PRESS RELEASE – 3 April 2017

The Board of Directors has examined and approved the 2017-2021 Strategic Plan of the A2A Group

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Readjustment of the strategic priorities

After the brilliant results of the two-year period 2015-2016, acceleration in networks, environment and customers; conventional generation towards transformation

Significant increase in investments

2.75 billion euros in five years (+500 million euros compared to the 2016-2020 plan). Almost 80% in networks and environment

Further improvement in economic-financial results

EBITDA at 1.38 billion euros and Net Profit at 0.47 billion euros in 2021
NFP down by over 0.6 billion euros to 2.5 billion euros

Increase in dividends confirmed

2019 Target: 7.5 euro cents per share

External growth and new potential efficiencies not in the plan

In line with previous Plans, the Plan, cautiously, does not incorporate various external growth and further cost efficiency initiatives

4 pillars of sustainability confirmed

Renewal of the commitment to Circular Economy, Decarbonization, Smart Grid and Services and People Innovation – with the breakdown of the 2030 Sustainability objectives, together with actions and results that can be achieved in the Plan period

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Milan, 3 April 2017 – At today's meeting of the Board of Directors of A2A the Board examined and approved the 2017-2021 Strategic Plan of the Group.

The 2017-2021 Strategic Plan confirms the strategic path taken in 2015 aimed at transforming A2A into a modern multi-utility company, essential to meet the needs of the local communities served, and a leader in the green economy, smart networks and new forms of managing energy services.

The new Plan, confirming or improving all the business objectives already defined in the past, defines the new strategic priority "R1" from the restructuring of the thermoelectric sector (whose operating activities were largely carried out in the two-year period just ended) to the "relaunch" of the environment, networks and energy services areas through a further acceleration in investments dedicated to them.

The implementation of the new Plan will help to significantly redefine the portfolio of industrial assets allowing A2A to more effectively seize the growing opportunities in the market and to propose some projects on an industrial scale, which have already been launched in the test phase in the fields of innovation, digitisation and energy efficiency.

REVIEW OF THE STRATEGIC GUIDELINES: **3R AND 3D**

Two years after the launch of the 2015-2019 Strategic Plan which inspired the actions for these two years, A2A acknowledges, on the one hand, the validity of the approach taken in this Plan which has allowed it to achieve excellent operating and economic-financial results even in the presence of a macro-economic and energy scenario that was not always favourable, and on the other hand the opportunity or, better, the need to review the strategic priorities of the same Plan also in consideration of what has already been achieved of the original Plan.

The main development lines of the Plan are renewed along the lines of the framework embarked on with the **2015-2019 Plan**, but according to different prioritization and partial adaptation of the 3 Rs:

1. **R1: Relaunch.** The network, environment and energy services areas destined to represent the majority of the Employed Capital and the generation of profitability in 2021, will see a further acceleration in investments and will allow A2A to qualify as a company more oriented towards the supply of services to the territorial communities and less towards electricity generation;

2. **R2**: **Restructuring**. Now completed in terms of internal actions and transformed due to the effect of the changed market conditions, R2 evolves into **Regeneration** of the thermoelectric and generation sectors, with the active management of capacity and the start of initiatives aimed at developing the distributed generation segment;

3. **R3: Redesign** of the businesses of the future, accelerating the innovations introduced in recent years to shift from pilot projects to market and sustainable solutions.

The 3 Ds confirm the guidelines set for the 2015-2019 Plan:

1. **Discipline**: Discipline in the costs and in the capital structure;
2. **Dialogue**: Dialogue and involvement of the stakeholders;
3. **Digitisation**: Digital and technological transformation**.**

R1 - RELAUNCH

In the five-year period 2017-2021 overall investments of around 2.75 billion euros are planned (of which 1.6 billion euros are allocated to internal and/or external development activities - excluding territorial aggregations), a significant effort – entirely self-financed – of investments on the territory to complete the transformation of the Group. This means around 500 million euros more than in the previous five-year Plan and around 50% more investments per year compared to the 2014-2016 average.

Around 90% of the investments will be aimed at supporting **growth in regulated and quasi-regulated businesses**. These investments will enable around 70% of the Group's Net Employed Capital to be allocated to regulated or quasi-regulated activities in 2021.

Specifically:

- **Environment:** the ambitious objectives defined and then achieved with the previous strategic plan are confirmed: this is the area that will contribute the most to overall growth. This growth will be obtained through an increase in urban collection (+100,000 residents per year, in line with the results achieved in the two-year period 2015-16) and the quantity of waste treated (around 50% more by 2021 compared to the 2016 values). The increase in the treated quantities of the residual portion after waste sorting is expected to be achieved both through new plants constructed directly by A2A and through M&A transactions in the geographic areas of reference. The relaunch of the environment will contribute to the growth of the Group's Gross Operating Margin by around 78 million euros compared to 2017 and will allow it to achieve an overall margin of 341 million euros in the segment in 2021. Around 25% of the Group's overall investments for 2017-2021 are destined for the environment;
- **Networks:** the Business Unit, including distribution networks and district heating, will absorb most of the investments (around 53% of the total) aimed at consolidating and reinforcing the Group's presence in the areas covered. These investments will concern: i) participation in gas distribution tenders; ii) the development and maintenance of the already existing electricity distribution networks; iii) the boosting and development of the integrated water cycle. The relaunch of the networks and district heating will contribute to the growth of the Group's Gross Operating Margin by around 34 million euros compared to 2017 and will allow it to achieve an overall margin of 457 million euros in 2021;
- **Retail:** the Business Unit incorporates the biggest increase with respect to the previous Plan, to be achieved above all by increasing the number of free market customers (+150,000 POD per year). Factors that have contributed to the upgrading of the objectives in the Plan are: i) the excellent results achieved in 2015-2016 in the acquisition of new customers; ii) the capitalization of the business partnership with LGH, particularly present in these segments; iii) specific projects finalized in these years and relating to the sale of energy and services with high added value for the mass-market customer base and SMEs; iv) the strengthening of the base of large customers. This growth is also supported by the high brand equity of A2A in the territories of reference and the high level of effectiveness and efficiency in managing customers. The contribution to the growth of the Group's Gross Operating Margin in the retail area is expected to be around 51 million euros compared to 2017;
- The margin of **EPCG**, the Montenegrin subsidiary of the Group (9% of total investments in the five-year period), shows reduced margin growth with respect to the previous plan for around 33 million euros over the period of the plan (2017-2021 cumulative EBITDA vs 2016-2020 cumulative), deriving from a downgrading of the tariff increase estimates and more cautious estimates on the sale price of exported energy. After this review the growth, in 2021, amounts to around 31 million euros compared to 2017.

R2 - FROM RESTRUCTURING TO REGENERATION OF THE GENERATION PLANTS

The restructuring target – set in 2015 and aimed at reducing exposure and modernizing thermoelectric generation – **is adjusted and renewed** in the 2017-2021 Plan due to a combination of endogenous and exogenous factors; this change results from the early achievement of cost reduction, the process of improving flexibility in the plants and corporate simplification which led to the creation of A2A gencogas. The internal efficiencies were complemented by motivations linked to the change in the market conditions, contingent and not, which highlighted the **role of flexible coverage of the energy**

requirement and services by the CCGTs. In line with these internal and market discontinuities, the strategic approach shifts from restructuring to transformation and namely the search for an active and important role in the energy market to seize the short and medium-term opportunities, also in terms of greater number of options. This will occur when flexible conditions have been implemented in the plant facilities, shifting from flexible 2 GW to 3.6 GW, a repositioning in terms of the Winter Package objectives and finally by starting on a growth path in the energy and distributed services segments.

R3 - REDESIGN OF THE OPTIONS FOR THE FUTURE

The third R of A2A's strategy involves the **consolidation and definitive market launch** of some projects started experimentally in the last two years on **innovative themes such as Smart Cities, the Green Economy and energy efficiency.** This group covers Public Lighting initiatives, with the doubling of LED lights until reaching approximately 420,000 lights installed and managed by 2021; the development of Energy Efficiency activities, also thanks to the acquisition in 2016 of Consul System, a company operating in the Energy Efficiency Certificates segment, and with interesting developments in monitoring activities and new projects, especially in Demand Side Management and the Demand Response Management System. An example of this aptitude for innovation is the Horizon 2020 project named "Sharing Cities" in which A2A collaborates on operational aspects to make the city of Milan increasingly smart.
One of the most significant innovations is the launch of biomethane production by FORSU (Organic Fraction of Municipal Solid Waste) thanks to four plants that will be assigned to this process, with an expected quantity of biomethane produced by 2021 of around 20 million Sm^3. In terms of contribution to the Group's Gross Operating Margin the most significant activities will be those concerning energy efficiency and public lighting, which overall by 2021 will achieve an EBITDA of around 50 million euros.

The achievement of these objectives will be pursued in respect of and through three further guidelines already anticipated in the previous Strategic Plans:

- **Discipline in operations and in the capital structure,** broken down in accordance with the following directives:

    - **Operational efficiency**: the new Strategic Plan confirms the ambitious EN&A project (project to review the Group's Corporate and Business processes from the perspective of continuous improvement) which will make it possible to achieve, with respect to the approximately 80 million euros already recorded in the two-year period 2015-16, around 100 million euros of further improvement in the gross operating margin at 2021.
      A new project of operational excellence will also be started, whose objectives are not contained in this Plan. Finally, the synergies of aggregation transactions completed in 2015 and 2016 will be fully consolidated and enhanced.
    - **Policy on increasing dividends** in line with the development of the plan**, compatible with the strengthening of the capital and financial solidity of the Group.** The 2017-2021 Strategic Plan confirms the development of the dividends policy for the following years as announced in the previous plan (DPS at around 7.5 euro cents in 2019 and a minimum 60% pay-out ratio in the following years) accompanied by the simultaneous strengthening of the capital structure through cash flow generation, in each year, after the distribution of positive dividends and the progressive strengthening of financial debt coverage indicators.

- **Dialogue aimed at increasing the value of stakeholders, employees and the quality of life in the territories.** In this context, in order to develop active participation, many projects already launched in recent years will be continued, with some important novelties:
    - Further extension of the **multi-stakeholder forums** and **regional sustainability reports;**
    - Introduction of **sustainability objectives** in the targets of all managers of the Group;
    - Numerous **projects linked to human resources**, including: intergenerational transition, welfare, managerial development, talent management, employer branding, etc.

- **Digitization and technological transformation**. Various projects were consolidated, which had been launched previously for the digital and technological transformation of A2A through the broader and more modern use of digital channels and a new positioning of the company brand, with the purpose of acquiring new customers, developing cross-selling, expanding the range of services offered and preserving the quality level of the service, increasingly the highest in the sector. This will occur through further digitisation of all processes of the different Business Units, the creation of new IT platforms and solutions for internal and external use, and further investments in fibre and in automation systems.

People & Sustainability

- The objectives of the 2016-2020 Sustainability Plan were also confirmed, which was approved last year following the definition of the Sustainability Policy, which sees A2A committed to achieving the 2030 UN sustainable development objectives to improve people's quality of life with a primary role in the creation of a circular and low carbon economy based on smart grids and services. The main objectives in the 4 areas of intervention are
    - in the **circular economy,** achieving 99% of collected urban waste sent for recycling or energy recovery, an average of 67% of waste sorting in the municipalities served and 80% of impact of the material recovery capacity in the Group’s plants on the urban waste collected;
    - in the path towards **decarbonization,** reducing the carbon intensity in electricity generation by 10% (CO_2/kWh) compared to the average levels of the 2008-2012 period; avoiding 234,000 tonnes per year of CO_2 emissions thanks to district heating and increasing the sale of green energy (renewable) to the mass-market segment by 100% (compared to 2015);
    - in the **smart grid and services,** area investing 10 million euros in services for the smart city; maintaining the performance in "Customer Satisfaction multi-client of reference" surveys which has always been over 90% and reaching 400,000 customers with online tools;
    - for **people innovation,** setting up 15 regional listening workshops; making 4,000 inspections at road work sites and involving 20% of employees in the Smart Working project.

The set of actions described above will help to achieve the following expected results:

Financial Objectives of A2A Group

		2016	2017	2021
Ebitda	Bln €	1.2	1.12/1.15	1.38
Group Net Profit	Bln €	0.2	~0.3	0.5
Dividend per share	Cent. €	4.92		Around 7.5 (2019)
Net Financial Debt	Bln €	3.1	3.0/3.1	2.5
Net Financial Debt/Ebitda	X	2.5	~2.7	1.8

Other indicators

		2017-2021
Investments	Bln €	2.75
Operating Cash Flow	Bln €	4.3
Net Free Cash Flow (After investments and dividends)	Bln €	0.6

For further information:

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