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Waste collected (Kton)	1,708	1,671	37	2.2%
Residents served (#/1000)	3,634	3,530	104	2.9%
Waste disposed of (Kton)	3,340	3,547	(207)	(5.8%)
Electricity sold (GWh)	1,780	1,807	(27)	(1.5%)
Heat sold (GWht) *	1,505	1,419	86	6.1%

(\*) Quantities at the plant entrance.

In the year under review, the quantity of waste collected, amounting to 1,708 thousand tonnes, increased by 2.2% compared to the previous year due to the increase in the population served.

The quantity of waste disposed of, equal to 3,340 thousand tonnes, shows a decrease of 5.8% compared to the previous year, entirely due to less disposal in landfills, in particular in the Grottaglie landfill following the blockage of deliveries from January 2019.

The quantities of heat sold increased by 6.1% thanks to the higher quantities requested by the district heating sector, while the quantities of electricity fell slightly (-1.5%).

### Economic data

<i>millions of euro</i>	01 01 2019 12 31 2019	01 01 2018 12 31 2018	CHANGE	% 2019/2018
Revenues	1,047	1,022	25	2.4%
Gross Operating Margin - EBITDA	271	268	3	1.1%
% of Revenues	25.9%	26.2%		
Depreciation, amortizations, provisions and write-downs	(159)	(87)	(72)	82.8%
Net Operating Income - EBIT	112	181	(69)	(38.1%)
% of Revenues	10.7%	17.7%		
Investments	97	105	(8)	(7.6%)
FTE	5,895	5,913	(18)	(0.3%)
Labour costs	310	304	6	2.0%

During 2019, the Waste Business Unit recorded revenues of 1,047 million euro (1,022 million euro at December 31, 2018).

The EBITDA of the Waste Business Unit equalled 271 million euro (268 million euro at December 31, 2018).

The greater margin in the collection segment, the positive dynamics of conferral prices (in particular municipal-like waste), the prices of the sale of electricity produced by the waste-to-energy plants and the greater revenues from conferral of industrial processing plants, all helped towards the year's result.

These positive effects were almost entirely reabsorbed by greater costs of disposal and lesser revenues deriving from the conferral to other Group landfills that were running out (Grottaglie, Barengo and Comacchio).

Depreciation, amortization, provisions and write-downs equalled 159 million euro (87 million euro at December 31, 2018). The change is mainly due to the write-down in 2019 relating to the Grottaglie landfill (-48 million euro) in view of the reduced future earning capacity, following the rejection of the appeal by the Council of State against the Lecce Regional Administrative Court sentence no. 143/2019 and the consequent confirmation of the annulment of the DD45/18, which had allowed a substantial change in the AIA relating to the landfill with the consequent resumption of disposal activities.

For the remainder, the change is due to the release of surplus provisions recorded in the previous year. As a consequence of the above changes Net Operating Income amounted to 112 million euro (181 million euro in the previous year).

2019 Capex totalled 97 million euro and were mainly related to maintenance and development works on waste-to-energy plants (49 million euro), processing plants and landfills (25 million euro), the purchase of vehicles, containers, operating systems and the restructuring of corporate buildings in the collection segment (23 million euro).

In the year, the Waste Business Unit's FTEs amounted to 5,895 units (5,913 FTEs in the previous year). The change is the result of both the award of new tenders and the expansion of urban collection and hygiene services, and the implementation of important programmes to increase efficiency in the collection sector on the one hand, and to upgrade some waste treatment facilities on the other.

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# Networks and District Heating Business Unit

The following is a summary of the main quantitative and economic data relating to the Networks and District Heating Business Unit.

## Quantitative data - Networks

	12 31 2019	12 31 2018	CHANGE	% 2019/2018
Electricity distributed (GWh)	11,735	11,913	(178)	(1.5%)
Gas distributed (Mcm)	2,963	2,745	218	7.9%
Gas transported (Mcm)	350	372	(22)	(5.9%)
Water distributed (Mcm)	78	72	6	8.3%
RAB Electricity (M€) <sup>(1)</sup>	641	646	(5)	(0.8%)
RAB Gas (M€) <sup>(2)</sup>	1,426	1,395	31	2.2%

- (1) A2A estimates.  
(2) Provisional figures, underlying the calculation of allowed revenues for the period.

Electricity distributed amounted to 11,735 GWh, down slightly from the previous year (11,913 GWh). The quantities of gas distributed amounted to 2,963 Mcm, or 7.9% more than in the previous year due to the change in the scope of consolidation following the consolidation of the ACSM-AGAM Group.

The water distributed amounted to 78 Mcm, an increase of 6 million cubic metres compared to the previous year, mainly thanks to the contribution of the ACSM-AGAM Group.

## Quantitative data - Heat

Gwh/t	12 31 2019	12 31 2018	CHANGE	% 2019/2018
<b>SOURCES</b>				
<b>Plants in:</b>	<b>1,362</b>	<b>1,350</b>	<b>12</b>	<b>0.9%</b>
- Lamarmora	410	447	(37)	(8.3%)
- Famagosta	71	104	(33)	(31.7%)
- Tecnocity	62	66	(4)	(6.1%)
- Altri impianti	819	733	86	11.7%
<b>Purchases from:</b>	<b>1,966</b>	<b>1,880</b>	<b>86</b>	<b>4.6%</b>
- Third parties	441	437	4	0.9%
- Other Business Units	1,525	1,443	82	5.7%
<b>TOTAL SOURCES</b>	<b>3,328</b>	<b>3,230</b>	<b>98</b>	<b>3.0%</b>
<b>USES</b>				
Sales to end customers	2,783	2,768	15	0.5%
Distribution losses	545	462	83	18.0%
<b>TOTAL USES</b>	<b>3,328</b>	<b>3,230</b>	<b>98</b>	<b>3.0%</b>
Electricity from cogeneration	316	317	(1)	(0.3%)

- Note:  
- The figures only refer to district heating. Sales relating to heat management are not included.  
- Purchases include the quantities of heat purchased from the Waste Business Unit.

The Business Unit’s heat sales amounted to 2,783 GWht, substantially in line with the previous year’s sales (+0.5%): the increase attributable to changes in the scope of consolidation offset lower sales in 2019 due to milder average temperatures than in 2018.

Economic data

millions of euro	01 01 2019 12 31 2019	01 01 2018 12 31 2018	CHANGE	% 2019/2018
Revenues	1,096	1,110	(14)	(1.3%)
Gross Operating Margin - EBITDA	461	410	51	12.4%
% of Revenues	42.1%	36.9%		
Depreciation, amortizations, provisions and write-downs	(254)	(200)	(54)	27.0%
Net Operating Income - EBIT	207	210	(3)	(1.4%)
% of Revenues	18.9%	18.9%		
Investments	352	275	77	28.0%
FTE	2,647	2,658	(11)	(0.4%)
Labour costs	100	102	(2)	(2.0%)

2019 Networks and District Heating business unit’s revenues amounted to 1,096 million euro (1,110 million euro as at December 31, 2018). The change is mainly due to the lesser revenues relating to the tariff contributions recognised to distributors to cancel out the energy savings obligations (EECs), partly offset by the contribution made by the ACSM-AGAM Group.

EBITDA of the Networks and District Heating business unit amounted to 461 million euro (410 million euro as at December 31, 2018).

Net of non-recurring items (+19 million euro in 2019 and +3 million euro in 2018), Ordinary EBITDA for the BU grew by 35 million euro (+9% on 2018).

The change in margins is mainly due to the district heating segment: the increase in unit margins more than offset the higher environmental costs (CO2) and the lack of revenues from green certificates in Canavese.

A positive contribution towards the business results was mainly due to: the increase in allowed revenues for gas distribution, revenue growth in the water segment following the increase in the tariffs resolved by the Regulatory Authority, the reduction in fixed costs and the change in scope determined by the different consolidation periods of the ACSM-AGAM Group.

Depreciation, amortization, provisions and write-downs amounted to 254 million euro (200 million euro in the previous year). The change is due in part to higher amortization and depreciation for the consolidation of the ACSM-AGAM Group and in part due to the higher write-down of the goodwill of the electricity grids following the Impairment test, compared with that recorded in the previous year (write-down of 85 million euro in 2019; 44 million euro in 2018).

As a result of the above changes, Net Operating Income amounted to 207 million euro (210 million euro at December 31, 2018).

Capex for the reporting period amounted to 352 million euro and regarded:

- in the electricity distribution segment, development and maintenance work on plants and in particular the connection of new users, maintenance work on secondary cabins, the extension and refurbishment of the medium and low voltage network, the maintenance and upgrading of primary plants and investments in the launch of the 2G smart meter project (111 million euro);
- in the gas distribution segment, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and smart gas meters (112 million euro);

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- in the integrated water cycle sector, maintenance and development work carried out on the water transportation and distribution network and the sewerage networks and purification plants (71 million euro);
- in the district heating and heat management sector, development and maintenance of plants and networks for a total of 58 million euro.

In 2019, FTEs amounted to 2,647 units, substantially in line with the previous year (-11 FTEs, equal to -0.4%).

# International Business Unit

## Economic data

millions of euro	01 01 2019 12 31 2019	01 01 2018 12 31 2018	CHANGE	% 2019/2018
Revenues	3	8	(5)	(62.5%)
Gross Operating Margin - EBITDA	(3)	-	(3)	n.s.
% of Revenues	(100.0%)	0.0%		
Depreciation, amortizations, provisions and write-downs	(1)	0	(1)	n.s.
Net Operating Income - EBIT	(4)	0	(4)	n.s.
% of Revenues	(133.3%)	0.0%		
Investments	-	0	-	n.s.
FTE	18	14	4	28.6%
Labour costs	2	1	1	100.0%

International Business Unit revenues at December 31, 2019 amounted to 3 million euro (8 million euro at December 31, 2018) and related to the construction of high-tech waste treatment plants.

EBITDA was negative for 3 million euro (nil in the previous year).

The change is mainly due to the prosecution of certain activities and the postponement of international tenders, which saw a substantial misalignment between costs incurred and the related revenues.

Depreciation, amortization, provisions and write-downs in the current year amount to 1 million euro (nil in the previous year).

Net of Depreciation, amortization, provisions and write-downs, the Net Operating Result was negative for 4 million euro (nil in the previous year).

In the year under review, FTEs stood at 18 units (14 FTE in 2018). The increase is due to the hirings made to strengthen the Business Unit.

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# A2A Smart City

## Economic data

<i>millions of euro</i>	01 01 2019 12 31 2019	01 01 2018 12 31 2018	CHANGE	% 2019/2018
Revenues	63	53	10	18.9%
Gross Operating Margin - EBITDA	11	11	-	0.0%
% of Revenues	17.5%	20.8%		
Depreciation, amortizations, provisions and write-downs	(7)	(5)	(2)	40.0%
Net Operating Income - EBIT	4	6	(2)	(33.3%)
% of Revenues	6.3%	11.3%		
Investments	16	11	5	45.5%
FTE	145	148	(3)	(2%)
Labour costs	9	9	-	0.0%

In 2019, the revenues of the company A2A Smart City S.p.A. came to 63 million euro, up by 10 million euro compared to the previous year, due to the extension of services offered to other Group companies and third party operators.

EBITDA was 11 million euro, in line with the previous year.

Depreciation, amortization, provisions and write-downs amounted to 7 million euro (5 million euro in 2018).

Net of Depreciation, amortization, provisions and write-downs, the Net Operating Result amounted to 4 million euro (6 million in 2018).

Capex in the period, amounting to 16 million euro, mainly refer to work on the telecommunication networks.

In 2019, FTEs stood at 145 units (148 FTEs at December 31, 2018).



# Corporate

## Economic data

millions of euro	01 01 2019 12 31 2019	01 01 2018 12 31 2018	CHANGE	% 2019/2018
Revenues	244	220	24	10.9%
Gross Operating Margin - EBITDA	(36)	(34)	(2)	5.9%
% of Revenues	(14.8%)	(15.5%)		
Depreciation, amortizations, provisions and write-downs	(30)	(21)	(9)	42.9%
Net Operating Income - EBIT	(66)	(55)	(11)	20.0%
% of Revenues	(27.0%)	(25.0%)		
Investments	48	31	17	54.8%
FTE	1,422	1,353	69	5.1%
Labour costs	136	115	21	18.3%

The EBITDA, corresponding to the corporate structure costs not recharged to the various Group companies, amounted to -36 million euro in 2019 (-34 million euro in the corresponding period of the previous year).

Depreciation, amortization, provisions and write-downs amounted to 30 million euro (21 million euro in the previous year).

After Depreciation, amortization, provisions and write-downs, the Net Operating Result was negative for 66 million euro (negative for 55 million euro in the previous year).

Capex in the period, amounting to 48 million euro, mainly refer to work on the IT systems and buildings.

In 2019, FTEs stood at 1,422 units, +69 FTEs compared to the previous year. The change is mainly due to the transfer of activities from the other Business Units of the Group and the enhancement of the activities of some Corporate Departments.

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# 6

## Risks and uncertainties

# Risks and uncertainties

The A2A Group has a risk assessment and reporting process which is based on the Enterprise Risk Management method of the Committee of Sponsoring Organizations of the Treadway Commission (CoSO report) and best risk management practice and is in compliance with the Corporate Governance Code as updated by Consob in 2011, which states: “...Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks....”.

The Group has also implemented a specific procedure that defines in detail the roles, responsibilities and methodologies for the Enterprise Risk Management (ERM) process.

This process requires a risk model to be set up that takes account of the Group’s characteristics, its multi-business vocation and the sector to which it belongs. This model is subject to periodic revision consistent with the evolution of the Group and the context in which it operates. The methodology adopted is characterized by the regular identification of the risks to which the Group is exposed. In this context, an assessment process is carried out which, through the involvement of all its structures, allows the Group to identify the most important risks and establish the relative controls and mitigation plans. At this stage, the involvement of risk owners is essential as responsible for the identification, assessment and update of risk scenarios (specific events in which risk can materialize) related to activities of its competence. This phase is carried out with the support and coordination of the Group Risk Management organizational structure through operating methods that allow clearly identifying risks, the related causes and management methods.

The methodology adopted is modular and leverages on the fine-tuning of the experience gained and methods of analysis used: on the one hand, it aims to develop the risk assessment further with specific reference to the consolidation of the mitigation process and on the other to develop and integrate risk management activities in business processes. This evolution is carried out consistent with the gradual increase in the awareness of management and the business structures about risk management issues, achieved among other things through the use of specific training support provided by Group Risk Management.

The ERM process also supports the Group’s ISO9001, ISO14001 and ISO45001 certifications.

Set out below is a description of the main risks and uncertainties to which the Group is exposed.

It is noted that in terms of greater estimated impact on the Group, the main types of risk are the following, in order of importance:

- legislative and regulatory amendments;
- energy scenario;
- economic and social-environmental context;
- business interruption;
- climate changes;
- information technology.

## COVID-19 virus emergency

With reference to the recent emergence of the Coronavirus emergency, which could lead to possible effects on more than one of the risks listed above, it should be noted that crisis management measures have been put in place by the A2A Group, as well as the identification of appropriate prospective mitigations linked to the risk of temporal extension of the emergency.

Since 2018, the A2A Group has had a Group crisis plan that identifies the organizational system, activities and procedures necessary to deal with the events that led to the declaration of crisis, with the aim of protecting human resources inside and outside the A2A Group, containing material and immaterial damage and guaranteeing the correct management of communication flows externally and the continuity of the service offered, quickly restoring normal operating conditions and safeguarding the company’s reputation and image. It should be noted that the A2A Group is managing the health emergency connected with the Coronavirus in full application of the provisions of the above procedure with the establishment and management of special crisis and continuity committees.

The main monitoring and mitigation actions identified are described below:

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

With reference to any economic effects, at the moment, the Group cannot exclude the possibility of a downturn to the volume of certain commercial and industrial businesses, whose impact on total results is expected to be limited, if the health emergency will not go beyond the end of the year, also thanks to the extensive diversification of the businesses, including regulated activities some of which are relevant. The impacts determined by the energy scenario may be more significant, especially if the current weakness should continue or worsen, also due to the macroeconomic effects deriving from the continuation and global spread of the health emergency. For a broader discussion of the risks associated with commodity prices and the energy scenario – including the value in use of generation plants – refer to the section on specific risks. The Group is also strengthening the liquidity facilities to manage any tensions on the credit front in view of the difficulties that users may face.

Risk of legislative and regulatory amendments

The A2A Group operates in highly regulated sectors whether they are managed under natural monopoly (such as infrastructure for the distribution and transport of electricity and gas, the integrated water cycle and district heating) or under free market regime (such as energy management, trading and sale of energy carriers and other services to customers).

The 2018 Budget Law, moreover, has extended the regulatory and control competences of the Authority for Electricity, Gas and Water System (AEEGSI, which changes its name to ARERA - Regulation Authority for Energy, Networks and the Environment) to include the separate and combined municipal and equivalent waste collection cycle.

Among the risk factors, therefore, the constant and not always predictable evolution of the legislative and regulatory framework of reference shall be considered.

For these risk factors, the Group adopts a legislative and regulatory risk monitoring and management policy in order to mitigate, to the extent possible, the effects through oversight on various levels, which primarily involves collaborative dialogue with the institutions (ARERA, Competition and Market Protection Authority, Authority for Communications Guarantees, Ministry of Economic Development) and with technical bodies of the sector (GSE Energy Services Operator, GME Energy Markets Operator, Terna) as well as active participation in category associations and working groups established at said entities.

Also the view to European regulations, following the work of Brussels through participation in the tables of Eurelectric and Cedec, allows seeing “in advance” the subject of transposition into Italian law (in some cases automatic as per regulations).

To address these issues, the top management set up a specific organization structure called “Regulatory Affairs and Competition”, reporting directly to the Managing Director, broadening the mandate, strengthening the link with the business and exceeding the vision for which the relationship with the regulator shall be interpreted solely as compliance (or litigation).

Constant dialogue with Business Units is also envisaged, not only for the simulation of impacts on current activities but also for the evaluation of new initiatives.

The Institutional and Regulatory Committee was also set up, composed of the Chairman and CEO, as well as the National Institutional Relations Manager and the Regulatory Affairs and Competition Manager. This Committee meets periodically involving from time to time the Managers of the

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Business Units concerned, and the Managers of the staff structures in order to transfer to them the new regulations, agree on a corporate position on evolving standards and collect the requests of the business to convey them to the stakeholders of reference.

Regulatory Affairs and Competition implemented constantly updated monitoring and control tools (ex. Regulatory Review produced every six months or the Regulatory Agenda drawn up at the time of the Budget/Plan), in order to consider the potential impacts on the regulation on the company.

From January 2017 and January 2019, respectively, the organizational structure also monitors the regulatory risk for the LGH Group and the ACSM-AGAM Group in order to monitor and manage their impact in a coordinated manner.

The main topics involved in current changes in regulations and legislation, with major potential effects on the Group, are as follows:

- the rules governing large-scale diversion of hydroelectric concessions following Law no. 12/2019 which, in article 11-quater, provided for an overall reorganization of the subject, giving the Regions an increasingly important role;
- the outcome of the appeals filed by some operators and a trade association for the annulment of the Ministerial Decree MiSE of June 28, 2019 and all related acts of ARERA and Terna that implemented the capacity market regulations;
- tenders concerning the granting of concessions for the gas distribution service;
- the termination of the concessions of the SII of A2A Ciclo Idrico in the province of Brescia and their transfer for consideration to the Single Manager of the sector;
- the certification of energy savings within the White Certificates mechanism by the Energy Services Manager;
- the impact on the development of district heating due to the start of regulation of the sector by ARERA only for aspects relating to commercial and technical quality and not also for support for investments;
- the impacts on the waste sector of the first ARERA measures both in terms of urban hygiene and treatment regulation (in particular for the definition of access fees);
- the provisions of the 2017 Competition Law on the termination of price protection schemes for electricity and gas customers, the date of which is currently under discussion as part of the conversion process of the Milleproroghe Decree.

Finally, it should be noted that, in view of the numerous interventions by the Antitrust Authority in the sectors of interest to the A2A Group (in terms of initiating investigations into abuse of a dominant position, agreements and investigations) the Board of Directors of A2A S.p.A. approved during the meeting of June 20, 2019, the adoption of the Antitrust Compliance Programme with the consequent appointment of a person responsible for its implementation and during the meeting of January 20, 2020, adoption of the Antitrust Code of Conduct.

For a more detailed discussion of these risks, reference should be made to the section "Regulatory developments and impacts on the Business Units of the A2A Group".

### Energy scenario risk (commodity price risk)

Given the features of the sectors in which it operates, the Group is exposed to energy scenario risk, namely the risk linked to changes in the price of energy raw materials (electricity, natural gas, coal and fuel oil) and the exchange rates connected with these. Significant, unexpected and/or structural changes in commodity prices, especially in the medium term, may result in a reduction in the Company's operating margins.

The Group has approved an Energy Risk Policy that regulates the procedures by which commodity risk are monitored and managed, or the highest level of variability to which the result is exposed with reference to the trend of prices of energy commodities.

Consistent with the provisions of the Policy, the commodity risk limits of the Group are defined and approved annually by the Board of Directors.

Market risk is managed by constantly monitoring the total net exposure of the Group's portfolio and addressing the main factors affecting the trend. Appropriate hedging strategies are defined, where

necessary, designed to maintain this risk within the established limits, typically through hedging at 12 months and partially at 24 months.

The objective of stabilizing the cash flows generated by the asset portfolio and outstanding contracts is thus pursued through the management of physical contracts and derivative financial instruments, limiting to the extent possible, the volatility of the Group's economic and financial results following changes in commodity prices.

Economic and social-environmental context risk

The Group's activities are sensitive to economic cycles and general economic conditions in the countries in which it operates. A slowing economy could determine, for example, a drop in consumption and/or of industrial production, having as a result a negative effect on the demand for electricity and of other carriers offered by the Group, thereby affecting the results and prospects and preventing the implementation of planned development strategies. Moreover, the operational activities of sites and infrastructures, their profitability, the implementation of adjustment programs or conversion of certain facilities rather than growth in some business areas, planned by the Group, may be impaired as a result of possible actions taken by some stakeholders, not favourable to the presence of the sites due to a negative perception of Group activities in the areas served.

With regard to the activities of the Generation and Trading Business Unit, the current context of the energy markets in which the production facilities operate, with specific reference to the thermoelectric ones, confirms substantial stability as regards the remuneration of plants while there is significant tension regarding gas prices. This tension, due to the correlations between gas and electricity prices observed on the market, leads to a reduction in the remuneration of renewable source plants. This dynamic is accompanied by a possible unfavourable evolution in the appeals filed by some operators and a trade association for the annulment of the Ministerial Decree of June 28, 2019 and all related acts of ARERA and Terna that implemented the capacity market regulations (with effect for existing plants in 2022 and 2023). It is therefore evident that all the measures undertaken on generation plants at the time, such as activities and projects aimed at guaranteeing operating flexibility, efficiency and availability when these requirements are requested from the production units, remain active and operative. These include, in particular, the planning of flexible investments in combined cycle plants, modernization of plants and machinery, and structural cost containment programs.

In addition, a process of revision, standardization and overall adjustment of maintenance contracts was implemented as well as specific rationalization actions in the management of spare parts warehouses.

Also regarding the production of energy from thermoelectric sources, it is noted that the Group pays particular attention, by means of stable and cooperative dialogue, through the organizational structure Institutional Affairs, with institutions, local authorities and communities, to the issues of risk regarding the manufacturing sites that use or used fossil fuels (Monfalcone, Brindisi, San Filippo del Mela). This control is aimed at encouraging a correct perception of the plants as well as creating the best conditions to pursue the future implementation of adaptation and conversion projects according to innovative and advanced technologies, designed to encourage the development of electricity production from renewable sources, in the context of the Integrated National Energy and Climate Plan. This is also in order to guarantee employment levels. Also with regard to the generation of electric power, there was the evolution of the issue of risk related to the award of large derivation hydroelectric concessions in connection with the conversion into law of the Law 12-2019 (conversion into law of the so-called "Simplification Decree Law") and the related criteria for implementation and definition of incremental costs for concessionaires compared with the previous regulations.

There are also risks related to the potential impact on hydroelectric operations caused by increasing pressure from other stakeholders related to the water resource used by the Group for hydroelectric purposes: there is a possibility that in the future, the share of water to be released for other uses will increase, as well as for further obligations with regard to ecological outflows, and that more stringent operating restrictions will arise due to the need to use dams built for hydroelectric purposes also for other uses (irrigation, drinking water reserves and flood rolling). In order to manage this issue, the Group engages in constant dialogue with the various stakeholders in order to reach agreements and enter into conventions to protect A2A's interests while respecting the needs of other parties. In addition, the Group implements a technical control system in order to optimize the productivity of the water resource available.

With regard to the Waste Business Unit, it should be noted that the 2018 Budget Law assigned to ARERA powers to regulate and control the integrated waste cycle, including differentiated, urban and similar waste. During 2019, ARERA published the first measures on tariff regulation and transparency

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towards users, following the convening of technical meetings with stakeholders, the publication of consultation documents (DCO) and reconnaissance. Resolution 443/2019/R/rif defined the Tariff Method for the Integrated Waste Management Service (IMW), defining “the criteria for the recognition of efficient operating and investment costs for the period 2018-2021”. The MTR requires the costs recognized to Managers to be determined starting from the actual costs recorded in a reference year and to be those relating to integrated waste management, which includes street sweeping and washing, collection and transport, treatment and recovery of urban waste, treatment and disposal of urban waste, management of tariffs and relations with users; with regard the collection and treatment of urban waste there is therefore a risk of lower margins for the Group, also because it has adopted efficient management of the service. On December 30, 2019, two companies in the A2A Group appealed against Resolution no. 443/2019/R/ref. to the Lombardy Regional Administrative Court for various reasons. The appeals are supplemented by a request for precautionary suspension of the effectiveness of the measure in view of the potential economic damage caused to companies.

For the Waste Business Unit and the Networks and District Heating Business Unit, the issue is confirmed with regard to relations with certain stakeholders regarding the future construction of new plants, the expansion of existing plants or the provision of services in new territories. With specific reference to waste-to-energy, waste recovery and wastewater treatment plants, due to an incorrect perception of the works, forms of opposition and protest could be promoted through the use of social networks, with potential effects on the conduct of existing activities and the implementation of development programs. However, it should be noted that recently, there has been a movement of opinion more oriented, than in the past, to the solution of environmental issues through the construction of waste recovery and disposal plants.

To oversee the issues, the Group carries out an activity of constant dialogue with local communities and with the relevant Entities and Authorities, also through participation in public debates, special press conferences and communication and awareness campaigns, as well as through the organization of multi-stakeholder forums, designed to promote dialogue with the territory. The forum was established with the aim of identifying solutions that can respond in a targeted and effective manner to the needs and expectations of stakeholders and that allow promoting the environmental, economic and social sustainability activities carried out by the Company and the Group and services provided in the territory.

We also highlight that the Group Companies active in the business of public lighting and management of the integrated waste cycle, street cleaning and other essential services for the environment, sanitation and decorum of the city are particularly focused on the quality of services provided, also with a view to continuation of entrusting its activities in territories already served and in the awarding of public tenders for the same services in new areas; to maintain and develop the positioning of said services on the market and thus maintain and expand the Company’s business, the organizational structures dedicated to constant monitoring of opportunities and effective and efficient management of tenders were enhanced.

A factor of uncertainty that must be considered for a correct analysis of the economic and social context is represented by the Brexit: on January 31, 2020, the United Kingdom officially ceased to be a member state of the European Union and a transition period that will last until December 31, 2020 has begun. The possible economic effects of the Brexit on the European Union could result in a significant decrease in growth for the United Kingdom, greater volatility in financial markets, lower exports to the UK due to the weakening of the pound on the euro but also in re-addressing investments expected in Great Britain to other EU countries.

Having said this, in view of the business operations carried out by the A2A Group in Italy and in other EU and non-EU countries, it is not considered that the Group itself is particularly exposed to risks deriving from Brexit in the achievement of the company objectives it intends to pursue, but that new business opportunities may instead open up thanks to the Company’s know-how.

### Country risk

The A2A Group also operates in foreign countries characterized, for historical and cultural reasons, by a lower degree of political, social and economic stability than the OECD countries. A2A is exposed to the risks of possible negative developments in the political, social and macroeconomic framework that can produce situations such as decline in economic activity, financial difficulties of local governments, high levels of inflation, sharp devaluation of local currency, unpredictable changes in legislative and regulatory scenarios up to the potential risks of nationalization and/or expropriation of local assets or of non-convertibility and/or non-transferability of local currency that may temporarily or

permanently affect the ability of the Group to operate under satisfactory economic conditions and/or the value of A2A assets.

To control these risks, in line with the procedural system for activities abroad, specific risk analyses are conducted as part of the preliminary assessment of development initiatives in relation to foreign countries of interest.

With reference to the shareholding held in the Montenegro-based electricity company EPCG, on July 1, 2017, the A2A Group exercised the sale put option on all of the A2A S.p.A. shares, equal to 41.75% of the share capital of EPCG. The sale of portions, based on the agreements with the Government of Montenegro, ended with payment of the last instalment in 2019.

Business interruption risk

The Group operates production sites and operationally and technologically complex services (power plants, waste recovery and disposal plants, cogeneration plants, distribution networks, waste collection and sanitation services, delivery services of drinking water, etc.), the malfunction, accidental damage or suspension of which could determine the unavailability and, consequently, result in economic losses and possible reputational damage due to the interruption of services provided.

These risks are linked to a variety of factors which, in the case of certain plants, could be accentuated by changes in the competitive context and in the reference markets. Although the risk of unavailability of the plants and infrastructures may be considered an inherent part of the business and a risk that is impossible to eliminate entirely, the Group sets up preventive management strategies at all of the Business Units concerned to reduce the probability of such risks occurring and/or aimed at limiting any impact.

Safeguarding the Group's plants and infrastructure involves adopting and continuously updating procedures for maintenance, aimed at identifying and preventing potential critical situations, also amongst other things on the basis of specific engineering analyses carried out by dedicated technical staff, all in line with best practices. It also provides for periodic review of plants and networks, redesign of plant parts that over time have highlighted structural problems, sharing of operational experiences between production sites in order to spread the best and most innovative practices in the Group in terms of maintenance, as well as the provision of specific training courses for technical personnel. In addition, the A2A Group makes widespread use of instruments for the control and remote control of technical parameters for the monitoring and timely detection of any anomalies as well as having a back-up of the components needed to guarantee operational continuity, where possible. The integration process between the specialist engineering teams in the A2A Group has led to a strengthening of the skills relating to plant performance analyses.

As part of the Generation and Trading Business Unit, the progressive adoption of advanced software and systems is planned at all of the Group's production plants for detecting incipient technical issues and calculating the actual yield thereof, aimed at enabling an approach to be taken that is even more preventive compared to the past as far as the planning and performance of maintenance is concerned. In particular, the use of drones for preventive inspections and recognition on dam structures follows a methodology shared with the Dams General Management. Together with these actions, the implementation was started of a new diagnostic system based on the analysis of the surveys and measurements coming from field sensors, with a model developed internally by A2A.

The gradual adoption of the above controls is also envisaged in the case of the acquisition of new production sites, to facilitate their alignment to the Group's standards.

With reference to the Waste Business Unit, it should be noted that recent developments in the context, including regulatory changes, constitute a significant element of risk with regard to the operating methods of the plants. In particular, the recent regulation introduced on the subject of End of Waste, pending the issue of specific European or national decrees, could put the operation of waste-to-energy plants at serious risk due to the eventual impossibility of continuing with the usual methods of delivery of boiler bottom slag. On November 2, 2019, Law 128/2019 was published, converting DL *Salva Imprese* (Save Companies), which contains the reform of the "cessation of the qualification of waste" with which, in accordance with Directive 851/2018, the previous measure contained in DL *Sblocca Cantieri* (Unblock Sites) is repealed and the possibility of authorization "case by case" by the competent administrations (Province/Region) is reintroduced. However, at central level tasks are assigned for assessment and control, to be carried out with the support of ISPRA, regarding compliance with the requirements of Directive 851/2018, which may lead to binding requirements for Administrations and companies until revocation of the authorizations. This provision therefore

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mitigates but does not eliminate the risk for investments arising from the possible ex post revocation of authorization.

Uncertainties and opportunities also remain with regard to the future transposition of EU waste directives, known as the “circular economy package”.

Regarding actions to ensure the smooth operation of the plants, specific activities are in place and monitoring and prevention tools have been installed for any possible risk of interruption to the waste transport, treatment and disposal services. In particular, specific procedures and controls are put in place to ensure conformity of waste entering the plants and the adoption of a unified protocol for the acceptance of waste entering the waste-to-energy plants, at site level. Furthermore, a dedicated software supports the carrying out of checks and, in general, the correct handling of waste. In addition, there are plants, systems and specific operating procedures for loading and exiting of the materials deposited at the waste storage and treatment sites aimed at limiting the risk of fire. The Business Unit is additionally introducing steps to optimize the management of certain sites in order to make the disposal process more efficient. Lastly, it is noted that structural interventions were planned and partly concluded on all plants of the Group, and in particular on the large waste-to-energy plants, designed to ensure a higher reliability and perspective of operability over time, such as the realization of electrical backup lines, replacing thermomechanical components that have reached the end of their technical life, renovation of structures designed to reduce deteriorations, extraordinary maintenance aimed at increasing the reliability of machinery and the thermal potential of these plants, upgrades of control systems of the plants that are technologically obsolete. To mitigate any repercussions on the Group’s reputation due to a temporary impossibility to transport waste, mutual assistance exists between the Group’s plants and there is centralized coordination of planned stoppages for maintenance.

With reference to the eventual interruption issue of waste collection and urban sanitation services due to possible strikes by staff or exceptional weather events in the territories of the municipalities served by the Group Companies, the company has specific management and planning procedures for the recovery of collection activities or sweeping aimed at restoring the standards of service quality in the days immediately following. Means are also available to deal with situations of emergency, control and monitoring of vehicles in service at the areas served (even in online mode through the control room equipped with the latest technical equipment), spare parts warehouses managed and structured to deal with the statistically most recurrent faults.

Within the transport and distribution networks of energy and gas, it is noted that works were planned and started designed to increase the reliability of services and to ensure the ongoing appropriateness of the infrastructure with the evolution and expansion of urban areas and territories served by the various Group companies, such as the implementation and expansion of automation systems and remote control of stations and cabins, and the construction of new cabins for electricity and gas. As part of the operating activities of the electricity grids, the issue of continuity of service during periods of special climatic conditions with potential reputational risks arising from possible interruptions of service delivery is confirmed as particularly relevant. In order to deal with these situations, in addition to the usual maintenance activities, the Group has planned and started to upgrade its electricity transformation plants with specific reference to the construction of new primary cabins, the extension of remote control systems for cabins also aimed at reducing the time needed to restore the distribution service, rationalisation of the meshing of electrical networks and extraordinary plans for the reclamation of components considered critical for the continuity of operations. In view of the recent organizational developments, there are and currently the subject of unification and optimization, remote operational controls, advanced technical safety tools, emergency intervention teams as well as specific safeguards for infrastructure which, during exceptional phenomena difficult to predict in terms of location of the same and assessment of their effects, are more exposed to risks of interruption in the delivery of services.

With reference to Linea Group Holding, the main issue of risk concern any faults on energy production plants, as well as on primary and secondary transformation stations or on the electricity distribution network, which could lead to significant discontinuities with consequent impacts in terms of corporate image. To address these risks, the Company has identified the situations of greatest technical obsolescence and is currently investing for the complete renovation of lines and metering equipment and a number of receiver stations on the network of the city of Cremona.

The A2A Group takes an active part in projects for the development of the electricity network from a “smart grid” standpoint, meaning by this a network with which it is possible to exchange information

on energy flows and manage demand peaks more efficiently, thus reducing the risk of interruption. In particular, the Networks and District Heating Business Unit is engaged in the development of new solutions for the so-called smart grids, where through the introduction of digital technology new features are realized to address the increasing complexity resulting from the deployment of distributed generation sources connected to the LV networks and to better meet the demands of the Regulator and the expectations of customers. Also within the context of innovative business, the Group is committed to developing the offer, for private and institutional customers, of smart services such as remote metering, video surveillance, LED public lighting, parking, sharing and power supply services of electric vehicles as well as energy efficiency services. The risks associated with the provision and development of said services relate to the quality of the same, with consequent repercussions on the level of customer satisfaction. To oversee said issues, we highlight remote monitoring of plants consisting of receiving signals and alarms from equipment and systems, maintenance procedures to ensure efficiency and safety of users, procedural body for handling complaints and other Quality Management System procedures.

Together with the continuous controls aimed at guaranteeing continuity of supply also through expansion, maintenance and linking of the networks, operative means of regulating the customer's consumption during specific time bands have been successfully tested in the district heating sector; these are designed to avoid excessive peaks in the use of installed power with consequent improvement of working of the networks. In addition, studies are underway for the construction of new plants is being (electric boilers to be kept in reserve, construction of thermal accumulations at some of the Company's sites) and new heat transport networks, aimed at covering peak energy demand and improving the structure of the network and revamping of existing networks. These operations are supplemented, as part of the maintenance of the network, by continuous engineering analysis supporting works for repairs. In addition, innovative techniques are being evaluated for the detection of leaks from the networks using drones or dyes in heat transfer water. Measures were also carried out to ensure the continuity of the district heating service are also underway for situations in which there is a temporary interruption of the supply of heat to the network by the waste-to-energy plants of the Group. For example, with regard to the Silla2 TV system, new pipes have been built to supply district heating in case of turbines out of service.

A significant risk issue, which is transversal to all business areas required to manage plants and infrastructures, is that related to unauthorized physical access of personnel outside the Group at the premises, facilities or ICT infrastructures, with potential repercussions on the correct performance of the operating activities and on the safety of operating personnel, unauthorized third parties, the sites and the surrounding environment. To mitigate these possible events, we note the implementation of signal convergence activities from the sites and infrastructures of the Group Companies at the A2A Security Control Room. The company has a Group-wide Security Policy as well as site level procedures to regulate plant access control and security services. Further interventions are being evaluated and have already been partly realized such as such as projects for the standardisation of access registration systems at offices and plants, studies on the situation of gas plants to increase the their safety level, strengthening of anti-intrusion alarm system and the installation of control systems for badge access, infra-red cameras and systems. As regards access to the Data Processing Centers (CED), checks have been carried out on the effectiveness of the current control systems and the authorization procedures have been reviewed. The initiatives listed above are coordinated by the organizational structure Group Security, which is responsible for the coordination of all security aspects in order to ensure the protection of human and material resources, industrial assets and information managed by the A2A Group.

Finally, the Group takes out insurance cover against any direct and indirect damage which may arise from other types of risk. As part of the insurance contract periodically (every 3 years), inspections are carried out on the plants and measures to improve the safety of assets and loss prevention are recommended/verified. The contractual conditions that characterize the insurance policies were revised to align them to the way in which the plants work and to energy market conditions.

Risks related to climate changes

The A2A Group has started a process of further development with regard to the identification and assessment of risks connected with climate change in accordance with the guidelines drawn up by the Task Force on Climate related Financial Disclosure (TCFD). Climate risks are presented below according to the classification proposed by the TCFD.

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**Transition risks**

A transition risk is represented by the potential economic and financial impacts on the margins of the Group's Generation and Trading Business Unit due to the effect of prices of CO2 emission allowances (EUA) that differ from those provided in the medium and long-term scenarios developed by the Group. The impact may be either favourable or unfavourable depending on the direction and extent of the deviation. The issue is managed as part of the Commodities risk (see paragraph Energy scenario risk).

Another risk issue is represented by regulatory and/or legal developments in public support for thermoelectric production, support established to ensure adequate electricity generation capacity in the current and future context of development and dissemination of energy production from non-programmable renewable sources. In order to address this risk, the Group, in addition to maintaining regulatory and technical control to increase the probability of gaining access to such support, defined a development plan for the production of energy from renewable sources with the aim of increasing the diversification of energy sources; said diversification already constitutes control thanks to the consistent asset of hydroelectric generation.

There is also growing pressure from other stakeholders with regard to water used by the Group for hydroelectric purposes (see the paragraph on scenario risk of economic and socio-environmental context).

**Chronic physical risks**

Chronic physical risks related to climate change refer to the possibility that the production and consumption of products (electricity, gas for heating) and services (district heating, heat management) provided by the Group may be negatively affected by unfavourable conditions, such as the scarcity of rainfall or particularly mild temperatures in the hot season, with consequent negative effects on expected profitability.

With reference to the Generation and Trading Business Unit, low rainfall would result in a lower availability of water resources compared to expected values (based on statistical estimates). To ensure optimum exploitation of available water resources, even in the presence of periods characterized by particular deficiency, we note organizational monitoring structure consisting of business units dedicated to the development of analyses and engineering models to support the programming, both medium and short-term, of hydroelectric plants. New tools to improve weather forecasting (precipitation, snowpack, etc.) are also being developed to support this activity. We also note that the hydroelectric plants of the Group have different characteristics in terms of water resource exploitation and are distributed on the Italian territory.

As regards the Networks and District Heating Business Unit and the Market Business Unit, milder winter temperatures than expected would result in lower demand on the part of end users, of gas and heat used for heating. The structure consists of company business units devoted to the constant updating of demand forecasts in relation to the expected trend of temperatures as well as the consequent management and optimization of the production/supply of heat; it is also highlighted that new initiatives are being studied to provide heat power to be allocated to district heating users at more economical conditions than gas utilization, by recovering heat from plants and infrastructures of the Group and third parties, such as treatment facilities, aqueducts and steel mills. Finally, there was the use of innovative forecasting systems and the adoption of instruments to cover climate risk (weather derivatives) for the district heating sector.

Particularly high temperatures in the summer periods give rise to risks of disruption of the electricity distribution service, the management of which is described in the chapter on business interruption in this report.

With reference to the Integrated Water Service, there is also the risk linked to the scarcity of the water resource destined to the distribution of drinking water in the event of particularly drought seasons, with consequent negative repercussions of a mainly reputational nature; to guarantee the continuity of the service, the A2A Group monitors and maps leaks from the aqueducts to identify the priority of the interventions, has commissioned studies to improve the interconnection of the aqueducts and is collaborating with the University of Brescia for the study and application of the Water Safety Plan, a project to systematically guarantee the safety of a drinking water system, the quality of the water supplied and the protection of consumer health. In addition, the Group has launched a monitoring activity in the Water Stressed Areas that involves mapping the municipalities most at risk and refining the monitoring of the quantities of treated, dispensed and lost water.

Acute physical risks

The Group is exposed to potential economic and financial impacts resulting from direct damage to the Group's assets or indirect damage due to the need to interrupt production activities as a result of extreme weather events (e.g. floods, landslides, etc.). The risk also includes the case that third-party infrastructures may be affected by an extreme weather event, but necessary for the performance of ordinary operating activities (e.g. an electricity transmission line) or that may interfere with hydraulic system infrastructures (canals, dams, pipelines).

The A2A Group adopts procedures and contingency plans to manage in a timely and optimal manner the occurrence of any extreme weather phenomena such as landslides, floods, as well as other unforeseeable natural events such as earthquakes. The issue is mitigated by the presence of emergency procedures at plant level that are also drawn up in compliance with the Civil Protection documents issued by the Prefectures.

In order to limit the economic impact of risks linked to extreme natural phenomena, the company has stipulated insurance contracts with extended coverage also for these causes of damage. The residual impact is therefore the application of the deductibles in case the scenario arises. To this end, a project to quantify this residual risk is currently being carried out, based on the information provided by the insurance broker as a result of the inspections carried out on the plants: the activity that today has made it possible to assess a significant percentage of the assets of the Generation and Trading Business Unit, the Waste Business Unit and a smaller percentage of the Networks and District Heating Business Unit, is being progressively expanded to other Group assets and types of plants.

Interest rate risk

Interest rate risk is related to the uncertainty associated with the trend in interest rates, changes in which can result in, given a certain amount and composition of debt, an increase in net financial expenses. The volatility of financial expenses associated to the performance of interest rates is therefore monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

To provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected every six month at December 31 and June 30, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations. The section "Other Information/Interest Rate Risk" of the consolidated Financial Report illustrates the effects on the change in the fair value of derivatives resulting from a change in the forward curve of interest rates of +/- 50 bps.

Credit risk

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

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities.

Specifically, with regard to trading activities and in compliance with the procedures in place (Energy Risk Policy, Risk Management, Deal Life Cycle), Group Risk Management, based on proprietary systems, assesses the Rating of Counterparties, defines the Probability of Default and attributes the Maximum Exposure to Risk, systematically verifying compliance with the limits of Counterparty Risk.

A further parameter monitored, which helps to limit the risk of concentration on the individual counterparty, is represented by the Credit VaR, namely the assessment of risk in terms of potential loss, with a certain confidence level, associated to the entire loan portfolio.

In relation to commercial counterparties and in compliance with the procedures in place (Credit Risk Policy), risk is mitigated through preventive assessment, attainment of guarantees and collateral, compensation management, optimization of credit reminders and recovery processes as well as the use of monitoring and reporting tools. Group Risk Management intervenes in the management of commercial credit both directly and indirectly, through a specific proprietary model, in defining the creditworthiness and credit limit of business customers, for which derogation to guarantee release is required.

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### Liquidity risk

Liquidity risk regards the Group's timely ability to meet its payment commitments. To hedge this risk, the Group ensures the maintenance of adequate financial resources, as well as a liquidity buffer sufficient to meet unexpected commitments. At December 31, 2019, the Group contracted revolving committed credit lines for 540 million euro, unused. It also has unused long-term bank financing for a total of 250 million euro and cash and cash equivalents totalling 434 million euro. The management of liquidity risk is pursued by the Group also through a Bond Issue Program (Euro Medium Term Note Programme) that is currently being updated, sufficiently large and partially unused as to enable the Company to timely resort to the Capital market. At December 31, 2019, this program amounts to 4 billion euro, of which 1,549 million euro still available.

### Covenants compliance risk on debt

This risk exists if the loan agreements provide for the option by the lender, upon the occurrence of certain events, to request early repayment of the loan, thus entailing a potential liquidity risk for the Group. The section "Other Information/Covenants Compliance Risk" of the consolidated Financial Report illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. In any case, at December 31, 2019, there was no situation of non-compliance with the covenants of the A2A Group companies.

### Environmental risk

The risks resulting from any non-compliance - real or presumed - with regulations and/or authorizations or possible environmental damage caused by accidents and/or incorrect management of the Group's activities are the subject of increasing attention from public opinion, public regulatory bodies and increasingly stringent legislation. This type of risk covers all activities of the Group, with particular reference to the disposal of production waste, emissions resulting from the production processes, the management of the collection, storage, treatment and disposal of waste, the supply of basic goods such as drinking water, waste water treatment, the management of emptying and maintenance of the reservoirs for the collection of water resources for the production of electricity.

To monitor these potential risk events, the Group has implemented various actions: procedures for design and construction of deposit and storage sites of waste materials to prevent pollution phenomena, monitoring systems and the presence of static and dynamic barriers enabling to detect pollution phenomena attributable to the same sites, systems for prevention and/or abatement of polluting concentrations in gaseous emissions, purification plants for waste water of energy production and waste treatment plants, systems for continuous/period measurement of polluting concentrations in emissions. With regard to the issue concerning the management of reservoirs, with specific reference to maintenance/removal of the sediments and the corresponding possible negative effects on water and on the local area, it is noted that there are controlled and specific arrangements for the execution of drainage operations to minimize the effects on the environment. Lastly, it is noted that the Group pays attention, as part of the acquisition of new assets, to the possible presence of "environmental liabilities", i.e. situations of risk or latent non-compliance related to the operation of establishments and connected to the previous management, in order to implement all measures aimed at their removal.

The Group directly oversees the risk issues concerned also through the Environment, Health and Safety Organizational Structures of the company and site, which provide the necessary support to employees, officers and management in the oversight of significant environmental aspects, in implementing developments in regulations and in the HSE (Health Safety Environment) management system.

The Environment, Health and Safety Organizational Structure also supports senior management in establishing company policy in these areas, checking that this is implemented properly in compliance with the rules applicable in all areas and internal processes. The main activities of the structure consist in the definition of guidelines, oversight of Environment and Safety regulations and dissemination thereof within the Group and in conducting regular audits, both in terms of regulatory compliance and compliance with company procedures. The organizational structure responsible for carrying out environmental and safety audits since 2019 also reports functionally to the Internal Audit function.

The Group has adopted a policy document entitled "Policy for the Quality, Environment and Safety of the A2A Group" which is the tool which now sets out the Group's approach to such questions. This document, which is widely distributed both internally and externally, explains the values which underlie the Group's operations and which the Environment, Health and Safety Organizational Structure is committed to disseminating and sharing as guidance for the day-to-day work of all concerned.



The operational implementation of the policy is carried out through the use of an Environmental Management System (EMAS) by those operating entities of the Group with significant environmental aspects. This system provides for a program of progressive extension and upgrading to the standards of ISO14001 certification for the Group's main activities having a greater impact on the environment, as well as for obtaining EMAS certification for the Group's main plants.

In addition, the organizational structure Enterprise Risk Management, in coordination with the organizational structures Environment, Health and Safety, dialogues with the Business Unit managers to support the identification and study of possible environmental risks even in the implementation of the new standard ISO14001:2015. As mentioned above, the environmental management systems in place, thus allow identifying and overseeing the environmental aspects related to the activities and processes while minimizing risk on the environment due to the activities of the Group.

The Group is active in the prevention of anomalous situations or particular external events, such as, for example, risk issues related to the transfer of off-spec materials to plants; as prevention, the Group carries out strict control on the materials entering the plants and has adopted internal guidelines for the control of waste, which are then implemented with specific procedures at plant level. In addition, testing and selection of continuous monitoring systems for micro-pollutant emissions, for which current regulations only require periodic analyses, was completed in 2019, and work is underway to install this new instrumentation on the Group's waste-to-energy plants. To ensure compliance with the prescribed limits, materials and techniques are used for the flue gas purification system that can also absorb any presence of greater quantities of micro-pollutants than expected. Finally, a collaboration is underway with the Politecnico di Milano in a research activity aimed at further improving the efficiency of emission abatement systems.

Other possible external events concern the anomalous discharges of pollutants in public sewage systems that convey to the Group's purification plants; to timely intercept and manage any peaks of pollutant concentration, a program has been launched to upgrade analysis stations of waste water that transits through public sewers before entering the purification plants. With reference to the issue of urban waste water treatment, actions are being evaluated, planned and started for the upgrading and enhancement of existing infrastructure.

Particular attention is paid to the risk of fire at waste storage and treatment sites, such as ecological platforms (recycling plants) and recovery plants: the issue is managed both in the context of security and prevention of unauthorised access and through the implementation of prevention measures at the main sites, in addition to those indicated in the fire prevention certificate. In order to deal promptly with the possible emergence of fire principles, fire-fighting drills are carried out and innovative detection techniques are being studied, such as the use of drones.

In the area of gas and electricity distribution, there is a procedural body focused on controls concerning the management of excavated material deriving from construction sites on the networks, the definition of check lists on environmental aspects, the monitoring of the activities of contractors in compliance with the provisions of the company guidelines, specific training programmes for operating personnel at sites equipped with temporary storage to guard against potential risks resulting from the non-optimal management of waste produced directly by the company's own activities and indirectly by the activities of its contractors.

Another risk area concerns the possible exploitation of environmental data and information which, although without foundation, may damage the image of the Group or hinder the smooth operation of the plants. To monitor these risks, the Group carries out constant monitoring of the environmental parameters of both the quality of water distributed and their emissions, and manages the publication of specific reports. The Group is also involved at various levels in constant and transparent dialogue in dealings with entities, with the communities of reference and with stakeholders, also through tools such as Environmental declarations (published for sites participating in the EMAS regulation).

In particular, in order to always be in line with the best techniques available in the environmental field and to efficiently plan any new Capex that may be necessary, the Group participated and participates in working groups to define and apply BREF (Best Available Techniques Reference Document) such as groups for transposition of BReF indications for Waste Treatment.

The Group also monitors regulations in the environmental field in order to adopt a preventive and precautionary approach for areas in which environmental legislation is not univocally defined. In this context, the possible direct and indirect consequences of the End of Waste developments on the business were assessed.

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The Organization and Management Model pursuant to Legislative Decree no. 231/2001 is constantly updated at all Group companies as well as at those recently established and/or acquired, also with reference to environmental crimes introduced by Law 68/2015.

The A2A Group has taken out insurance cover against damage arising from both accidental and gradual pollution in order to cover any residual environmental risk, i.e. against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations.

### Information technology risks

The activities of the A2A Group are managed through ICT systems which support the main business processes: operational, administrative and commercial. Potential risk factors include the inadequacy, fragmentation of existing platforms of such systems compared to business needs or the failure to keep these updated, possible “downtime” making the systems unavailable and the inadequate handling of the aspects linked to the integrity and confidentiality of information. These risk factors are mitigated by controls governed by the Group Information & Communication Technology (ICT) Organizational Structure.

The process within the Group of integrating and consolidating its ICT systems, also determined on the basis of past and present changes in corporate structures, has led to a number of important objectives being reached. Following the integration of distribution support systems on a single platform, the program for the convergence of the main systems supporting commercial activities has also been completed. In areas where there are still inadequacy and fragmentation of systems and platforms used, in consequence of which there may be inefficiencies in the implementation of business processes such as Energy Trading, billing and credit management, it is noted that activities have been planned and are being carried out for the implementation of activities to rationalize and renew existing platforms. Moreover, important results were achieved in the renewal of some platforms supporting business activities, such as the implementation of a modern Customer Relationship Management platform to support commercial activities and the renewal of systems in the Waste Business Unit.

The Group will continue to develop its information system structure and improve its efficiency by progressive implementation of long-term architectural strategic plan that is periodically updated.

In addition to defining outsourcing contracts for ICT services that envisage pre-defined service level agreements, the Group has developed a process to ensure operating continuity, even in the event of unavailability of one of the two Data Processing Centers (CED - Centro Elaborazione Dati), of some systems of particular relevance for the business. Furthermore, the transportation activities of the Milan Data Center were completed at the infrastructure of an external supplier, thus making a significant step forward in achieving higher levels of security in terms of service continuity. It is also underlined that there is currently the availability of suppliers and resources within the Group to cope with logical attacks, viral attacks and system failures and that the assessment of vulnerabilities and the related remediation plan for the most critical applications is underway. Lastly, the Business Continuity Plan structuring activities were started, aimed at prospectively establishing the instrument through which the Group will be able to deal with further scenarios of unavailability of services for the areas considered most critical; as part of this project, the evaluation and subsequent implementation of alternative solutions for infrastructural improvement of the Brescia DPC is particularly important, with the aim of further increasing the levels of reliability and continuity in the provision of ICT services.

Data confidentiality and security are subject to specific controls by the Group, through internal policies, tools to segregate access to information, as well as through specific contractual agreements with any third parties who may have to access sensitive information. To further improve the oversight in place, the alignment is being performed between the model of organizational roles and model of technical roles of Segregation of Duties implemented in the systems; said verification will be followed by the implementation of profiles designed to strengthen security aspects for critical information systems. Network Access Control (NAC) measures have been introduced to the elements of the corporate network (computers, servers, firewalls and routers) and Cyberark tools, which represent a specific approach to network management and security and which aim to strengthen network security, monitoring all access based on the security policy. An agreement has been signed with CNAIPIC (National IT Anti-Crime Center for the Protection of Critical Infrastructures), in order to establish forms of direct collaboration and management of possible incidents. In addition, the activities connected to the organic ICT security master plan for the three-year period 2019/2021 are currently being implemented; with this in mind, specific policies have been drawn up regarding the use of mobile devices, which are now increasingly used in the performance of business activities, vulnerability assessments and remediation plans are being carried out for the main applications and

specific software is used for malware detection. Finally, activities were planned to structure a security by design project aimed at correctly identifying the security requirements for future systems and applications.

Also with reference to the issue of data confidentiality and security, we highlight the Group's commitment to the definition and implementation of organizational and technological measures relating to the provisions of EU Regulation 2016/679 alias "GDPR"; the coordination of the issue is guaranteed through the "Group Compliance" organizational structure. In addition, an audit was completed in the ICT area of the Group, aimed at identifying the main characteristics and potential critical points of the current industrial process management systems (such as, for example, SCADA systems) which, due to an ever-increasing integration with IT (Information Technology) systems, are potentially exposed to security and integrity risks; the evidence of this study led to the definition of a development plan for a new model of governance of these systems, as well as to the planning of the activities for the creation of a SOC (Security Operation Center) for the monitoring of the process control systems of the plants and infrastructures of the network.

With reference to Linea Group Holding, it should be noted that the main risks focus on the issues of integrity and confidentiality of company data, as well as continuity in the provision of ICT services in the event of a major incident. In this regard, on the basis of audits already carried out in a coordinated manner with the parent company, the company has implemented and planned a series of activities aimed at embarking on the operational path of integration with the A2A Group: in particular, it should be noted that a programme is being evaluated for alignment with A2A standards in the management of ICT security aspects, and the project is being carried out for data backup according to the principle of off-site vaulting, in line with A2A's Backup Policy. From this point of view, it is also appropriate to highlight the risk associated with convergence, on the broader A2A application map, of the company systems and platforms; to monitor this issue, it should be noted that the necessary measures will be implemented to minimize the risk deriving from data conversions and their transfer to different application maps. With the conferral of the subsidiary Linea Com S.r.l. into A2A Smart City S.p.A., a common and integrated approach at the level of the Group's ICT services was shared.

### Health and safety risk

The Group operates in a heterogeneous business environment characterized by a strong technology element and the presence of personnel at its plants and throughout its territory.

Certain Group activities are, by their nature, more exposed to the risk of "typically work-related" accidents linked to the operational services in the territory and the performance of technical services and activities at the plants.

Through the Quality, Environment and Safety Policy (also issued as part of the personnel health and safety management system to comply with ISO45001 and OHSAS 18001), the prevention measures adopted aim for a "zero risk" objective, encouraging a constant rise in the level of safety in the workplace. In particular, in this respect, the adoption of additional models for measuring the Health and Safety risk at the level of single plant is underway.

A central Prevention and Protection Service has been set up as part of the Quality, Environment and Safety Organizational Structure in order to harmonize the objectives of safety and protection in Group companies and to monitor that these standards are also being followed by contractors at both the prequalification stage and the execution stage at worksites.

The organizational control structure, among other activities, carries out specific audits aimed at monitoring compliance with legislation as well as personnel update training. In this regard, specific obligatory training plans are defined and implemented for each company role and task. In addition, the Leadership in Health and Safety – LiHS training programs have been implemented and are being progressively extended to all Business Units, which envisage at all levels emotional involvement on the issue of security and the dissemination of security culture through leaders identified within the operating areas.

A project to revise the present organizational model is ongoing based on the establishment of guidelines, methodologies, instruments and controls provided by the Environment, Health and Safety Organizational Structure and assisted by the support of specific Environment, Health and Safety functions in each Business Unit and by the active involvement of the operating structures.

Finally, the employee health surveillance management system is active, conducted with the aid of a team of doctors located in the various areas who carry out periodic assessments on the state of

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health of personnel. As part of this system, there are specific analysis and reporting tools regarding the results of the health supervision process.

In support of the process of continuous improvement of health and safety, it should be noted that i) studies are underway to identify ever better and innovative procedural, technological, ergonomic and cultural solutions to be applied to operational activities in the field of waste collection and sanitation and ii) a system for the analysis and control of accidents and injuries has been developed. This system is active at the main Group Companies and provides for periodic reporting, which by means of increasingly detailed specific indices and information will provide support for identifying the causes of accidents and injuries and taking corrective and mitigating action. Regarding safety, a further issue is connected to the safety risks for employees working in direct contact with the public and/or citizens, for example in activities related to the recovery of arrears, checks on the correctness of recycling, substitutions/removal of meters. To manage these risks, the Group carries out specific training activities for its staff.

In addition, the health and safety risks for the A2A Group take on an extensive connotation with the possible involvement of third parties (contractors' personnel, users, citizens, etc.) in connection with the nature and methods of carrying out various businesses operated by Group companies; reference is made, for example, to the management of safety by suppliers and contractors (the Group has adopted guidelines and procedures in the activities entrusted in the contract), to any incidents in the management of traffic lights and public lighting systems, the management of electricity and gas distribution networks, also with reference to aspects of interference of the relative work sites with the urban fabric of reference, the collection of waste and street sweeping, which involves the use of road vehicles, including large ones.

To mitigate this risk issue, activities have been planned for replacement of the most outdated electrical circuits, test campaigns and, if necessary, replacement of older supports, and implementation was completed of new systems for remote control of lighting points. With regard to road safety for vehicles carrying out urban waste collection and sanitation activities, training and awareness-raising activities have been carried out for vehicle drivers, and the adoption of technological systems for remote control and limiting vehicle speed is being considered.

The organizational structure Enterprise Risk Management, in coordination with the organizational structures Environment, Health and Safety, dialogues with the Business Unit managers to support the identification and study of possible risks for the health and safety management system also in implementation of the new standard ISO45001:2018.



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Sustainability  
responsible  
management

## Sustainability responsible management

Environmental protection, safeguarding of natural resources, respect for fundamental human rights, an economic model capable of integrating territorial development and protection of the earth's ecosystem have become - for several years now - the focus of the political agendas of the most important world leaders. 2015 was a further decisive year in this respect. In fact, on the occasion of the 70th General Assembly of the United Nations, the leaders of the member countries adopted a new global framework for sustainable development: the 2030 Agenda, consisting of 17 objectives (Sustainable Development Goals - SDGs), and 169 specific indicators for the period 2015-2030. The adoption of this agenda has had a historic significance, not only because - for the first time - it proposed a model of integrated development in all aspects (environmental, economic and social), but also because it commits all member countries (developed and developing), together with their companies and citizens, to take concrete actions aimed at guaranteeing a sustainable tomorrow for future generations.

A2A faced this challenge by redesigning its sustainability strategy in April 2016 precisely in light of the UN Agenda priorities, defining a Sustainability Policy through hinged on four cornerstones: circular economy, decarbonisation, smartness in networks and services and people innovation. From this document derives the Sustainability Plan, which contains concrete and measurable actions and objectives, and which is updated annually in an integrated manner with the Group's Business Plan.

On May 13, 2019, the third Group Integrated Report was presented to the A2A Shareholders' Meeting, which for the second year, is also the Non-Financial Statement pursuant to Legislative Decree 254/16. This document continues to be drawn up according to rigorous and internationally shared standards and methodologies, in particular the Integrated Reporting Framework (IR Framework) and the international standards of the Global Reporting Initiative (GRI). For this report, in November 2018, A2A was awarded for its ability to share the Group's commitment to environmental and social issues and its business model, aimed at creating sustainable value over time and shared with communities, winning the "Oscar di Bilancio per la Dichiarazione non Finanziaria" award, during the ceremony of the fifty-fifth edition of the "Oscar di Bilancio" event.

For the third consecutive year, the Sustainability Plan was monitored in the document, which showed that most of the indicators are making significant progress, giving reason for the work that the Group is carrying out.

Also thanks to this performance, in the first few months of 2019, A2A obtained a better evaluation of its rating by Standard Ethics: from EE- (Adequate) to EE (Strong). The rating is linked to the credit line entered into in August 2018, which sees the interest rate linked to the achievement of specific environmental KPIs combined with the annual ESG rating of Standard Ethics. In addition, in 2019, A2A issued its first green bond within the Green Financing Framework recently published, intended exclusively for institutional investors under the Euro Medium Term Notes Programme. The issue, 400 million euro with a 10-year maturity, has aroused great interest from investors throughout Europe, receiving orders for 3.2 billion euro, more than 8 times the amount offered.

Sustainability performance reporting is also continuing at local level. In 2019, in particular, the 2018 Sustainability Reports of the municipalities of Milan, Brescia and Bergamo and of the territories of Valtellina-Valchiavenna, Friuli Venezia Giulia and Piedmont were published and presented in public events. Also this year, the documents - starting from the 10 Sustainable Development Goals of the UN 2030 Agenda, chosen by A2A - describe in detail the contribution the Group is making to the sustainable development of each territory. For each of these Reports, a summary paper version has been created and a dedicated in-depth section has been provided on the web within the platform [www.forumascolto2a.eu](http://www.forumascolto2a.eu), in which it is possible to explore the Group's performance in the various territories, as well as the actions and projects that A2A carried out in 2019.

As part of the stakeholder listening programme, *forumAscolto*, A2A selected the two best projects from among the projects that took part in the call to action *creiAMO PIEMONTE*. Both winners, *Mercato Circolare* and *Musicanti di Brema*, were guaranteed, in addition to financial support of 25 thousand euro each, a light incubation path for the development of their project idea, in collaboration with a local incubator. And thus the show *I Musicanti di Brema*, created to provide an entertaining way to reflect on climate emergency, made its debut at the Alfieri Theatre in Turin, on the occasion of *Friday for the Future*. While *Mercato Circolare* has defined didactic-experiential paths for all school classes that will be implemented from 2020.



The *Banco dell'Energia* – the social responsibility project that emerged from the Brescia forum – promoted by A2A with the AEM Foundation and the ASM Foundation has relaunched again, in collaboration with the Cariplo Foundation, the *Doniamo Energia*2 call for proposals to identify further actions aimed at supporting economic and social vulnerability throughout Lombardy. In December 2018, the ranking of the winning projects was published: 16 projects with a total of 205 organizations working in a network. And thanks to a partnership between Banco dell'Energia and UBI Comunità, UBI Banca issued the Social Bond *UBI Comunità per Banco dell'energia Onlus*, the proceeds of which, amounting to 100,000 euro, will help to support 200 families in a situation of economic and social vulnerability, through the distribution of basic necessities and the payment of urgent expenses (such as gas and electricity bills of any operator, school fees, mortgage payments) to households.

As far as educational activities are concerned, the *Missione Terra* Global Goal Protocol competition for the 2018-2019 school year and dedicated to Italian primary, secondary and high schools and focused on the 17 Global Goals promoted by the UN, closed in June 2019. It involved the participation of 127 Italian schools, producing 390 works, with 12 winners, divided in the four school grades and awarded with vouchers for the purchase of teaching materials. The project was carried out under the patronage of ASviS - Italian Alliance for Sustainable Development and UN Global Compact. Moreover, in September 2019, on the occasion of the start of the new school year (2019-2020), the new edition of the *Missione Terra* Global Goal Protocol competition was launched, also dedicated to primary and secondary school classes, and which will focus on objective no. 4 of the UN 2030 Agenda, relating to Quality Education. Finally, at the start of the 2019-2020 school year, also in line with UN 2030 Agenda, with particular reference to objectives no. 6 (Clean water) and no. 12 (Responsible consumption), A2A and the Municipalities of Milan and Brescia provided a free aluminium water bottle to all middle school students in the two cities, with the aim of raising awareness of the reduction of disposable plastic (in particular PET) in favour of tap water consumption: sustainable, economic and safe. About 50,000 water bottles were provided. Another 8,500 were distributed to freshmen at the University of Brescia, thanks to the contribution of A2A Ciclo Idrico.

Also as part of the launch of the new website for schools, the innovative digital platform – where it is possible to find a lot of information on the initiatives dedicated by A2A to schools, all free of charge – the EDU TV was created, a new multimedia communication channel to innovate the relationship with teachers, who can enjoy free public videos divided into four different thematic areas (technology, sustainability, history and events related to A2A) and participate, on registration, in live streaming events (webinars) with the possibility of interacting with the speaker through a chat.

Finally, in 2019 the sustainability section of the website [www.a2a.eu](http://www.a2a.eu) was completely redesigned, with the aim of simplifying browsing and accompanying users, stakeholders, students or just curious people in three directions to discover the world of sustainability of A2A: through the 10 SDGs that inspire our Policy or starting from the 4 PILLARS that characterize it or discovering the MATERIAL THEMES, which describe in concrete terms what A2A does for the communities in which it operates. These three browsing keys are linked together and each action of the Plan is measurable and represented by graphs that allow monitoring the progress of the Sustainability Policy year by year.

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The background is a photograph of a classical building facade, featuring a grid of windows with ornate pediments and decorative moldings. A semi-transparent blue filter is applied to the entire image. A large, white, right-angled triangle is positioned on the left side, pointing towards the center.

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Other  
information

# Other information

## Audit of the financial statements and disclosures pursuant to article 149-duodecies of the Consob Issuers’ Regulations

The annual financial statements of A2A S.p.A. are subject to a full audit by EY S.p.A. on the basis of their appointment for financial years 2016 to 2024 by shareholders in general meeting.

The following table provides a summary of the fees paid for audit work performed within the Group during 2019, analyzed between the leading auditor EY S.p.A. and other auditors.

Description <i>thousands of euro</i>	Leading Auditor	Other auditors
<b>A2A S.p.A.</b>		
Audit of annual financial statements	145.0	
Audit of consolidated financial statements	42.0	
Periodic tests of accounting	21.0	
Review of half-yearly report	67.0	
Audit of the separate annual accounts for ARERA	15.0	
<b>Total</b>	<b>290.0</b>	<b>-</b>
<b>Subsidiaries</b>		
Audit of annual financial statements	800.0	
Periodic tests of accounting	196.0	
Review of half-yearly report	187.0	
Audit of the separate annual accounts for ARERA	48.0	
LGH Group	256.0	
ACSM-AGAM Group	355.0	
<b>Total</b>	<b>1,842.0</b>	<b>-</b>
<b>Associates and joint ventures</b>		
Audit of the information sent to shareholders for the consolidation	34.0	
<b>Total</b>	<b>34.0</b>	<b>-</b>
<b>TOTAL A2A GROUP</b>	<b>2,166.0</b>	<b>-</b>

In addition to the above audit work, companies belonging to the EY network also performed other engagements in 2019 for fees amounting in total to 52 thousand euro, which mainly related to activities as the Company’s legal auditor as specified by current legislation.

## Treasury shares

At December 31, 2019, A2A S.p.A. held 23,721,421 treasury shares, being 0.757% of its share capital consisting of 3,132,905,277 shares. At December 31, 2019, no treasury shares were held through subsidiaries, finance companies or nominees.

Each share has a par value of 0.52 euro.

## Secondary locations

The company does not have secondary offices.

## Related parties and tax consolidation

Details of related party transactions are provided in note 39 to the consolidated financial statements and note 36 to the separate financial statements as required by article 2428 of the Civil Code.

Consob Market Regulation (no. 16191/2007)

Article 2.6.2 of the Italian Stock Exchange Rules on the conditions as per articles 36 and 39 of the Consob Market Regulation (no. 16191/2007)

As far as the subsidiary EPCG is concerned, in order to comply with article 39 of the Market Regulation issued by Consob on the “Conditions for listing of shares of parent companies of companies instituted and regulated by the laws of non-European Union Member States” as per article 36 of that Regulation, A2A S.p.A. has adapted to the provisions on the adequacy of the administration and accounting systems, with respect to the size of operations, and the information flow to management and the central auditor necessary to control the consolidated financial statements of the parent company.

There have been no acquisitions during the year of companies registered in non-European Union countries which considered on their own are material for the purpose of the legislation in question.

\* \* \*

The information on corporate governance and ownership structures required by article 123-bis of Legislative Decree no. 58/1998, as amended, is contained in a separate document “Report on Corporate Governance and Ownership Structures for the year ended December 31, 2019”, which forms an integral part of the financial statements documentation.

In compliance with the requirements of the “Regulation on provisions relating to related party transactions” adopted by Consob with Resolution no. 17221 of March 12, 2010 and subsequently amended by Resolution no. 17389 of June 23, 2010, by way of a resolution of November 11, 2010 the Management Board approved, following the favorable opinion of the Internal Control Committee, the prescribed procedure for identifying the rules and controls designed to ensure the transparency and substantial and procedural correctness of the related party transactions carried out by A2A S.p.A. directly or through its subsidiaries. This procedure, which may be found on the website [www.a2a.eu](http://www.a2a.eu), has been applied since January 1, 2011.

The Board of Directors of June 20, 2016 resolved, with the approval of the Risk Control Committee, the review of the procedure “Regulation of transactions with Related Parties”. The review of the procedure particularly involves the reduction, introduced optionally, of the threshold for transactions with subsidiaries of the Municipalities of Milan and Brescia, regarding which to provide for the application of the Procedure.

The company has availed itself of the possibility permitted by article 70, paragraph 8 and article 71, paragraph 1-bis of the Issuers’ Regulations, and hence of derogating from the requirement to make an information document available to public in the event of significant mergers, spin-offs, share capital increases by means of the contribution of assets in kind, acquisitions and disposals.

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