PRESS RELEASE

April 3rd, 2019

The Board of Directors examined and approved the
2019-2023 Strategic Plan of the A2A Group

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Strategic Plan confirmed and updated

*Successful execution of the first year Plan 2018-2022, "**TEC**",*
based on circular economy, energy transition and smart solutions
in a context of reinforced attention to sustainability

Further improvement of the economic-financial results

EBITDA at 1.5 billion euros and Net Profit at 0.46 billion euros in 2023
NFP at 3.3 billion euros, NFP/EBITDA ratio down to 2.2x

Target CAPEX enhanced up to 4.0 billion euros

22% increase vs previous Plan with 680 million euros
of digital and technological innovation

Growth of expected dividends

Increased expected dividend: 7.75 euro cents per share in 2019, 8.00 in 2020,
following years' minimum growth equal to 5% per annum

Focus on multi-business value maximisation

Further exploitation of value generated inter adjacent businesses
thus improving continuously operating excellence

Additional development projects

Significant pipeline of important growth initiatives
with potential value creation not included in the Plan,
such as possible M&A deals and complex industrial projects

Higher focus on sustainable business

2019-2023 Sustainability Plan approved
670 million euros of CAPEX in circular economy

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Milan, April 3rd, 2019 – The Board of Directors of A2A examined and approved the Group's 2019-2023 Strategic Plan, which is the evolution of the 2018-2022 Plan, announced last year.

The successful execution of previous strategic Plans targets presented to financial market since 2014 **repositioned A2A in the new competitive landscape**. We completed our industrial relaunch in key priority areas:

- A **new position in the energy market**, becoming a **greener company and a flexibility provider** for the Italian electricity system;
- A leading role **in the waste sector**, focusing on concrete integration of **circular economy** principles;
- A business model designed **to deliver outstanding client services and new solutions** for the changing market needs;
- A **cross-business management** of networks, to become smarter and more reliable

Main industrial trends

A2A Strategic Plan is built within three macro-trends, **circular economy**, **energy transition** and **smart solutions**.

- *Circular economy:* Our growth in the waste sector is framed by regulation, as the EU Circular Economy Package that focuses targets along the value chain from sorted collection to **effective material recovery**. Our strategy is meant to encourage better waste management in our key territories, to support material recovery, and **to structure a reliable market** for secondary raw materials.
- *Energy transition:* Our long-term development path is **rooted in decarbonisation** with the phase-out of coal plants, a **key role of gas** for energy peak demand, and strong growth in renewable resources, **fully aligned to European regulations**, aimed at lowering greenhouse-gas emissions, increase energy efficiency. Our path is supported by market and technological evolution, such as the decrease of LCOE of battery storage, wind and PV;
- *Smart solutions:* Our view considers compulsory the **adoption of digital technologies** to make the utilities business more efficient, reliable and safe. In terms of services, we provide to municipalities and inhabitants energy-efficiency projects, IoT solutions and green mobility. With a decarbonized electricity strategy and growing electrification, we pave the way for the e-mobility revolution, recently supported by national incentives and boosted by city government.

Plan TEC framework

The Plan presented today confirms our three strategic guidelines:

T – Transformation
strengthening and evolving our business model, leveraging the strengths of the four business lines of A2A

E – Excellence
organization agility, operational excellence and process efficiency, decreasing the risk and enhancing inter adjacent businesses

C – Community
attraction and professional development of our people, and enhanced involvement of the external ecosystem for innvoation

The three guidelines are supported by a strong framework, which is **Sustainability**, the inspiring principle of A2A Group development and evolution.

TRANSFORMATION

GENERATION
FLEXIBLE AND GREENER ENERGY

➔ **KEY ACTIONS**

Process of transformation towards a greener generation portfolio

- Further expansion of RES platform
- Reconversion of conventional plants

Provider of adequacy and flexibility services, with the aim of meeting the growing electric system needs

- Leadership consolidation in flexible CCGT plants
- Exploration of innovative flexibility services

➔ **HIGHLIGHTS**

a) Over **150 MW of new RES**, up to 280 MW (owned and managed), for a total capacity installed of 2.2 GW including hydro
b) **Reactive power for grid voltage regulation services** (10 years, Brindisi plant)
c) **Acceleration of thermal plant reconversion** through solutions based on A2A core competences, with a circular economy perspective and designed according to local needs
d) Opportunities in gas **peakers**, **storage** and hydro **pumping** to meet growing **flexibility need**

➔ **KEY ECONOMIC TARGETS**

- **323 million euros** of **EBITDA at 2023**, -115 million euros from environmental market and SFM, +79 million euros mainly from RES development and capacity market
- **582 million euros** of **cumulated CAPEX at 2023,** of which 295 million euros from M&A and RES development

MARKET
MORE SOLUTIONS TO INVOLVE CUSTOMERS

➔ KEY ACTIONS

Greater focus on customers, in a context of deep market transformation

- Outstanding client service, with improved multi-channel customer experience
- Preservation of excellent operations
- VAS in safety, comfort, energy-saving
- Advisor for SMEs and large enterprise
- Digitalization to enhance service/acquisition

Growth in new services, to be more competitive in an increasingly demanding market

- New services: flexibility, DERs and storage
- EPCs in energy efficiency services
- Organic growth in public lighting
- Expansion of electric mobility business

➔ HIGHLIGHTS

a) **2.7 million mass market power & gas free customers**, within a stable total customer base (full liberalization expected by July 2020), with further opportunities in "safeguard", leveraging excellent meter-to-cash management
b) **Over 1,660 e-car charging stations by 2023,** to develop the e-mobility infrastructure network on key territories
c) **Strong boost of EPC projects** with **significant investments** (81 €M vs. 10 €M previous plan)
d) Contracts for **heat management of private buildings** (about 30 €M CAPEX)

➔ KEY ECONOMIC TARGETS

- **323 million euros** of **EBITDA at 2023**, +95 million euros from Power & Gas, cost to acquire and other operating costs, +41 million euros from new energy services (energy solutions, smart cities, public lighting and value added services)
- **402 million euros** of **cumulated CAPEX at 2023,** of which over 40% Digital & Tech CAPEX

WASTE
VALUE FROM END TO BEGINNING

➔ KEY ACTIONS

Consider waste more and more as a commodity and not as waste ("from waste to commodity")

- **Become Italian leader in recycling**, also with downstream integration with high-quality secondary raw materials
- **New WTE capacity** (projects approved) to maintain safety of the Italian waste treatment system

Become a unique partner for urban services offered, growing in new geographical areas by exploiting our collection capabilities and developing innovative solutions

- Enlarging geographic presence, leveraging value chain integration
- Smart and innovative solutions for our territories

➔ HIGHLIGHTS

a) **9 new treatment plants** to strengthen our leadership in municipal solid waste market and to boost a **full circular approach** to **achieve effective material and energy recovery in areas characterized by infrastructural gap**

b) contribute to reduce the Italian shortage of WTE capacity with **400 ktons of waste** treated by **WTEs**

c) Industrial waste:
   a. Speed-up in the treatment of non-hazardous special waste, boosting innovation and new technologies (i.e. AI for robotic picking)
   b. Focus on collection and waste logistic services dedicated to SMEs
   c. Entering **environmental services** segment, and **partnership in hazardous waste**

d) **Vertical integration downstream** in order to support secondary raw material use, focusing on plastic and paper

➔ KEY ECONOMIC TARGETS

- **381 million euros** of **EBITDA at 2023**, +107 million euros from new plants
- **943 million euros** of **cumulated CAPEX at 2023,** 82% in plants

NETWORKS
SMARTER AND MORE RELIABLE

➔ KEY ACTIONS

Increase the quality of networks, the stability and reliability of the electricity grid

- Development of smarter and resilient networks
- Increase of water cycle performance
- Multi-business operation synergies with adoption of automated and digital solutions

Renewed commitment to participate in tenders for the awarding of gas concessions, with the goal of increasing the number of delivery points (POD) managed

- Selective growth in high-priority ATEMs
- Focus on geographical consolidation

➔ HIGHLIGHTS

a) 35 primary stations supporting Milan and Brescia electrification
b) **1.4 million smart meters installed in Plan years:** 420,000 gas, 850,000 electricity, 143,000 water
c) Decarbonization of DH sources, through further development **of storage and waste heat recovery**
d) Phase-out of Lamarmora coal plant

➔ KEY ECONOMIC TARGETS

- **518 million euros** of **EBITDA at 2023**, +62 million euros from Gas and Electricity, +25 million euros from Water Cycle, +26 million euros from district heating
- **1.963 million euros** of **cumulated CAPEX at 2023,** of which 504 million euros from Gas Tenders

E Excellence

- **<u>Multi-business structure and vertical integration levers for value creation</u>**: vertical integration allows significant operating efficiencies and margin internalization: 50 million euros of value generated from intercompany business transactions, up to 70 million euros by 2023. The multi-business nature of the Group enables high-value synergies in terms of:

  - *<u>Typical "multi-business" benefits</u>,* cost duplication avoidance, scale economies (e.g. financing), sharing of central unit costs;
  - *<u>Vertical integration</u>* in each BU value chain: end-to-end result control, commodity prices natural hedging, certainty of supply/demand;
  - *<u>Synergies between adjacent businesses</u>:* uniqueness of A2A, our businesses present natural synergies such as natural hedging inter-BUs, sharing of competence centers, single regulation interface;

  The A2A business model also provides an attractive platform for further industrial partnerships, as demonstrated by the recent successful territorial aggregations.

- **<u>Eventual complexity is successfully managed in an *agile* organization</u>**: En&A and Mistral operational excellence programs are running at full pace, 2018 targets have been exceeded. Targets at 2023 have been confirmed, with about 90 million euros of savings cumulated in five years additional vs. previous Plan. Potential further 20 million euros from projects currently under investigation are prudentially excluded from Plan figures.

- **<u>Growth achieved through de-risking</u>**: fixed assets are expected to rise from 7.5 to 8.4 €B from 2019 to 2023; in the same period, the share of regulated and quasi-regulated assets will increase up to 73% with an increase predictability of results.

- **<u>Acceleration in digital and innovation investments will guide the transition</u>**: In 2018, all the foreseen CAPEX in Digital and Tech Innovation have been executed. More than 680 million euros of cumulated CAPEX are expected in five years Plan. Among the several projects are included for example: smart meters, e-mobility, electric primary stations, IT tools for trading activities, advanced analytics for predictive maintenance, route optimization, robotic Process, Automation, IoT for urban development, Artificial Intelligence, Inspections with drones)

C Community

- **<u>Integrated people strategy will enhance the transformation into an agile organization</u>**: the Group people strategy, designed to intersect the three pillars of the business plan, is set-out in several initiatives, such as:

  - *Digital readiness* is promoted through mapping and designing action plan aimed to focus core competences and develop people by homogenous clusters
  - *Creation of staff unit pooling (e.g. PMO) and dynamic sizing on corporate and Business Units*
  - *People caring, diversity management and gender equality programs* are launched for more sustainable and fair growth of the organization.

- **<u>An agile organization needs an agile and smart working place:</u>** to re-design the company culture, we decided to run a thorough real estate optimization plan, which includes:

  - *New buildings* in Milan, Bergamo and Brescia; 1,500 people will be impacted in Milan by the aggregation of seven different buildings into one new smart hub of 20,000 m^2, which will be ready by 2022.
  - *Smart offices* equipped with digital technologies to foster collaboration, teamwork and cross-business synergies;

- **<u>We aim at becoming one of the most innovative companies listed in FTSE MIB by 2021</u>**: to achieve this ambitious target, we leverage our innovation process on the external ecosystem, which is involved through both internal and external events, as well as partnership with innovation hubs, start-up incubators and universities.

- **<u>The A2A community is widening thanks to the aggregation model and industrial partnership</u>:** the consolidation of ACSM-AGAM has brought us to cover five new provinces in 2018 and about 900,000 new inhabitants served. The change in the perimeter will bring us more than 120 million euros of additional EBITDA and 568 million euros of cumulated CAPEX by 2023.

Sustainability

The 2019-2023 Sustainability Plan, examined and approved today by the Board of Directors, is based on the four pillars of the Sustainability policy of A2A Group at 2030 (based on UN Sustainable Development Goals):

- **Circular economy**: our targets aim to reduce landfilling to zero and to maximize recycling (+350,000 t of new treatment capacity) and energy recovery from Waste to Energy (+400,000 t of new WTE capacity). We also include improved targets for sorted waste collection (65% in Milan, 76% on average in other municipalities) and new projects for waste prevention (80 projects expected at 2023). We expect investments in the circular economy from our Waste business unit of about 670 €M in the period 2019-2023. Key actions from this pillar also include responsibility and sustainability in water usage, with the target of 18% reduction of water linear losses compared to 2017 and reduction in the percentage of inhabitants non-served by water treatment plants, from 22% of today to 8% at 2023.
- **Decarbonization**: we aim to contribute to national and European targets for emissions reduction through these initiatives:
  - Further development of district heating, which will cut NOx emissions by 260 t per year and CO_2 emissions by 350,000 t per year by 2023.
  - Promotion of energy efficiency in final energy consumption: achieved through dedicated offers to retail customers (high-efficiency boilers, led lamps) and efficiency improvements in the residential, industrial and service industry. We expect CO_2 emissions to be cut by 6.5 million tons from these initiatives.
  - Growth in thermic and electric renewables, through new investments in solar plants (over 150 MW of new installed capacity) and heating recovery from third parties (60 GWh of estimated production)
  - Specific reduction of emissions factor (gCO_2/kWh) from electric power plants (-18% from 2008-2012 levels)
- **Smart grids and services**: we aim to increase the reliability and security of the distribution network with over 140,000 new generation smart water meters; 3,000 smart parking slots; over 1,660 new charging stations for electric vehicles; 18,000 smart bins for waste collection (smart bins are connected to our network and can provide data on their filling level for collection route optimization)
- **People innovation**: we struggle to improve the wellness and happiness of the A2A community with the following targets:
  - Responsible procurement: 80% of our procurement comes from certified suppliers; 50% of our business partners selected with proper sustainability requirements; 12% of weight linked to sustainability criteria in the vendor rating process.
  - Health and safety: -12% in the weighted injury index (frequency x impact) against 2018;

- People development: 100% of our employees involved in change management projects, awareness on sustainability issues and caring initiatives
- Smart working: 25% of our employees part of the project (white collar)
- Gender equality: 20% of women in managerial positions (on total managerial roles);
- Transparency and engagement of the territories: 8 local sustainability reports published and 8 territories and/or municipalities involved in multi-stakeholder forums;
- Environmental education: 38.000 people involved in plant visits and 42.000 students involved in the A2A "School Project".

2019-23 Financials

		2018	2023	CAGR 18-23
Generation Ebitda recurring	million euros	359	323	-2.1%
Market[1] Ebitda recurring	million euros	187	323	11.5%
Waste Ebitda recurring	million euros	269	381	7.1%
Networks Ebitda recurring	million euros	406	518	5.0%
Ebitda Recurring	million euros	1,192	1,531	5.1%
Group Net Profit	million euros	344	462	n.m.

CAPEX

Total investments in the Plan period amount to around 4 €B, of which about 0.3 €B to develop the RES segment.

Total investments, increased by 22% (+0.7 B€) compared to the previous Plan, are focused on:

- BU Networks (approximately 50% of the total, 1,963 €M) mainly for the development of the electricity network, through the construction of 5 new primary stations and the complete restructuring of other 2, for the roll-out of new smart meters and for the participation in gas tenders in relevant ATEMs (0.5 €B). The total RAB is expected to increase by around 0.6 €B up to 2.6 €B by 2023;
- BU Waste (approximately 24% of the total, equal to 943 €M) mainly related to the construction of 9 new material and energy recovery plants, and the maintenance of existing plants;
- BU Market (10% of the total, equal to 402 €M), related to energy efficiency projects aimed at supporting the development of e-mobility, with the installation of more than 1,660 charging stations by 2023.

DIVIDENDS

The new Plan improves the dividend policy, thanks to the better future outlook and the significant pipeline of initiatives. Dividend is expected to increase in 2019 from 7.5 euro cents per share (previous Plan forecast) to 7.75 euro cents per share, in 2020 at 8 euro cents per share and proposing a minimum dividend growth of 5% YoY from 2021 to 2023.

[1] Including Smart City Ebitda 11M€ in 2018, 19M€ in 2023

CAPITAL STRUCTURE

The Plan confirms the attention to a balanced capital structure aimed at maintaining the profile of A2A at a solid *investment grade*, which characterized past years. Despite the investments and increasing dividends, the Plan is expected to self-finance all ordinary development (cash flow generation limited to 0.1 €B) and requires new loans only for the M&A deals envisaged in renewables (0.3 €B).

The Net Financial Position in 2023 is therefore expected to grow by 0.3 €B compared to 2018 (from 3.0 €B to 3.3 €B), but along with a reduction of the NFP/EBITDA ratio down to 2.2x by 2023, thanks to operating profitability growth.

Milan, April 3rd , 2019

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