



2017

Report
on Operations



Report on Operations 2017

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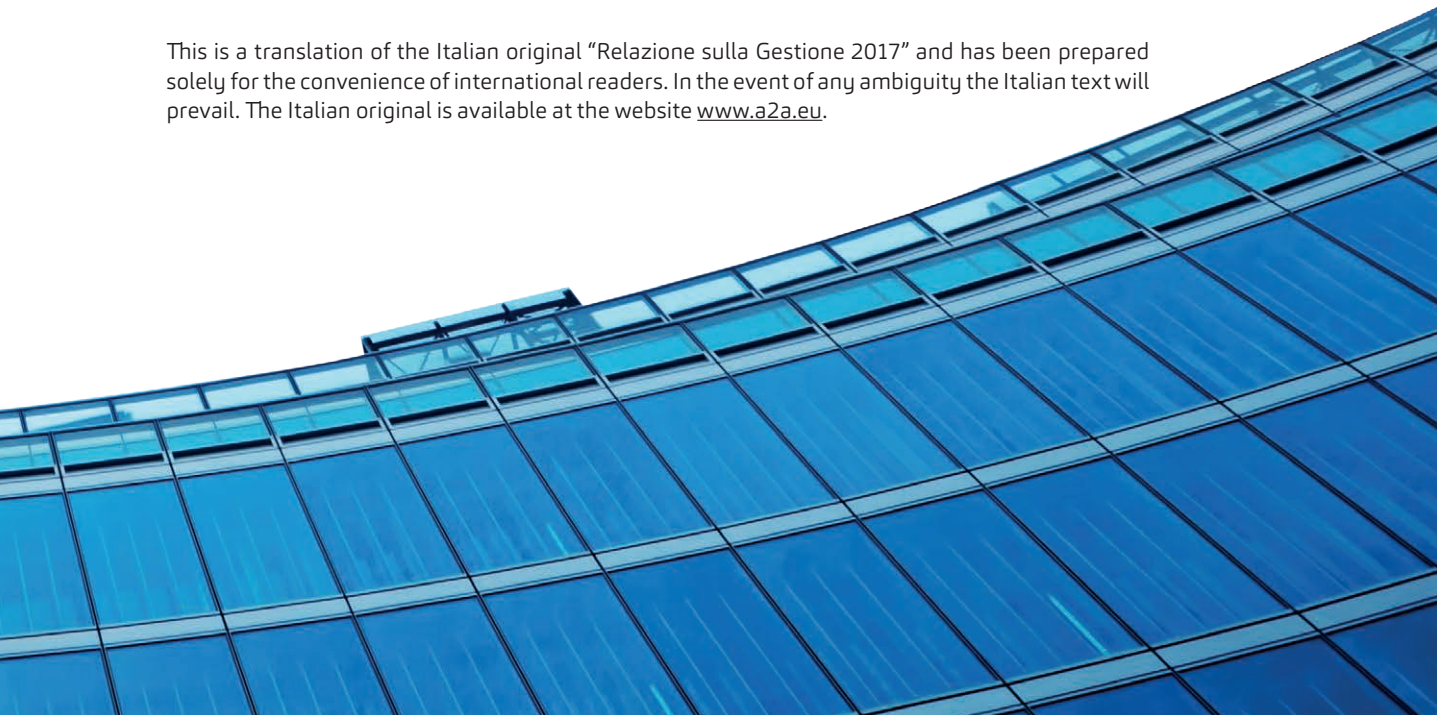
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This is a translation of the Italian original “Relazione sulla Gestione 2017” and has been prepared solely for the convenience of international readers. In the event of any ambiguity the Italian text will prevail. The Italian original is available at the website www.a2a.eu.



Letter to Shareholders

Our Group enjoyed a very gratifying year in 2017: our operating results and financial performance were excellent – on a par with the record levels reached in 2016. Over the past three years, we have exceeded the ambitious goals set in our Strategic Plan published in 2015, aimed at transforming A2A into a more modern and sustainable multi-utility. We continued to develop the Group's green side through new investments and acquisitions, particularly in the renewable energy and waste-to-energy sectors.

Since 2014 gross operating margin has risen by 18%, and we have considerably increased our operating investments (+60%) and shareholder return (dividends per share have grown by +61% and share price by +75%), while also strengthening our financial position (the ratio of net debt to gross operating margin has fallen by 18%).

On the basis of the excellent results achieved, continuing the process that began in 2015, in March 2018 the Board of Directors approved the new Strategic Plan 2018-2022, which not only sets new and more ambitious operating and financial targets, but also establishes the new guidelines that will inform our way of doing business: T – Transformation; E – Excellence; and C – Community.

The three guidelines are supported by a solid foundation, sustainability – a principle that inspires the entire A2A Group's development.

The new Strategic Plan calls for investments of approximately 2.8 billion euro in 2018-2022, in addition to over 500 million euro of development transactions in the renewable energy sector: over the next five years, average annual operating investments are expected to exceed the levels sustained in 2015-2017 by over 50%. Nearly 80% of investments will be focused on networks and the environment. In 2022 the Company aims to reach a gross operating margin of 1.39 billion euro and a profit of 0.5 billion euro (a compound annual growth rate of over 10% compared with 2017), while further strengthening its capital structure. Considerable emphasis will also be placed on shareholder return and the distribution of dividends – set to increase constantly over the next five years.

On the strength of these results and our new Strategic Plan, we aim to become one of the key players in Italy driving the change requested by the 2030 Agenda for Sustainable Development set by the U.N..

With this goal in mind, in 2016, through our Sustainability Policy, we set the guidelines to be pursued until 2030, founded on four pillars of strategic importance to the business and the communities in which we operate, identifying the contribution that the Company has committed to provide in support of global sustainability challenges. The Sustainability Plan 2018-2022 – now completely integrated into the Strategic Plan – is among the tools for implementing the 2030 Sustainability Policy.

We are striving towards a paradigm shift in waste from something to be discarded to a commodity. We have increased our waste treatment and recovery plants by 80% compared with 2016, in part through new acquisitions. Our goal is to contribute to the birth of a circular economy through planned investments aimed at reducing leaks in the water network and building new water treatment plants, starting with the new Val Trompia facility.

We are promoting a gradual reduction in the reliance on coal, both within our generation fleet, by developing new renewables, consolidating existing methane-gas plants and making optimal use of the energy produced by the circular economy, and externally, through the development of open district heating and cooling networks and the promotion of energy efficiency and green energy in end use, by offering new value-added services to our customers.

To render our cities sustainable and smart, we are striving to increase the resilience and reliability of our networks, investing in innovation at the level of infrastructure and management systems to turn them into enabling factors of the spread of new technologies that facilitate an understanding of the community and the efficiency of public services, while also ensuring more informed choices by institutions, businesses and individuals.

In pursuit of social innovation, over the next five years we will devote increasing attention to the context in which we operate, comprising both the internal community, i.e. those who work within the Group, and the external community, i.e. the ecosystem with which we are increasingly called on to engage, collaborate and develop joint projects.



In 2017, in accordance with the Group’s development objectives, we launched a significant business combination project involving Lombardy’s main public utilities (ACSM-AGAM S.p.A., ASPEM S.p.A., AEVV S.p.A., AEVV Energie S.r.l., Lario Reti Holding S.p.A., Acel Service S.r.l., Lario Reti Gas S.r.l. and A2A S.p.A.) with the aim of making optimal use, through the “Community Multiutility” model, of the wealth of skills and deep roots in the local community offered by a listed company with A2A as its majority shareholder.

In conclusion, the Company has emerged from 2017 even more solid, innovative and sustainable than before: the guidelines set in its new Strategic Plan will allow the Group to rise to meet future challenges with an eye to protecting the environment and benefiting all its stakeholders.

Chairman of the Board of Directors

Giovanni Valotti

General Manager

Luca Valerio Camerano

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2 Scenario and market

3 Evolution of the regulation and impacts on the *Business Units* of the A2A Group

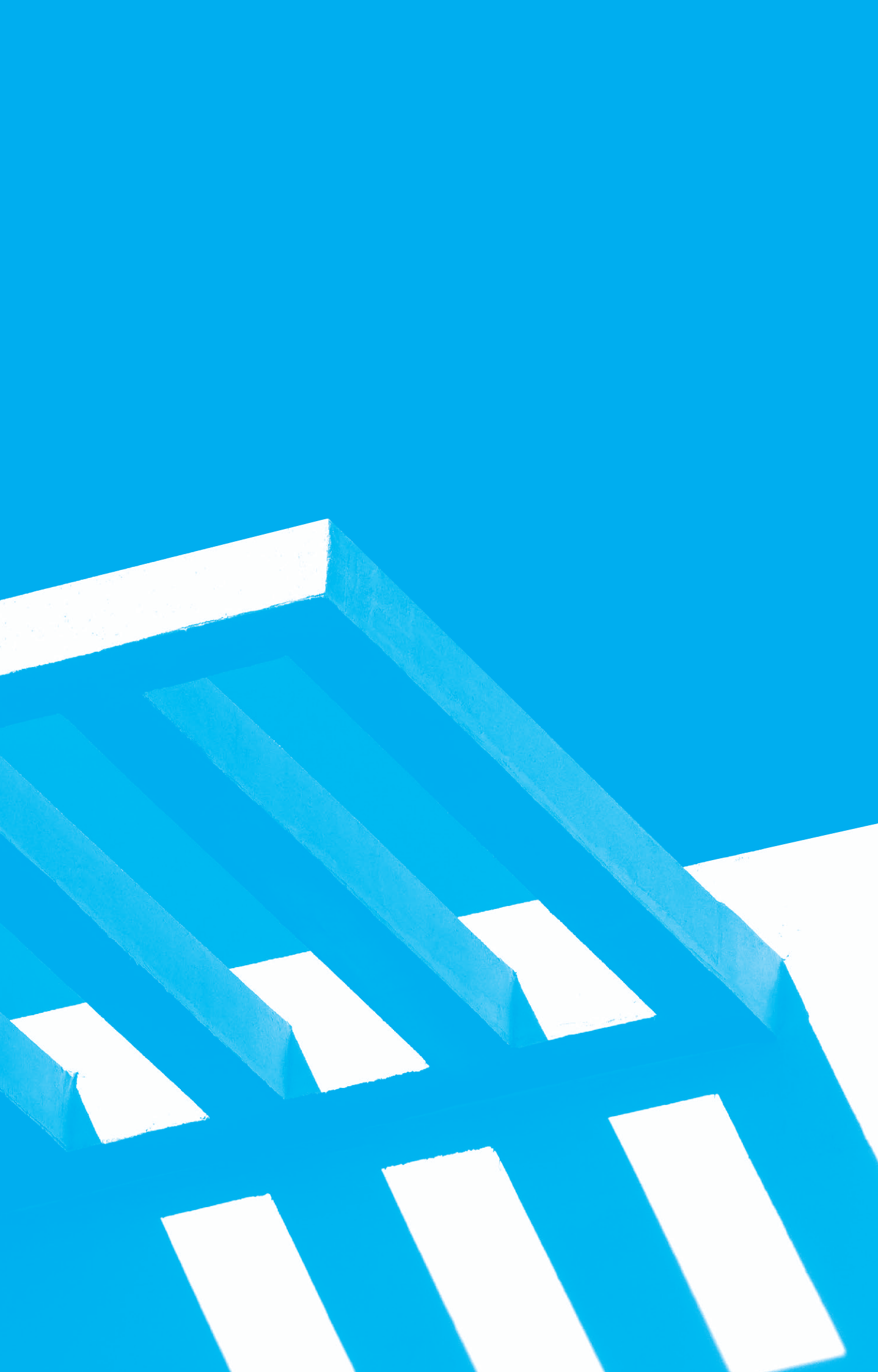
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Corporate boards

BOARD OF DIRECTORS

CHAIRMAN
Giovanni Valotti
DEPUTY CHAIRMAN
Alessandra Perrazzelli
CEO AND GENERAL MANAGER
Luca Camerano
DIRECTORS
Giambattista Brivio
Giovanni Comboni
Enrico Corali
Luigi De Paoli
Alessandro Fracassi
Maria Chiara Franceschetti
Guadiana 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

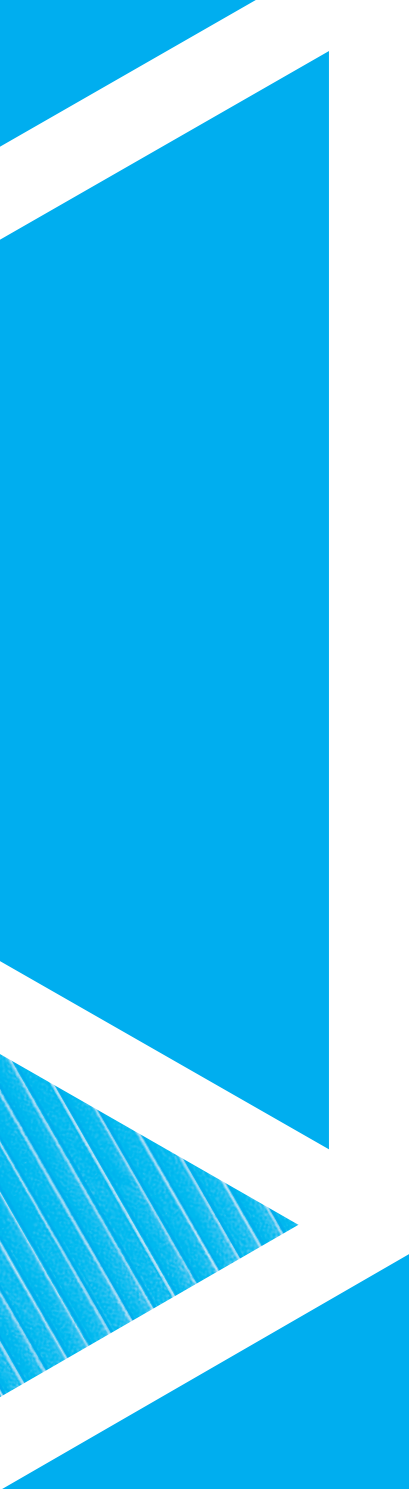
EY S.p.A.

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1 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 diagram identified as a result of the reorganization carried out by the management:

Generation and Trading

- Thermoelectric and hydroelectric plants
- Energy Management

Commercial

- Sale of Electricity and Gas

Environment

- Collection and street sweeping
- Treatment
- Disposal and energy recovery

Networks and Heat

- Electricity networks
- Gas networks
- Integrated water cycle
- Public lighting and other services
- 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.

Foreign

- Electricity generation and commercial
- Electricity networks

A2A Smart City

- Telecommunication services

Corporate

- Corporate services





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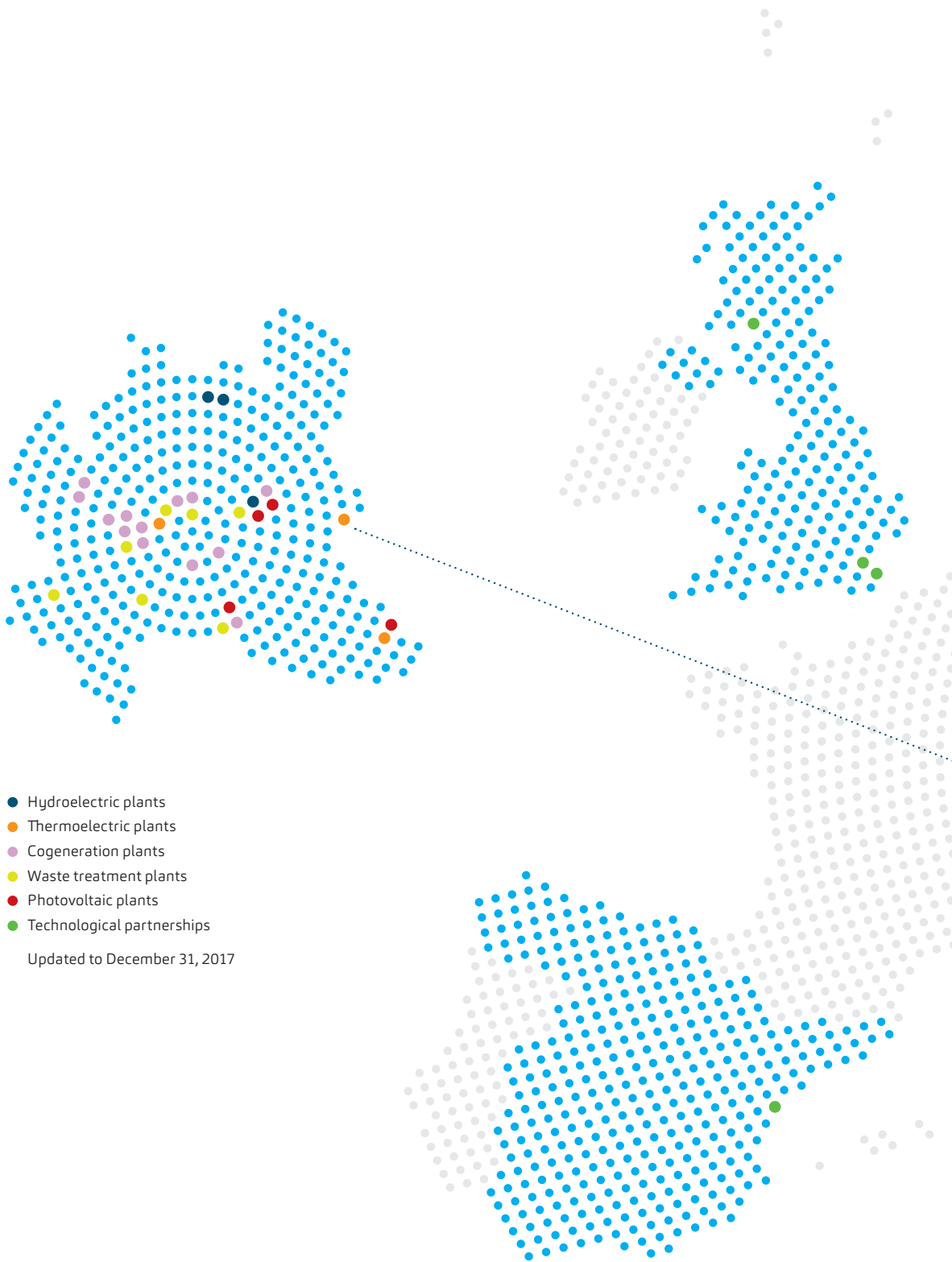
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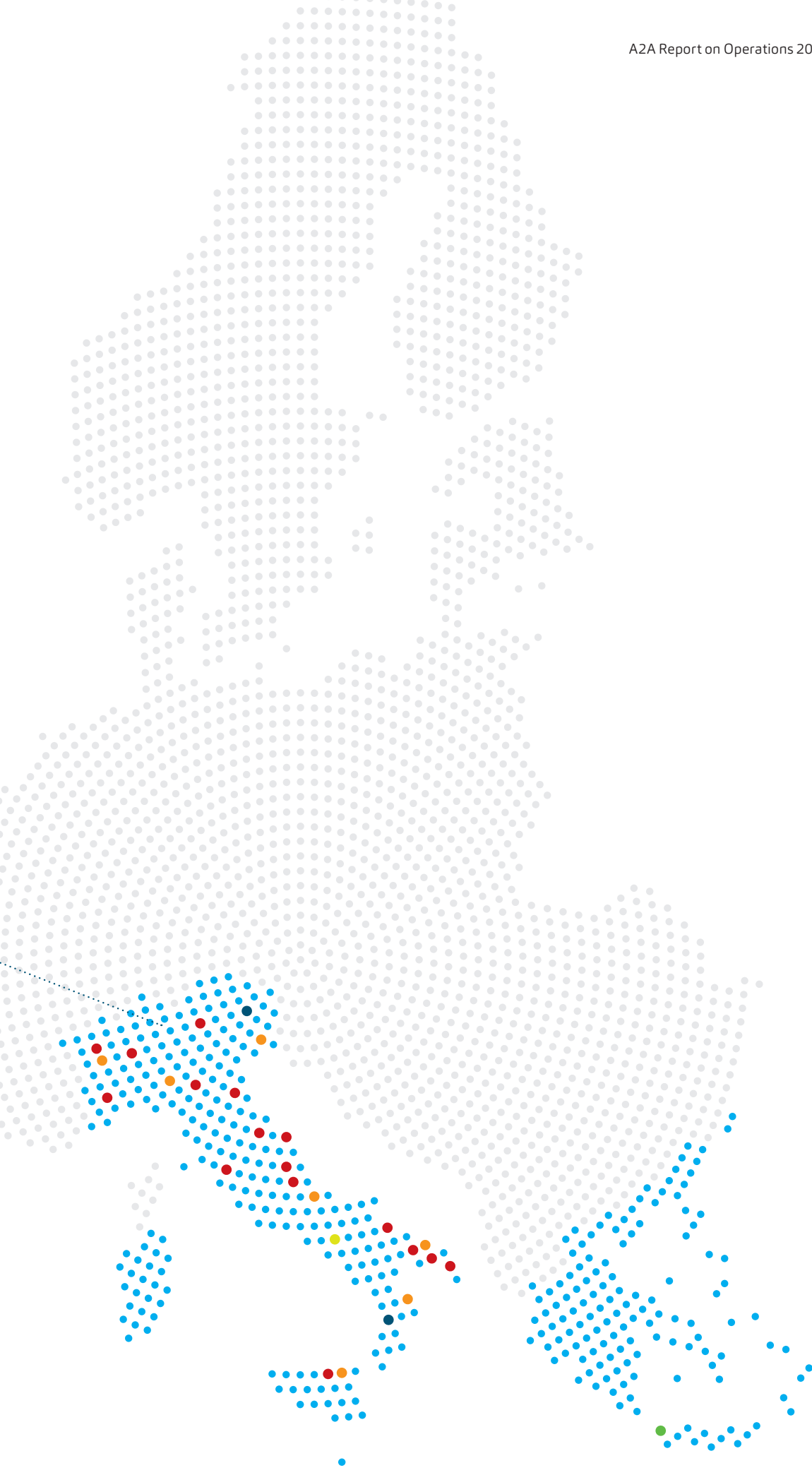
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Geographical areas of activity





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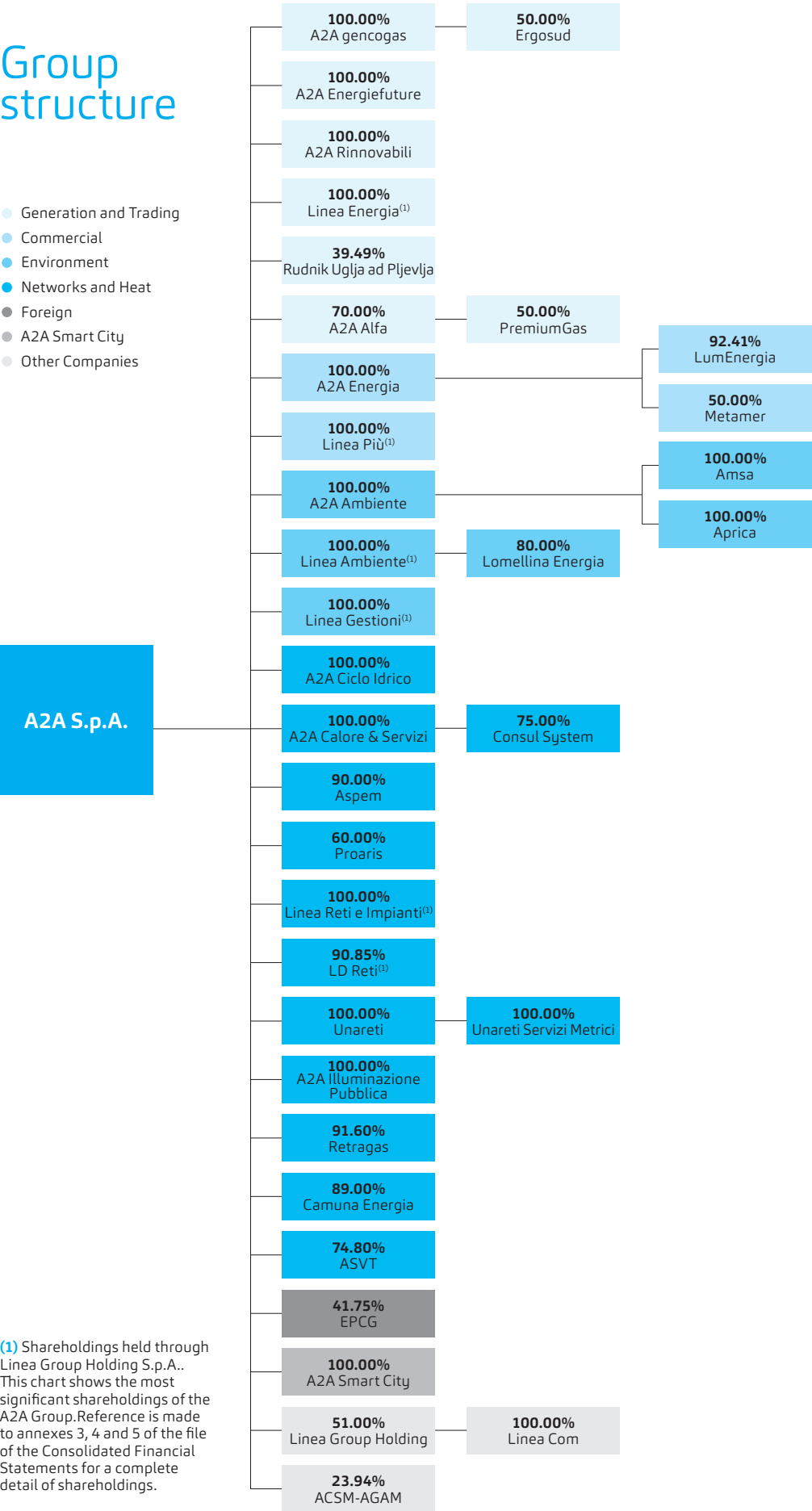
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(1) Shareholdings held through Linea Group Holding S.p.A.. This chart shows the most significant shareholdings of the A2A Group. Reference is made to annexes 3, 4 and 5 of the file of the Consolidated Financial Statements for a complete detail of shareholdings.

Financial highlights at December 31, 2017 (**)



5,910

millions of euro

REVENUES - REPORTED



1,211

millions of euro

GROSS OPERATING
INCOME - REPORTED



293

millions of euro

RESULT OF THE YEAR



0.0578

euro per share

DIVIDEND

Income statement figures

millions of euro

	01 01 2017 12 31 2017 Reported	01 01 2016 12 31 2016 Restated Reported
Revenues	5,910	5,093
Operating expenses	(4,043)	(3,221)
Labour costs	(656)	(641)
Gross operating income - EBITDA	1,211	1,231
Depreciation, amortization, provisions and write-downs	(505)	(758)
Net operating income - EBIT	706	473
Result from non-recurring transactions	1	56
Financial balance	(218)	(157)
Result before taxes	489	372
Income taxes	(192)	(120)
Net result from discontinued operations	1	2
Minorities	(5)	(22)
Group result of the year	293	232
Gross operating income/Revenues	20.5%	24.2%

Includes the result of the EPCG Group; therefore, as of July, the sale put option was exercised, as further described in the paragraph "Significant events during the year".

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

Balance sheet figures <i>millions of euro</i>	12 31 2017	12 31 2016 Restated
Net capital employed	6,239	6,415
Equity attributable to the Group and minorities	3,013	3,279
Consolidated net financial position	(3,226)	(3,136)
Consolidated net financial position/Equity attributable to the Group and minorities	1.07	0.96
Consolidated net financial position / EBITDA Reported	2.7	2.5

Financial data <i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated
Net cash flows from operating activities	866	827
Net cash used in investing activities	(475)	(502)
Free cash flow (Cash Flow Statement figure)	391	325

Key indicators	12 31 2017	12 31 2016
Average 6-month Euribor	(0.260%)	(0.165%)
Average price of Brent (US\$/bbl)	54.8	45.1
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	53.9	42.7
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	61.8	48.2
Average price of coal (Euro/tonne)	74.8	54.2
Average price of gas to the PSV (*) (Euro/MWh)	19.6	15.6
Average price of emission certificates EU ETS (**) (Euro/tonne)	5.8	5.4

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

(**) EU Emissions Trading System

Group's key operational indicators	12 31 2017	12 31 2016
Generation and Trading		
Thermoelectric production (GWh)	12,370	8,826
Hydroelectric production (GWh)	3,464	4,279
Electricity sold to wholesale customers (GWh)	8,781	9,300
Electricity sold on the Power Exchange (GWh)	13,774	12,048
Commercial		
Electricity sold to retail customers (GWh)	8,289	8,284
POD Electricity (#/1000)	1,058	1,040
Gas sold to retail customers (Mcm)	1,629	1,372
PDR Gas (#/1000)	1,298	1,306
Environment		
Waste collected (Kton)	1,605	1,477
Residents served (#/1000)	3,549	3,502
Waste disposed of (Kton)	3,366	2,817
Electricity sold by WTE (GWh)	1,772	1,714
Networks and Heat		
Electricity distributed (GWh)	11,590	11,204
Gas distributed (Mcm)	2,480	2,096
Water distributed (Mcm)	69	62
RAB Electricity (M€)	649	653
RAB Gas (M€)	1,160	1,137
Heat sales (GWht)	2,682	2,412

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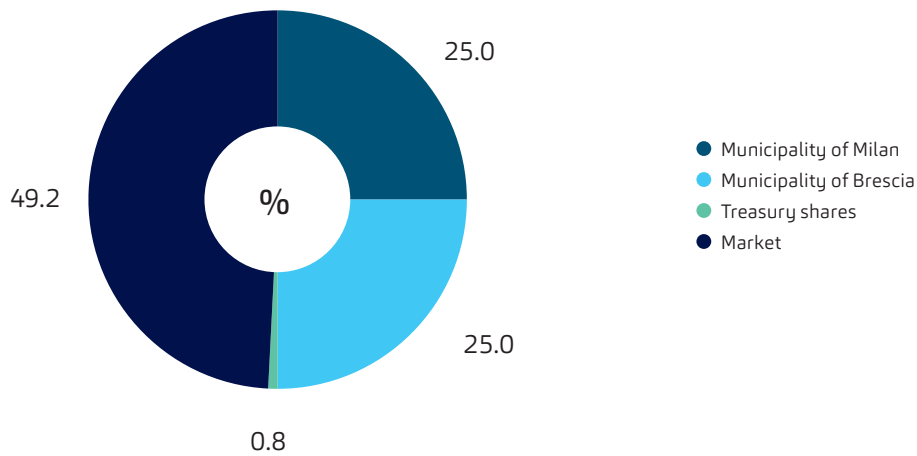
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Key figures of A2A S.p.A.	12 31 2017	12 31 2016
Share Capital (euro)	1,629,110,744	1,629,110,744
Number of ordinary shares (par value 0.52 euro)	3,132,905,277	3,132,905,277
Number of treasury shares (par value 0.52 euro)	23,721,421	23,721,421

A2A S.p.A. on the Stock Exchange

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

Market capitalisation at December 29, 2017 (millions of euro)	4,831
Share capital at December 29, 2017 (shares)	3,132,905,277

2017	
Average market cap (millions of euro)	4,455
Average daily volumes (shares)	9,729,351
Average price (€/share)	1.422
Maximum price (€/share)	1.635
Minimum price (€/share)	1.232

Source: Bloomberg

A2A stock is also traded on the following platforms: Chi-X, BATS, Turquoise, Equiduct, Sigma-X, Aquis, BOAT OTC, LSE Europe OTC, BATS Chi-X OTC.

On May 24, 2017 A2A distributed a dividend equal to 0.0492 euro per share.

A2A forms part of the following indices

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

Ethical Indices

ECPI Euro ESG Equity
Ethibel Sustainability Index Excellence Europe
EURO STOXX Sustainability Index
Euronext Vigeo Europe 120
Solactive Climate Change Index
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.

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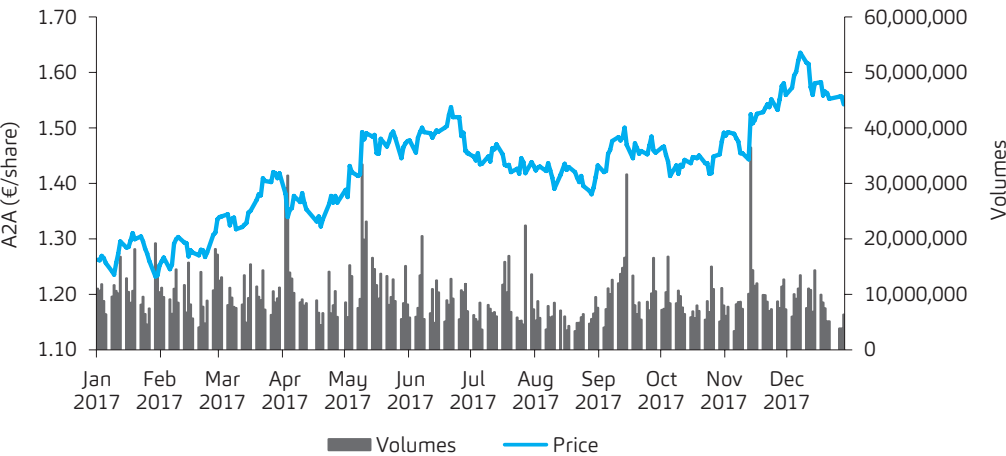
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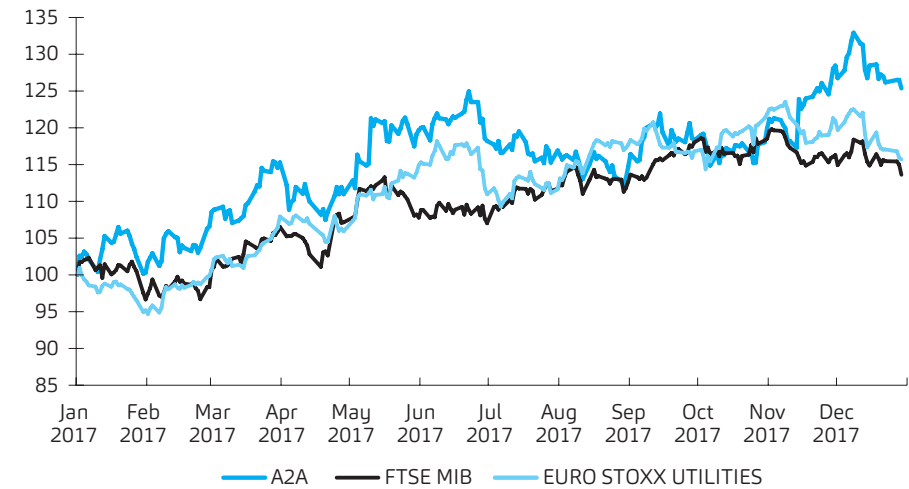
A2A: price and volumes



A2A vs FTSE MIB e EURO STOXX UTILITIES

(Price December 30, 2016 = 100)

Historical volatility in 2017
A2A: 19.4%
FTSE MIB: 14.3%



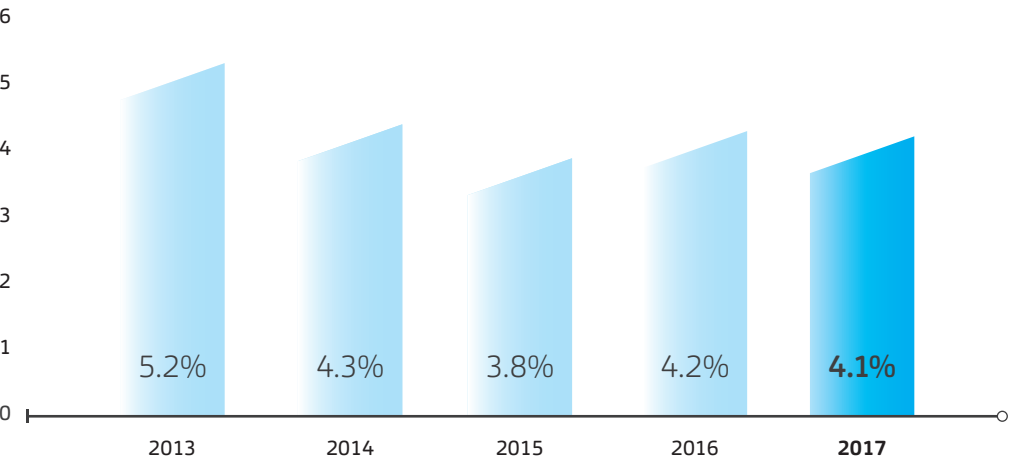
Source: Bloomberg

Rating

		Current
Standard & Poor's	M/L Term Rating	BBB
	Short Term Rating	A-2
	Outlook	Stable
Moody's	M/L Term Rating	Baa3
	Outlook	Stable

Source: Rating agencies

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



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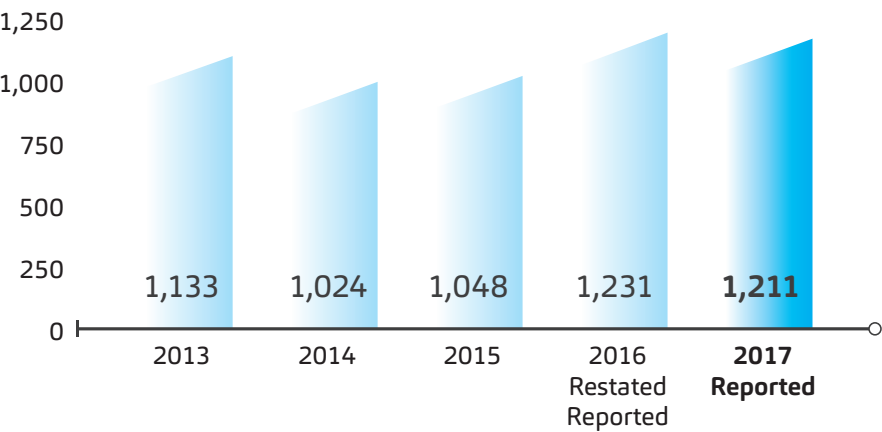
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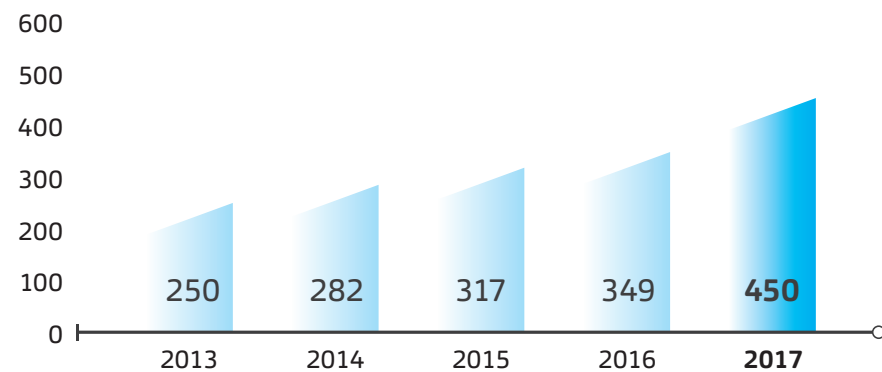
Gross Operating Income

millions of euro



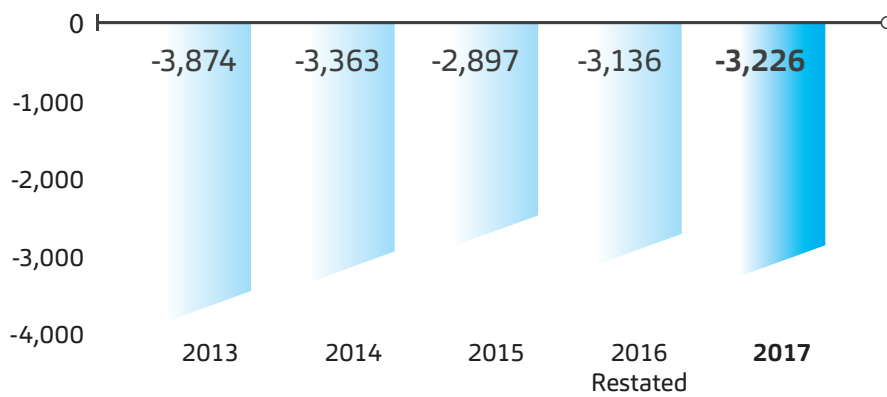
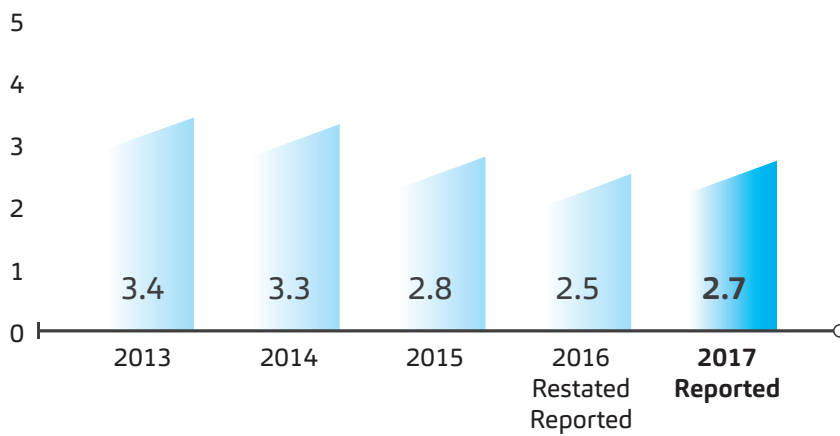
Net Investments

millions of euro

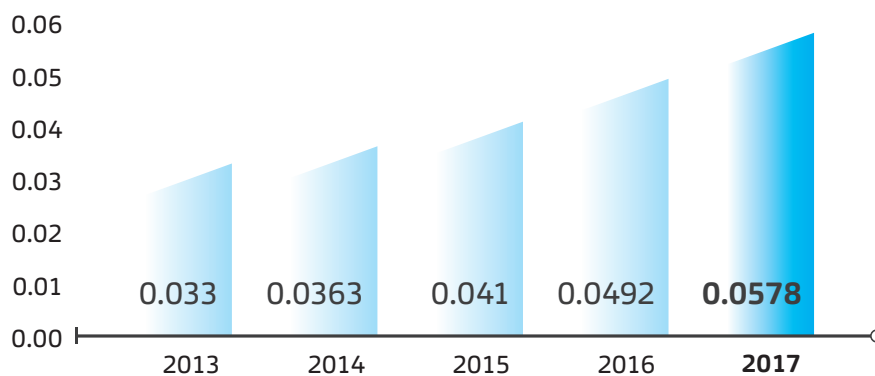


Net Financial Position

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 performance indicators (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.

In the file of the Report on Operations, these indicators are shown in the "Summary of results and financial position of the A2A Group". For the Income Statement, the comparative figures refer to the values at December 31, 2016, while for the Balance Sheet, the comparative values refer to December 31, 2016 Restated.

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 performance indicators 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 performance indicators (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 performance indicators adopted by the Group are described below.

Gross operating income (EBITDA)

Gross operating income 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.

In the file of the Report on Operations, this indicator is placed 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 capital

Net fixed capital is determined as the algebraic sum of:

- tangible assets;
- intangible assets;
- investments 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.

Capital employed/Net capital employed

Capital employed/Net capital employed 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 “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 debt

Net financial position/Net 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 current portion due within twelve months of Bonds, Bank loans, Financial leases, 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 target 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.

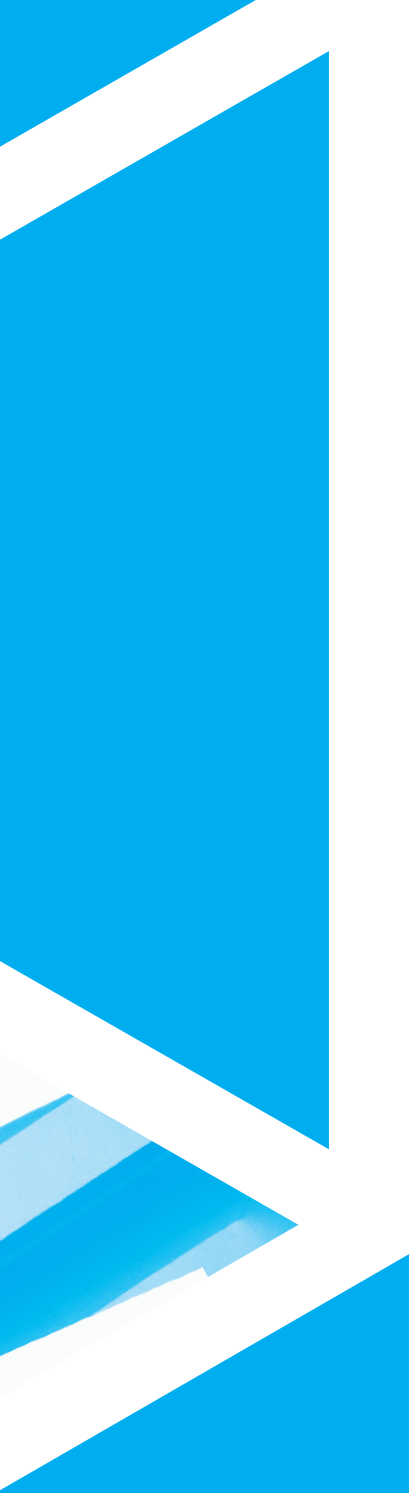
Investments in tangible and intangible assets

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 performance indicators 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

2017 Figures

During the course of 2017, the world economy grew at a rapid pace, highlighting growing signs of synchronization. The advanced economies and the United States in particular are affected by the positive impact of the tax reform of Trump. According to the International Monetary Fund (IMF), the world economy is estimated to grow to 3.7% in the year 2017 (0.1% more than the October forecast).

In the third quarter of 2017, Gross Domestic Product (GDP) in the United States grew by 3.2%, up compared to the previous quarter (+3.1%) and the first quarter of 2017, where it had only recorded +1.4%. Growth was driven above all by the expansion of private consumption and the contribution of exports. In Japan, GDP of the third quarter of 2017 increased at a rate of 1.4%, recording +0.3% on the previous quarter thanks to the boost of exports (source: Economic and Social Research Institute of the Japanese Cabinet Office). In the fourth quarter of 2017, China recorded a growth of 6.8% which brought the rate of expansion for the entire year to +6.9% against +6.7% the previous year (source: Chinese National Bureau of Statistics). According to IMF estimates, India's GDP in 2017 is expected to grow +6.7% while Brazil's GDP +0.7%. Russia continues to grow in the fourth quarter of the year following the recovery of oil prices: in 2017, GDP is expected to be in a range of +1.4% to +1.8%.

According to the preliminary estimate of the IMF, Eurozone GDP is expected at 2.4% in 2017 thanks to the recovery of private and public consumption. This has been the highest growth rate recorded since 2007. Within the Eurozone, Germany is expected to drive the recovery highlighting an increase of 2.2%, the highest rate since 2011. The excellent performance was mainly attributable to domestic demand, driven by household consumption (+2%), public consumption (+1.4%), investments in construction (+2.6%) and machinery (+3.5%).

As for Italy, the International Monetary Fund and the Bank of Italy indicate that GDP is expected to average at 1.6% in 2017 (0.1% more than the October forecast).

With regard to the consumer price index in the Eurozone, Eurostat announced that inflation stood at 1.4% in December 2017 compared to 1.5% recorded in November. The average inflation for the year is equal to +1.5%. However, the rise in inflation was not homogeneous between the various Eurozone countries: the most significant increase came from Germany, where inflation was 1.7%.

Italian inflation in 2017 increased by 1.2% and returned positive after the -0.1% recorded in 2016 (source: ISTAT). The increase in prices of the transport spending divisions (+3.4%, which reverses the trend compared to -1.4% in 2016), and food products (+1.9%, in marked acceleration compared to +0.2% of the previous year) and hospitality and restaurant services (+1.6% from +0.7%).

At its meeting on January 25, 2017, the Governing Council of the ECB decided to keep the reference rate at the historical minimum of 0.00% and to extend the Quantitative Easing to the current monthly rate of 30 billion until September 2018 and even longer if necessary until there is a permanent adjustment in the evolution of prices, consistent with the inflation target of close to 2%. Confirming the expectations, at the meeting of January 31, 2018, the Federal Reserve (FED) left the rates unchanged on federal funds in the range between 1.25% and 1.50%. Furthermore, in October the gradual process of normalization of the financial statements began with the gradual reduction in the amount of securities held, at a rate of 10 billion a month up to a maximum of 50 billion.

In the fourth quarter of 2017, the appreciation of the single currency against the dollar continued, with an average value for the period of 1.18 dollars. The average EUR/USD exchange rate stood at 1.13 dollars in 2017, up 2% compared to 2016.

Outlook

Looking ahead, global economic activity is expected to show further moderate strengthening by continuing to benefit from the support of monetary and budgetary policies in advanced economies and the recovery of emerging commodity-exporting economies. The International Monetary Fund expects that advanced economies will grow on average by 2% in 2018 while emerging economies will grow by 4.9%.

However, various risk factors remain, including the growing protectionist impulses, the persistence of a low level of inflation and wages globally as well as the high Chinese financial exposure that could jeopardize international stability. Finally, there is the danger of geopolitical tensions in view of the outcome of important elections in various countries of the world, including Brazil, Colombia, Italy and Mexico.

According to the International Monetary Fund (IMF), world GDP will grow by 3.9% in 2018 and in 2019 (+0.2% for both years compared to the October forecast) driven by the growth of industrial production and recovery of employment as well as trade flows. Among the main advanced economies, the tax reform ordered by Donald Trump will make the United States run: US GDP is expected to grow by 2.7% in 2018 (+0.4 points compared to the October estimate) and 2.5% in 2019 due to the increase in investments linked to the reduction of corporate taxes. In Japan, GDP is expected at +1.2% in 2018 and +0.9% in 2019. As for emerging economies, the most brilliant result is India, which will grow at a rate of 7.4% this year and 7.8% in 2019. The Chinese economy is destined to slow slightly, with GDP forecast at +6.6% in 2018 and +6.4% in 2019. The estimate of GDP was revised upwards for Brazil, expected to increase by 2.0% in 2018 and for Russia, expected to increase from 1.4% in the previous forecast to 1.7% (source: World Bank).

Macroeconomic projections for the Eurozone, formulated by the IMF forecast annual GDP growth of 2.2% in 2018, 2% in 2019 and 1.7% in 2020. Compared to October, growth prospects have been revised upwards considerably, as the economic expansion underway in the Eurozone is expected to continue to be supported by the ECB's monetary policy measures. German GDP is expected to increase (+2.3% in 2018 and +2% in 2019 respectively from +2.1% and +1.7%) as is also French GDP (+1.9% for the two-year period 2018-19 from +1.6%). In 2018, GDP in Spain was slightly revised downwards to +2.4% (from +2.5%), as a consequence of the effect of political uncertainty on trust and demand.

With regard to Italy, the International Monetary Fund estimates GDP growth to 1.4% for 2018, and to 1.1% in 2019, thanks to the recovery in consumption and investments.

Inflation in the Eurozone is expected to increase gradually over the medium term, supported by the ECB's monetary policy measures, the continuation of economic expansion as well as the progressive reduction of unused production capacity and the increase in wages associated with this expansion. According to the forecasts of December, formulated by ECB experts, inflation in 2018 is expected to be 1.4%, conditioned by the intensity of food and energy increases in 2017, to then increase again in 2019 to 1.5% and 1.7% in 2020.

In Italy, an inflation rate is expected of 1.1% in 2018 and 1.5% in 2019. The decline expected for 2018 is mainly due to the exhaustion of the effect of the increase in energy and food prices recorded at the beginning of 2017 (source: Bank of Italy).

The trends in the levels of interest rate and therefore the roles of central banks will be decisive for the exchange rates of the single currency. In particular, the European Central Bank (ECB) and the Federal Reserve (FED) will be dealing with important monetary policy choices and both will face the risk of a decline in inflationary expectations. However, while the FED already started a period of normalization of interest rates some time ago, which is expected to reach the 2% level at the end of 2018 if the forecast of 3 increases is observed during the year, the ECB is still at zero and the consensus appears unanimous in predicting a first rise only in 2019.

According to the main analysts, the EUR/USD exchange rate in 2018 will remain well above 1.20 and the reasons are mainly two: on one side, the economic growth of the Eurozone and on the other, the expectations of the market regarding the possible end of the Quantitative Easing of the ECB.

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Energy market trends

The prices of the main European energy commodities, after a descending parabola that culminated in 2016, showed double-digit growth in 2017 even though the maximum values achieved in the two-year period 2014/2015 were not reached.

In the year 2017, the price of Brent has fluctuated mainly between 50 and 60 \$/bbl, with an annual average of 54.8 \$/bbl, an increase of 21.6% compared to 2016 (equal to 45.1 \$/bbl).

The recovery of prices were influenced, especially in the last months of the year, by the intentions expressed by the OPEC members of wanting to prolong the time (throughout 2018) and extend the agreement on production cuts to other countries with the aim of maintaining prices on current levels, which appear to be a fair compromise for both producer and consumer countries. The forecasts released by Unione Petrolifera show a price of Brent which, on average of 2018, is expected to settle in a range between 55 and 65 \$/bbl; however, downward pressure could derive from the reactive response of American shale oil.

Global oil demand in 2017 averaged 97.0 million barrels per day, an increase of 1.6% compared to 2016. China has contributed to this result with an increase of 600,000 barrels a day; demand has grown for the third consecutive year in Europe, exceeding the threshold of 14 million barrels per day. At world level, oil is confirmed as the primary source of energy, with an estimated share of around 32%, followed by coal with 27% and gas with 22%. According to the US agency Energy Information Administration (EIA), in 2018 world oil demand is expected to grow by an additional 1.7 million barrels per day.

As for the offer, according to the US agency Energy Information Administration (EIA), in 2018 American production is expected to grow at a record level of 10.3 million barrels per day, 11% above of 9.3 million barrels per day in 2017. If these forecasts were to occur, the United States would become the world's leading oil producer, surpassing Russia and Saudi Arabia. The OPEC, in the monthly report of December, expects the offer of countries belonging to the economic cartel to stabilize at 33.2 million barrels per day in 2018, to balance a market characterized by global demand of 98.5 million barrels per day.

Coal in 2017 has shown high prices since January; it declined in the second quarter (close to 70 \$/tonne) and then increased further from the second half of the year. The average price of coal in 2017 amounted to 83.8 \$/tonne, recording an increase of 40.4% compared to 2016 (equal to 59.7 \$/tonne) driven by demand from Asian countries, primarily from China. For the current year, forward curves indicate prices with average values close to 90 \$/tonne.

Electricity

Electricity consumption in Italy has grown in 2017, reaching its peak since 2013: the net electricity requirement amounted to 320,437 GWh (source: Terna), with an increase of 2.0% compared to 2016.

Net production of electricity was 285,118 GWh, up 1.9% on an annual basis. The reduced water availability led to a significant decrease in production from hydroelectric sources, which stood at 37,530 GWh, a decrease of 14.3% compared to the previous year. Thermoelectric production increased with a 4.6% increase compared to 2016 and stood at 199,500 GWh, benefiting from low levels of hydraulicity and imports (particularly in the first months of the year with reference to the decline in production from nuclear source registered in France).

As for renewable sources, there is a discordant trend: the photovoltaic sector shows an increase of 14.0% compared to 2016; on the other hand, geothermal production fell (-1.4%) and, to a lesser extent, wind power fell (-0.2%), which showed a strong decline in the first part of the year.

National production, excluding pumping, accounted for 88.3% of the demand for electricity, while net imports satisfied the remainder.

Regarding electricity prices, the PUN (Single National Price) Base Load in the year 2017 returned to growth, reaching 53.9 €/MWh, compared to the historical minimum of 2016 (equal to 42.7 €/MWh), recording prices in line with the two-year period 2014-2015. The price showed a discordant trend over the year: starting from high January values (72.24 €/MWh and conditioned by the stoppage of some French nuclear plants), it fell in April and May (both around 43.0 €/MWh) to then rise again gradually in the third quarter and reach an average value of 61.8 €/MWh in the last quarter of 2017.

The growth of the PUN reflected a context characterized by the rise in the prices of the main commodities, including in particular that of gas, as well as the recovery in volumes traded. Upward trend also for average prices in high load time slots (+28.2% for the Peak Load PUN reaching 61.8 €/MWh). The price in low load time slots (Off-Peak PUN) recorded an increase of 24.8% to 49.6 €/MWh. For the current year, forward curves indicate Base Load PUN prices with average values close to 51 €/MWh.

Natural Gas

In 2017, the demand for natural gas increased by 6.1% compared to 2016, amounting to 74,683 Mcm (source: Snam Rete Gas), consolidating the progressive recovery compared to the minimum value reached in 2014.

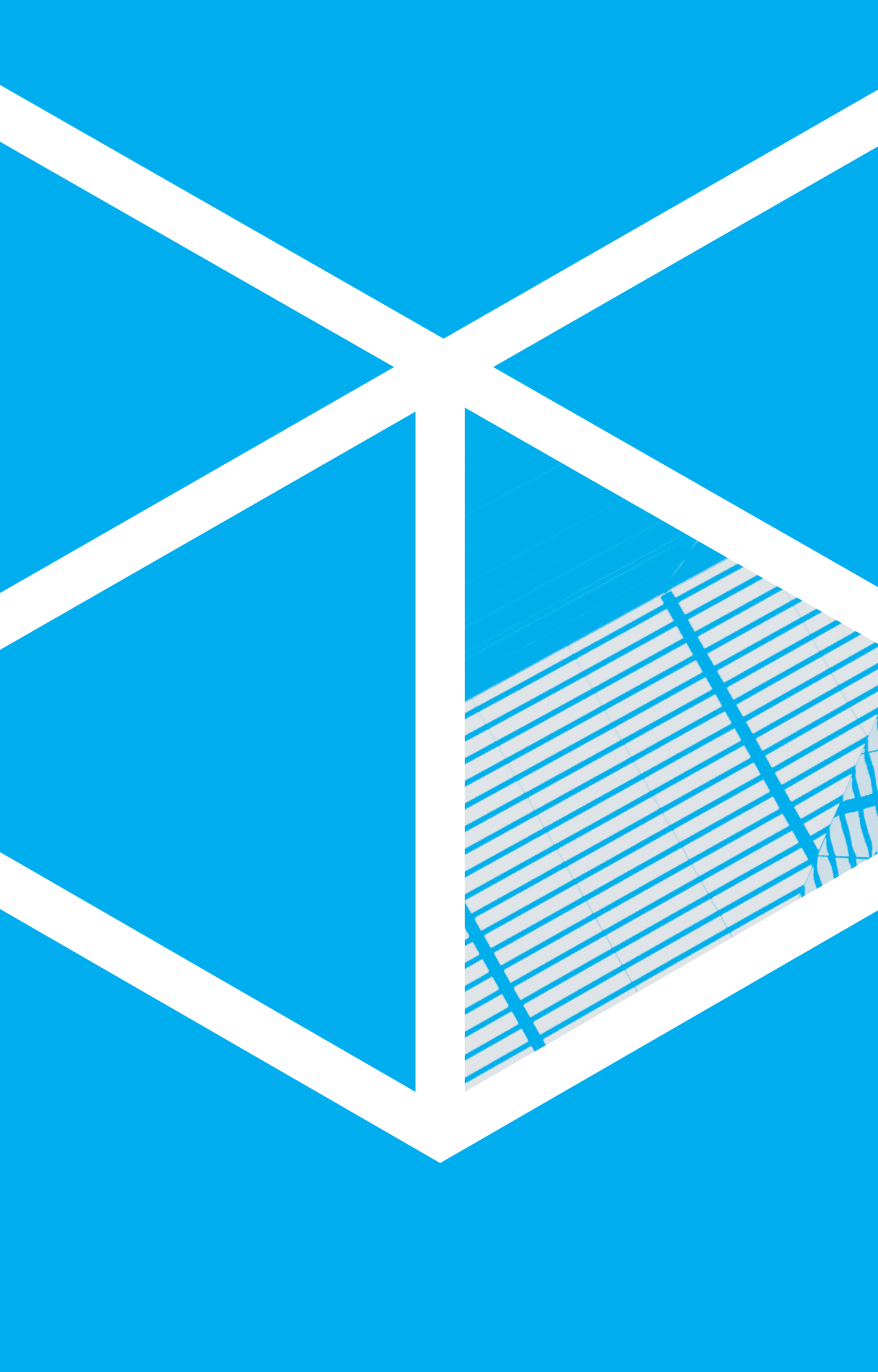
The growth mainly concerned the consumption of the thermoelectric sector which stood at 25,438 Mcm and recorded an increase of 8.8% compared to 2016 despite the sharp decline in September (-21% compared to September 2016) and December (-9% compared to December 2016); the increase was particularly marked by the increase in electricity demand and the drop in renewable hydroelectric production. Industrial sector consumption confirms the recovery phase and reached 14,342 Mcm, with an increase of 7.1% compared to 2016. Consumption of the residential and commercial sector also increased in the average of 2017 (+3.1%).

On the supply side, imports of natural gas continue to grow reaching 69,216 Mcm (+6.4% over 2016), while national production declined by 5.9%. Imports represented around 93% of requirements net of changes in stocks while national production covered the remainder. Among the entry points, imports of natural gas from Russia to Tarvisio remain the main source equal to 30,082 Mcm (+6.8%), followed by imports of Algerian gas to Mazara stable compared to 2016 (18,880 Mcm, +0.3%). On the other hand, imports from Northern Europe recovered (+8.1%) while imports from Libya decreased (-3.2%).

The price of gas to the TTF for 2017 amounted to 17.3 €/MWh, up 23.9% over the previous year (14.0 €/MWh). The price of gas to the PSV showed a trend in the period that, starting from the high values in January, equal to 22.8 €/MWh, declined in March, to 17.8 €/MWh and then settled in the third quarter of the year at values close to 18.0 €/MWh and increased in the last quarter at an average value of about 22.0 €/MWh. The average price of gas to the PSV for 2017 amounted to 19.6 €/MWh, up 25.5% over 2016 (15.6 €/MWh). For 2018, forward curves indicate prices with average values around 20.0 €/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 2.3 €/MWh for the reporting period, up compared to the differential of the previous year (1.7 €/MWh). The gas market to the PSV tends to confirm a structural spread over the TTF for the year 2018, revealing a short market dependent on imports from North and Eastern Europe. For the year 2018, a spread of around 2 €/MWh is expected (source: Ref).

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3
Evolution
of the regulation
and impacts
on the *Business Units*
of the A2A Group

Generation and Trading Business Unit

Remuneration of production capacity availability

The mechanism in force in Italy for the remuneration of production capacity is the Capacity Payment introduced in 2003 by Legislative Decree no. 379 as an administered, transitional system the purpose of which is to ensure the adequacy of the electricity system especially in the days, identified by Terna and defined as critical, where the difference between supply and demand could be at minimum levels.

Since 2004, the mechanism envisages that the Authority determines ex ante the specific revenue collected from electricity bills and disbursed via two payments (called CAP1 and S) to plants authorized to provide dispatching services.

Legislative Decree no. 379 also stated that, under regime, the capacity remuneration shall be based on a market mechanism (capacity market), subsequently defined with Authority Resolution ARG/elt 98/11.

The final bill involves an auction in which operators awarded acquire the right to receive a bonus (in €/MW/year) with respect to the obligation to offer all the capacity awarded in the energy (MGP) and services (MSD) markets, returning to the counterparty Terna the difference - if positive - between the benchmark prices and a strike price (in €/MWh). It is technically a "one-way difference contract".

Initially, the aforementioned bill involved three-year auctions with a four-year planning horizon. By way of Resolution 95/2015/1/el, the Authority proposed to the Ministry of Economic Development (MiSE) to reduce to 1 year the period between the conduct of the auction and delivery, also introducing contracts with one-year duration (first implementation phase).

In August 2015, the Italian government informally pre-notified DG Competition of the mechanism set out in Resolution ARG/elt 98/11 to verify its legitimacy with the discipline concerning state aid. There were numerous discussions between DG Competition, DG Energy, the MiSE, the Authority and Terna up to the formal notification on August 23, 2017.

Meanwhile, the refinement of the Italian scheme continued both by Terna and the Authority.

Terna published three consultation documents (DCO) the main new features of which are:

- for the phase of first implementation, the opening to production units of less than 10 MVA, to renewable generation (which does not receive incentives from the GSE or waives it) and to the demand enabled on MSD; flexible resources are rewarded only through the recognition of priority in selection in the case of multiple offers at marginal price;
- for the phase of regime, in addition to as stated in the previous point, the direct participation of foreign resources;
- the modification of the demand curve that is simplified and made compliant with European indications, reflecting government choices in terms of maximum acceptable expenditure and safety level (function of the parameter Loss of Load Expectation - LOLE, established by the MiSE, and representative of the maximum duration of load separation acceptable at country level).

The Authority published DCO 713/2016 and 592/2017 regarding:

- obligations of contracted plants, from which the offer of capacity on MGP at values below or equal to the strike price is most incentivized;
- setting of premium cap differentiated in the phase of initial implementation and equal, respectively, to 75,000 euro/MW/year for new entrants with fifteen-year contracts and 20,000 euro/MW/year for existing plants with higher strike price levels compared to the regime phase to take account of a potential exercise of market power.

In the meantime, the European Commission approved the capacity remuneration mechanisms of the United Kingdom (capacity obligations), France (exchange certificates), Germany (Network Reserve) and Ireland. The start of the mechanism in Italy is expected by 2019.

Regarding the economic effects of capacity payment on A2A, the impact of the mechanism in 2017 amounted to around 15 million euro, already liquidated pursuant to Resolution 844/2017/R/eel. In 2017, a total of 18 million euro relating to components S 2015 and CAP1 2016 were also liquidated pursuant to Resolution 398/2017/R/eel and 418/2017/R/eel.

Remuneration of plants essential for the safety of the electricity system

By way of Resolution 803/2016/R/eel, the 220 kV plant of the San Filippo del Mela plant (groups 2, 5 and 6) was contractualized by Terna under the must-run regime with reintegration of costs for the five-year period 2017-2021. The Resolution also establishes that group 1 at 150 kV plays a back-up role in the event of unavailability of group 2.

The new Sorgente-Rizziconi power line connecting Sicily with the mainland could, in fact, not always be available (e.g. during maintenance) and the market of the Sicily area is still short at the moment in terms of supply.

Also envisaged is the commitment by A2A Energiefuture S.p.A. to contain the requests reinstatement of costs below a certain 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 the highest 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.

At December 31, 2017, approximately 56 million euro was paid by Terna relating to the 2016 essentiality regime (second advance payment) and the first 2017 advance payment. Receivables still to be collected and related to the previous years amounted to 57 million euro (2015, 2016 and 2017 balances).

Marginal plants in conservation and Terna requests for reactivation

In the winter of 2016-2017, to cope with the shut-down of nuclear power plants in France, Terna requested the reactivation of the Ponti sul Mincio thermoelectric power plants, in conservation since October 22, 2016, and Chivasso 2, in conservation since September 30, 2013. In March 2017, and in view of possible system criticalities in the summer of 2017, Terna also requested information on the timing of reactivation of the carbon plant in Brindisi (units 3 and 4), in conservation since September 2015, and of the Sermide 3 group, in conservation since January 1, 2016.

A2A declared the unavailability of the Brindisi plant as a result of the Integrated Environmental Authorization (IEA) requirements that provide for emission limits that cannot be respected without significant investment, which would imply extremely long times. With reference instead to Sermide 3, the company declared the possibility of restoring its full technical availability, upon completion of a technical intervention essential to ensure the return of the group (transport of the transformer from Chivasso to Sermide to replace the existing one, breakdown), however stating that the unit can only be managed as a back-up of the 800 MW unit due to the reduction of the workforce to cope with the economic crisis in the sector. The return to availability of the Sermide 3 Group is expected in the first half of 2018.

Terna made reactivation requests pursuant to Law 290 of 2003, article 1-quinquies, paragraph 1, requiring to maintain the state of perfect efficiency of generation plants with nominal power greater than 10 MVA. In the absence of rules implementing this requirement, to date the state of conservation (or cold reserve) of the plants is not regulated.

The start of the capacity market is expected to remedy these situations: for any plant that will be excluded or that will voluntarily not want to participate in the auctions for remuneration of availability, there should be no obstacle on disposal or storage.

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Conferment of gas transport capacity for thermoelectric plants (CCGT)

The transfer of gas transport capacity represents one of the most significant fixed costs that CCGT must incur (6,000 euro/MW). To cope with the increased demand for system flexibility related to the growth of renewable sources, the Authority launched a pilot project with Resolutions 336/2016/R/gas and 470/2016/R/gas on the transfer of capacity of thermoelectric plants with a view to varying the cost.

Resolution 512/2017/R/gas completes the set of rules and with effect from October 1, 2017, introduced, in addition to the daily capacity product already provided by the previous rules on the pilot project, a monthly product, which is associated a fee equal to 2 times the annual fee re-proportioned on a monthly basis. For the daily product, however, the multiplicative coefficient has been reduced from 10 to 7. Lastly, the Resolution provided the possibility for those who require infra-annual conferment to the delivery points that are the subject of the pilot project to obtain equal or less conferment to the corresponding exit point, applying fees for infra-annual products determined on the basis of the same multipliers provided at the points of delivery and established that the CMT fee for the remuneration of the metering service performed by transport companies be calculated and invoiced on a monthly basis.

The general reform of capacity conferment to all points of exit and delivery of the gas transport network (as well as thermoelectric, civil and industrial) will be the subject of a subsequent DCO that will take into account the outcomes of both the pilot project and the new tariff provisions contained in European Regulation (EU) 460/2017 of March 17, 2017, as well as the different price elasticity of the capacity demand of the different types of users.

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 so as to push operators to always make the best forecasts of production and consumption, 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 amending the above discipline 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 according to the discipline in force before the resolutions annulled and the adjustment invoices - despite the objections by the A2A Group companies - were directly compensated at June 30, 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.) and Edipower S.p.A. (now A2A S.p.A.) and A2A Energia S.p.A. appealed to the Lazio Regional Administrative Court against Terna as it did not take into account this proceeding in the calculation of the adjustments.

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 sums from Terna, the dispute still remains in place as some operators appealed against Resolution 333/2016/R/eel invoking the suspension that was denied. The meeting of the Lombardy Regional Administrative Court (TAR) is expected in the first quarter of 2018.

Period January 2015 - June 2016

In June 2016, given the significant increase in imbalance costs, the Authority launched a system 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 the aforementioned conduct in terms of increased imbalance prices.

With Resolutions 342/2016/E/eel and 459/2016/E/eel, the Authority therefore initiated numerous individual procedures for the adoption of prescriptive and/or asymmetrical regulation measures. In particular, the following proceedings were opened for the A2A Group:

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

The outcomes of these proceedings have been by means of Resolution 813/2016/R/eel and 178/2018/S/eel and consist:

- in the filing of the proceeding for A2A Energia S.p.A. there are no conditions for the adoption of prescriptive measures or to initiate sanction proceedings;
- in the filing of the proceeding for A2A Energiefuture S.p.A. following the subjection of the San Filippo del Mela plant to the essential regime with a commitment to contain costs, pursuant to Resolution 803/2016/R/eel;
- in the start of a sanctioning procedure for A2A Trading S.r.l. (now A2A S.p.A.) for violation of article 14.6 of Resolution 111/06 (“diligent programming”), although noting that the conditions for the adoption of a prescriptive provision are not satisfied.

In 2017, A2A S.p.A. sent a number of briefs to its defence, and after receiving the communication of the preliminary findings on December 13, 2017 (the CRI), is awaiting the quantification of the sanction by the Authority that would hopefully be the minimum possible as the operator has acted in absolute good faith.

Definition of the new regulations on imbalances as of August 1, 2016

With Resolution 444/2016 /R/eel, subsequently amended by Resolution 800/2016 /R/eel, the regulatory framework for effective imbalances was defined starting from August 1, 2016 with the introduction of mechanisms aimed at providing more effective incentives to plan with diligence, expertise, prudence and foresight, and at the same time to allow the Authority to systematically detect possible violations (also for the purpose of adopting prescriptive and/or sanctioning measures).

In particular, these measures modify the valorization of imbalances, differentiating it if it is a production unit (relevant, irrelevant, powered by non-programmable or renewable sources or unauthorized other than that powered by renewable sources) or consumption units, with the application to the various cases of the single pricing rule or single-dual pricing mixed regime and providing for specific deductible thresholds.

Moreover, pending the provisions for the regime of the discipline that is likely to be implemented as of 2019 and that is expected to include nodal imbalance prices, by way of Resolution 419/2017/R, the Authority established:

- from July 1, 2017, the introduction of macro-zone non-arbitrage fees in order to eliminate the distortions that derive from the determination of macro-zonal imbalance prices in the presence of market prices calculated at zonal level;
- from September 1, 2017, the resumption of the single-pricing valorization of unbalances for all unauthorized production units and a new method of calculating the zonal sign implemented by Terna that is less predictable than the previous one.

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First opening of MSD to demand/accumulation systems/production units not yet authorized

By way of Resolutions 300/2017/R/eel and 372/2017/R/eel, the Authority ordered a first opening of MSD through specific pilot projects with voluntary authorization to operators demand side, to production units powered by renewable sources (non-programmable, relevant and irrelevant), to programmable units that are still unauthorized and to accumulation systems.

In general, the bill establishes that production units (UP) and consumption units (UC) can participate in the market individually or through different types of aggregation: only production (UVAP), only consumption (UVAC) or mixed (UVAM/UVAN).

The pilot projects provide for participants, obligations and methods of supply in line with those currently provided for the authorized UP, without any form of economic incentive. With reference to the UC access requirements, these can be connected in HV, MV or LV, but must be treated on an hourly basis. Operators can propose additional Terna pilot projects for the provision of individual services or services that are not remunerated to date. The role of distributors is limited in this first phase.

The first two pilot projects presented by Terna and approved by the Authority were:

1. Project for UVAC (Resolution 372/2017/R/eel): single or aggregate consumption plants in the same province (or group of provinces) with a minimum power limit of 1 MW, consisting:
 - in the participation in MSD for the provision of the upward replacement tertiary reserve service (RTs) and balancing from June 2017, with limited remuneration to the activation of resources on MSD (fee in euro/MWh);
 - in the eventual participation in tenders organized by Terna for the forward supply of RTs and balancing by UVAC authorized to MSD.
2. Project for UVAP (Resolution 583/2017/R/eel): single production plants or set of plants located in the same aggregates of the provinces of the UVAC and with a minimum power limit of 1 MW. The project consists in the participation in MSD for the supply of RTs and balancing without the possibility of a term contract.

In order to seize the opportunities offered by the new regulatory framework, a task force was set up within the A2A Group for the implementation of UVAC and UVAP projects.

Incentives to production from renewables and conversion of the Green Certificate into tariff

Legislative Decree March 3, 2011, no. 28, in implementation of Directive 2009/28/EC, defined the incentive schemes for electricity production powered by renewable sources in order to achieve the European targets by 2020, then implemented with Ministerial Decrees July 6, 2012 and June 23, 2016 relating to plants from renewable sources other than photovoltaic.

These decrees establish incentive tariffs (feed-in premium) that are added to revenues deriving from the sale of energy on the market: for production units under specific power thresholds incentives are recognized through direct access or through registration to registers managed by the GSE, while for plants with higher power an auction procedure is envisaged.

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 production sales revenues on the market. Said incentive (I) is equal to:

- $I = k \times (180 - Re) \times 0.78$;
- 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 2017, the incentive for a plant to which the coefficient $k = 1$ is applied is 107.34 euro/MWh.

A similar instrument is granted to plants that benefited from the GCs issued on cogeneration combined with district heating (GC district heating) for which the incentive was set at 84.34 euro/MWh (as 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. The A2A Group signed agreements with the GSE for all its incentivized plants.

The incentives in the form of feed-in disbursed by the GSE to A2A S.p.A. for incentivized plants at December 31, 2017 amounted to 34.1 million euro.

As December 31, 2017, the Group had a stock of 631,741 of GCs and district heating GCs for a counter-value of approximately 63 million euro: the last deadline for the collection of the warehouse by the GSE is March 31, 2018.

Large hydroelectric derivation concessions

The failure to implement primary rules to allow tendering for the assignment of large-scale hydroelectric concessions has led to the continuation of management by the current owners, even in cases where the concessions have formally expired. This situation also includes some concessions of A2A S.p.A.⁽¹⁾.

More specifically, article 37, paragraph 4 of Law 134/2012 converting Decree Law Development 83/2012, confirmed the period of 5 years before the expiry of the concession as being the time limit within which a tender must be called for reassignment and set the term of new concessions in 20 years, extendible to 30 years depending on the size of the investments according to the criteria established by an implementing Ministerial Decree, not yet issued. In addition, the regulation established a special transitional regime (accelerating) for calling tenders for concessions that have already expired or that expire on or before December 31, 2017 (those which were unable to comply with the 5 years). These tenders must be called within 2 years of the effective date of the above Ministerial Decree.

The non-issue, to date, of the “Tender Ministerial Decree” results in an actual extension of the management by the current concessionaires also of these derivations due to expire beyond 2017.

The Government, as part of the formal default notice received on September 26, 2013 from the European Commission affirming the opposition of the aforementioned Italian legislation with the principles and rules of EU law, decided to report to the Commission a future amendment to said rules, as part of an overall reorganization of the sector to be implemented by means of a delegation law. If the Commission is not fully satisfied with the Italian arguments, it may proceed to send a reasoned opinion.

On the topic, article 1, paragraph 833, of the 2018 Budget Law⁽²⁾ recently intervened, which introduced, with reference to the large-scale hydroelectric concessions of the autonomous provinces of Trento and Bolzano, the following additions:

- extension of the right until 12/31/2022, pursuant to provisions providing for an expiry date prior to that date;
- criteria for valuing assets at the expiry of the concessions (and in the event of forfeiture, renunciation and revocation):
 - for the so-called “wet works” a transfer is provided to the Provinces, in principle free of charge. Compensation, equal to the value of the asset not yet amortized, is recognized only in the case of investments made on such works at the expense of the concessionaire, provided that they are envisage in the concession deed or authorized by the grantor;
 - for the so-called “dry works”, refer to the provisions of article 25, paragraph 2, of R.D. 1775/1933 (“recognition of an amount equal to the estimated value of the work material, calculated at the time of entry into possession, abstracting from any assessment of the income that can be derived from it”);

1 The concessions of Grosotto, Lovero and Stazzona and Sernio 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, while those of the Calabria, Udine and Mese units will expire in 2029 (pursuant to Legislative Decree no. 79/1999).
2 This law amended article 13 of Presidential Decree August 31, 1972, no. 670 (“Approval of the consolidated text of the constitutional laws concerning the special statute for Trentino-Alto Adige”).

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- referral to an eminent provincial law, aimed at establishing the procedures and procedural rules for the conduct of tenders for the assignment of hydroelectric concessions.

On the other hand, there is no provision for transfer to the new concessionaire of ownership of the entire company unit relating to the activities subject to the concession.

With regard to regional legislation, Lombardy modified the reference framework (Regional Law no. 26/2003) with Regional Laws no. 19/2010 and no. 35/2014, regulating the so-called “temporary continuation of exercise” for large derivation concessions already expired and providing for the imposition of an additional fee.

The Regional Government further extended with Regional Council Resolution no. X/7693 of 1/12/2018 the duration of the “temporary continuation of exercise” of the concessions, including those of A2A, until December 31, 2020, subject to previous (and completely unlikely) conclusion of the tender procedure.

Moreover, for the Premadio 1 and Grosio concessions, the Lombardy Region intends to cancel the partial exemption from the state fee from which A2A benefits for significant portion of power during the period of temporary continuation, with effect from the respective deadlines (July 28, 2013 and November 15, 2016). The related Regional Council Resolutions were challenged by an appeal before the Superior Court of Public Waters (TSAP), which ended in January 2017 with an adverse sentence. A2A appealed to the Court of Cassation but to date the specific hearing has not yet been set.

By Regional Council Resolution no. 5130/2016 of May 9, 2016, the Region provisionally quantified the “additional fee” for hydroelectric concessions of major derivations expired, introduced by Regional Law 19/2010 to the extent of 20 euro/kW of average nominal concession power, with reserve of subsequent increase (and related adjustment) if it emerges from the studies that the Region is conducting that the “return” of the expired concessions was higher. A2A S.p.A. appealed to Regional Council Resolution no. 5130/2016.

This DGR was adopted despite the pending appeal filed by the National Government to the Constitutional Court to the Regional Law no. 22/2015. The arguments made by the Government are identical to those of the operators that appealed the previous regional resolutions of “temporary continuation of exercise” under the principle of homogeneity of fees on the national territory as a condition relating to competition (art. 37, paragraph 7, Law 134/2012), and since Legislative Decree no. 79/99, article 12, paragraph 8-bis is clear in determining that the exercise of the expired concessions must continue, until the new assignment, from the outgoing concession at unchanged conditions, without requiring any regional measure.

Instead, the Region bases the establishment of an additional fee on the assumption that it already owns the works and hydroelectric plants in question, applying the former article 25, paragraph 1, of R.D. 1775/33, superseded by art. 37 of Law no. 134/2012. The additional fee would represent the consideration for the benefit of said goods by the “former concessionaires”, however regarding which they continue to pay IMU (property tax) and other charges.

In regard, the Constitutional Court (Sentence no. 158, May 3, 2016) ruled in favour of the fees imposed by the Piedmont Region with its own regional laws, considered legitimate in the absence of Ministerial Decree provided by article 37, paragraph 7, of Law 134/2012, which shall set out the general criteria for determining, according to the principles of cost-effectiveness and reasonableness, on the part of the regions, the maximum values of the fees of the concessions for hydroelectric use.

With Regional Council Resolution no. 13993 of December 28, 2016, the Lombardy Region finally determined for the period January 1, 2011 - December 31, 2016, the amounts due by way of additional fees relating to major hydroelectric derivations expired and authorized for the temporary continuation, quantifying the additional fee to the extent of 20 euro/kW of average annual nominal power, previously defined by way of recognition in aforementioned Regional Council Resolution no. 5130 (about 8.9 million euro payable by A2A S.p.A.).

From 2017 onwards, also following aforementioned Regional Council Resolution no. X/7693, the annual impact for A2A S.p.A. will be approximately 4 million euro.

Lastly, with article 62 of Law no. 221/2015, (“Collegato Ambientale”), the legislator equalized upward the unit value of the BIM supra-fee due from concessionaires of small derivations above 220 kW of nominal power, making it identical to the one due by the holders of large derivations above 3 MW. It is noted that Decree December 21, 2017 of the Ministry of the Environment quantified the BIM supra-fee for the two-year period January 1, 2018 - December 31, 2019 in the amount of 30.67 euro/kW of average nominal power granted.

Efficient Utility Systems and general system costs

Efficient Utility Systems (SEU and SEESEU) are Simple Production and Consumption Systems (SSPC) consisting of at least one production plant and one consumption unit directly connected through a private link without obligation of connection to third parties, and connected directly or indirectly, at least at one point, to the public network. These production and consumption configurations are governed by Resolution 578/2013/R/eel (Integrated Text of the SSPC or TISSPC) and by Decree Law no. 91 of 2014, converted with Law 116/2014.

In particular, the following systems fall into the SEU category:

- realized within an area without interruption, clear of roads, railways, waterways and lakes, owned or fully available to the same customer and partly made available by the latter to the producer or owners of the related production facilities;
- in which the electricity production plants are powered by renewable sources or operate in a high-efficiency cogeneration plant³ and are managed by the same producer, possibly different from the final customer;
- in which there is a single consumption unit.

Starting from January 1, 2017, pursuant to Resolution 276/2017/R/eel, issued pursuant to Decree Law December 30, 2016 no. 244 (Milleproroghe 2016):

- to obtain the qualification SEU or SEESEU, it is no longer necessary to submit a request to the GSE. For systems that have been operational since May 1, 2017, the applicant/producer must issue a declaration in lieu of affidavit to the network operator, as part of the normal connection process;
- the general system charges are due on electricity taken from the public network with third-party connection obligations: this means that the SEU or SEESEU are granted a total exemption from the payment of system charges for electricity produced and consumed within an electrical system (self-consumption). This standard, together with the reform of the tariff structure for the taxation of general system charges to non-domestic users, illustrated further on in this report, has an impact on the assessment of the opportunities for the establishment and management of the SEUs by the A2A Group.

GSE controls on plants powered by renewable sources that receive incentives

The 2018 Budget Law (Law December 27, 2017, no. 205) in article 1, paragraph 960, introduced some additions regarding the control and sanctions of the GSE towards plants powered by renewable sources that receive incentives, modifying article 42 of Legislative Decree March 3, 2011, no. 28.

The new provision provides that, in order to safeguard the production of energy from renewable sources, in the assessment the GSE establishes the curtailment of the incentive between 20% and 80% based on the extent of the violation (principle of proportionality). If the violations are spontaneously reported by the responsible party outside of a verification and control procedure, the curtailments are further reduced by one-third. Furthermore, it is expected that within six months of entry into force of the Law, the GSE will provide the MiSE with the elements for the definition of an organic regulation of controls in compliance with the principles of efficiency, effectiveness and proportionality.

Already DL April 24, 2017, no. 50, converted with Law June 21, 2017, no. 96, article 57-quater had intervened regarding GSE controls and sanctions with respect to photovoltaic plants.

Any beneficiary of the incentives in Energy Account, owner of a photovoltaic plant with nominal power of over 3 kW for which the GSE, following checks or controls, has detected the installation of non-certified modules or certifications that do not comply with the reference regulations and has ordered the forfeiture of the right of access to the incentive tariffs, can submit a request to the GSE for recognition of the basic incentive tariff reduced by 20% from the date of effectiveness of the agreement with the GSE.

3 For a thermoelectric plant to be considered high-efficiency cogeneration for year “n”, it is necessary that at least one unit of the same has received the CAR recognition for the year “n-1” and that the co-generated electric energy has been, for said year, more than 50% of the total gross electricity production of the plant.

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For photovoltaic plants, beneficiaries of incentives in Energy Account that have not been subject to a verification or control procedure, for which the responsible party declares to the GSE that non-certified modules are installed or with certifications that do not comply with the relevant regulations, it is possible submit a request to the GSE for recognition of the basic incentive tariff reduced by 10%.

In both cases, the party responsible must prove:

- to have taken the actions permitted by the Law with respect to parties responsible for non-compliance of modules;
- the substantial and effective compliance of modules installed with technical requirements and their perfect functionality and safety.

Following receipt of the aforementioned requests, the GSE initiates an administrative procedure pursuant to Law 241/90 aimed at recognizing the basic incentive tariff reduced as requested by the responsible party.

Natural gas balancing market

The natural gas balancing activity is *“aimed at providing provisions for the coordinated use and operation of the cultivation, storage, transport and distribution networks and ancillary services”*. Balancing is therefore functional to maintain the balance over time of gas injections and withdrawals, an essential condition for network operation.

Since 2011 and also in implementation of the provisions of the Third Package, the Authority has gone from a system in which gas balancing was “administered” to a “market” system where this activity is not only “internal” for the network operator but is also a service rendered to the users of the network which, together with transport, distribution, storage and re-gasification services, allows them to fulfil the contractual obligations to supply gas to its customers (end or wholesalers), at the time and for the quantities required.

In particular, the balancing service entails the involvement of transport users that have the specific responsibility to ensure, for each relevant period (gas day), the balancing of gas injections and withdrawals within the network.

From September 30, 2016 and until March 31, 2017, the “transitional structure” of the gas balancing system was in force as per Resolution 312/2016/R/gas (TIB - Integrated Balancing Text - then amended by Resolution 349/2017/R/gas and 661/2014/R/gas), as implemented in the Natural Gas Market Discipline (MGAS Discipline) prepared by GME and approved by the Ministry for Economic Development with Ministerial Decree November 16, 2016. During this transitional phase, the markets for trading of locational products (MPL) and storage gas (MGS) were organized within the regulatory framework of the Natural Gas Balancing Platform (PB-GAS).

With Resolution 66/2017/R/gas, the Authority approved the Integrated Text relating to the provisions on regulatory conditions for the management of the physical gas markets (“TICORG”) and approved the functional provisions to the implementation of the “regime phase” of the new gas balancing system contained in the TIB. In particular, this determined:

- the operational termination of the PB-GAS with the execution of transactions concluded in the market sessions relating to the gas day March 31, 2017;
- the termination of the agreement between GME and Snam Rete Gas (SRG), pursuant to Resolution ARG/gas 45/11;
- the application of the discipline of registration to the PSV also to transactions concluded on the MPL, which also becomes part of the MGAS;
- the stipulation of special agreements with storage companies in relation to the management of the information flows necessary for the operation of the MGS in which it is envisaged that: (i) the exchange of data and information between GME and STOGIT, which is used for the management of the SYM, continues to be carried out through SRG and (ii) participation in the MGS is limited only to the major storage company.

Settlement gas - Determination of prior items 2013-2017 and new regulations

With Resolution 670/2017/R/gas and 782/2017/R/gas, the Authority approved provisions on settlement gas with specific reference to the methodology to be used for determining physical and economic adjustment items starting from 2013 and until the start of the new discipline.

The economic items will be determined according to a procedure divided into two phases: the first for the settlement of items assigned to the balancing user and the second to allocate to each user the portion of the difference between injection and withdrawal. The results of the multi-annual adjustment session will be known by June 11, 2018.

This methodology will be applied until the start of the discipline under regime (2020) drawn up by Consultation 590/2017/R/gas and that contains the following additions:

- simplification of the balancing algorithm by eliminating the quadrature activity in the cabin and consequent determination of the annual correction factor of the volumes;
- more efficient use of the measurement data acquired during the year according to a “rolling” methodology and not only during the adjustment phase;
- determination of the climatic correction factor Wkr, published ex-ante and ex-post by the Balancing Manager (Snam Rete Gas) and used for the purpose of determining withdrawals (expected, also for the purpose of determining the appropriate capacity in the process of capacity conferment);
- changes to the methods for determining and managing the difference between injection and withdrawal at the distribution plants, by removing the contribution of the thermal element and the inaccuracy due to the non-use of the measures acquired during the year. This quantity will no longer be distributed among balancing users but the value of each ReMi will be referred to a daily physical item of the distributor;
- socialization of the procurement costs of the difference between injection and withdrawal through the introduction of a specific tariff component with a unique national value (CRVst);
- empowering distribution companies: a mechanism aimed at containing this difference is outlined (but not detailed) and will be examined below.

Closing of the dispute concerning Resolution ARG/gas 89/10

By means of Resolution ARG/gas 89/10, in the face of changes in the reference scenario determined by a cyclical phase of reduction in gas consumption, by an excess of supply and a widespread downward renegotiation of take-or-pay contracts, the Authority had considered it appropriate 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).

A2A Energia S.p.A., ASMEA S.p.A., BAS Omniservizi S.p.A. and Plurigas S.p.A. had appealed against both resolutions challenging the arbitrariness of the value of k. In March 2013, the Lombardy Regional Administrative Court ruled in favour of the requesting companies, cancelling Resolution ARG/gas 89/10 and related subsequent (Resolutions 233/10, 77/11, 84/11 and 132/11). This sentence had been appealed before the Council of State by the Authority but the Council of State, with sentence no. 4825 of November 18, 2016, confirmed the decision of the TAR.

With Resolution 737/2017/R/gas, the Authority redetermined, as of now, the coefficient k, at 0.952 for both thermal years 2010-2012. The definition of the methods of recovery of the most appropriate economic items, also to protect the end customer, is postponed to a specific DCO to be issued within the appropriate time frame for the end of the proceeding in the second half of 2018.

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APR incentive mechanism for the renegotiation of long-term gas contracts as per Resolution 447/2013/R/gas and 649/2016/R/gas

By resolution 447/2013/R/gas, the Authority had introduced a mechanism to promote the renegotiation of long-term contracts for procurement that envisaged recognizing to vendors admitted a compensatory amount calculated with reference to volumes delivered to customers under protection served with long-term contracts over the thermal years 2010-2011 and 2011-2012 (APR).

The unit value of the APR element underlying the calculation of the amount recognized was initially quantified at 0.856801 euro/GJ; the same was updated annually by the Authority due to the trend in the spread between Ptop (procurement cost from long-term contracts) and Cmem (spot price) up to the final quantification in October 2016 with Resolution 649/2016/R/gas.

A2A Energia S.p.A. and Aspem Energia S.r.l. were admitted to the mechanism for a total of 26.4 euro million, but due to the incapacity of the account with CSEA and updated by the CPR component paid by end customers, the disbursements of amounts to operators, expected by December 2015, have been delayed significantly. The last tranche was liquidated by CSEA in August 2017.

REMIT - European Regulation on the integrity and transparency of wholesale energy markets

Regulation (EU) no. 1227/2011 of the European Parliament and of the Council of October 25, 2011 (REMIT) on the integrity and transparency of the wholesale energy market, has established common rules to prevent abusive practices in electricity and natural gas wholesale markets. This regulation imposes an obligation on market operators to:

- a. publish privileged information pertaining to them;
- b. send to ACER (Agency for Cooperation among National Energy Regulators), directly or through third parties, the data concerning the operations carried out on wholesale energy products both sale and purchase orders and transactions concluded (reporting obligation).

Regarding privileged information already since 2011, A2A Trading S.r.l. and Edipower S.p.A. (now A2A S.p.A.) published the unavailability of power plants larger than 100 MW on the websites. Companies now adhere to the PIP platform implemented by GME (Energy Markets Operator) for the centralization of inside information.

In terms of reporting, the Commission, in implementation of the REMIT, adopted Implementing Regulation no. 1348/2014 (Implementing Acts), which established procedures and timing for fulfilment. The data to be reported concern standard contracts concluded on organized markets and non-standard ones concluded bilaterally, contracts relating to the transport of electricity and gas and the fundamental data related to storage systems. The market operators involved must send the data to ACER through the organized markets where the operation was performed (ex. GME) or through brokerage the platforms that include trade of electricity and gas.

As of October 2015, companies with reporting obligations to ACER of standard contracts concluded on organized markets and non-standard contracts must register with the National Register of market operators set up by the Authority (REMIT Register). The Group companies registered in the REMIT Register are A2A Trading S.r.l. and Edipower S.p.A. (now A2A S.p.A.), A2A Energia S.p.A., A2A S.p.A., A2A Calore & Servizi S.r.l., A2A Ambiente S.p.A., Aspem Energia S.r.l. (now A2A Energia S.p.A.), Metamer S.r.l., PremiumGas S.p.A. and Retragas S.r.l..

There will be a pecuniary administrative sanction from 10,000 to 200,000 euro for each operator acting in wholesale energy markets subject to the obligation without being registered. Article 22 of Law no. 61/2014 also attributes to the Authority ample powers of investigation and sanction on the application of the REMIT.

MIFID II - Markets in Financial Instruments Directive (Directive 2014/65/EU)

Directive 2014/65/EU - also known as MIFID II - replaces MIFID I (Directive 2004/39/EC) with a view to developing a single market for financial services in Europe where transparency and protection of investors are ensured. MIFID II extends its scope of application to previously unregulated financial instruments (commodities) and also concerns those who currently operate on several financial markets, including over the counter transactions.

As far as the energy market is concerned, the Directive and its regulations apply to financial instruments both on regulated markets and OTC as well as to emission allowances (EUA) and wholesale energy products that are derivative contracts, with the exception of those with the obligation of physical delivery. The definition of “Physical delivery obligation” is central to identifying which instruments are outside the scope of the financial instruments and therefore not subject to the MIFID II obligations.

Legislative Decree August 3, 2017, no.129, implemented MIFID II in Italy, entrusting Consob and the Authority with the supervision of the trading venues of financial instruments on energy and gas.

In order to obtain the exemption to operate as an investment firm, companies that operate on commodity derivatives will have to pass the ancillary test to demonstrate that the trading activity is ancillary to the main one. In particular, two different tests must be satisfied:

- 1. Market size test to evaluate the operator’s market shares compared to the overall transactions on a given class of products;
- 2. Main business test to evaluate speculative trading in commodity derivatives with respect to all transactions carried out by the group on derivatives. The activity is considered ancillary if: (i) it does not exceed 10% of the total trading activities carried out by the group (trading test) or (ii) it does not require the use of capital for more than 10% of the capital employed at group level (capital test).

The tests are performed annually using the average of the previous three years.

Companies wishing to make use of the exemption must formally communicate the exemption notification each year to the competent Authority (Consob in Italy).

MIFID II therefore applies at strategic level in order not to exceed certain thresholds to be exempt and at operational level, requiring action on processes, procedures, and IT infrastructures also for annual reporting and notification of the exemption.

On December 19, 2017, A2A S.p.A. notified Consob of the exemption notification as required by the law.

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SIMILE Protection, 2017 Competition Law and PLACET offer: termination of price protections

The Annual Law for the Market and Competition (Law August 4, 2017, no. 124, or 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, contains provisions concerning the energy market, providing for:

- the end of the price protection schemes for electricity and gas from July 1, 2019. A special MiSE DM, to be issued by April 30, 2018, will define the methods for the aware entry of customers into the free market, guaranteeing the plurality and competition of suppliers and offers;
- provisions regarding mandatory contractual conditions and comparability of offers;
- promotion of buying groups;
- establishment of a list of subjects authorized to sell electricity;
- 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, on the one hand, embarked on an autonomous path aimed at promoting the overcoming of the greater electricity protection regime by increasing the capacity of customers (see the transitional mechanism of the SIMILE Protection pursuant to Resolution 369/2016/R/eel) and, on the other hand, initiated the process of implementation of the obligations envisaged by the Competition Law 2017:

- 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 completed the minimum contractual conditions for all free market contracts for electricity and natural gas;
- with Resolution 746/2017/R/com, it imposed information obligations on suppliers regarding protection of gas and operators of greater electricity protection to customers served to inform them of the overcoming of price protections (specific communications in the bill as well as the realization, in availment to Single Buyer, of a project to publicize and disseminate information on the termination of protections);
- with 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 (EVE);
- with Resolution 783/2017/R/com, it introduced specific provisions for the management of withdrawal through the SII at the Single Buyer in order to simplify procedures and improve the efficiency of these activities with a view to protecting end customers that changes supplier.

Following the establishment of the Consultative Technical Committee on the comparability of offers, coordinated by the same Authority and composed of MiSE, AGCM, associations of businesses and consumers and Single Buyer, with DCO 763/2017/R/com, it illustrated guidelines for the creation and management of an IT portal created in open data mode for the collection and publication of current commercial offers.

Functional Unbundling and Brand Unbundling

With 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 asked to provide information on any costs incurred in 2015 through data collection. Subsequently, as part of the annual collection for updating the RCV component for 2018, it anticipated that a specific request will be made for information regarding the costs incurred in implementing 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 served in greater protection, in the expansion of the call center service with additional reference numbers for customers served in protection, and in attention to the layout of billing documents so as not to create for customers served in this segment of the market any confusion with the company's activities on the free market.

Charge of the RAI fee in the electricity bill

Article 1, paragraphs 152-164 of Law no. 208/2015 on "Provisions for the preparation of the annual and multi-annual State budget" (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 MiSE Ministerial Decree provides that companies that collect the fee will be paid the maximum cost of 14 million euro/year for both 2016 and 2017. Resolution 291/2017/R/eel defined the criteria for the allocation of this flat-rate contribution: the amounts due to each company have been calculated directly by the Single Buyer and communicated to the Revenue Agency which, in December 2017, liquidated A2A Energia S.p.A. 551,558 euro.

Economic conditions of the electricity greater protection service

With reference to the development of the dispute concerning the updating of the economic conditions of the greater protection service for the third quarter of 2016, and in light of the lack of interest shown by recurring parties, A2A Energia S.p.A. proceeded to make adjustments to the tariffs of the third quarter of 2016 to customers previously billed by applying the updates of the second quarter of 2016, on both the greater protection market and on the free market for fees whose formula is in line with the regulated tariffs.

By Resolution 633/2016/R/eel, the Authority modified the mechanism for definition of the economic conditions for the sale of electricity under greater protection as of January 1, 2017 establishing the Reformed Greater Protection Service (MTR). This new method envisages that:

- the PE fee of the PED that covers the costs of purchasing electricity is determined ex-ante on the basis of the quarterly average of the prices in the spot energy market (MGP and MI), appropriately weighted with the level of usage of different types of customers in the quarter of reference, the estimate of the cost of operation of the Sole Buyer, and taking into account the estimate of financial expenses related to the purchase and sale of electricity;
- the PD fee of the PED that covers dispatching costs is determined as a quarterly average of dispatching fees applicable under the TIS, weighted with the profile of the customers belonging to each type of contract (except for non-domestic customers, for which the methodology of the monthly estimate is confirmed).

The introduction of the MTR is contextual to the implementation of the second step of the reform of the network tariffs and of the tariff components to cover the general system charges for domestic electricity customers, set forth in Resolution 782/2016/R/eel in implementation of the provisions of Resolution 582/2015/R/eel, and described below.

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Resolution 816/2016/R/eel updated for 2017 the component to cover commercialization costs (RCV) with an increase compared to 2016 (+7.7% for domestic customers and +9.4% for BT other uses for the centre-north geographical area) due to the higher level of unpaid ratio recognized to operators.

Resolution 927/2017 /R/eel updated the RCV for 2018 with a reduction for domestic customers and an increase for non-domestic customers in the centre-north area.

With reference to the RCV compensation mechanisms to cover unrecognized costs:

- as a result of the compensation mechanism of arrears of end customers (COMP 2016), A2A Energia S.p.A. was recognized 5.5 million euro;
- due to the mechanism related to the exit of customers from the greater protection service (PUC 2016), 100,000 euro was recognized to A2A Energia S.p.A.;
- due to the incentive mechanism of the electronic bill, A2A Energia S.p.A. was recognized 3,000 euro (COMP 2016).

Resolution 633/2016/R/eel updated up to June 30, 2018, the PCV component to cover the commercialization costs on the free market, providing an increase of 2.92 euro for domestic customers (+5.3% i.e. from 54.87 euro/POD to 57.79 euro/POD) and 2.51 euro for BT customers other uses (+2.2%, i.e. from 115.87 euro/POD to 118.38 euro/POD).

Economic conditions of the gas protection service

Resolution 166/2016/R/gas has established the procedures for determination of the economic conditions of the gas protection service for the period October 2016 - December 2017:

- the component covering wholesale procurement costs (C_{mem}) will remain defined under the current formula for updating, i.e. on the basis of quarterly OTC forward prices recorded at the TTF hub, maintaining the current procedures for the recognition of logistics costs;
- the CCR component to cover the costs for activities related to the wholesale procurement and coverage of certain risks was revised upward;
- the application of the GRAD component is extended to December 31, 2017, reformulated in order to maintain the expected revenue unchanged.

Resolution 817/2016/R/gas updated for 2017 the component to cover commercialization costs (QVD) was lastly updated, with a slight increase compared to 2016 (+1.4% of the fixed component alone), due to the higher level of unpaid ratio recognized to operators. The update of the values for 2018 was provided by Resolution 916/2017/R/gas, which entailed a slight increase compared to 2017.

Removal of the invariance threshold in the update of the gas raw material referred to in Resolution ARG/gas 106/2009

By way of Resolution ARG/gas 192/08, the Authority had adopted urgent measures to modify the criteria for updating the economic conditions of supply of natural gas by removing the invariance threshold as of the three-year period January-March 2009 to immediately transfer any reductions to end customers, and not just those exceeding the range of the invariance threshold. Subsequent Resolution ARG/gas 106/09 detailed a mechanism for compensation of charges incurred by retailers if buyer counterparties had not adapted the contracts in turn removing said clause, and wholesalers if the adaptation made had resulted in economic losses in the reference quarter. The mechanism defined envisaged the exclusion of infra-group items and the limitation of access to the mechanism to wholesalers that had incurred losses in the reference quarter (and not even lower profits).

In 2010, following appeal filed by A2A Energia S.p.A., the Regional Administrative Court (TAR) had annulled Resolution ARG/gas 106/09, with reference to the exclusion from offsetting intra-group items and with regard to claims concerning the admission to the mechanism only of wholesalers for which, in the reference quarter, revenues did not allow covering costs, and not also those that had achieved a reduction in profits.

The Authority had appealed against the TAR sentence, but did not undertake any subsequent action. In November 2016, after five years, the Council of State, recognizing the over six-year period of the Authority's appeal, made the aforementioned TAR sentence final.

A2A Energia S.p.A. re-submitted a request to the CSEA for the reimbursement of charges not otherwise recoverable and, following the positive assessment by the Authority, in December 2017 the amount of 1,697,189.51 euro was liquidated.

Investigation AGCM A512-A2A for alleged anti-competitive conduct in the electricity sales market - violation of art. 102 of the TFEU

In May 2017, the AGCM initiated a preliminary investigation against A2A S.p.A. and A2A Energia S.p.A. for the investigation of alleged conduct in violation of art. 102 TFEU, within the framework of which it ordered inspections without notice. Similar proceedings were simultaneously initiated against two other major operators in the electricity sector.

For A2A Energia S.p.A., the complaint concerns alleged conduct aimed at acquiring free markets of customers served in greater protection, which were implemented thanks to the availability of commercially sensitive information and data that the company could have available as vertically integrated into a Group that operates in the sale under greater protection and electrical distribution, as well as boasting specific characteristics (reliability/safety), also deriving from the nature of an integrated operator. As indicated in the initiation measure, it was a question of conduct that cannot be replicated by non-integrated competitors and that would hinder the full development of the free market, also in view of the end of “price protection”.

In July, the hearing requested by the company was held at the AGCM offices, followed by the sending of an interim proceeding briefing in October and further information in January 2018.

The closure of all the proceedings initiated is expected by the end of June 2018.

Closing investigation AGCM PS10728 - A2A Energia - application of online payment service fees by credit card - violation of art. 62 Consumer Code

At the end of a proceeding started in April 2017, with a provision dated September 20, 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 against the provision of AGCM.

It is noted that long before the start of the proceedings, A2A Energia S.p.A. was implementing its own systems to adapt the website and make the service available free of charge, also considering the possibility of paying by credit card at the Milan counter.

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Environment Business Unit

Biomethane

The Ministerial Decree on biomethane of December 5, 2013 (so-called Biomethane Ministerial Decree) is under review. The Ministerial Decree draft introduces once again the definition of advanced biomethane (biomethane obtained from the Organic Fraction of Municipal Solid Waste - OFMSW) for which a regime of “dedicated withdrawal” is recognized for 10 years by the GSE. The biomethane producer is entitled to the physical withdrawal of advanced biomethane produced at the natural gas market price (average price at PSV) reduced by 5% and to the recognition of the CIC with a fixed value of 375 euro. This incentive scheme applies up to a maximum annual quantity that can be withdrawn by the GSE, published annually, and equal to the annual obligation of feed-in of advanced biofuels in the transport sector, as of 2018.

The scheme of the new Ministerial Decree was notified in May 2017 to the European Commission, which subsequently sent a request for clarification to the MISE. Its approval, in terms of compliance with EU guidelines on state aid, is expected in the coming months.

A2A Ambiente S.p.A. is interested in the definition of a certain regulatory framework on advanced biomethane for a series of investment projects about to be launched and which envisage its use in transport. The biogas will be obtained by the decomposition of waste, thus “closing the circle” in the management of the organic fraction collected in a differentiated manner.

Closure of the proceedings initiated by the Authority and the GSE on the site of Corteolona (PV)

Following an inspection by GSE on July 5 and 6, 2012 at the site of Corteolona (PV), some problems arose with regard to the biogas plants Piazzola Biogas 1 (incentivized with two conventions under CIP 6/92 Provision) and Manzola Furnace (incentivized with GC – IAFR 1900).

Biogas 1 Area

By letter dated January 26, 2016, the Authority challenged the procedures for determining the energy eligible for recognition of CIP 6/92 incentives, as it would have led to lower valorization of consumption of auxiliary services for the part of the biogas recovered from the sludge plant. A2A Ambiente S.p.A. reiterated that the electricity consumption of the sludge treatment plant is not to be construed as auxiliary services since it would still apply even in the absence of biogas energy recovery.

By way of Resolution 260/2016/E/efr, the Authority accepted the observations of the company, formalizing for the period up to December 31, 2011 objections regarding the energy for auxiliary services of 36% of the one initially indicated in the note of January 2016 (the amount of the reimbursement is approximately 70,000 euro). The company had set aside a provision in the previous years.

By way of Resolution 262/2017/E/Efr, the Authority requested the reimbursement of CIP 6/92 amounts on the plant from 2012 up to the expiry of the incentive (estimated reimbursement of approximately 30,000 euro).

Manzola Furnace

The GSE, by letter dated January 25, 2016, challenged the method for determining the electricity produced and some plant changes made in 2010. A2A Ambiente S.p.A. provided the information requested also indicating a recalculation of the percentage of consumption attributable to auxiliary services of 3% (instead of 7% as calculated by GSE).

By letter dated May 8, 2017, the GSE communicated the results of the verification, closing the proceeding positively and confirming the incentive scheme starting from 2010 and reducing by 3% the auxiliary services and transformation losses from the energy produced. However, considering that the “*plant complex must be considered as a single plant*”, the GSE established that incentives through GC should expire on the expiry date of Agreement I CIP 6 (July 31, 2017 instead of July 17, 2018). The overall impact is estimated as reimbursement to CSEA (Energy and Environmental Services Fund) of around 730,000 euro.

At the end of the proceeding, the issue of GC for 2014-2015 was also reactivated (for a total value of approximately 2.76 million euro) as well as the payment of the feed-in tariffs which, from January 1, 2016, replaced the GC scheme (around 2 million euro).

Extension CIP 6/92 agreement with the GSE for the waste-to-energy plant in Acerra (NA)

The Acerra waste-to-energy plant, managed by A2A Ambiente S.p.A., is the subject of CIP 6/92 agreement for an 8-year period, which began on January 1, 2010 and expired on December 31, 2017.

Ministerial Decree August 4, 1994 provides that the manufacturer may request an extension of the agreement for a period calculated based on the energy not produced in the first year of the agreement due to the fact that the plant had been commissioned.

On December 13, 2016 the GSE announced the extension of the agreement related to the Acerra waste-to-energy plant until July 6, 2018 in order to recognize the lack of initial production.

Extension of incentives for plants powered by biomass, biogas and sustainable bioliquids

The 2016 Stability Law (Law December 28, 2015, no. 208) in article 1, paragraphs 149, 150 and 151, as amended by Laws February 27, 2017 (Conversion DL Mezzogiorno) and June 21, 2017 (Conversion DL Manovrina) as well as by the 2018 Budget Law (Law December 27, 2017, no. 205), introduces the possibility for plants powered by biomass, biogas and sustainable bioliquids that cease the incentives at December 31, 2018 to access an incentive recognized on electricity production until December 31, 2021 (or for five years from the return to service).

The aim of the standard is to safeguard the levels of renewable generation reached for the achievement of the European objectives by 2020. The incentive recognized is equal to 80% of that provided for by article 19 of Ministerial Decree July 6, 2012 to renewable plants of equal power.

Under the European Guidelines on State Aid for Energy and the Environment, the Commission will consider operating aid compatible with the internal market if the Member State demonstrates that the operating costs incurred by the beneficiary after depreciation of the plant are still higher than the energy market price.

The requesting plants must submit a request to the Ministry of Economic Development by December 31, 2018, certifying, by a sworn appraisal, their good state of use and productivity as well as the supply plan for raw materials. A2A Ambiente S.p.A. has already submitted a request for access to the mechanism for the waste-to-energy plants in Corteolona (PV) and Bergamo.

In August, the MiSE notified this aid measure to the Commission for its assessment in light of the aforementioned Guidelines on state aid.

Attribution of regulation and control functions concerning waste to ARERA

Article 1, paragraphs 527-530, of Law 2018 (Law December 27, 2017, no. 205) attributes to the Authority for Electricity, Gas and the Water System, renamed Regulatory Authority for Energy, Networks and Environment (ARERA), specific regulation and control functions of the waste management service.

The purposes of the aforementioned rules are to improve the service regulation system, guarantee of accessibility, usability and homogeneous dissemination of the same, achievement of adequate levels of quality in terms of efficiency and cost-effectiveness of management, harmonization of economic-financial objectives with general social and environmental objectives and appropriate use of resources, infrastructural adaptation to European objectives to overcome infringement procedures.

The perimeter of the regulation of ARERA, which in terms of the type of waste will concern urban and similar waste, also collected in a differentiated manner, consists of the following functions:

- issue of directives for accounting and administrative separation of management, assessment of the costs of individual services and definition of indices for the assessment of the efficiency and cost-effectiveness of management with respect to services rendered;
- definition of service quality levels and supervision of service delivery methods;
- dissemination of knowledge and transparency of the conditions for the provision of services, protection of users' rights;
- definition of standard schemes for service contracts;

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- preparation and updating of the tariff method for determining the fees for the integrated waste service and the individual services that constitute it according to the principle of cost coverage, based on the assessment of efficient costs and the “polluter pays” principle;
- establishment of the criteria for the definition of “tariffs for access to treatment plants”;
- approval of the tariffs defined by ambit governing entities (tariff for the integrated service) and by the operators of the treatment plants (access tariffs);
- verification of the correct drafting of the ambit plans and observations/remarks;
- formulation of proposals on the scope of activities falling within the integrated waste management service to be subject to concession or authorization, formulation of proposals for amendments to the relevant legislation, and preparation of an annual report to the Parliament.

Resolution 1/2018/A started the activities necessary for the first operation in relation to the new regulatory powers, establishing (a) the definition of the necessary organizational changes to the organic plan and (b) the start of the sector recognition with mapping of operators and stakeholders.

With regard to the financing of assets, the Authority reserves the right to assess whether to apply as from 2018 the contribution *“not exceeding one per thousand of revenues for the last financial year”* to be collected from regulated operators.

Clearance acquisition of the exclusive control of Linea Group Holding - Implementation and monitoring of commitments

At the end of July 2016, the AGCM notified A2A S.p.A. of the measure to close the investigation initiated following the notification of the acquisition of 51% of the share capital of LGH. As is known, AGCM authorized the business combination by prescribing the adoption of commitments agreed with A2A S.p.A. during the course of the proceeding, which include in particular:

- the sale of Bellisolina S.r.l., a company that owns a TMB plant authorized to treat 75,000 tonnes/year;
- the provision, for a duration of 5 years, of treatment capacity lots (for a total value of 125,000 tonnes/year) at Group plants;
- the provision of the treatment capacity of A2A Ambiente S.p.A. plants to collection operators not vertically integrated with companies operating in disposal, on the occasion of their participation in tenders for urban hygiene services and disposal;
- the provision of maximum cap on the conferment prices of non-differentiated municipal waste to the Parona and Corteolona plants.

As a result of the clearance, the industrial partnership operation was finalized on August 4, 2016.

Commitments of behavioural nature (referred to in the third and fourth points of the list) have been implemented as of that date, while following the execution of the procedure for the allocation of treatment capacity lots at the Group's plants (the TMV of Brescia and Milan) the related contracts were signed with the contractors, starting from January 2017, and following a further tender procedure, the contract for the sale of Bellisolina S.r.l. was signed.

The monitoring of the implementation of the commitments by the AGCM continues on the basis of the documentation and information that A2A S.p.A. sends to the Authority with the Reports envisaged by the provision for the next 5 years starting from 2017.

DGR (Regional Council Resolution) Lombardy Region June 6, 2016, no. X/5269 - Use of sewage sludge in agriculture

Following the partial annulment of the preceding Guidelines approved with DGR no. 2031/2014 (operated by the Lombardy Regional Administrative Court Sentences no. 2434 of November 19, 2015 and no. 195 of January 29, 2016), with DGR no. 5269/2016, a technical document was approved as integration to DGR 2031/2014 in order to ensure efficient use of sludge under the agronomic aspect according to criterion of “good agricultural practice”. It also establishes the parameters that must be obligatorily communicated to the user of the sludge for correct preparation of agronomic use plans.

Ministerial Decree December 22, 2017 - National inspections plan

In Official Journal January 10, 2017, no. 7 Ministerial Decree December 22, 2016 “Adoption of the National inspections plan of plants, companies, intermediaries and traders in compliance with art. 34 of Directive 2008/98/EC, and of waste delivery, recovery and disposal” was published.

The National Inspection Plan shall, together with the Inspection Plans drawn up in the other Member States, contribute to the harmonization at European level of the methods to guarantee inspections of facilities, companies, intermediaries and traders in accordance with article 34 of Directive 2008/98/EC as well as inspections of shipments of waste and related recovery or disposal.

Therefore, specific waste flows were identified considered to be of particular interest based on criteria mainly related to the classification and level of hazard of waste, the risk of contamination, the quantities handled and the risks associated with particular destinations or origins; this selection therefore identifies the priority areas for carrying out the inspections provided for in the Plan.

The list of waste flows identified, classified according to the respective EWC codes and incoming/outgoing handling with respect to the national territory, is provided in Annex I together with the minimum number of inspections required.

Inspections at plants, companies, intermediaries and traders at least ensure the existence and validity of the waste management activity authorization documentation as well as verification of the suitability of the waste management sites and facilities. Said inspections are coordinated, as far as technically possible, with those provided by environmental regulations on plants authorized with Integrated Environmental Authorization (IEA) or pursuant to articles 208-216 of Legislative Decree no. 152/2006 and with those provided by regulations regarding prevention of the risk of relevant accidents.

Law February 27, 2017 no. 19 - Approval Decree Law Mille proroghe (Thousand extensions) 2017

In Official Journal February 28, 2017, no. 49 was final approval of the conversion law of Decree Law December 30, 2016, no. 244. In particular, in relation to SISTRI, art.12, paragraph 1 is confirmed without modifications, with reference to 2018 of the penalties and simultaneous dual regime (electronic and paper MUD) until December 31, 2017.

Ministerial Decree March 6, 2017, no. 58 - Accounting procedures and Integrated Environmental Authorization (IEA) tariffs

In Official Journal May 11, 2017, no. 108 Ministerial Decree March 6, 2017, no. 58 “Regulation on methods, also accounting, and tariffs to be applied in relation to the investigations and controls provided for in Title III-bis of Part Two, as well as the remuneration of members of the Investigation Board referred to in article 8-bis”.

The rule contains the procedures for calculating the preliminary tariffs and controls of plants subject to Integrated Environmental Authorization (IEA). Since May 26, the new tariffs have been in force for plants/projects of state competence, while for those of regional/provincial competence, the regions have until November 7, 2017 to adjust the tariffs with their own measure (until the issuing of the regional measure, the current tariffs continue to apply).

Regulation EEC/EU June 8, 2017, no. 997 - Council Regulation (EU) 2017/99 of June 8, 2017 amending Annex III to Directive 2008/98/EC of the European Parliament and of the Council with regard to the hazard characteristic HP 14 Ecotoxicity

Regulation EU 997/2017 amending Annex III to Directive 2008/98/EC of the European Parliament and of the Council as regards the attribution of the “ecotoxic” hazard characteristic (HP14) has been published in OJEU no. 150 of June 14, 2017. The regulation illustrates the methodology to be adopted for assessing of said characteristic.

It is specified that it will no longer be possible to adopt the ADR criteria, which were provisionally permitted by Italian (but not European) legislation, and that the Regulation will enter into force on July 4, 2017 but will apply from July 5, 2018.

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Legislative Decree Government June 16, 2017, no. 104 - Implementation of Directive 2014/52/EU concerning environmental impact assessment

The Official Journal of the Republic no. 156 of July 6, 2017 published Legislative Decree Government June 16, 2017, no. 104 "Implementation of Directive 2014/52/EU of the European Parliament and of the Council of April 16, 2014 amending Directive 2011/92/EU on the assessment of the environmental impact of certain public and private projects, pursuant to articles 1 and 14 of the law July 9, 2015, no. 114."

With the transposition of the European directive, the verification of subjection to EIA and EIA procedures are redefined by introducing simpler procedures, clear deadlines and uniform rules throughout the territory. Among the main additions is the new formulation of article 27 of Legislative Decree 152/2006, which introduces a single Provision in the environmental field for projects of State competence, optionally activated by the principal that coordinates and replaces all the qualifications or authorizations necessary for the exercise of the project. Also for projects of regional competence, a new single regional authorization provision is envisaged (new article 27 bis).

Regulation (EU) August 28, 2017, no. 1505 - EMAS: introductions by the European Union

Regulation (EU) August 28, 2017, no. 1505 "amending Annexes I, II and III of Regulation (EC) no. 1221/2009 of the European Parliament and of the Council on the voluntary participation of organizations in a community eco-management and audit system (EMAS)" was published on the OJEU L 222 of August 29, 2017.

The standard, taking into account the updated version, the third edition of ISO 14001:2015, replaces and updates Annexes I, II and III of Regulation (EC) no. 1221/2009 with particular reference to the requirements for environmental analysis and the requirements relating to the internal environmental audit.

Law August 3 no. 123 - Additions on the classification of waste

On August 12, the Law of August 3 no. 123 of conversion of Decree Law no. 91/2017 on "Urgent provisions for economic growth in the South" was published in the Official Journal of the Republic.

In relation to the classification of waste, article 9 of Decree Law no. 91/2017 is confirmed, which provides for the updating of the provisions set out in the preamble to Annex D part four of Legislative Decree no. 152/2006, as amended as shown below: "1. Numbers 1 to 7 of the preliminary part to the introduction of Annex D to Part IV of Legislative Decree April 3, 2006, no. 152, are replaced by the following: « 1. The classification waste is carried out by the producer by assigning to it the relevant EWC code and applying the provisions contained in Decision 2014/955/EU and in Regulation (EU) no. 1357/2014 of the Commission of December 18, 2014, as well as in Council Regulation (EU) 2017/997 of June 8, 2017."

In addition to Regulation no. 1357/2014, reference is made to the new 2017/997 Regulation, which defines the criteria for the assignment of hazard characteristic HP14 (ecotoxic), which will be applicable starting from July 5, 2018.

Presidential Decree June 13, 2017, no. 120 - Regulations governing the simplified discipline of the management of earth and rocks from excavation

Presidential Decree of June 13, 2017, no. 120 "Regulations containing the simplified discipline of the management of earth and rocks from excavation, pursuant to article 8 of Decree-Law of September 12, 2014, no. 133, converted with amendments by law November 11, 2014, no. 164" was published on the OJ of August 7, 2017, no. 183.

With this standard, the provisions for the reorganization and simplification of the discipline concerning the management of earth and rocks from excavation are adopted, with particular reference:

- a) to the management of excavated earth and rocks classified as by-products, pursuant to art. 184 bis of Legislative Decree 152/2006, coming from small and large sites and large sites not subject to EIA or EIA, including those aimed at the construction or maintenance of networks and infrastructures;

- b) to the regulation of the temporary storage of earth and rocks from excavation qualified waste;
- c) the use in the production site of earth and rocks from excavation excluded from the waste regulations;
- d) to the management of earth and rocks from excavation at the sites subject to reclamation.

This regulation, implementing the principles and provisions of Directive 2008/98/EC, regulates the management of earth and rocks from excavation, ensuring adequate levels of environmental and health protection and ensuring effective controls, in order to rationalize and simplify their use. The decree entered into force on August 22, 2017.

Ministerial Decree November 10, 2017 - National Energy Strategy 2017 (SEN)

Ministerial Decree November 10, 2017 adopting the 2017 National Energy Strategy (SEN) was published on the website of the Ministry of Economic Development.

The 2017 SEN defines the measures to achieve the goals of sustainable growth and the environment established in the twenty-first meeting of the Conference of the Parties to the Convention on Climate Change (COP21), contributing in particular to the objective of de-carbonization of the economy and the fight against climate changes.

The objectives to 2030 pursued in line with the Energy Union Plan are:

- improve the country’s competitiveness, continuing to reduce the price gap and the cost of energy compared to Europe, in a context of increasing international prices;
- achieve and exceed the environmental and de-carbonization objectives in a sustainable manner up to 2030, in line with the future targets set in COP21;
- continue to improve the security of supply and the flexibility of energy systems and infrastructures.

Legislative Decree November 15, 2017, no. 183 - Atmospheric emissions from medium plants: amended Legislative Decree 152/2006

Legislative Decree November 15, 2017, no. 183 “Implementation of Directive (EU) 2015/2193 of the European Parliament and of the Council of November 25, 2015 on the limitation of emissions of certain pollutants into the atmosphere from medium combustion plants, as well as the reorganization of the regulatory framework of facilities that produce emissions into the atmosphere, pursuant to article 17 of the Law August 12, 2016, no. 170” was published on OJ December 16, 2017, no. 293.

This regulation, implementing the delegation provided for in article 17 of the Law of August 12, 2016, no. 170, instructs the Government to adopt provisions for the implementation of directive (EU) 2015/2193, as well as to achieve a general reorganization of the regulatory framework of facilities that produce emissions into the atmosphere. Part Five of Legislative Decree 152/2006 is therefore amended with regard to medium combustion plants (plants with thermal power lower than 50 MW) and through an overall reorganization of the legislation on facilities that produce emissions into the atmosphere.

This decree entered into force on December 19, 2017.

Law December 27, 2017 no. 205 - Extension SISTRI

Law no. 205 of December 27, 2017 “State forecast Budget for the financial year 2018 and multi-year Budget for the three-year period 2018-2020” was published on Ordinary Supplement no. 62 to Official Journal no. 302 of December 29, 2017.

Paragraph 1134 of article 1 establishes the extension to December 31, 2018 of the moratorium on the operational sanctions of the Sistrì provided for by law no. 125 of October 30, 2013.

With paragraph 1135, to legislative decree no. 152 of April 3, 2006, after article 194 a new article 194-bis is added (Simplification of the waste traceability procedure and for the recovery of contributions due for SISTRI) providing for the digitization of the requested data concerning waste management, sending of the form referred to in article 193 by certified e-mail, definition of the procedures for the recovery of the SISTRI contributions due and not paid.

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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 (including the company name, the company, sign and any other distinguishing element) 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.

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 or assignment, Unareti S.p.A. was established, operative since April 1, 2016, which now manages the distribution and metering of electricity and gas, as well as the activities previously carried out by A2A Servizi alla Distribuzione S.p.A. and A2A Logistica S.p.A..

In 2017, a consultation was held on the methods to recover the costs incurred in order to comply with the provisions (DCO 307/2017/R/com). In general, the Authority intends to base itself on the cost data of operators, possibly deducting the costs already recognized by other regulatory mechanisms. For smaller distributors, simplified mechanisms based on a parametric logic will be provided.

As part of the aforementioned consultation, in March 2018, the Authority started data collection concerning the operating and capital costs incurred by operators to fulfil the obligations of separation of the trademark.

2016 final and 2017 provisional reference tariffs for the distribution and metering of natural gas

By way of Resolution 146/2017/R/gas, the Authority approved the 2016 definitive gas reference tariffs (based on final investments in 2015, disposals in 2015 and contributions in 2015), while by way of Resolution 220/2017/R/gas, the 2017 provisional gas reference tariffs were approved (based on pre-final investments in 2016 and parametric estimate contributions in 2016). The new tariffs have been affected by the reduction of the WACC in force since 2016 (Resolution 583/2015/R/com-TIWACC) equal to 6.1% (6.9% in 2015) for distribution and 6.6% (7.2% in 2015) for metering.

RAB GAS value Unareti S.p.A. underlying 2017 provisional tariffs <i>millions of euro</i>	
Cap. Centralized	48
RAB Gas Distribution	800
RAB Gas Metering	112
Total	960

Publication of the 2017 definitive gas reference tariffs is pending, which will take into account the 2016 final investments, the 2016 disposals and the 2016 effective contributions, as well as the 2018 provisional gas reference tariffs that will also consider 2017 pre-final investments. In both cases, the Authority will consider the data communicated by the company as part of the RAB Gas data collection concluded in November 2017.

With regards to the measure, with Resolution 389/2017/R/gas and after specific data collection, the Authority recognized to operators the operating costs related to the remote reading/remote management systems and to concentrators for the years 2011-2013, previously not recognized by the current tariff system. An amount of 1,557,824 euro was paid to Unareti by CSEA in early January 2018.

Finally, with Resolution 859/2017/R/gas, the obligatory tariffs to be applied to customers for gas distribution and metering services were defined, as well as the value of the two-monthly equalization advances for the year 2018.

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

With Resolution 522/2017/R/gas, the Authority made some significant changes to the 2014-2019 RQDG aimed at favouring the improvement of the performance of operators for the metering of natural gas:

- with immediate effect and 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 is that established by art. 14.1 (traditional meters and smart meters gas < G10) and 14bis.1, letter a) (smart meters >= G10) of the TIVG. In the event of failure to comply with this standard, an automatic compensation of 35 euro is provided.

It is underlined that the Authority considers gas smart meters accessible in any case, regardless of their actual physical location.

With effect from 2018 a specific indicator is also introduced to monitor the percentage of accessible meters with readings with positive results, differentiated by consumption classes. The Authority reserves the right to make the comparative publication of these indicators.

With the same effective date and with reference to distribution companies with more than 50,000 end customers at December 31, 2016, the following is also defined:

- partially accessible meters are assimilated, for the purpose of regulating metering performance, to non-accessible meters (applying the same regulatory provisions);
- with regard to each active PDR with a traditional metering device that is partially accessible or not accessible, the obligation to guarantee at least one reading with positive result is introduced starting from 2018. Otherwise, for these points the distributor is obliged to replace traditional meters with electronic meters. These replacement obligations are additional to those already provided for by Resolution 631/2013/R/gas (gas smart meter directives). In case of non-fulfilment of the additional replacement obligations, a yearly unit penalty (up to replacement) will be charged to the distribution company equal to 4 euro for each non-replaced meter.

At present, in-depth investigations are being conducted with the Authority on the application methods of these provisions and on the relative criticalities encountered by the operators.

2017 reference tariffs for the transport and metering of natural gas

With Resolution 669/2016/R/gas, the Authority approved the specific company fees for the natural gas transport and metering service presented for 2017 by the operators, including Retragas S.p.A., while with Resolution 795/2017/R/gas, the specific fees for the year 2018 have been set.

In this regard, Resolution 575/2017/R/gas has extended the validity of the current tariff regulation for the natural gas transport and metering service for the two-year period 2018-2019, introducing limited changes related, in particular, to the allocation of costs to be covered between the tariffs applicable to entry points and exit points of the national transport network, from the previous 50:50 to the current 40:60.

Lastly, with Resolution 689/2017/R/gas, the Authority expressed its assessment of the ten-year plan schemes for the development of the transport network for 2014, 2015 and 2016, assessing that they are not always drawn up in compliance with applicable regulatory provisions. Consequently, it considered appropriate to provide specific indications on the mandatory contents of these plans, while also providing for the non-recognition in the tariff of the investments that will come into operation in 2019 if not adequately reasoned. A safeguard mechanism is also provided, under certain conditions, of investments already underway.

Infra-period update of the tariff regulation of gas distribution and metering services for the three-year period 2017-2019

By way of Resolution 775/2016/R/gas, the Authority defined the criteria for the infra-period update for the three-year period 2017-2019, of the tariff regulation for gas distribution and metering services, consequently updating the Regulation of tariffs of gas distribution and metering services for the 2014-2019 regulatory period (RTDG), effective January 1, 2017.

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The measure updated some elements of the gas tariff regulation, including:

- the unit cost for the metrological verifications set equal to 50 euro for meter group greater than active electronic G6 class (compared to 60.33 euro previously recognized);
- the 2017 standard cost per unit for the smart meter gas of class G4 or G6 set equal, respectively, to 135 euro and 170 euro (compared to the previous 120 and 160 euro);
- the extension to investments relating to smart meter gas class G4 or G6 in 2016 of their full recognition up to 150% of the standard cost;
- the postponement of the introduction of parametric components to cover the costs of remote management / concentrators and confirmation of the accurate recognition - albeit within a certain limit - of the investments made.

The values are confirmed of the recovery rates of efficiency (X-Factor) valid for the updating of operating costs recognized for distribution (1.7% for operators with more than 300,000 PDR and 2.5% for others), metering (0%) and commercialization (0%).

In addition, with the same Resolution, the Authority has updated to 2017 the amount of the unitary parametric components of the reference tariffs for distribution, metering and commercialization activities, increasing the latter from 1.2 euro/PDR to 2 euro/PDR.

With Resolution 904/2017/R/gas, the Authority adopted provisions regarding the recognition of costs related to metering activities on natural gas distribution networks and:

- defined the standard costs of gas meters for 2018 and 2019;
- confirmed that, starting from 2018, investments in electronic gas meters will be recognized as a weighted average between the standard cost and the effective amount of the investment made by the company, providing weights of 60% effective cost and 40% standard cost (previously the ratio was 50:50);
- zeroed the CVER fee related to the metrological checks (for 2017 equal to 50 euro for a larger group of electronic G6 class put into service) and established that the costs relating to these checks be recognized at the end of the list following a specific adequately documented application;
- postponed to the next tariff period the transition to the parametric recognition of the costs related to the remote management/remote reading of electronic gas meters, confirming the current recognition of the costs actually incurred by operators.

Lastly, the Resolution postponed to 2019 (with consequent impacts on the 2020 tariffs) the start of the assessment of investments related to the gas distribution activity on the basis of standard costs.

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), for which 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, as subsequently integrated and amended). 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 regulatory amendments on the VIR calculation (especially as regards 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 context 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 January 11, 2017 on “Determination of national quantitative energy savings targets to be pursued by electricity and gas distribution companies for the years from 2017 to 2020 and for the approval of the new Guidelines for the preparation, execution and evaluation of energy efficiency projects” also partially solved the uncertainty on the coverage, in terms of tariff contribution, of the titles generated by the energy efficiency projects proposed during the tender. In particular, the Ministerial Decree provided that any certificates 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 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, published in the Official Journal on May 5, 2017, 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 entrusted by the legislator to the regulator, the Authority, with Resolution 514/2012/R/gas, prepared the standard service contract scheme for the regulation of relations between local entities and natural gas distribution service operators; said contract was then approved by the Ministry of Economic Development with Ministerial Decree of February 5, 2013; subsequently, with Resolution 571/2014/R/gas, the Authority proposed an amendment - concerning the recognition of amortization portion for the granting bodies - to said standard service contract, which was however not implemented by the MiSE.

Lastly, following the additions introduced by the 2017 Competition Law on the simplification of the procedure for assessing reimbursement values and calls for tenders concerning the assignment of the natural gas distribution service, the Authority adopted Resolution 905/2017/R/gas with which it rationalized the regulation related to its tasks in the tenders, articulating the provisions on the matter in 2 integrated texts (Integrated text of the Authority’s provisions concerning the determination and verification of the reimbursement value of the natural gas distribution networks for the purposes of ambit tenders and Integrated text of the Authority’s provisions concerning calls for tenders for the natural gas distribution service for the purposes of ambit tenders). The main additions introduced, especially for the Contracting Stations, are related to the evaluation of the reimbursement value and the call for tenders: in the first case, a simplified Regime under the 2017 Competition Law is envisaged that can be accessed by the ambits for which (i) the individual granting Local Entity can also certify through a suitable third party, in possession of adequate requisites of independence, honorability and professionalism (the definition of the latter is delegated to the Local Entities), that the reimbursement value was determined exclusively applying the provisions contained in the 2014 Guidelines; (ii) the VIR-RAB variance, ambit aggregate, does not exceed 8%; and that (iii) the VIR-RAB variance relative to the assets of the area of the individual Municipality does not exceed 20%; also in the second case, a simplified procedure was introduced which provides (at least 60 days before expiry of the deadline for publication of the call) the sending to the Authority by the Contracting Stations of a statement indicating: (i) the values of VIR and RAB with the relative time references for each ambit Municipality, which will be compared with those in the tender documentation; (ii) an extract of the call for tenders and the tender specifications with reference to the articles containing the criteria for the allocation of the maximum scores between the criteria and the sub-criteria of the tender, which will be compared with the relevant provisions contained in the Tender Regulations and (iii) the programmatic guidelines of the ambit, for which the congruity of the cost-benefit analyzes and the minimum development conditions will be assessed.

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, with sentence no. 10286 of October 14, 2016, the Lazio Regional Administrative Court (TAR) rejected said appeal as it deemed as unfounded the pleas raised by the company in relation to non-compliance with the provisions established by the free will of the parties, the criteria for the definition of price lists, the deduction of contributions and the reduction of the useful life of meters up to G6. The complaints concerning the right granted to the municipalities to sell the grid and on the scores for investments in energy efficiency were deemed inadmissible for lack of current interest. 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

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standards and national legislation on the definition of the reimbursement value to be recognized to the outgoing party which, in particular, provides for the deduction - retroactive - of public and private contributions from the value of the assets transferred.

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 date of the hearing is therefore set for December 20, 2018.

Area tenders for the natural gas distribution service

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, i.e. Milan 1 - City and Plant of Milan (EU Official Journal of December 26, 2015).

The contract amount for the entire period of the assignment indicated in the above tender 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.

The deadline for receipt of bids by the Contracting Station was set for June 13, 2016, then extended to October 17, 2016 and subsequently extended to January 16, 2017. The offer presented has a validity of 360 days, after which, in the event of non-awarding of the tender within this period, the bidder may decide to disengage from the offer.

Unareti S.p.A., in compliance with the deadline, proceeded to present its offer to the Contracting Authority; by the same date, moreover, the offer of 2i Reti Gas S.p.A. was also received that, to date, manages a single location of the ATEM (Cinisello Balsamo, equal to about 4% of PDR in the tender). The public session for the opening of the envelopes containing the bids was March 27, 2017. Tenders will be assessed in accordance with the criteria laid down by Ministerial Decree 226/2011, as amended: the economic tender will have a weight of 28 points out of 100, while the technical tender 72 points out of 100. The award process of the tender will probably be completed in 2018.

2016 final and 2017 provisional reference tariffs for the distribution and metering of electricity

By way of Resolutions 188/2017/R/eel and 199/2017/R/eel, the Authority approved the 2016 definitive tariffs for electricity distribution and metering activities, while by way of Resolutions 286/2017/R/eel and 287/2017/R/eel, it approved the 2017 provisional tariffs. In particular: the 2016 final ones consider investments up to 2015, including those relating to commercialization activities (the costs of which were previously recognized on a pre-final parametric basis), 2015 disposals and 2015 contributions, while the 2017 provisional ones consider investments realized for 2016 as pre-final, 2015 disposals and estimate 2016 contributions.

Tariffs are defined considering the WACC in force since 2016 (Resolution 583/2015/R/com-TIWACC) equal to 5.6% (vs 6.4% of 2014-2015) and based on the tariff regulation of Resolution 654/2015/R/eel (TIT 2016 - 2019).

RAB EE value Unareti S.p.A. underlying 2017 provisional tariffs millions of euro (*)	
RAB EE Distribution	532
RAB EE Metering	72
Total	604

(*) Company estimate.

Publication is pending of the final 2017 reference tariffs that will take into account 2016 final investments, 2016 disposals and 2016 effective contributions, as well as the disposal of the distribution and metering activity for some overdrafts in municipalities adjacent to the city of Milan, as well as the 2018 provisional tariffs that will also consider 2017 pre-final investments. In both cases, the Authority will consider the data communicated by the company as part of the RAB data collection concluded in November 2017.

Lastly, with resolutions 882/2017/R/eel and 907/2017/R/eel, the 2018 obligatory tariffs applicable to non-domestic customers and domestic customers were defined.

Electricity distribution and metering service Integrated Electric Quality Text 2016-2023

Resolution 646/2015/R/eel (TIQE 2016 - 2023) contains numerous provisions aimed at the selective promotion of investments in distribution networks even if almost all the mechanisms envisaged are described in terms of general objectives and the guidelines concerning their operation will have to be developed through appropriate working tables to be attended by distributors, the Authority and Terna (including the one on resilience started on April 1, 2016).

Articles 129, 130, 131, 132 of the TIQE provide the innovative features of the medium-voltage distribution networks in areas with high penetration of distributed generation from renewable sources: “Observability of power flows and the state of resources disseminated on MV networks, voltage regulation of distribution networks”.

Art. 134 of the TIQE introduces the essential principles to be performed to prepare the plans for the modernization of the obsolete risers in urban areas with plants designed according to a “future proof” logic capable of supporting any increases of the contemporary use of power following the change of the domestic tariff. The Authority also identified a possible premium/penalty mechanism applicable to this type of initiatives. Unareti S.p.A. has adhered to this opportunity and has prepared some analyses concerning the geographical context in which the company operates, shared with the Authority, together with a proposal for an incentive plan.

Regarding the smart city experimentations (art. 135) with innovative features on the LV networks, distributors in urban areas with minimum 300,000 inhabitants will have access to the town scale pilot projects with innovative management logic of the LV network, possibly multi-service (smart water grid, integration with advanced mobility systems, etc.). Each distributor selected will be granted a contribution for the cost incurred.

However, the Authority, with Resolution 781/2016/R/eel, has seen fit to analyse these last two issues so as to take appropriate account of some of the issues raised by operators, as well as explore in more detail the possible synergies between the plans for entry into service of the second-generation meters and smart city experiments.

In 2017, following the disruption caused by bad weather that affected central Italy, with Resolution 127/2017/R/eel, the Authority introduced amendments to the quality regulation, making it more rigid towards operators. In particular,

- the maximum reimbursement limit was eliminated in case of non-compliance with the quality standards for the maximum time for restoring the power supply; the indemnity will continue to increase with each additional block of 4 hours of interruption up to a maximum of 240 hours (i.e., 60 blocks of 4 hours; for a domestic user, therefore, from the previous maximum of 300 euro to the current of 1,800 euro);
- providing that in the event of disruptions caused by force majeure, after 72 hours of suspension and up to a maximum of 240 hours, the indemnity will be paid directly by the distribution company (or Terna) and not charged to the Exceptional Events Fund at CSEA (Energy and Environmental Services Fund) (however, exclusionary clauses are provided, albeit very restrictive).

The TIQE 2016-2023 also contains initiatives aimed at increasing the resilience of the national electrical system. In particular, it was envisaged that by March 31, 2017, the distribution companies serving more than 50,000 users would send to the Authority a work plan aimed at the adoption of regulatory measures appropriate to achieve this objective. The plan was supposed to:

- contain, in addition to a technical examination, elements of cost and benefit in light of the effects of severe and persistent meteorological events that have occurred in the last 15 years;
- be coordinated with both the development plans of the distribution network elaborated by each operator as well as with the development plans of the RTN managed by Terna and with the underlying/interconnected distribution networks of competence of other operators.

At the conclusion of a first tranche of the work of a specific technical table, involving Terna, CEI, RSE, distributors with more than 50,000 POD (including Unareti S.p.A.), Decision 2/2017 DIEU was issued by way of which the document “Guidelines for presentation of Work Plans for increasing resilience of the electricity system – part one” was approved. This document contains the methodology for identifying priority actions to address the issue of network holding as well as the methodology (and parameters to be used) to estimate the costs and related benefits associated with such interventions.

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At the end of March 2017, Unareti S.p.A. submitted to the Authority its own work plan containing a first technical analysis, as well as an assessment of the relative costs and benefits of the interventions considered appropriate for increasing the resilience of the electricity grid, focusing in particular on phenomena of heavy rainfalls and floods, or phenomena that have a major impact on the continuity of service of the networks operated by the company.

Subsequently, also in light of the documents prepared by the operators, the Authority carried out a specific consultation on the resilience of the electricity transmission and distribution networks (DCO 645/2017/R/eel) in which, in particular, after an analysis of the current situation and of the initiatives already adopted by operators to increase network resilience, proposals were made on two complementary sides: on the one hand, initiatives aimed at increasing the stability of the infrastructures to solicitations, thus acting ex-ante in the design phase, and those to increase the effectiveness and timeliness of supply restoration. The Authority also makes its proposals regarding the preparation of network development plans, providing for a specific section dedicated to interventions identified as being relevant for the increase in resilience, as well as to incentives, especially as regards the timeliness of service restoration. In the first months of 2018, the final provision is expected.

The issue of resilience was also followed by the MiSE which, in November 2017, sent to the dealers of the electricity distribution service its own guidance document on the prevention and management of adverse weather events. In this document it is envisaged that distributors, starting from 2018, will have to integrate their network development plan with a specific section concerning interventions to increase the resilience and robustness of the network. This section will have to have a detail for the territorial areas served which, in turn, will be differentiated - based on the detailed analyzes to be carried out by operators - in high, medium or low priority areas; for the former, the distributor must prepare a time schedule for the interventions, starting with those with the highest efficiency in terms of reduction of risk/increase in benefits for customers. The progress of interventions will be the subject of an additional, specific section of the plan dedicated to resilience. Lastly, the document underlines the importance of collaboration and coordination both between distributors and between Terna and the latter, but also between operators and the competent local administrations.

Lastly, by Resolution 793/2017/R/eel, the Authority determined the premiums and penalties related to output-based regulation of the electricity distribution service for 2016. As a result, in December 2017, Unareti S.p.A. had to pay to CSEA 389,658 euro, a penalty determined by performance below expectations in one of the areas managed by the company.

LV electricity 2.0 meters and related smart metering systems

In implementation of Legislative Decree July 4, 2014, no. 102, and following DCO 416/2015/R/eel, with Resolution 87/2016/R/eel, the Authority defined, in view of the replacement of the first-generation meters (1G) that will have completed the useful life provided for regulatory purposes (15 years):

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

In collaboration with the AGCOM, the Authority will also assess the actual availability of standardized technological solutions that allow defining incremental functionalities with reference to communication and innovative aspects relating to the power limiter (Annex C). On this issue, the 2 Authorities jointly conducted in 2017 a series of informal hearings of the main Italian distribution and telecommunications operators in order to evaluate the possible developments of the current second-generation meter (2G) towards its 2.1 version.

By way of Resolution 646/2016/R/eel, the Authority established the means of recognition of the costs incurred for the replacement of the current 1G smart meters with 2G meters that meet the characteristics defined by Resolution 87/2016/R/eel. In particular:

- a deadline has not been set, at least initially, for the presentation of the plan for the commissioning of 2G smart meters and for an obligation to start the replacement thereof;
- it clarified the administrative path to be followed and documents to be submitted to the Authority if a distributor intends to initiate a plan for entry into service of 2G smart meters;
- it identified the method of access to a fast track type of valuation procedure (duration of 90 days) as an alternative to the ordinary evaluation (duration of 180 days) if certain limits are complied with

- for the difference in cost between 2G and 1G meters (otherwise, the plans for entry into service will be subjected to a careful cost/benefit analysis);
- it confirmed the TOTEX - Total Expenditure methodology for the recognition of costs, even if limited - in the initial phase - only to capital costs;
 - defined the mechanisms for the optimization of plans for the commissioning of 2G smart meters, regarding which the tariff recognition of both existing meters and 2G is by means of standard vectors developed by assuming that no 1G meter installed today is disposed of before the end of its useful life (and, therefore, that the 2G meters are only installed in replacement of fully depreciated 1G meters). This way, taking into account the difference between standard costs and actual/market costs of 2G meters, as well as the possible economies of scale that can be activated, it might be possible to anticipate/postpone the installation plan so as to minimize stranded costs; In the event that operators deem the incentive for early replacement insufficient, there would be the risk of having a “2-speed” country with the main cities (Milan and Brescia, Rome, Turin) excluded from the opportunity to enjoy the benefits - also commercial - offered by the new meters at the same time as other areas of the country, even less urbanized, managed by the incumbent whose commissioning plan has already been approved and is underway.

Considering the physical and financial elements of Unareti S.p.A., a first general estimate of the potential plan to be submitted to the Authority would consist of replacing about 1.2 million meters (the deadline for submitting the Plan to the Authority would be May 15, 2019 if the plan was set to start in 2020).

Pending the launch of replacement plans, which for now are not mandatory, with Resolution 646/2016 /R/eel, the Authority established the methods of recognition of investments in 1G meters for 2017, then extended with Resolution 882/2017/R/eel also for the year 2018, limiting the unit cost recognized for these years to 105% of the unit cost of 1G meters for the year 2015. To date, the method for the recognition of investments in 2G meters, carried out outside the substitution plan and relating to “ordinary user management” has been defined, taking into account the cessation of the production of 1G meters in 2017.

Tariff reforms (network tariffs and general system charges) for domestic and non-domestic users

As of January 1, 2017, the tariff fees for network services (transmission, distribution and metering) took on a trinomial structure, called TD, for all domestic customers, regardless of legal residence, thus eliminating any progressivity, according to a principle of adherence to costs.

The conditions of legal residence are only considered for the application of general system charges and the DISP BT component. Without prejudice to this difference, the fees to cover general system charges have also been redefined in order to dampen the effect of progressivity with respect to consumption and to limit the number of annual brackets, until they are completely eliminated from January 2019 for domestic users and as of January 2018 for non-domestic users.

Resolution 481/17/R/eel defined the new structure of the general system charges and provides:

- two groupings of charges, respectively the “general charges related to the support of renewable energy and cogeneration” (ASOS) and the “remaining charges” (ARIM);
- that for these groups the tariff structure is trinomial, i.e. characterized by:
 - a fixed amount expressed in euro cents per withdrawal point per year;
 - a portion of power expressed in hundredths of euro/kW per year⁴;
 - a variable portion expressed in hundredths of euro/kWh;
- that the structure of the “ASOS” grouping can be differentiated between energy-hungry customers and subsidized customers divided into classes of benefits, as defined by Resolution 922/2017/R/eel in implementation of the facilitation mechanism for energy-intensive companies governed by MiSE Ministerial Decree December 21, 2017.

⁴ For the application of the power portion, the reference is to the definition of power used to determine network tariffs as defined in the Integrated Text of the provisions for the supply of electricity transmission and distribution services (TIT), i.e. as contractually committed power where permitted or, for all other cases, as the maximum value of the power withdrawn in the month.

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For the ASOS component, Resolution 922/2017/R/eel defined a tariff structure determined by a linear combination of a trinomial tariff (with an incidence of 25%) determined in turn (as for the ARIM charges) in proportion to the tariffs of network services, and a uniform flat rate in euro cents/kWh (with an incidence of 75%), not differentiated by voltage levels.

Network Code (CADE) and general system expenses (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 that 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 the obligation on end customers and in this context, not conferring to the Authority the power to integrate contracts between distributor and seller.

The Authority appealed against the sentence and intervened transitionally with Resolution 109/2017/R/eel reducing the quantification of guarantees and initiating a procedure aimed at identifying mechanisms for recognizing adequate compensation to sellers and distributors for any non-collection of tariff components to cover OGS. In fact, with DCO 597/2017/R/eel, it illustrated some proposals for the reform of both the discipline concerning the provision of guarantees and the management/collection of OGS similar to the one adopted for the RAI Fee, lastly proposing reintegration mechanisms for distributors with respect to OGS in any case paid to CSEA/GSE but not collected by sellers.

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 implicitly "confirming" the full validity of Resolution 109/2017/R/eel.

Integrated Billing Law (TIF)

With Resolution 463/2016/R/com, as amended by Resolution 738/2016/R/com following the requests of operators and their associations, the Authority approved:

- a. The Integrated Billing Law (TIF), which defines the provisions on billing of the period of the retail service to final customers of electricity and gas, integrating them with the provisions on closing billing (already defined by Resolution 100/2016/R/com);
- b. Specific interventions, related to both metering and the discipline of payment in instalments, and intended to make the current regulatory provisions coherence to the new discipline of the TIF. In particular, with reference to the electricity distribution service, it provides the increased frequency of recording metering data for single-tariff electricity meters not remotely managed, defines an obligation to encode the reasons for not recording the reading, in order to ascertain the methods of conduct of the service by distributors and lastly, introduces indemnities to end customers in the event of delay in providing the metering data. In particular, a specific indemnity of 10 euro was introduced in case of non-provision on the part of the electricity distributor, for two consecutive months (limited to 2017, the number of consecutive months after which it is necessary to pay the indemnity has been increased to 3), of the actual metering data in case of withdrawal points treated by bands (article 17). Compensation will not be applied if the failure to comply with the discipline is due to fortuitous circumstances, force majeure or due to causes attributable to the end customer or third parties, such as in case of disturbances on the network not the distributor's responsibility.

Further contacts are ongoing with the Authority's offices in order to further clarify certain aspects of application relating, in particular, to the scope of application of the indemnities and reasons for exclusion.

New method of defining the tariff contribution granted to distributors under the energy efficiency certificates mechanism

Energy Efficiency Certificates (TEE) or White Certificates (WC) are negotiable certificates 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. One certificate is equivalent to 1 TOE.

Electricity and gas distributors can fulfil their obligation by directly realizing energy efficiency projects that entitle GSE to issue WC or by purchasing WC from other entities that generate them on the market (typically Energy Service Company – ESCO). The Authority defines the procedures for determining and disbursing the tariff contribution to be recognized to the distributors subject to the obligations.

Following the entry into force of MiSE Ministerial Decree January 11, 2017, setting national quantitative targets for energy savings for the years 2017-2020 and the approval of the new WC Guidelines, and taking into account the results of the investigation conducted by the same regulator on the abnormal trend in prices of WC between June 2016 and March 2017, by way of Resolutions 435/2017/R/efr and 634/2017/R/efr, the Authority revised the rules for determining the tariff contribution establishing:

- a reference contribution, replacing the estimate contribution, which takes account of the weighted average (on volumes of market transactions and bilateral agreements) of the definitive contributions of the previous two years of obligation, establishing a transitional period for the year of obligation 2017, which is expected to attribute a greater weight to the final contribution 2016 compared to 2015;
- significant session reference price S(t), equal to the weighted average price of transactions carried out during a market session and concluded at a price within the range of $\pm 12\%$ with respect to the reference price of the previous session (therefore, a maximum value in absolute terms has not been set);
- changes to the parameters γ and β that define parameter “k” of correlation between the values of market exchanges and the reference contribution. In detail, the value of γ remains unchanged for the year of obligation 2017 and fixed at 4 €/WC from 2018, while the parameter β increased from 0.85 to 0.9;
- payment of an advance equal to the definitive contribution of the previous year on November 30, to be applied to a WC limit that may be delivered by distributors;
- adoption of the criterion of competence (instead of the criterion of cash), from the residual of the year of obligation 2018, for the disbursement of the definitive contribution. The criterion of cash will continue to be applied only to recovery of objectives related to the years of obligation 2015, 2016 and 2017. As regards the certificates relating to the residuals of the objectives of obligatory years between 2018 and 2020, the accruals criterion only applies to portions of them, progressively and increasingly over time. The quantities of certificates to which the accrual criterion will be applied will be quantified through the application of the s parameter (respectively equal to 0.25, 0.5 and 0.75) to certificates delivered by the distributors subject to obligations under the compensation of previous years of obligation. The cash criterion will be applied to certificates relating to the remaining portions of each residual.

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.

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		National Energy Saving Targets (Mtep/year)	Targets for distributors of electricity ⁽¹⁾ Millions of WC	Targets for distributors of gas ⁽¹⁾ Millions of WC	Minimum target ⁽²⁾ (%)	Period to compensate the residual obligatory portion ⁽²⁾ (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 connected to their distribution network.
- 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.

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism. By May 30, 2017, it cancelled all the remaining 2015 (80,336 WC) and 60% of the 2016 obligation (i.e. 290,937 WC out of 484,895 WC).

The definitive contribution for 2016 amounted to 191.40 euro/WC against an estimated fixed value of 118.37 euro/WC. For the year 2017, the reference contribution is 170.29 euro/WC. The value of the 2017 annual contribution estimated by GME at December 31, 2017 is 302.48 euro/WC.

Integrated Water Service (SII)

Duration of assignments

Following the referendum, which took place on June 12 and 13, 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, will remain active until natural expiry provided for each of them on the basis of the deeds regulating the relationship with the individual Municipalities (the last concession will not expire before 2100).

Also, in execution of the additions to Legislative Decree no. 152 of 2006 introduced by art. 7 of Decree Law no. 133/14 as amended, at the meeting of September 17, 2015, the Board of Directors of the Ambit Government Entity (EGA) of Brescia, 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 way of Resolution no. 23 of September 30, 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. 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).

With Resolution no. 31 of June 29, 2017, the Provincial Council of Varese established the safeguarding of ASPEM S.p.A. or its continuation in the management of the aqueduct service until the natural deadline established for each of them on the basis of the deeds regulating the relationship with the individual Municipalities. Consequently, the Ambit Plan was amended and integrated in its various sections and the management agreement was signed. Following this, the company's ongoing appeals were withdrawn.

Tariff regime, update every two years and tariff structure

By means of Resolution 664/2015/R/idr, the Authority defined the tariff criteria for the regulatory period 2016-2019 (MTI-2) confirming the asymmetric regulation in force in the previous period (MTI-1):

- tariff multipliers (theta) are determined according to a matrix of 6 schemes based on the value of the OPEX (109 €/inhabitant average) and the investment requirement (discriminating value of 0.5 confirmed for the ratio between the new investments and the value of assets managed);
- the multipliers apply to the fixed and variable portions of the 2015 tariff; however, the mechanism of the “maximum annual increase limit” (cap) is confirmed. The values of the cap with respect to the MTI-1 were reduced although the possibility remains for the EGA to submit over-cap requests to the Authority;
- update every two years of the RAB and OPEX components qualified upgradeable;
- update every two years for the changes relating to the calculation of the components of financial expenses: for financial expenses, in line with the electricity and gas services, the WRP parameter (Water Utility Risk Premium) was introduced.

As established by the guidelines of the EGA, from January 1, 2017, A2A Ciclo Idrico S.p.A. has been billing previous tariff items defined by Resolution 16/2016 of the EGA Council. At the same time, it applied the tariffs approved for 2017 by the Authority with Resolution 807/2016/R/idr.

With Resolution no. 39 of July 31, 2017, the EGA Council of Varese approved (a) the SII tariff regulatory scheme and the tariffs for the years 2012-2019 and (b) the updating of the fees for 2010 and 2011 for the management ex-Cipe in accordance with Resolution 268/2014/R/idr. The tariffs have been sent to the Authority and approval thereof is pending.

With Resolution 918/2017/R/idr, the Authority approved the procedures for the update every two years (pursuant to article 8 of Resolution 664/2015/R/idr) of the SII tariffs for 2018 and 2019. The update every two years of the constraint to the operator’s revenues (VRG) and teta (ϑ) tariff multiplier will be carried out in accordance with the accounting data and monetary parameters to be used for the redetermination of the cost components (2016 and 2017 financial statements). The updates to the parameters concerned the Water Risk Premium (from 1.5% to 1.7%), as well as the adjustment of inflation rates to update operating costs, gross fixed investment deflators, and rate tc for the calculation of financial and fiscal charges. Therefore, the component covering financial and tax charges is around 5.33%.

By April 30, 2018, the EGA will update the program of interventions, also with reference to the new provisions on technical quality (Resolution 917/2017/R/idr), the plan of interventions and the management agreement in order to implement the provisions of technical quality.

In order to harmonize the tariff structure applied to end users throughout the national territory, Resolution 665/2017/R/idr approves the Integrated Text of Water Service Fees (TCSI) and introduces from January 1, 2018 the standard subsidized tariff per capita as well as:

- the distinction between resident and non-resident, condominium and non-domestic users;
- the application to resident domestic users of the standard per capita tariff for a transitional period (2018-2022), 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/a 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 trinomial tariff (fixed portion, capacity portion and variable portion) uniform at national level for industrial users concerning 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 of using the purification 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.

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The approval procedure for new structures, which in any case has margins of flexibility, requires that the EGA sent the tariff choices to the Authority by June 30, 2018.

Social water bonus and regulation of technical quality

With Resolution 897/2017/R/idr, the Authority set out the application procedures for the social water bonus for the supply of water to domestic users in conditions of economic and social difficulty (as envisaged by Prime Ministerial Decree October 13, 2016). The facilitation can be accessed by all households with an equivalent economic situation indicator (Isee) of less than 8,107.50 euro, a limit that goes up to 20,000 euro with more than 3 dependent children (conditions already foreseen for the use of the electricity and gas bonus).

The request must be submitted to the municipality of residence (or the Caf delegated by the municipality) 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, i.e. families that live in a condominium and do not have a water supply contract, will receive the social bonus in a single solution from the manager with the methods identified by the latter (for example on a current account or a non-transferable check).

The water bonus, similarly to as provided for the electricity and gas bonus by Legislative Decree 147/2017, which introduced the Income of inclusion, can also be automatically taken advantage of by holders of Carta Acquisti or Carta Rel.

The EGAs will 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.

With Resolution 917/2017/R/idr, the Authority, consistent with the other regulated services, introduced technical quality in the SII, providing for a gradual approach starting from January 1, 2018. The following are defined:

- prerequisites: which represent the conditions necessary for admission to the incentive mechanism associated with the general standards;
- specific standards: identify the performance parameters to be guaranteed in the services provided to users and the non-compliance of which provides for the application of automatic indemnities (at 30 euro if the maximum duration of scheduled suspensions is exceeded);
- general standards referring to the aqueduct, sewerage and purification services and divided into 6 general macro-indicators to which differentiated objectives are correlated according to pre-existing performance levels. Each indicator has its own evolutionary path to achieve the final objective in a period of several years. The general indicators envisage a level of maintenance in situations in which SII management situations are already at the target value and a level of improvement for management situations in positions that are far from the objective value.

The incentive to improve technical quality includes a premium-penalty mechanism and a multi-stage performance assessment activated in the year 2020 with reference to 2018 and 2019 performances.

The regulation of the technical quality is completed by the obligations of monitoring, registration and communication both to the Authority and to the user. In terms of communication, the Service Charters must be updated to incorporate the new regulation.

With Resolution 665/2017/R/idr, Resolution 218/2016/R/idr was amended in the part in which it provided for stringent obligations to communicate metering attempts to users, explaining the possibility of using, in cases of inaccessible meters, signs to notify users of the possibility of self-reading.

Prime Ministerial Decree of August 29, 2016 on “Measures for the containment of default in the integrated water service”

Prime Ministerial Decree of August 29, 2016, implementing articles 60 and 61 of the Environmental Connection, 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) to 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.

By way of Resolution 638/2016/R/idr, the Authority initiated the procedure for the adoption of directives to reduce arrears in the SII.

With DCO 603/2017/r/idr, the Authority proposes a uniform procedure at national level of notification of formal notice and possible deactivation of supply with respect to users that can be disconnected with the provision of greater protection for users: minimum notice time of the suspension of the supply 30 calendar days instead of the 20 foreseen by Prime Ministerial Decree of April 29, 1999. In response to the consultation, A2A also highlighted the issue of non-payment of bills relating to industrial users authorized to discharge into the public sewer system (water demanding users not always connected to the aqueduct network and for which it is necessary to proceed by legal means). The second DCO is pending.

Decision of the Council of State on the Authority’s water tariff method

In May 2017, the Council of State, by Decision no. 02481/2017, reiterated the full validity of the tariff method (MTT) by means of which the Authority defined the criteria for SII tariffs in 2012 (and starting base for subsequent years). Administrative judges, rejecting appeals against the sentence of the Regional Administrative Court (TAR) that had already affirmed compliance of the regulation to the popular consultation of 2011, have in fact definitively rejected the argument by which the Authority, through its tariff regulation, reintroduced the criterion of “Adequacy of the remuneration of invested capital”, eliminated following the referendum.

In particular, the sentence, also made on the basis of expert technical advice requested by the Council of State to a third panel of experts, reiterated among the various elements that the tariff methodology adopted by the Authority appears in line with the dictated referendum and with the principle of full cost recovery, in itself fully compatible with the outcome of the referendum.

Authority’s activities in the district heating/district cooling (district heat) sector

Legislative Decree no. 102/2014 implementing Directive 2012/27/EC on energy efficiency attributed to the Authority functions also in the district heating/cooling sector (or even district heat) for the provision of measures on: ways in which managers make public the prices of the provision of heat, connection, disconnection, as well as regarding safety, continuity, commercial quality, billing of consumption, also by sending reports to the competent authorities.

After the first recognition in 2014 (Resolution 411/2014/R/tlr), the Authority proceeded with data collections in 2015 for the establishment of a database of operators and methods to determine and update prices applied to users (Resolution 578/2015/R/tlr). In February 2016, A2A Calore & Servizi S.r.l. received requests for information on the costs of heat metering and accounting systems.

Article 9 of Legislative Decree no. 102/2014 entrusted to the Authority also the task of implementing the provisions on metering, direct accounting of individual consumption (by meters or allocators), billing and information on billing, access to consumer data for buildings connected to district heating/cooling networks in order to increase customer awareness and change consumer behaviour.

In 2017, the Authority published:

- a) Resolution 282/2017/R/tlr relating to the “sub-billing” service designed to ensure maximum transparency for the final customer regarding the characteristics of the service offered and the related costs by providing annual contracts and safeguarding competition in the market for the provision of the service;
- b) DCO 112/2017/R/tlr and 378/2017/R/tlr relating to the criteria for determining the connection fees and methods by which users can exercise the right to deactivate the supply and disconnect from the network (followed by Resolution 24/2018/R/tlr);

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c) DCO 46/2017/R/tlr and 438/2017/R/tlr regarding the provisions related to the start-up, management and termination of the contractual relationship (which proposes contractual quality standards with respect to users).

d) DCO 725/2017/R/tlr concerning the first guidelines regarding the obligations of accounting separation for district heating service operators.

Resolution 24/2018/R/tlr defines the regulation regarding the criteria for determining the connection fees and methods by which users can exercise the right to deactivate the supply and disconnect from the district heating network for the regulation period June 1, 2018 - December 31, 2020.

In particular, operators can freely determine the connection fees in compliance with a requirement of consistency between costs and revenues, while specific disclosure obligations are introduced with respect to users - together with the connection estimate - regarding the binding economic conditions of service delivery, in order to allow the user to evaluate the overall cost-effectiveness of the service and to ensure utmost transparency on the contents and associated costs. The user is entitled to withdraw from the contract with thirty days' notice, without payment of any fee or penalty. Lastly, specific reporting obligations to the Authority are envisaged for operators.

The DCOs listed in letters c) and d) above have not yet been finalized in specific measures.

Warehouse of White Certificates and new district heating incentives

At December 31, 2017, the warehouse at A2A Calore & Servizi S.r.l. was equal to 346,432 WC.

Article 19-decies of the Law of December 4, 2017, no. 172, for the conversion of the "Fiscal Decree Law", introduces a new type of intervention on cogeneration units that rewards the extension of district heating networks within "efficient district heating" systems. The incentive scheme to which the standard refers (and which therefore 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 (CAR MD).

Article 19-decies of the Law defines, first of all, 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, and
- they are combined with the extension of the heat distribution network, in terms of transport capacity.

Furthermore, the Law establishes that, 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 decree that the MiSE will have to adopt within 90 days from the entry into force of the Conversion Law (i.e. 90 days from December 4, 2017).

Foreign Business Unit

The A2A Group is present internationally on the main electricity and gas markets, with the production and distribution of electricity in the Balkans.

In January 2016, the Foreign Business Unit was established, which is responsible for identifying and developing cross business development initiatives for the Group and coordinating the initiatives managed by the Organizational Structures that deal with foreign activities at the Companies. The Foreign Business Unit coordinates the activities carried out by the investee company EPCG in relation to the production and sale of electricity in Montenegro and the operational technical management of the related electricity distribution networks.

It is underlined that due to the exercise of the put option on the entire shareholding held by A2A S.p.A. in EPCG, the effectiveness of which was finalized on July 3, 2017, the shareholding in the Montenegro company was valued according to the provisions of IFRS 5. Please refer to the section “Significant events during the year” for details of the transaction.

EPCG

Production

One of the energy policy objectives of the Montenegro government is an increase in the use of renewable energy by the country.

More specifically, in September 2011 the Government issued a regulatory deed (“Decree on the Tariff System for the Establishment of Preferential Prices of Electricity from Renewable Sources of Energy and Efficient Co-generations”), by means of which it determined incentivizing tariffs for the purchase of electricity to support the production of energy from renewable energy sources (FER). The 2010 and 2016 Energy Laws provide incentive measures for energy from renewable sources. FER Energy Producers that qualify as Privileged Producers stipulate with the Market Operator (COTEE) of Power Purchase Agreements at a regulated price. The incentive measures consist of guaranteed prices, guaranteed purchase and exemption from the dispatching cost for 12 years.

In October 2012, according to Directive 2009/28/EC, the Energy Community of Montenegro set a binding target for 2020. This objective defines that production from renewable sources in 2020 will be equal to 33% of final energy consumption in Montenegro.

In operation since April is the Krnovo Green Energy wind plant, which EPCG contractualized until official recognition as Privileged Producer.

Work has begun on the new Mozura wind farm, near Ulcinj, for a full capacity of 46 MW.

Transmission and distribution tariffs/sales prices

The first regulatory three-year period started on August 1, 2012 and ended in late 2015, while the new regulatory period started on January 1, 2016, with effect from the calendar year.

In the middle of the first three-year regulatory period, at the end of December 2013, the RAE (Regulation Agency) unexpectedly issued the change in the current method of determination of the regulatory revenue of the manager of the transmission system. The methodology mentioned above introduced the fee paid by producers connected to the transmission system. The first decision of the RAE, by which the related fee was determined according to the modified methodology, was issued on December 30, 2013, with application from January 1, 2014 to July 31, 2015, and which was subsequently extended until the end of 2015.

EPCG has filed an appeal for the annulment of this decision, which it believes is based on premises which are not in line with the principles of transparency and non-discrimination that should form the basis of the regulation, and which appear to be extremely detrimental to the economic and financial balance of the company. The appeal was accepted in the first instance, and then the operator of the transmission system (CGES), in a new proceeding, issued a new decision comprising the same amounts of the fees, which was approved by the RAE at the beginning of August 2014. The new decision was challenged by the EPCG at the competent authorities. The Administrative Court dismissed the appeal of the EPCG, while the decision is pending on the appeal of EPCG by the Constitutional Court of Montenegro.

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At the end of 2015, the RAE determined the tariffs for a new transitional regulatory period lasting one year, starting from January 1, 2016 until December 31, 2016. The level of regulated tariffs for domestic customers provided for a reduction of about 1%.

It is noted that in January 2016, the new Energy Act came into force, which established the tariffs for 2017 and a regulatory framework for the three-year period 2017-2019. The legislative amendments with respect to the previous Energy Act have a significant impact on the operation of EPCG - FU Supply and a positive impact on the revenues of EPCG, as the tariffs for distribution, although down 5% in 2017 compared to the 2016 value, are expected to increase by about 3% per year in the period 2017-2019. It is considered that this increase has already been approved by the competent authority (Regulatornoj agenciji za energetiku - "RAE") and that the regulatory framework provides for any tariff increases up to 7%. The RAE decision allows the management of EPCG to have visibility of long-term tariff trends.

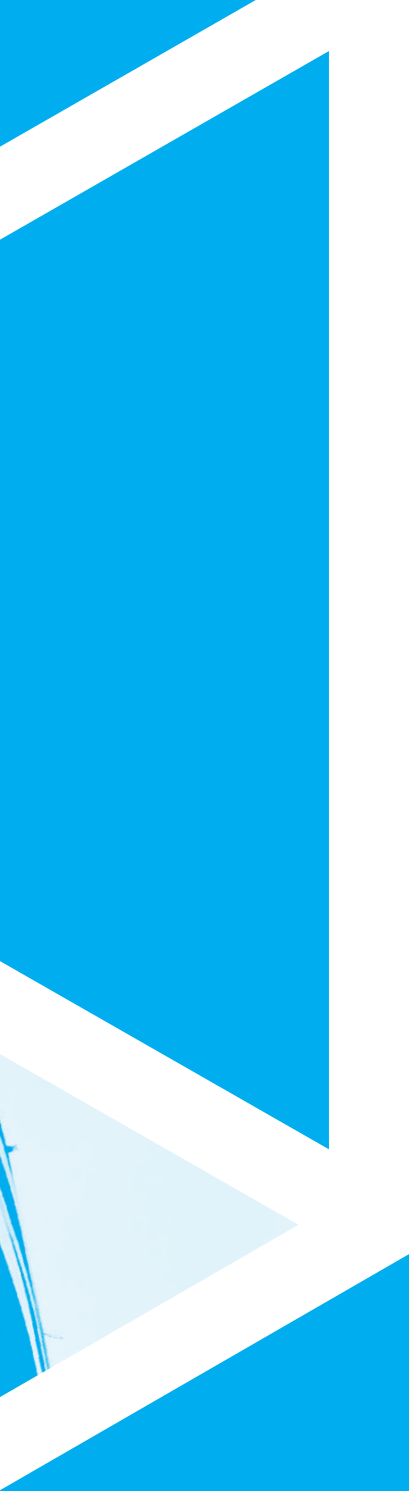
The new law abolishes, from January 1, 2017, the role of the public supplier and therefore, EPCG becomes market supplier. In addition, the price of electricity for industrial users is established according to market conditions, while for domestic and small users, annual cap were established relating to the increase in electricity prices at least in force until greater competition will develop in the sector and no later than 2019.

RAE has updated electricity sales tariffs starting from January 2018, increasing them on average by 6%. The new price for residential customers is 40.27 euro/MWh, while that for other customers still subject to tariff is 42.39 euro/MWh.

Electricity market

The agreement was formalized between the EPCG market operator, the CGES network operator and the COTEE market operator for the establishment of the Montenegrin Electricity Market.

In December, the Montenegrin Energy Authority (RAE) signed an agreement with the Energy Regulators Cooperation Agency (ACER) for participation in the European working groups coordinated by ACER.



4 Consolidated results and report on operations

Summary of results, assets and liabilities and financial position

Results

The economic, equity and financial summary of the A2A Group is presented as comparison data at December 31, 2016 Restated due to the conclusion of the Purchase Price Allocation process relating to the acquisition of the LGH Group; the economic data presented below and the comparison value at December 31, 2016 (Reported) are inclusive of the financial statement items relating to the EPCG Group.

It is also noted that the economic data at December 31, 2017 includes the full consolidation of the entire year of the LGH Group, the RI.ECO-RESMAL Group and the company Consul System S.p.A., which were consolidated starting from the second half in 2016.

The results of the A2A Group at December 31, 2017 are set out below together with comparative figures for the previous year:

<i>millions of euro</i>	01 01 2017 12 31 2017 Reported	01 01 2016 12 31 2016 Restated Reported	Changes
Revenues	5,910	5,093	817
of which:			
- Revenues from the sale of goods and services	5,704	4,813	891
- Other operating income	206	280	(74)
Operating expenses	(4,043)	(3,221)	(822)
Labour costs	(656)	(641)	(15)
Gross operating income - EBITDA	1,211	1,231	(20)
Depreciation, amortization and write-downs	(458)	(675)	217
Provisions	(47)	(83)	36
Net operating income - EBIT	706	473	233
Result from non-recurring transactions	1	56	(55)
Net financial charges	(223)	(154)	(69)
Affiliates	5	(3)	8
Result from disposal of other shareholdings	-	-	-
Result before taxes	489	372	117
Income taxes	(192)	(120)	(72)
Result after taxes from operating activities	297	252	45
Net result from discontinued operations	1	2	(1)
Minorities	(5)	(22)	17
Group result of the year	293	232	61

In 2017, the Revenues of the A2A Group amounted to 5,910 million euro, up 817 million euro compared to the previous year (+16%). The contribution to the increase in revenues was for approximately 30% due to the consolidation of the LGH Group, the companies acquired in the second half of 2016 and in 2017, as well as the companies whose consolidation method changed during the current year. Net of this contribution, the increase in revenues (+11%) is mainly attributable to higher revenues from the sale of electricity and gas on the electricity wholesale and sales markets on Ipx, following the higher volumes brokered and the rising prices recorded in the current year compared to 2016.

Gross Operating Margin amounted to 1,211 million euro, a decrease of 20 million euro compared to 2016 (-1.6%), of which -57 million euro deriving from the deconsolidation of EPCG as of July 1, 2017.

Net of non-recurring items recorded in the two comparison periods (129 million euro in 2016, 64 million euro in 2017) and the EPCG result (69 million euro in 2016, 12 million euro in 2017), the Group highlights in 2017 an increase in Gross Operating Margin of 102 million euro compared to 2016 (+10%).

The following table highlights the composition by Business Unit:

<i>millions of euro</i>	12 31 2017 Reported	12 31 2016 Restated Reported	Delta	Delta %
Generation and Trading	356	404	(48)	(11.9%)
Commercial	159	144	15	10.4%
Environment	261	240	21	8.8%
Networks and Heat	448	397	51	12.8%
Foreign	12	69	(57)	(82.6%)
A2A Smart City	7	6	1	16.7%
Corporate	(32)	(29)	(3)	(10.3%)
Total	1,211	1,231	(20)	(1.6%)

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 356 million euro, a decrease of 48 million euro compared to the previous year.

Net of the non-recurring items - down by around 49 million euro compared to 2016 - the Gross Operating Margin of the Generation and Trading Business Unit was substantially in line with the previous year (+1 million euro). The scenario of the year favoured the CCGT plants that recorded a substantial increase in production hours, both on the MGP and MSD markets to the detriment of hydroelectric production penalized by poor water supply and the conclusion at the end of 2016 of the incentive mechanism (feed-in tariff) for some Valtellina plants.

In the Commercial Business Unit, the Gross Operating Margin amounted to 159 million euro, up 15 million euro – 18 million euro net of the non-recurring items – with respect to the previous year, thanks to the contribution deriving from the margins of the electricity and gas sectors and the contribution of the consolidation of the LGH Group.

The two sectors benefited above all from the acquisition of new customers on the free market and higher volumes sold on the free gas market. This trend was partly offset by a loss in margins related to the decrease in customers under greater protection and by the pressure on unit margins of the free market also determined, above all with reference to the BtB segment, by the significant unbalancing charges on the electricity market.

The Gross Operating Margin of the Environment Business Unit amounted to 261 million euro, up 21 million euro compared to the previous year.

A contribution to the growth of the margins in the year in question came from the waste treatment and disposal sector, in particular:

- the results of the LGH Group and the new companies acquired, RI.ECO-RESMAL;
- the good performance of the disposal of waste similar to urban waste, mainly attributable to the positive dynamic of the contribution prices;
- the greater contributions at the inert lots landfill in Corteolona. The activities, due to environmental analyses of the water table, suspended in 2016, resumed after the decision by ARPA (Regional Agency for Environmental Protection) to exclude the landfill from the perimeter of the remediation area.

In the collection sector, the contribution of the LGH Group of approximately 6 million euro almost completely reabsorbed the loss in margins recorded in the other territorial areas of reference.

The Gross Operating Margin of the Networks and Heat Business Unit amounted to 448 million euro, an increase of 51 million euro compared to the previous year.

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Net of the non-recurring items (-9 million euro) that regarded both 2017 (34 million euro, of which 30 million euro from Energy Efficiency Certificates recognized for projects carried out in previous years) and the previous year (43 million euro, of which 51 million euro for the recognition of tariff increases to A2A Ciclo Idrico S.p.A. for the years 2007-2011), the Gross Operating Margin of the Networks and Heat Business Unit was up by 60 million euro compared to 2016.

This performance is mainly due to:

- higher margins relating to district heating and heat management activities for about 8 million euro attributable to the higher quantities of heat sold for both the commercial development and the low temperatures recorded on average in 2017 compared to the previous year and a more favourable scenario (heat prices related to the rising price of gas and the increase in the prices of electricity from co-generation);
- greater revenues due to the optimization of the white certificates portfolio for 5 million euro;
- higher margins relating to the aqueduct, purification and sewage services for about 11 million euro following the tariff increases recognized by ARERA and the higher quantities distributed;
- decrease in fixed Business Unit costs of around 10 million euro thanks to operating efficiencies and higher capitalization;
- changes in the scope of consolidation, which had a positive impact on the margin for a total of 26 million euro (LGH, Consul System and ASVT).

The Foreign Business Unit includes the results of the EPCG Group until the full consolidation of the investment (June 30, 2017). Following the decision of the management of A2A of July 3, 2017 to exercise the sale put option on the entire shareholding, the investment in EPCG, held 41.75% by A2A S.p.A., was reclassified as “non-current assets held for sale” in compliance with the provisions of IFRS 5.

The Gross Operating Margin, thus in line with that of the first half of 2017, amounted to 12 million euro (69 million euro at December 31, 2016), a decrease of 57 million euro, of which 23 million euro due to lower margins recorded in the first half-year and 34 million euro due to the lack of contribution in the second half of the current year.

In 2017, A2A Smart City recorded Gross Operating Margin of 7 million euro, an increase of about 1 million euro over the previous year.

“Depreciation, amortization, provisions and write-downs” amounted in total to 505 million euro (758 million euro at December 31, 2016), of which: 424 million euro relating to depreciation/amortization for the year (435 million euro in the comparison year); provisions for risks and write-downs of receivables for 47 million euro (83 million euro at December 31, 2016) and net write-downs of fixed assets for 34 million euro (240 million euro at December 31, 2016).

Respectively, EPCG contributions are: 13 million euro of depreciation/amortization of tangible and intangible assets (27 million euro at December 31, 2016); 3 million euro of provisions for risks and write-downs of receivables (12 million euro at December 31, 2016); net write-downs of fixed assets, on the other hand, show no value in the two years presented.

Amortization of intangible assets amounted to 72 million euro (56 million euro at December 31, 2016). The item shows an increase of 16 million euro mainly due to the consolidation of the companies acquired in the second half of 2016 and in 2017 for 11 million euro and the implementation of information systems for 4 million euro.

Depreciation of tangible assets amounted to 352 million euro, a decrease of 27 million euro compared to the previous year, mainly due to:

- higher depreciation resulting from the consolidation of the companies acquired in the second half of 2016 and in 2017 for 22 million euro;
- higher depreciation of 7 million euro, mainly relating to investments that entered into operation after December 31, 2016;
- lower depreciation of 26 million euro, resulting in write-downs of assets at December 31, 2016;
- lower depreciation of 13 million euro, relating to the San Filippo del Mela plant, whose value was restored at December 31, 2016 following the signing of a new contract under essential conditions with Terna;

- lower depreciation of 13 million euro, deriving from the change in the consolidation method of EPCG following the decision of July 3, 2017 of A2A management to exercise the sale put option on the entire shareholding.

“Write-downs of assets” amounted to 34 million euro (240 million euro at December 31, 2016) and refer to the write-down of goodwill relating to the “A2A Reti Elettriche” CGU. In 2016, the thermoelectric plant of Monfalcone was written down for 202 million euro, the CCGT power plants of Gissi and Piacenza for 68 million euro and the goodwill allocated to the “Reti Elettriche” CGU for 21 million euro. Furthermore, the value of the San Filippo del Mela plant was restored for 51 million euro.

“Provisions for risks” were 12 million euro (61 million euro at December 31, 2016) due to allocations of 35 million euro during the year, offset by the surpluses for 23 million euro since the original disputes have ceased to exist.

Provisions for the year concerned 7 million euro provisions for hydroelectric fees, 3 million euro for other risks provisions relating to EPCG, 7 million euro provisions for funds for personnel lawsuits and disputes, 5 million euro provisions for tax funds, 3 million euro for expenses funds for closure and post-closure of landfills, 6 million euro for allocations to decommissioning provisions and 4 million euro for various allocations. Surpluses of risks provisions amounted to 23 million euro.

The “Bad debt provision” amounted to 35 million euro, of which 9 million euro related to a specific distribution customer (22 million euro at December 31, 2016), an increase of 13 million euro.

As a result of these changes, “**Net Operating Income**” amounted to 706 million euro (473 million euro at December 31, 2016), an increase of 233 million euro over the previous year.

The “**Result from non-recurring transactions**” was positive for 1 million euro. At December 31, 2016, it was positive for 56 million euro and was mainly related to the demerger of the “Cellina Unit” of Edipower S.p.A. in favour of Cellina Energy S.r.l., effective January 1, 2016 following the demerger deed stipulated between the parties on December 28, 2015.

“**Net financial charges**” amounted to 223 million euro (154 million euro at December 31, 2016), of which 23 million euro related to the consolidation of the companies acquired in the second half of 2016 and in 2017.

The increase in the year of 69 million euro is mainly attributable to the write-down of the investment in EPCG following the exercise of the sales put option by the Group. Therefore, the company’s investment was valued at fair value, which led to the recognition of a write-down of 60 million euro, as well as discounting charges of 26 million euro as a result of the discounting of the value of the investment that the A2A Group will collect in 7 years starting from May 2018.

Discounting was made using the rates corresponding to Montenegrin government bonds contracted in euro with similar maturities.

The result from “**Affiliates**” was positive for 5 million euro (negative for 3 million euro at December 31, 2016), and is mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A. and other minor shareholdings.

“**Income taxes**” for the year amounted to 192 million euro (120 million euro at December 31, 2016).

The “**Net result from discontinued operations**” was 1 million euro (2 million euro at December 31, 2016) and is related to the gain on the sale of the company Bellisolina S.r.l..

The “**Group result of the year**”, after the minorities were deducted, was positive and amounted to 293 million euro (positive for 232 million euro at December 31, 2016).

Balance sheet and financial position

In the first half of 2017, the A2A Group completed the Purchase Price Allocation (PPA) following the acquisition of 51% of the LGH Group.

The PPA was applied to the first-time consolidation figures at July 31, 2016, reflecting the financial effects of the transaction on figures at December 31, 2016.

For further details of the transaction and the consequent effects on the figures at December 31, 2016 published, reference is made to Note 3 (IFRS 3 Revised Transactions) in the paragraph “Other Information” of these Notes to the 2017 Consolidated Financial Statements. As a result of the PPA process, the comparison figures at December 31, 2016 presented have been Restated.

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Net fixed capital

The “**Net fixed capital**” amounted to 5,780 million euro, down by 356 million euro compared to December 31, 2016.

The changes that occurred are detailed below:

- Tangible assets recorded a drop of 523 million euro following:
 - an increase of 80 million euro relating to the first consolidation of the “Rinnovabili” companies, LumEnergia, Patavina and Azienda Servizi Valtrompia;
 - a decrease of 559 million euro due to the change in the consolidation method of EPCG following the exercise by the A2A Group of the put option concerning the entire shareholding held by A2A S.p.A., amounting to 41.75% of the company. Reference is made to the paragraph “Significant events during the year” in this “Report on Operations” for further details;
 - investments amounting to 306 million euro, essentially in the Networks and Heat Business Unit for 116 million euro, the Environment Business Unit for 103 million euro and the Generation and Trading Business Unit for 61 million euro. Investments of around 26 million euro were then recorded, divided between the Foreign Business Unit (EPCG), A2A Smart City and Corporate;
 - a decrease of 7 million euro following disposals in the year, net of accumulated depreciation;
 - a decrease of approximately 5 million euro due to both positive and negative reclassifications to other financial statements items;
 - other increases of 14 million euro;
 - depreciation for the year of 352 million euro.
- Intangible assets show an increase of 159 million euro compared to December 31, 2016 attributable to:
 - an increase of 29 million euro due to the effect of the first consolidations during the year and the decrease of 2 million euro due to the change in the consolidation method of EPCG;
 - a decrease of 34 million euro due to the write-down of goodwill relating to the “A2A Reti Elettriche” CGU;
 - investments of 148 million euro, essentially in the Networks and Heat Business Unit for 115 million euro, in the Commercial Business Unit for 9 million euro, in the Environment Business Unit for 4 million euro and in the A2A Smart City, Services and Corporate and Generation and Trading Business Units for another 20 million euro;
 - an overall increase of 50 million for other changes due to: the increase in environmental certificates of the industrial portfolio (54 million euro) partly offset by negative reclassifications to other financial statements items (4 million euro);
 - an increase in other intangible assets for 51 million euro following the completion of the PPA relating to the acquisitions of Consul System S.p.A. (16 million euro), and the companies acquired by A2A Rinnovabili S.p.A. (35 million euro);
 - a decrease of 9 million euro in goodwill following the conclusion of the PPA process of Consul System S.p.A.;
 - disposals net of accumulated depreciation for 2 million euro;
 - decrease for depreciation in the year for 72 million euro.
- Shareholdings and other non-current financial assets amounted to 71 million euro, down 9 million euro compared to December 31, 2016 Restated. The change is attributable for 4 million euro to the change in the consolidation method of the EPCG Group, to the positive valuation for 5 million euro of the investments in ACSM - AGAM S.p.A. and other minor investments, net of the reclassification for 7 million euro of the investment in Azienda Servizi Valtrompia S.p.A., fully consolidated starting from March 1, 2017. There was a further decrease of 3 million euro due to the collection of dividends and other changes.

- Other non-current assets and liabilities show an increase in non-current liabilities of 35 million euro, mainly attributable to the consolidation of payables deriving from new acquisitions in 2017;
- Deferred tax assets, amounting to 301 million euro, recorded a reduction of 40 million euro referable for 9 million euro to the effect of the completion of the PPA of acquisitions completed by A2A Rinnovabili S.p.A. and for 31 million euro to the net effect of deferred tax liabilities and assets for IRES and IRAP on changes and provisions performed exclusively for tax purposes;
- Provisions for risks, charges and liabilities for landfills recorded a decrease of 46 million euro. The change in the year was mainly due to: the net increase in the decommissioning provision for approximately 16 million euro as a result of the updating of the expert report for the Brindisi and Monfalcone plants and the discount rates used to estimate the future costs of dismantling and restoration of the sites; use of legal and personnel provisions for approximately 43 million euro related to the litigation with Istituti Previdenziali and the conclusion of current litigation by the subsidiary A.S.R.A.B. S.p.A., which did not involve financial disbursements for the Group; a decrease of 18 million euro due to the change in the consolidation method of EPCG and other decreases for 1 million euro;
- Employee benefits show a decrease of approximately 46 million euro and refer for 22 million euro to net disbursements for the year, to the decrease of 13 million euro relating to the change in the EPCG consolidation method and to the net decrease of 11 million euro referred to actuarial changes for the year.

Working capital

“Working capital” amounted to 235 million euro, a decrease of 43 million euro over December 31, 2016 Restated. The main changes at are detailed below:

- Inventories show a decrease of 12 million euro due to the change in the consolidation method of EPCG for 16 million euro in addition to the combined effect of: 12 million euro net increase in fuel inventories, a decrease of 8 million euro due to a decrease in inventories related to environmental certificates;
- Trade receivables amounted to 1,671 million euro, a decrease of 150 million euro compared to December 31, 2016. The changes involved the net effects deriving from the first consolidation for 18 million euro and the reduction deriving from the change in the EPCG consolidation method for 60 million euro. Net of the effects reported above, trade receivables decreased by 108 million euro due to: improvement in the management of the customer portfolio for 109 million euro, increase in receivables from the Municipality of Milan and Brescia for 4 million euro, decrease of about 1 million euro in receivables from associates and a decrease in contract work in progress for 2 million euro;
- Other current assets amounted to 216 million euro, a decrease of 173 million euro compared to December 31, 2016. Net of the effect of the first 2017 consolidation positive for 4 million euro and the change in the EPCG consolidation method negative for 24 million euro, the changes refer to: current derivative instruments which show a total decrease of 169 million euro due to the change in the fair value measurement at the end of the period considered and to the change in the quantities covered; other receivables for current assets, an overall increase of 16 million euro, the changes of which are an increase of 15 million euro in advances paid to suppliers, a decrease of 6 million euro in tax receivables and other increases for 7 million euro;
- Trade payables amounted to 1,381 million euro and show a decrease of 3 million euro compared to the end of the previous year due to the new acquisitions in 2017 of 10 million euro, as opposed to a decrease of 18 million euro due to the change in the consolidation method of EPCG. Net of the changes shown, there was an increase of 5 million euro in the balance of the financial statements item;
- Other current liabilities amounted to 521 million euro, a decrease of 223 million euro compared to December 31, 2016 primarily related to the decrease in current derivatives equal to 167 million euro, relating to the fair value measurement of commodity derivatives outstanding at year-end. This decrease, together with the decrease of 38 million euro due to the change in the EPCG consolidation method, the decrease of 30 million euro in payables for the tariff components on energy and the decrease of 25 million euro in payables to minority shareholders, constitutes the decrease in the financial statements item. The main increases are related to: 23 million euro in tax payables; 12 million euro in payables to Cassa per i Servizi Energetici e Ambientali (Energy and Environmental Services Fund) relating to tariff components invoiced and not yet paid, as well as the payable for the equalization liabilities relating to both previous years and the year in question; a further 2 million euro of other increases;

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- Current tax assets and liabilities show a credit of 103 million euro, up 66 million euro compared to December 31, 2016.

“Assets held for sale” amounted to 224 million euros and refer to the investment in EPCG, held 41.75% 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 investment was written down and discounted for a total of 86 million euro in order to adjust the value to fair value.

“Liabilities held for sale” had no value at December 31, 2017, a decrease of around 7 million euro compared to the Restated figure at December 31, 2016, which included liabilities directly associated with non-current assets held for sale of the company Bellisolina S.r.l. and the LGH Group concerning the business unit relating to the municipal sanitation of the Lodi area.

The consolidated **“Employed capital”** at December 31, 2017 amounted to 6,239 million euro and was covered by Equity for 3,013 million euro and the Net Financial Position for 3,226 million euro.

Shareholders' equity

The overall changes in shareholders' equity was negative for a total of 266 million euro. The result of the year had a positive effect of 299 million euro offset by the consolidation at equity of EPCG for 420 million euro, the dividend distribution for 153 million euro and valuations pursuant to IAS 32 and 39 for cash flow hedge derivatives negative for 17 million euro and valuations pursuant to IAS 19 positive for 12 million euro. Furthermore, there was an increase of 13 million euro mainly due to the consolidation of new acquisitions.

The **“Net financial position”** amounted to 3,226 million euro (3,136 million euro at December 31, 2016). The cash flow generated in the year was positive and amounted to 226 million euro, after the payment of dividends for 153 million euro and investments in the year for 454 million euro.

The change in the scope of also led to a negative adjustment of the **“Net financial position”** for a total of 316 million euro, of which 206 million euro related to the change in the EPCG consolidation method and 110 million euro relating to new acquisitions in 2017.

<i>millions of euro</i>	12 31 2017	12 31 2016 Restated	Change
CAPITAL EMPLOYED			
Net fixed capital	5,780	6,136	(356)
- Tangible assets	4,606	5,129	(523)
- Intangible assets	1,863	1,704	159
- Shareholdings and other non-current financial assets (*)	71	80	(9)
- Other non-current assets/liabilities (*)	(117)	(82)	(35)
- Deferred tax assets/liabilities	301	341	(40)
- Provisions for risks, charges and liabilities for landfills	(625)	(671)	46
- Employee benefits	(319)	(365)	46
<i>of which with counter-entry to equity</i>	<i>(47)</i>	<i>(168)</i>	
Working capital	235	278	(43)
- Inventories	147	159	(12)
- Trade receivables and other current assets (*)	1,887	2,210	(323)
- Trade payables and other current liabilities (*)	(1,902)	(2,128)	226
- Current tax assets/tax liabilities	103	37	66
<i>of which with counter-entry to equity</i>	<i>(39)</i>	<i>(38)</i>	
Assets/liabilities held for sale (*)	224	1	223
<i>of which with counter-entry to equity</i>	<i>224</i>	<i>-</i>	
TOTAL CAPITAL EMPLOYED	6,239	6,415	(176)
SOURCES OF FUNDS			
Shareholders' equity	3,013	3,279	(266)
Total financial position beyond one year	3,488	3,395	93
Total financial position within one year	(262)	(259)	(3)
Total Net Financial Position	3,226	3,136	90
<i>of which with counter-entry to equity</i>	<i>29</i>	<i>15</i>	
TOTAL SOURCES	6,239	6,415	(176)

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

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<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated
NET FINANCIAL POSITION AT THE BEGINNING OF THE YEAR	(3,136)	(2,897)
First-time consolidation contribution	(87)	(382)
Cellina demerger effect	-	(38)
Effect of change in EPCG consolidation method	(206)	-
Net result (**)	297	196
Depreciation/amortization (***)	424	429
Write-downs/disposals of tangible and intangible assets	43	252
Affiliates	(5)	3
Write-downs of investments	86	-
Net interest for the year	139	158
Net interest paid	(115)	(133)
Net taxes paid	(192)	(168)
Changes in assets and liabilities (*)	189	90
Cash flow from operating activities	866	827
Investments in tangible and intangible assets	(454)	(386)
Investments in shareholdings and securities	(23)	(123)
Disposals of fixed assets and shareholdings	-	6
Dividends received from shareholdings	2	1
Purchase of treasury shares	-	-
Net cash flows from investment activities	(475)	(502)
Free cash flow	391	325
Dividends paid by the parent company	(153)	(126)
Dividends paid by the subsidiaries	(2)	(5)
Other non-monetary changes	(24)	(25)
Cash flow from dividend distribution and other changes	(179)	(156)
Changes in financial assets/liabilities with counter-entry to equity	(9)	12
NET FINANCIAL POSITION AT THE END OF THE YEAR	(3,226)	(3,136)

(*) Excluding balances with counter-entry to equity

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

(***) Includes the value of EPCG.

Significant events during the year

A2A Ambiente S.p.A.: finalized the sale of the shareholding in Bellisolina S.r.l.

On January 31, 2017 A2A Ambiente S.p.A. finalized the sale to Ladurner of the shareholding in Bellisolina S.r.l.. The transaction was made necessary in compliance with a provision of the Competition and Market Protection Authority, following the acquisition of 51% of the share capital of the LGH Group by A2A S.p.A..

A2A S.p.A.: subscribed increase of the share capital of Azienda Servizi Valtrompia S.p.A.

On March 8, 2017, A2A S.p.A. fully subscribed the share capital increase for a fee of 5.8 million euro of the company Azienda Servizi Valtrompia S.p.A., Brescia based multi utility specialized in particular in the water, waste and gas sectors; by means of the subscription, following the waiver of exercise of option rights by all other shareholders, it has increased its shareholding from 49% to 75%.

The funds from the subscription will be allocated to work on the integrated water cycle for the expansion of purification systems.

A2A S.p.A.: bond issue

On March 9, 2017, A2A S.p.A., in line with the financial strategy of the Group to lengthen the average maturity of debt and optimize the time profile of maturities, successfully placed, in private placement with a limited number of qualified investors, a bond issue amounting to 300 million euro and a duration of seven years, maturing in March 2024, to be issued with respect to its Euro Medium Term Notes program.

The bonds, the placement of which was managed by Morgan Stanley & Co. International Plc, will be governed by English law and will have the following characteristics: annual fixed rate coupon of 1.25%, issue price equal to 99.774% and actual gross rate of return at maturity equal to 1.284%.

As of March 16, 2017, the bonds were listed on the regulated market of the Luxembourg stock exchange.

Monfalcone Plant Investigation

On March 8 and 9, 2017, following orders of the Public Prosecutor of Gorizia Republic, the Monfalcone Plant of A2A Energiefuture S.p.A. was inspected during which surveys and samplings were performed (on coal in stock, on the ashes, on fume treatment residues, emissions from the chimney) and documentary acquisitions (on the servers of the emissions monitoring system, on fuel analysis forms, etc.).

During the inspection, as many guarantee notices were notified to the central leader and two collaborators related to the conduct of surveys for an alleged crime of “environmental pollution” pursuant to art. 452 bis Criminal Code (crime introduced by Law no. 68 of 2015 and constituting a “predicate crime” pursuant to Legislative Decree 231/2001).

The suspect employees appointed trusted defenders.

Subsequently, between December 2017 and January 2018, the Public Prosecutor of Gorizia proceeded with the acquisition of additional documentation at the plant. The proceeding is still in the stage of the preliminary investigations and it shall be necessary to wait for the results of the investigations ordered by the Public Prosecutor of Gorizia.

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A2A S.p.A: The Board of Directors approves the 2016 results

On April 3, 2016, the Board of Directors, chaired by Mr. Giovanni Valotti, approved the drafts of the Separate financial statements and of the Consolidated annual financial report at December 31, 2016.

The realization of the 2015 - 2019 Strategic Plan (and its developments) has allowed achieving brilliant economic and financial results:

- Sharp growth in the Gross Operating Margin, which has recorded the best result from the creation of the A2A Group, amounting to 1,231 million euro, and the net profit of the Group amounting to 224 million euro.
- Increase of 23% in investments equal to 424 million euro and Net Financial Position, excluding the acquisition of LGH, equal to 2,667 million euro, a decrease of 230 million euro compared to 2015.
- The acquisition of 51% of the share capital of Linea Group Holding leads to a total Net Financial Position of 3,136 million euro with a NFP/Ebitda index of 2.5X.

A2A S.p.A.: Approval of the 2017-2021 Strategic Plan

On April 3, 2017, the Board of Directors examined and approved the A2A Group's 2017-2021 Strategic Plan.

As main objective, the significant redesign of the industrial asset portfolio is confirmed, which will allow reactively seizing the market's growing opportunities. Industrial scale projects will also be proposed, which have already been initiated in experimental phase in the fields of energy efficiency, innovation and digitization.

The milestones introduced with the previous 2015-2019 plan have been confirmed with different priorities.

Relaunch. Investments are expected for about 2.75 billion euro in 5 years (+500 million euro compared to the previous Strategic Plan), with about 53% allocated to the Networks Business Unit and focus on participation in gas distribution tenders, development and maintenance of already existing electricity distribution networks and enhancement of the integrated water cycle. It is expected that in 2021, a total margin of 457 million euro will be realized.

Of the investments envisaged in the Strategic Plan, 25% will be allocated to the Environment Business Unit, identified as an operating area that will contribute more to the overall growth of the Group. These investments will be aimed at increasing the operating segment dedicated to municipal sanitation (+100,000 inhabitants per year) and increasing the amount of waste treated (+ 50% in 2021 compared to 2016). The total margin of the segment is expected to be 341 million euro.

Moreover, the objectives set out in the previous Strategic Plan for the Retail Operations Area were revised upwards (+150,000 free market customers) thanks to the capitalization of the industrial partnership with the LGH Group and specific projects launched in recent years regarding the sale of electricity and high value added services to widespread customers and SMEs. A contribution to the Group's Gross Operating Margin is expected in 2021, amounting to 51 million euro.

Restructuring. The objective of the Plan is to seek an active role in the energy market by completing the flexibility of the plant park, going from 2 GW to 3.6GW flexible, with particular attention to the Winter Package objectives.

Redesign. The goal is the consolidation and definitive launch on the market of innovative projects such as Smart City, Green Economy and Energy Efficiency. These include the doubling of LED light points up to 420,000 light points installed in 2021 and the development of energy efficiency thanks to the acquisition of Consul System, a company active in the Energy Efficiency Certificates sector.

The A2A Group also participates operationally in the "Horizon 2020" referred to as "Sharing Cities".

Also important is the launch of biomethane production by FORSU thanks to four dedicated plants that will produce 20 million cubic meters in 2021.

A2A S.p.A.: The Board of Directors approves the figures at March 31, 2017

On May 10, 2017, the Board of Directors of A2A S.p.A., under the chairmanship of Giovanni Valotti, approved the quarterly report at March 31, 2017.

The results approved are brilliant and above expectations.

Ordinary net income of 180 million euro rose by 64 million euro over the same period of 2016. The 2016 result excludes non-recurring items of 42 million euro deriving from the non-proportional partial demerger of Edipower in favour of Cellina Energy S.r.l..

In the period, however, positive cash flow was generated for 109 million euro, after investments of 62 million euro. Net financial position down further to 3,027 million euro compared to 3,136 million euro at year-end 2016.

The above results derive from performance growth in all Business Units (excluding EPCG), in particular the Generation and Trading Business Unit, which in the quarter, managed to benefit from an energy context characterized by high electricity and gas prices mainly due to the stoppage of numerous French nuclear power plants along with the strong cold wave.

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

On May 15, 2017, the Ordinary Shareholders' Meeting was held and resolved:

- approval of the economic-financial reports and integrated financial statements for 2016;
- approval of the proposal of the Board of Directors to distribute a dividend of 0.0492 euro per ordinary share to be paid as from May 24, 2017 (ex-dividend no. 20 May 22, 2017) and record date May 23, 2017;
- favourable vote of the first part of the Remuneration Report;
- the authorization to carry out transactions for the purchase and disposal of treasury shares in the manner and for the purpose set out in the Minutes of the Ordinary Shareholders' Meeting of May 15, 2017;
- appointment for a term of three years using the voting list system of the Board of Directors consisting of the following 12 members: Giovanni Valotti – Chairman; Alessandra Perrazzelli – Vice Chairman; Luca Camerano; Giovanni Comboni; Enrico Corali; Norberto Rosini; Alessandro Carlo Alvaro Fracassi; Maria Chiara Franceschetti and Gaudiana Giusti (taken from the list jointly submitted by the majority shareholders Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of share capital); Giambattista Brivio (taken from the list jointly submitted by the minority shareholders Valsabbia Investimenti S.p.A., Raffmetal S.p.A. and Municipality of Bergamo, owners of a total shareholding equal to 1.6746% of the share capital); Luigi De Paoli and Secondina Giulia Ravera (taken from the list jointly submitted by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 1.0648% of the share capital).
Giambattista Brivio, Enrico Corali, Luigi De Paoli, Alessandro Carlo Alvaro Fracassi, Maria Chiara Franceschetti, Gaudiana Giusti, Alessandra Perrazzelli, Secondina Giulia Ravera and Norberto Rosini declared that they meet the requisites of independence prescribed by article 148, paragraph 3 of Legislative Decree 58/98 and article 3 of the Corporate Governance Code; Giovanni Comboni declared to meet the requisites of independence prescribed by article 148, paragraph 3 of Legislative Decree 58/98;
- the annual compensation for each Director of 80,000 euro;
- appointment for a term of three years using the voting list system, of the Board of Statutory Auditors consisting of the following 3 standing members and 2 substitute members: Maurizio Leonardo Lombardi – Standing Auditor; Chiara Segala – Standing Auditor and Stefano Morri – Substitute Auditor (taken from the list jointly submitted by the majority shareholders Municipality of Brescia and Municipality of Milan, owners of a total shareholding equal to about 50.000000112% of the share capital); Giacinto Gaetano Sarubbi – Chairman and Sonia Ferrero – Substitute Auditor (taken from the list jointly submitted by a group of minority shareholders consisting of asset management companies and institutional investors, owners of a total shareholding equal to about 1.0648% of the share capital);
- the annual compensation for the Chairman of the Board of Statutory Auditors and each Standing Auditor at 130,000 euro and 80,000 euro respectively.

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New electric fleet and hub dedicated to charging

A2A has introduced the new corporate fleet and an innovative hub for charging systems.

There will be 100 dedicated vehicles that will cover the whole fleet of Unareti, a company dedicated to A2A Group network services.

The hub dedicated to charging stations, launched on July 25, 2017, proposes an innovative model based on energy efficiency, distinguishing between night-time charging, slower and oriented to power-saving, and daytime charging with power of 22kW and fast charge.

With this initiative, A2A is at the center of the Smart City project as interlocutor of public administrations, car sharing companies and car manufacturers, increasingly focused on sustainable mobility.

A2A S.p.A.: Board of Directors

On May 17, 2017, the Board of Directors appointed by the Shareholders' Meeting on May 15, 2017 met under the chairmanship of Giovanni Valotti.

Luca Valerio Camerano was appointed as Chief Executive Officer with ample powers for ordinary management and drafting of proposals relating to extraordinary management; the Chairman was conferred powers in relations with shareholders, institutions, authorities, media, external relations, social responsibility and extraordinary territorial aggregation.

The existence of the independence requirements of art. 148 TUF (CFA) and art. 3 of the Corporate Governance Code for non-executive directors and the actual members of the Board of Statutory Auditors was evaluated positively.

Appointment of 3 committees:

- Audit and Risk Committee: Luigi De Paoli (Chairman), Enrico Corali, Gaudiana Giusti and Giovanni Comboni;
- Appointments and Remuneration Committee: Alessandra Perrazzelli (Chairwoman), Dina Ravera and Norberto Rosini;
- Sustainability and Territory Committee: Giovanni Valotti (Chairman), Giambattista Brivio, Alessandro Fracassi and Maria Chiara Franceschetti.

A2A consolidates its strategic role in the future of cities: acquired the start-up Patavina Technologies

On June 1, 2017, A2A acquired Patavina Technologies through its subsidiary A2A Smart City S.p.A..

The start-up acquired, spin-off of the University of Padua is active in the design of software and TLC systems and will favour further impetus to innovation related to Smart Cities in addition to automation of network management and control processes.

Incorporation "A2A Security Società Consortile per Azioni"

On June 13, 2017, the company in question was set up with the purpose of providing consultancy, planning and assistance for the implementation and installation of security systems for the properties of the shareholders as well as for their supervision.

A2A Energia S.p.A. rises to 90.45% of LumEnergia S.p.A.

On June 28, 2017, the Board of Directors of A2A Energia S.p.A. resolved to exercise the option right for the purchase of 59% of LumEnergia S.p.A..

The transaction was completed on July 31, 2017 with the acquisition of a shareholding equal to 59.08% of the company, in which it already held 33.33% in the share capital.

Following the transaction, A2A Energia S.p.A. became the owner of a shareholding equal to 92.41% of LumenEnergia S.p.A.. The consolidated investment of the Group is 92.70%.

Criminal proceedings no. 25597/14 R.G. offence notices/Form 21 on the alleged “abusive management of special non-hazardous waste” by A2A Ambiente S.p.A.

On July 11, 2017 it became known that, in the context of an investigation concerning 33 individuals and 14 different legal entities (including, as emerged from the guarantee information notified to the employee, also A2A Ambiente for administrative responsibility pursuant to Legislative Decree 231/01), an employee of A2A Ambiente was investigated for the crime referred to in articles 110, 81 of the Criminal Code and 260 of Legislative Decree 152/2006 because “jointly with others, in contravention of the provisions and authorizations” supposedly “illegally managed, not subjecting them to the planned recovery activities, large quantities of special non-hazardous waste” contractually defined as Dry fraction waste shredding (FST) and packed from the waste shredding plants in Giugliano and Tufino (NA).

More specifically, the employee was challenged for having failed to verify the acceptability (upon verification of their chemical-physical characteristics as prescribed by AIA) of the waste at the A2A Ambiente waste disposal plant in Brescia in the years 2014 and 2015, “thus favouring illicit disposal”.

Subsequently, on September 23, 2017, A2A Ambiente was notified of a hearing setting decree pursuant to Legislative Decree 231/01 to decide on the request, formulated by the Public Prosecutor, for the application of precautionary measures consisting in the seizure of assets for a total amount of about 583,000 euro (considered as “profit of the crime”) and in temporary interdiction from the exercise of activity.

The hearing was scheduled for October 9, 2017 before the GIP (preliminary investigation judge). At that hearing, the company’s defences were presented, representing its absolute non-involvement with alleged unlawful conduct, and on November 13, 2017, a defence brief was filed reiterating the absolute groundlessness of the request for the application of interdiction measures against A2A Ambiente for lack of the conditions foreseen by the law.

With a ruling dated December 27, 2017, filed with the court on December 28, 2017, the GIP of Brescia did not consider that as present the conditions justifying the adoption of precautionary measures against A2A Ambiente and therefore rejected the request of the Public Prosecutor.

In particular, the GIP noted that A2A Ambiente has long had an articulated organizational model “on the adequacy of which the Public Prosecutor did not formulate specific remarks, limiting to establishing that the employee operated circumventing the controls provided, a circumstance that however is not valid in itself to prove the administrative responsibility of the entity”. The GIP also underlined that the same Public Prosecutor found that A2A Ambiente reformulated, in a period following the facts, its own MOG in order to better prevent the commission of environmental offenses and considered this circumstance to be evaluated positively for the purpose of judging, as underlined that no concrete advantage emerged from the investigations for A2A Ambiente.

Incorporation “Market” Business Unit

On September 4, 2017, the Market Business Unit was created, new name of the Commercial Business Unit.

This transaction is part of the project relating to the reorganization of the Group’s commercial activities with the aim of improving its effectiveness through the pursuit of customer centricity and market driven services.

The Market Business Unit will assume the main responsibility for managing and developing the Group’s sales activities in direct or in service mode, marketing and operations strictly related to sales, relating to all customer segments for commodities and electricity, gas, energy efficiency, district heating, heat management, public lighting, e-mobility and TLC and smart city services; as well as to progressively manage the post-sales activities related to the perimeter according to an implementation plan that takes into account regulatory, infrastructural and technological constraints and manages the levers enabling the development of B2B sales.

The new Business Unit will be operational starting from January 1, 2018.

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A2A S.p.A.: Exercise of the sale put option for the management of the company “EPCG”

In July 2016, the A2A Group and the State of Montenegro reached an agreement for the renewal of the new Shareholders’ Agreements for the management of the Montenegrin company EPCG, with duration until December 31, 2016 subsequently extended on March 29, 2017 to June 30, 2017.

Until June 30, 2017, A2A S.p.A. had several contacts with the Government of Montenegro, until late at night, in order to define the technical terms to renew the agreements, finding unexpectedly and under all circumstances, the opposition of the counterparty, by means of counter-proposals that aimed to remove from A2A all the operational management rights of EPCG.

Therefore, on July 1, 2017, A2A S.p.A., taking into account the impossibility of reaching an agreement with the Government of Montenegro for further extension of the Shareholders’ Agreements, exercised the sales put option, the effectiveness of which was finalized on July 3, 2017 following the communication of exercise thereof to the counterparty, as contractually established. The put option concerns the sale of the entire shareholding held by A2A S.p.A., equal to 41.75% of the company’s shares, at a price already defined between the parties of 250 million euro. The disposal will take place in multiple steps, i.e. in seven equal instalments for each of the following seven years beginning in the month of May 2018, upon payment by the Government of Montenegro of the related fees at each maturity date.

This decision led to the change of destination of the investment in EPCG from investment in continuity to assets held for sale, in compliance with the provisions of IFRS 5. The investment, in accordance with IAS 36, was valued at the lower of the carrying amount and fair value, as can be deduced from the fee consequent to the exercise of the put option.

The determination of the fair value at December 31, 2017 of assets and liabilities resulted in a write-down totalling 86 million euro: i) 26 million euro as a result of the discounting of the net assets that the A2A Group will receive in 7 years as of May 2018 and ii) 60 million euro as write-down of the investment.

This assessment has taken into account the considerations detailed in this report in the section “Update of the main ongoing legal and tax disputes - Investigation related to EPCG service contracts” and subsequent actions taken by the Company with a view to obtaining the revocation of the precautionary measure for the seizure of EPCG shares notified on July 25, 2017, by May 1, 2018, the date set for collection of the first instalment.

On September 29, 2017, the Superior Court of Podgorica fully annulled the measure for precautionary seizure of the shareholding of A2A in EPCG, issued on July 6.

Incorporation “A2A Rinnovabili S.p.A” and acquisition of “13 SPV owners of 34 fotovoltaic plants”

On July 25, 2017, the company A2A Rinnovabili S.p.A. was established with sole shareholder A2A S.p.A..

The operation is part of the strategies outlined by the Group’s business plan, which includes major investments in the green economy and a progressive diversification of the generation mix.

Until December 31, 2017, A2A Rinnovabili S.p.A. completed the acquisition of 13 SPVs, of which 5 project companies transferred from the Re Energy fund for an installed capacity of 17 MW and an annual production of 22.6 GW and 8 project companies acquired in October 2017 by Novapower S.p.A. (Merloni Group) that bring the photovoltaic portfolio held to a total of 38.4 MW.

New A2A bond placed for 300 million euro and buyback launched on the maturing bond

On October 11, 2017, A2A successfully launched the issue of a 300 million euro bond and 10-year maturity, intended exclusively for institutional investors as part of its Euro Medium Term Notes Program.

A2A also launched an offer for the partial repurchase of bonds maturing in 2019 and 2021 up to a total nominal amount of existing Notes not exceeding 200 million euro.

A2A S.p.A.: The Board of Directors approves the figures at September 30, 2017

On November 13, 2017, the Board of Directors of A2A S.p.A., under the chairmanship of Giovanni Valotti, approved the quarterly report at September 30, 2017.

The results of the first 9 months of 2017 are satisfactory and robust.

EBITDA amounted to 888 million euro, excluding non-recurring items, the increase compared to September 2016 is 7%.

Ordinary net income of 319 million euro rose by 14% over the same period of 2016.

In the period, however, positive cash flow was generated for 124 million euro, after investments of 271 million euro and the payment of 153 million euro of dividends. Net financial position up to 3,252 million euro, reflecting the effects deriving from the full deconsolidation of the EPCG Group and acquisitions, partially offset by good cash generation.

EIB grants a loan to A2A for investments in the environment sector

The European Investment Bank (EIB) has granted A2A a credit line of 100 million euro, usable in tranches with a duration of 15 years and a period of availability of 36 months. The credit line is intended primarily to finance investments in the environment sector for the recovery of materials and energy from differentiated waste.

ACSM-AGAM, Aspem, AEVV, Lario holding networks and A2A: Signed letter of intent and sharing of technical and evaluation documents

On April 1, 2017, a non-binding letter of intent was signed between the companies in question with the aim of launching studies on possible industrial and corporate partnerships aimed at enhancing expertise and rooted presence in the territory.

The study, which was initially expected to last for about four months, was extended on July 20 until December 31, 2017.

The operational steps for the completion of the combination include the merger by incorporation into ACSM-AGAM of Aspem, AEVV, ACEL SERVICE, AEVV ENERGIE and Lario Reti Gas and, subsequently, the reorganization of the business companies, through contributions in companies already existing in the Group or newly established. ACSM-AGAM post-operation is a listed player, with a public majority, supported by A2A, a national industrial partner.

In December 2017, preliminary steps were taken in the Municipal Councils concerned with providing directors with technical and economic-financial documents relating to the transaction. The Municipalities of Como, Lecco, Monza, Sondrio and Varese have already expressed themselves positively.

Please refer to the paragraph “Significant events after December 31, 2017” for further information on the project, approved on January 23, 2018.

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Significant events after December 31, 2017

A2A, ACSM-AGAM, ASPEM, AEVV and Lario Reti Holding start a project of industrial and corporate partnership between multi-utilities

On January 23, 2018, the Boards of Directors of ACSM-AGAM S.p.A. ASPEM S.p.A., AEVV S.p.A., AEVV Energie S.r.l., Lario Reti Holding S.p.A., Acel Service S.r.l., Lario Reti Gas S.r.l. and A2A S.p.A. approved the industrial and corporate partnership project outlined in the non-binding letter of intent signed on April 1, 2017.

The aggregation project consists of the following phases:

- merger by incorporation into ACSM-AGAM of A2A Idro4, Aspem, AEVV Energie, ACEL Service, AEVV and Lario Reti Gas;
- partial demerger of A2A Energia S.p.A. in favour of ACSM-AGAM mainly concerning a business unit consisting of contractual relationships with customers in the province of Varese in the energy sector;
- reorganization of ACSM-AGAM consisting in the rationalization of the assets received following the merger and demerger above, through the execution of various contributions in newly established companies (fully controlled by ACSM-AGAM) or in other existing companies already controlled by ACSM-AGAM or of which the latter became a partner following the merger.

On the basis of the exchange ratios described in the merger plan, the shareholding structure of ACSM-AGAM will be as follows: A2A will hold 38.91%, Lario Reti Holding will hold 23.05%, the Municipality of Monza will hold 10.53%, the Municipality of Como will hold 9.61%, the Municipality of Sondrio will hold 3.3% and the Municipality of Varese 1.29%. A reduction of free float to around 13% is expected.

The reality resulting from the project will be a listed operator with the presence of A2A, as a reference shareholder.

The scope of the combination includes companies that achieve, at 2016 aggregate values, revenues of 421 million euro, EBITDA of approximately 80 million euro and net profit of approximately 30 million euro. The aggregate net financial position is approximately 80 million euro, with a workforce of approximately 800 employees.

The economic-financial forecasts following the merger foresee EBITDA at the end of the plan (2021) included in a range between 90 and 120 million euro.

The finalization of the Aggregation Project is subject, in addition to the approval by the respective shareholders' meetings of the participating companies, to the attainment of the authorization by the Italian Competition Authority, upon the positive outcome of the 60-day period for the opposition of the creditors of the companies involved referred to in article 2503 of the Civil Code, as well as the issue of the positive opinion of the independent expert on the exchange ratio of the Merger and Demerger.

A2A Rinnovabili acquires five photovoltaic plants in Italy

On February 28, 2018, the A2A Group, through its subsidiary A2A Rinnovabili S.p.A., acquired five photovoltaic plants from Impax Asset Management Group Plc for a total of 15.7 MW installed.

Of the five photovoltaic plants acquired, three are located in Apulia, one in Lazio and one in Emilia-Romagna.

The acquisition concluded brings the photovoltaic park installed to 39 plants for a total of 54.1 MW installed.

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Outlook for operations

The Business Plan for the three-year period 2015-2017 - updated annually - has achieved the strategic objectives of industrial relaunch, external growth, an active role in the energy market and the redesign of the Group's profile. At the same time, all financial objectives have been amply exceeded.

With the public presentation of the new 2018-2022 Business Plan on March 20, a new chapter opens for the A2A Group, which, while maintaining its original strategic lines, has introduced important innovations (entry into the photovoltaic system, a decisive push towards efficiency; an even more pivotal role, integrated in the management of material recovery; the evolution from cost efficiency to operational excellence, digitalisation and much more) that can be classified into three new guidelines: T - Transformation (that is the strengthening and change of the reference businesses, in the four business lines of A2A); E - Excellence (organization agility, operational excellence and process efficiency); C - Community (attracting and empowering its people, and greater involvement of the external ecosystem).

After a two-year period 2016 and 2017 at record levels, Management's expectations regarding the economic-financial performance of 2018 are good: the Gross Operating Income is expected to be between 1,150 - 1,180 million euro, in addition to approximately 20-30 million euro of positive non-recurring items. Net profitability is expected between 360-390 million euro, higher than the figure recorded in 2017 (penalized by the negative effects resulting from the exercise of the put option on EPCG). Investments will grow to reach 600 million euro (including the impact of M&A transactions) and cash generation is expected to finance the growth of investments and dividends and is expected to be in the range between 0 and 100 million euro.

Proposal for the allocation of net profit for the year ended December 31, 2017 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2017 show a net profit of 268,461,294.00 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 268,461,294.00 euro as follows:

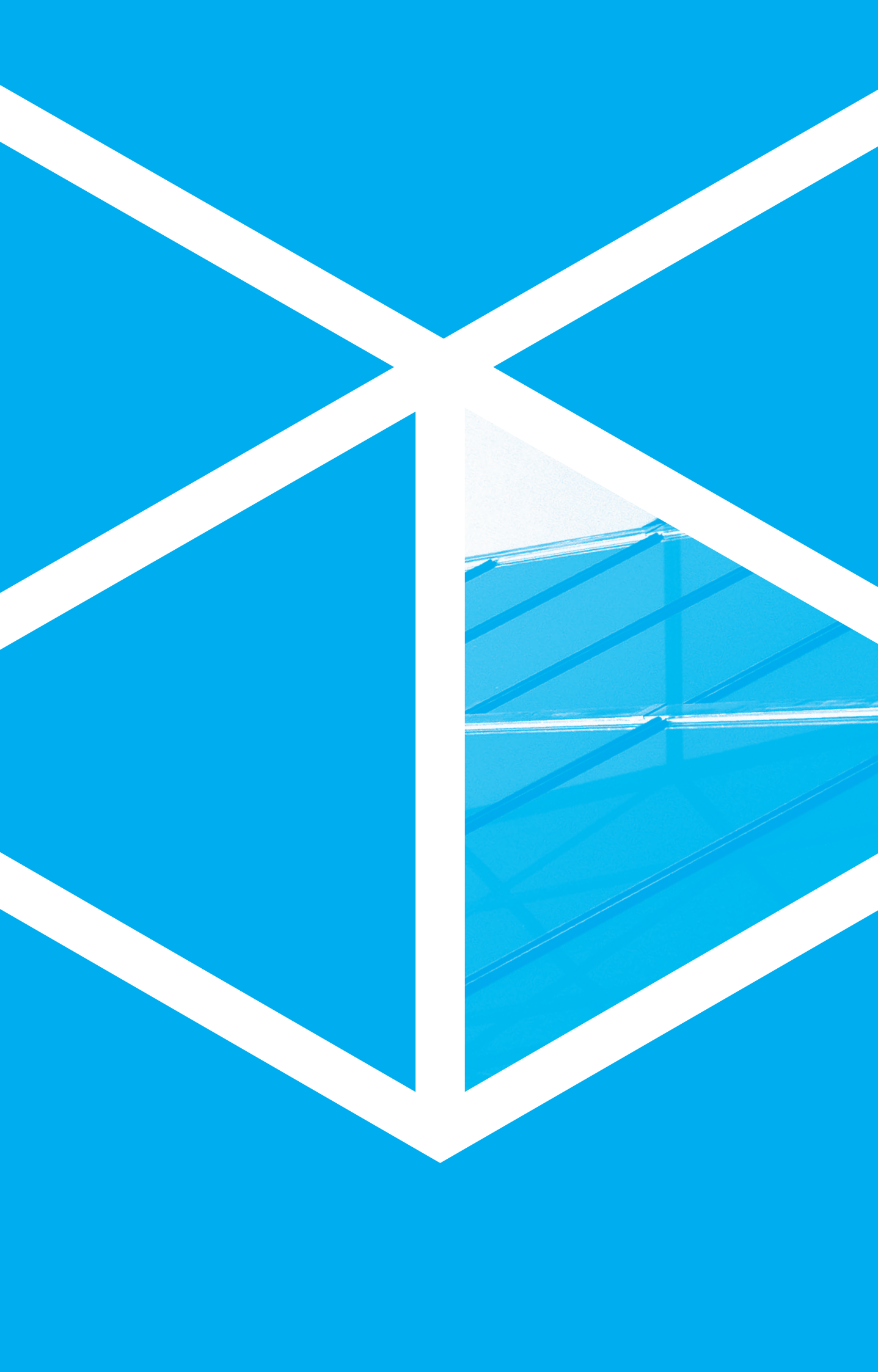
- 13,423,065.00 euro to the legal reserve;
- 179,710,827.00 euro as an ordinary dividend payable to shareholders to ensure a remuneration of 0.0578 euro for each outstanding ordinary share;
- 75,327,402.00 euro to the extraordinary reserve.

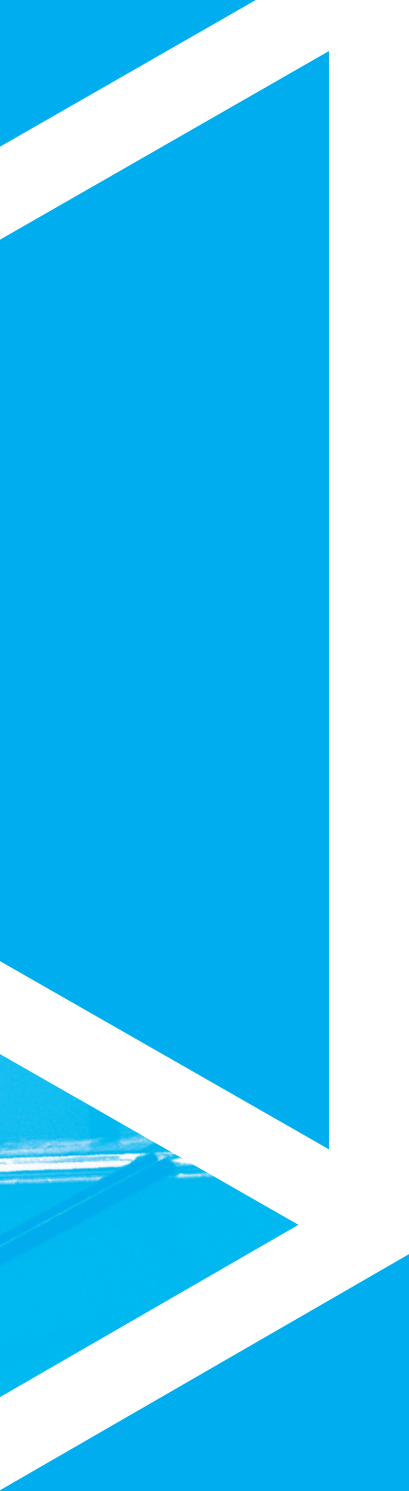
By way of information, we bring to your attention that the number of shares currently outstanding is equal to 3,109,183,856 shares, taking account of the 23,721,421 treasury shares in the portfolio.

The dividend will be paid from May 23, 2018, with coupon detachment on May 21, 2018 and record date May 22, 2018.

Board of Directors

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<i>millions of euro</i>	GENERATION AND TRADING		COMMERCIAL		ENVIRONMENT		NETWORKS AND HEAT		
	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	
Revenues	3,262	2,736	1,572	1,433	980	852	1,117	954	
- of which inter-sector	724	703	57	48	83	90	299	296	
Labour costs	89	91	32	27	298	267	105	112	
Gross operating income - EBITDA	356	404	159	144	261	240	448	397	
% of revenues	10.9%	14.8%	10.1%	10.0%	26.6%	28.2%	40.1%	41.6%	
Depreciation, amortization, provisions and write-downs	(161)	(431)	(25)	(24)	(99)	(67)	(183)	(170)	
Net operating income - EBIT	195	(27)	134	120	162	173	265	227	
% of revenues	6.0%	(1.0%)	8.5%	8.4%	16.5%	20.3%	23.7%	23.8%	
Result from non-recurring transactions									
Financial balance									
Result before taxes									
Losses for income taxes									
Result after taxes from operating activities									
Net result from discontinued operations									
Minorities									
Group result of the year									
Gross investments (1)	64	36	9	8	107	79	231	213	

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

(*) For further details on the economic effects deriving from the PPA of the LGH Group on figures at December 31, 2016, reference is made to the specific paragraph "Other information - 3) IFRS 3 Revised Transactions".

	A2A SMART CITY		CORPORATE		ELIMINATIONS		IFRS5 INCOME STATEMENT		FOREIGN		INCOME STATEMENT REPORTED	
	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)	01 01 2017 12 31 2017	01 01 2016 12 31 2016 Restated (*)
	30	26	204	182	(1,369)	(1,323)	5,796	4,860	114	233	5,910	5,093
	24	22	182	164	(1,369)	(1,323)			-	-		
	5	4	106	95	-	-	635	596	21	45	656	641
	7	6	(32)	(29)	-	-	1,199	1,162	12	69	1,211	1,231
	23.3%	23.1%	(15.7%)	(15.9%)			20.7%	23.9%	10.5%	29.6%	20.5%	24.2%
	(2)	(1)	(19)	(26)	-	-	(489)	(719)	(16)	(39)	(505)	(758)
	5	5	(51)	(55)	-	-	710	443	(4)	30	706	473
	16.7%	19.2%	(25.0%)	(30.2%)			12.2%	9.1%	(3.5%)	12.9%	11.9%	9.3%
							-	52	1	4	1	56
							(134)	(161)	(84)	4	(218)	(157)
							576	334	(87)	38	489	372
							(192)	(122)	-	2	(192)	(120)
							384	212	(87)	40	297	252
							(85)	19			1	2
							(6)	1	1	(23)	(5)	(22)
							293	232	(86)	17	293	232
	10	6	29	17					4	27	454	386

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<i>millions of euro</i>	GENERATION AND TRADING		COMMERCIAL		ENVIRONMENT		
	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	
Tangible assets	2,080	2,090	4	4	670	639	
Intangible assets	86	82	113	116	51	50	
Trade receivables and current financial assets	673	709	537	557	358	373	
Trade payables and current financial liabilities	792	752	285	302	319	296	

(*) For further details on the financial effects deriving from the PPA of the LGH Group on figures at December 31, 2016, reference is made to the specific paragraph “Other information - 3) IFRS 3 Revised Transactions”.

	NETWORKS AND HEAT		FOREIGN		A2A SMART CITY		CORPORATE		ELIMINATIONS		TOTAL GROUP	
	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)	12 31 2017	12 31 2016 Restated (*)
	1,724	1,716	-	568	22	16	184	179	(78)	(83)	4,606	5,129
	1,611	1,547	-	2	1	-	93	86	(92)	(179)	1,863	1,704
	423	436	-	262	17	12	148	151	(477)	(461)	1,679	2,039
	351	374	-	41	12	12	534	434	(475)	(468)	1,818	1,743

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Results sector by sector

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

Generation and Trading Business Unit

The activities of the Generation and Trading Business Unit are related to the management of the generation plant portfolio⁽¹⁾ of the Group. The “Generation” sector has the specific goal of maximizing plant availability and efficiency, minimizing operating and maintenance (O&M) costs. Instead, the “Trading” sector has the task of maximizing the profit from the management of the energy portfolio through the purchase and sale of electricity, fuel (gaseous and non-gaseous) and environmental certificates on domestic and foreign wholesale markets. The Trading Business Unit also includes the activity of trading on domestic and foreign markets of all energy commodities (gas, electricity, environmental certificates).

Commercial Business Unit

The activities of the Commercial Business Unit Sales 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.

Environment Business Unit

The activities of the Environment 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 Heat Business Unit

The activities of the Networks and Heat 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 activities relating to the management service of third-party heating plants (heat management services), public lighting, traffic regulation systems, the management of votive lights and systems design services.

Foreign Business Unit

The Foreign Business Unit includes the activities carried out by the investee company Elektroprivreda Crne Gore AD Nikšić (EPCG) in relation to the production and sale of electricity in Montenegro and the operational technical management of the related electricity distribution networks. With the exercise of the put option on the entire shareholding held by A2A S.p.A., the effectiveness of which was finalized on July 3, 2017, a valuation of the shareholding was carried out according to the provisions of IFRS 5.

The figures below are for the entire period of consolidation of the investee (until June 30, 2017).

¹ Total installed capacity of 8.9 GW.

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.

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

<i>Gwh</i>	12 31 2017	12 31 2016	CHANGE	% 2017/2016
SOURCES				
Net production	15,846	13,108	2,738	20.9%
- thermoelectric production	12,370	8,826	3,544	40.2%
- hydroelectric production	3,464	4,279	(815)	(19.0%)
- photovoltaic production	12	3	9	n.s.
Purchases	50,041	48,257	1,784	3.7%
- exchange	9,451	9,912	(461)	(4.7%)
- wholesalers	3,456	4,482	(1,026)	(22.9%)
- Trading/Service portfolio	37,134	33,863	3,271	9.7%
TOTAL SOURCES	65,887	61,365	4,522	7.4%
USES				
Sales to Group Retailers	6,198	6,154	44	0.7%
Sales to other wholesalers	8,781	9,300	(519)	(5.6%)
Sales on the exchange	13,774	12,048	1,726	14.3%
Trading/Service portfolio	37,134	33,863	3,271	9.7%
TOTAL USES	65,887	61,365	4,522	7.4%

The sales figures are stated gross of any losses.

The Group's electricity output in 2017 amounted to 15,846 GWh, to which should be added purchases of 50,041 GWh for a total availability of 65,887 GWh.

Thermoelectric production increased compared to the previous year, due to the higher quantities produced by combined-cycle plants favored by the unavailability of nuclear plants in France in the first months of 2017, the cold temperatures in January, the heat wave in the peninsula in the summer months and, in general, the greater electricity needs that have characterized the current year. This increase more than offset the drop in hydroelectric production due to the lack of water availability for the entire year and the lower quantities produced by the Monfalcone plant for extraordinary maintenance activities carried out in 2017.

Purchases of electricity amounted to 50,041 GWh (48,257 GWh at December 31, 2016): fewer purchases on the wholesale markets and on the exchange were more than offset by higher volumes traded as part of trading activities.

In 2017, sales to the Commercial Business Unit were substantially in line (0.7%); there were also higher sales on IPEX (+14.3%), as well as lower sales on wholesale markets (-5.6%).

The amount of electricity traded in the trading context recorded an increase of 9.7%.

Overall in the period under review, electricity sales of the Generation and Trading Business Unit reached a total of 65,887 GWh (61,365 GWh at December 31, 2016).

Quantitative data - gas sector

<i>millions of cubic metres</i>	12 31 2017	12 31 2016	CHANGE	% 2017/2016
SOURCES				
Procurement	4,597	3,150	1,447	45.9%
Withdrawals from stock	(18)	40	(58)	n.s.
Internal consumption/GNC	(14)	(11)	(3)	27.3%
Trading/Service portfolio	4,357	3,990	367	9.2%
TOTAL SOURCES	8,922	7,169	1,753	24.5%
USES				
Commercial Business Unit uses	1,659	1,399	260	18.6%
Thermoelectric uses	1,855	1,116	739	66.2%
Heat and Environment Business Unit uses	104	91	13	14.3%
Wholesalers	947	573	374	65.3%
Trading/Service portfolio	4,357	3,990	367	9.2%
TOTAL USES	8,922	7,169	1,753	24.5%

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 2017 amounted to 8,922 million cubic meters, up 24.5% over the corresponding period of 2016 (7,169 million cubic meters).

The volumes of gas sold for thermoelectric uses increased (+66.2%), due to the higher consumption of the combined cycle plants of the current year. There were also higher volumes managed by the Trading Portfolio (+367 million cubic meters) following an increase in brokerage activities and higher sales to wholesalers (+65.3%).

Economic data

<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016	CHANGE	% 2017/2016
Revenues	3,262	2,736	526	19.2%
Gross Operating Income	356	404	(48)	(11.9%)
% of Revenues	10.9%	14.8%		
Depreciation, amortizations, provisions and write-downs	(161)	(431)	270	(62.6%)
Net Operating Income	195	(27)	222	n.s.
% of Revenues	6.0%	(1.0%)		
Investments	64	36	28	77.8%
FTE	1,112	1,157	(45)	(3.9%)
Labour costs	89	91	(2)	(2.2%)

Revenues amounted to 3,262 million euro, an increase of 526 million euro over the previous year, mainly due to the higher sales of electricity and gas traded in the wholesale markets and on the stock exchange and the favourable trend of the energy scenario, which has led to an increase in spot and forward prices.

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 356 million euro, a decrease of 48 million euro compared to the previous year.

Net of the non-recurring items - down by around 49 million euro compared to 2016 - the Gross Operating Margin of the Generation and Trading Business Unit was substantially in line with the previous year (+1 million euro). The scenario of the year favoured the CCGT plants that recorded a substantial increase in production hours, both on the MGP and MSD markets to the detriment of

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hydroelectric production penalized by poor water supply and the conclusion at the end of 2016 of the incentive mechanism (feed-in tariff) for some Valtellina plants.

Depreciation, amortization, provisions and write-downs totalled 161 million euro (431 million euro at December 31, 2016). The decrease of 270 million euro is attributable to the write-downs of assets carried out in the previous year (write-down of the Monfalcone plant for 202 million, write-downs of 68 million following the Impairment test and the reversal of the San Filippo del Mela plant - 220 kilos - equal to 51 million euro), to the lower depreciation of the Monfalcone plant, as well as lower allocations to provisions relating to public water derivation fees and the coverage of contractual charges.

As a result of the above changes, Net Operating Income amounted to 195 million euro (negative for 27 million euro in the previous year).

In 2017, Investments amounted to around 64 million euro and mainly concerned the extraordinary maintenance interventions at the hydroelectric plants in Mese, Udine, Calabria and Valtellina for around 14 million euro and the combined cycle thermoelectric plants of Sermide, Chivasso, Gissi, Piacenza and Cassano for around 40 million euro. There were also extraordinary maintenance interventions at the traditional cycle plants of Monfalcone (7 million euro) and San Filippo del Mela (1 million euro) and interventions regarding development and evolutionary maintenance on the Hardware and Software platforms used by the Business Unit for about 3 million euro.

In 2017, there was a reduction of 45 FTE compared to the previous year, mainly due to the continuation of the efficiency improvement plan activated in the generation sector.

Commercial Business Unit

The following is a summary of the main quantitative and economic data relating to the Commercial Business Unit.

Quantitative data

	12 31 2017	12 31 2016	CHANGE	% 2017/2016
Electricity Sales				
Electricity Sales Free Market (GWh)	6,455	6,271	184	2.9%
Electricity Sales under Greater Protection Scheme (GWh)	1,834	2,013	(179)	(8.9%)
Total Electricity Sales (GWh)	8,289	8,284	5	0.1%

	12 31 2017	12 31 2016	CHANGE	% 2017/2016
POD Electricity spot at 12.31				
POD Electricity Free Market (#/1000)	435	338	97	28.7%
POD Electricity under Greater Protection Scheme (#/1000)	623	702	(79)	(11.3%)
Total POD Electricity (#/1000)	1,058	1,040	18	1.7%

	12 31 2017	12 31 2016	CHANGE	% 2017/2016
Gas Sales				
Gas Sales Free Market (Mcm)	1,039	818	221	27.0%
Gas Sales under Greater Protection Scheme (Mcm)	590	554	36	6.5%
Total Gas Sales (Mcm)	1,629	1,372	257	18.7%

	12 31 2017	12 31 2016	CHANGE	% 2017/2016
PDR Gas spot at 12.31				
PDR Gas Free Market (#/1000)	447	356	91	25.6%
PDR Gas under Greater Protection Scheme (#/1000)	851	950	(99)	(10.4%)
Total PDR Gas (#/1000)	1,298	1,306	(8)	(0.6%)

The quantities are stated gross of losses.

The data related to the POD and PDR does not include the numbers relating to large customers.

In 2017, the Commercial Business Unit recorded 8,289 GWh of electricity sales, in line with 2016 (8,284 GWh) and 1,629 million cubic metres of gas sales (+18.7% compared to the previous year).

In the electricity sector, the reduction in quantities sold to customers served under the protected regime following transition thereof to the free market, and to large customers, was totally offset by the increase in sales to the mass-market customer base and the contribution of LGH.

Growth in the gas sector is mainly due to a greater number of redelivery points served on the free market and larger volumes sold to large customers, as well as the contribution of the LGH Group.

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Economic data

<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016	CHANGE	% 2017/2016
Revenues	1,572	1,433	139	9.7%
Gross Operating Income	159	144	15	10.4%
% of Revenues	10.1%	10.0%		
Depreciation, amortizations, provisions and write-downs	(25)	(24)	(1)	4.2%
Net Operating Income	134	120	14	11.7%
% of Revenues	8.5%	8.4%		
Investments	9	8	1	12.5%
FTE	585	566	19	3.4%
Labour costs	32	27	5	18.5%

Revenues amounted to 1,572 million euro (1,433 million euro at December 31, 2016), up 9.7%. Net of the greater contribution of the consolidated LGH Group since August 2016, equal to 142 million euro, there has been a substantial alignment with the revenues of the previous year.

In the Commercial Business Unit, the Gross Operating Margin amounted to 159 million euro, up 15 million euro – 18 million euro net of the non-recurring items – with respect to the previous year, thanks to the contribution deriving from the margins of the electricity and gas sectors and the contribution of the consolidation of the LGH Group.

The two sectors benefited above all from the acquisition of new customers on the free market and higher volumes sold on the free gas market. This trend was partly offset by a loss in margins related to the decrease in customers under greater protection and by the pressure on unit margins of the free market also determined, above all with reference to the BtB segment, by the significant unbalancing charges on the electricity market.

Depreciation, amortization, provisions and write-downs totalled 25 million euro (24 million euro at December 31, 2016).

As a result of the above changes, Net Operating Income amounted to 134 million euro (120 million euro in the previous year).

In 2017, the Investments of the Commercial Business Unit amounted to around 9 million euros and mainly concerned evolution maintenance on hardware and software platforms to support marketing and invoicing activities.

In 2017, there was an increase of 19 FTEs compared to 2016, mainly due to new entries aimed at maintaining service levels in the Contact Center area and the strengthening of the Marketing and Sales area, as well as the full consolidation of the company LumEnergia S.p.A..

Environment Business Unit

The following is a summary of the main quantitative and economic data relating to the Environment Business Unit.

Quantitative data

	12 31 2017	12 31 2016	CHANGE	% 2017/2016
Waste collected (Kton)	1,605	1,477	128	8.7%
Residents served (#/1000)	3,549	3,502	47	1.3%
Waste disposed of (Kton)	3,366	2,817	549	19.5%
Electricity sold (GWh)	1,772	1,714	58	3.4%
Heat sold (GWht) *	1,363	1,311	52	4.0%

(*) Quantities at the plant entrance.

In 2017, the quantities of waste collected, amounting to 1,605 thousand tonnes, show an increase of 8.7% compared to the previous year thanks to the greater contribution of the LGH Group (+155 thousand tonnes) consolidated since August 2016. Also the amount of waste disposed of, equal to 3,366 thousand tonnes at December 31, 2017, increased (+549 thousand tonnes) compared to 2016: in addition to the greater quantities deriving from the consolidation of the LGH Group (363 thousand tonnes), there were greater disposals at the treatment plants of the new companies acquired by the A2A Group in the second half of 2016.

In 2017, the quantities of electricity sold increased (+3.4%), as well as the quantities of heat sold (+4.0%) mainly following the consolidation of the LGH Group and - in the case of heat - the higher quantities requested from the district heating sector.

Economic data

<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016	CHANGE	% 2017/2016
Revenues	980	852	128	15.0%
Gross Operating Income	261	240	21	8.8%
% of Revenues	26.6%	28.2%		
Depreciation, amortizations, provisions and write-downs	(99)	(67)	(32)	47.8%
Net Operating Income	162	173	(11)	(6.4%)
% of Revenues	16.5%	20.3%		
Investments	107	79	28	35.4%
FTE	5,770	5,599	171	3.1%
Labour costs	298	267	31	11.6%

In 2017, the Environment Business Unit recorded revenues of 980 million euro (852 million euro at December 31, 2016), an increase of 128 million euro compared to the previous year, mainly due to the consolidation of the LGH Group and other companies acquired in 2016.

The Gross Operating Margin of the Environment Business Unit amounted to 261 million euro, up 21 million euro compared to the previous year.

A contribution to the growth of the margins in the year in question came from the waste treatment and disposal sector, in particular:

- the results of the LGH Group and the new companies acquired, RI.ECO-RESMAL;
- the good performance of the disposal of waste similar to urban waste, mainly attributable to the positive dynamic of the contribution prices;

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- the greater contributions at the inert lots landfill in Corteolona. The activities, due to environmental analyses of the water table, suspended in 2016, resumed after the decision by ARPA (Regional Agency for Environmental Protection) to exclude the landfill from the perimeter of the remediation area.

In the collection sector, the contribution of the LGH Group of approximately 6 million euro almost completely reabsorbed the loss in margins recorded in the other territorial areas of reference.

Depreciation, amortization, provisions and write-downs amounted to 99 million euro (67 million euro in 2016). This change is attributable to the consolidation of the LGH Group.

As a consequence of the above changes Net Operating Income amounted to 162 million euro (173 million euro in the previous year).

Investments in the year amounted to 107 million euro and were mainly related to development and maintenance work on waste-to-energy plants (43 million euro), treatment plants and landfills (24 million euro), the purchase of collection vehicles and containers for both the awarding of tenders for the management of new Municipalities and for the renewal of the vehicle fleet (37 million euro).

The increase of 171 FTE is due to changes in the perimeter in the two comparison years for about 221 FTE (award of new tenders for collection and municipal sanitation and acquisition in 2016 of the new companies active in the waste collection, treatment and disposal sectors), partially offset by a reduction of 50 FTE, mainly due to the efficiency plant of the collection sector and the sale of resources for the transfer of assets within the Group.

Networks and Heat Business Unit

The following is a summary of the main quantitative and economic data relating to the Heat and Networks Business Unit.

Quantitative Data - Networks

	12 31 2017	12 31 2016	CHANGE	% 2017/2016
Electricity distributed (GWh)	11,590	11,204	386	3.4%
Gas distributed (Mcm)	2,480	2,096	384	18.3%
Gas transported (Mcm)	370	324	46	14.2%
Water distributed (Mcm)	69	62	7	11.3%
RAB Electricity (M€) ⁽¹⁾	649	653	(4)	(0.6%)
RAB Gas (M€) ⁽²⁾	1,160	1,137	23	2.0%

- (1) A2A estimates.
(2) Provisional figures, underlying the calculation of allowed revenues for the period.

The electricity distributed amounted to 11.6 TWh, up (+3.4%) over 2016, while the quantities of gas distributed amounted to 2,480 million cubic metres, up by 18.3% (2,096 million cubic metres at December 31, 2016), mainly due to the contribution of the LGH Group.

The water distributed was equal to 69 Mcm, an increase of 7 Mcm with respect to the previous year, mainly as a result of the increase in the shareholding in the company Azienda Servizi Valtrompia S.p.A. (ASVT), fully consolidated starting from March 1, 2017.

Quantitative Data - Heat

Gwh	12 31 2017	12 31 2016	CHANGE	% 2017/2016
SOURCES				
Plants in:	1,324	1,176	148	12.6%
- Lamarmora	467	437	30	6.9%
- Famagosta	100	99	1	1.0%
- Tecnocity	69	72	(3)	(4.2%)
- Other plants	688	568	120	21.1%
Purchases from:	1,809	1,709	100	5.9%
- Third parties	421	380	41	10.8%
- Other Business Units	1,388	1,329	59	4.4%
TOTAL SOURCES	3,133	2,885	248	8.6%
USI				
Sales to end customers	2,682	2,412	270	11.2%
Distribution losses	451	473	(22)	(4.7%)
TOTAL USES	3,133	2,885	248	8.6%

- 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 Environment Business Unit.

Heat sales of the Business Unit amounted to 2,682 GWh, an increase of 11.2% compared to 2016 following:

- the contribution of the LGH Group;
- the higher quantities of sales deriving from commercial development;
- temperatures recorded in the winter months on average colder than the previous year.

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Economic data

<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016	CHANGE	% 2017/2016
Revenues	1,117	954	163	17.1%
Gross Operating Income	448	397	51	12.8%
% of Revenues	40.1%	41.6%		
Depreciation, amortizations, provisions and write-downs	(183)	(170)	(13)	7.6%
Net Operating Income	265	227	38	16.7%
% of Revenues	23.7%	23.8%		
Investments	231	213	18	8.5%
FTE	2,399	2,432	(33)	(1.4%)
Labour costs	105	112	(7)	(6.3%)

In 2017, revenues of the Networks and Heat Business Unit amounted to 1,117 million euro (954 million euro at December 31, 2016).

This trend is due for approximately 120 million euro to the consolidation of the LGH Group (1 year in 2017, 5 months in 2016), to the acquisition - from October 2016 - of the new company specialized in energy efficiency (Consul System) and to the full consolidation in 2017 of Azienda Servizi Valtrompia S.p.A..

The higher revenues from heat sales and those deriving from the cancellation of the obligation relating to white certificates also contributed positively.

The Gross Operating Margin of the Networks and Heat Business Unit amounted to 448 million euro, an increase of 51 million euro compared to the previous year.

Net of the non-recurring items (-9 million euro) that regarded both 2017 (34 million euro, of which 30 million euro from Energy Efficiency Certificates recognized for projects carried out in previous years) and the previous year (43 million euro, of which 51 million euro for the recognition of tariff increases to A2A Ciclo Idrico S.p.A. for the years 2007-2011), the Gross Operating Margin of the Networks and Heat Business Unit was up by 60 million euro compared to 2016.

This performance is mainly due to:

- higher margins relating to district heating and heat management activities for about 8 million euro attributable to the higher quantities of heat sold for both the commercial development and the low temperatures recorded on average in 2017 compared to the previous year and a more favourable scenario (heat prices related to the rising price of gas and the increase in the prices of electricity from co-generation);
- higher revenues for the optimization of the white certificates portfolio for 5 million euro;
- higher margins relating to the aqueduct, purification and sewage services for about 11 million euro following the tariff increases recognized by ARERA and the higher quantities distributed;
- decrease in fixed Business Unit costs of around 10 million euro thanks to operating efficiencies and higher capitalization;
- changes in the scope of consolidation, which had a positive impact on the margin for a total of +26 million euro (LGH, Consul System and ASVT).

Depreciation, amortization, provisions and write-downs amounted to 183 million euro (170 million euro in the previous year). The change is essentially due to the higher write-downs of the goodwill of the electricity networks following the Impairment test (34 million euro in 2017, 21 million euro in 2016).

As a result of these changes Net Operating Income amounted to 265 million euro (227 million euro in 2016).

Capital expenditure for the reporting period amounted to 231 million euro and regarded:

- in the electricity distribution sector, development and maintenance work on plants and, in particular, the connection of new users, maintenance on secondary substations, the extension and refurbishment of the medium and low voltage network and the maintenance and upgrading of primary plants (71 million euro, of which 5 million euro relate to the LGH Group);
- in the gas distribution sector, development and maintenance work on plants relating to the connection of new users, the replacement of medium and low pressure pipes and meters and gas smart meters (79 million euro, of which 16 million euro relate to the LGH Group);
- in the integrated water cycle, work carried out on the water transportation and distribution network and the sewerage networks and purification plants (30 million euro);
- in the public lighting sector, work carried out to replace lighting systems with LED equipment in the Municipalities managed (2 million euro);
- in the district heating and heat management sector, development and maintenance of plants and networks for a total of 49 million euro (of which 13 million euro related to the LGH Group).

Net of the changes in the scope in the two comparison periods for approximately +37 FTE mainly due to the contribution of Consul System S.p.A. and Azienda Servizi Valtrompia S.p.A., there was a reduction of 70 FTE, attributable to the effect of the mobility plan activated at the end of the previous year.

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Foreign Business Unit

In the year under review, the Foreign Business Unit coincides with EPCG and includes the quantitative and economic data relating to the period of full consolidation of the shareholding (until June 30, 2017).

Following the decision of the management of A2A of July 3, 2017 to exercise the sale put option on the entire shareholding, the investment in EPCG, held 41.75% by A2A S.p.A., was reclassified as “non-current assets held for sale” in compliance with the provisions of IFRS 5.

The EPCG Group contributed with a total availability of energy equal to 1,724 GWh, of which 496 GWh of thermoelectric production and 488 GWh of hydroelectric production. The additional requirement was covered by an importe equal to 740 GWh.

During the period considered, sales of electricity on the domestic market totalled 1,240 GWh and the quantities exported amounted to 256 GWh.

The electricity distributed on the medium and low voltage network in Montenegro amounted to 1,101 GWh.

Economic data

<i>millions of euro</i>	01 01 2017 06 30 2017	01 01 2016 12 31 2016
Revenues	114	233
Gross Operating Income	12	69
% of Revenues	10.5%	29.6%
Depreciation, amortizations, provisions and write-downs	(16)	(39)
Net Operating Income	(4)	30
% of Revenues	(3.5%)	12.9%
Investments	4	27
FTE	2,353	2,370
Labour costs	21	45

Revenues stood at the balance at June 30, 2017, equal to 114 million euro (233 million euro at December 31, 2016).

The Gross Operating Margin, in line with that of the first half of 2017, amounted to 12 million euro (69 million euro at December 31, 2016), a decrease of 57 million euro, of which 23 million euro due to lower margins recorded in the first half-year and 34 million euro due to the lack of contribution in the second half of the current year.

Depreciation, amortization, provisions and write-downs equalled 16 million (39 million at December 31, 2016).

Net Operating Income is negative for 4 million euro (positive for 30 million euro at December 31, 2016).

Investments, amounting to approximately 4 million euro, refer to interventions to replace the meters, to maintain the distribution network and to maintain production plants.

A2A Smart City

Economic data

<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016	CHANGE	% 2017/2016
Revenues	30	26	4	15.4%
Gross Operating Income	7	6	1	16.7%
% of Revenues	23.3%	23.1%		
Depreciation, amortizations, provisions and write-downs	(2)	(1)	(1)	100.0%
Net Operating Income	5	5	-	0.0%
% of Revenues	16.7%	19.2%		
Investments	10	6	4	66.7%
FTE	79	70	9	12.9%
Labour costs	5	4	1	25.0%

In 2017, the revenues of the company A2A Smart City S.p.A. amounted to 30 million euro, an increase of 4 million euro compared to the previous year thanks to the expansion of telecommunications services both to the other companies of the Group and to third-party operators (projects for the construction of minitube infrastructures for laying fiber optic cables in the Municipalities of Milan and Brescia).

Gross Operating Margin equalled 7 million euro, an increase of about 1 million euro compared to the previous year.

Depreciation, amortization, provisions and write-downs amounted to 2 million euro (1 million euro in 2016).

Net of Depreciation, amortization, provisions and write-downs, Net Operating Income amounted to 5 million euro, in line with the previous year.

Investments in the year, amounting to 10 million euro, mainly refer to work on the telecommunication networks.

In 2017, there was an increase of 9 FTE compared to 2016, partly due to the acquisition of 100% of the company Patavina Technologies S.r.l..

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Economic data

<i>millions of euro</i>	01 01 2017 12 31 2017	01 01 2016 12 31 2016	CHANGE	% 2017/2016
Revenues	204	182	22	12.1%
Gross Operating Income	(32)	(29)	(3)	10.3%
% of Revenues	(15.7%)	(15.9%)		
Depreciation, amortizations, provisions and write-downs	(19)	(26)	7	(26.9%)
Net Operating Income	(51)	(55)	4	(7.3%)
% of Revenues	(25.0%)	(30.2%)		
Investments	29	17	12	70.6%
FTE	1,214	1,143	71	6.2%
Labour costs	106	95	11	11.6%

In 2017, revenues of Corporate amounted to 204 million euro, an increase of 22 million euro compared to the previous year, attributable to the consolidation of LGH.

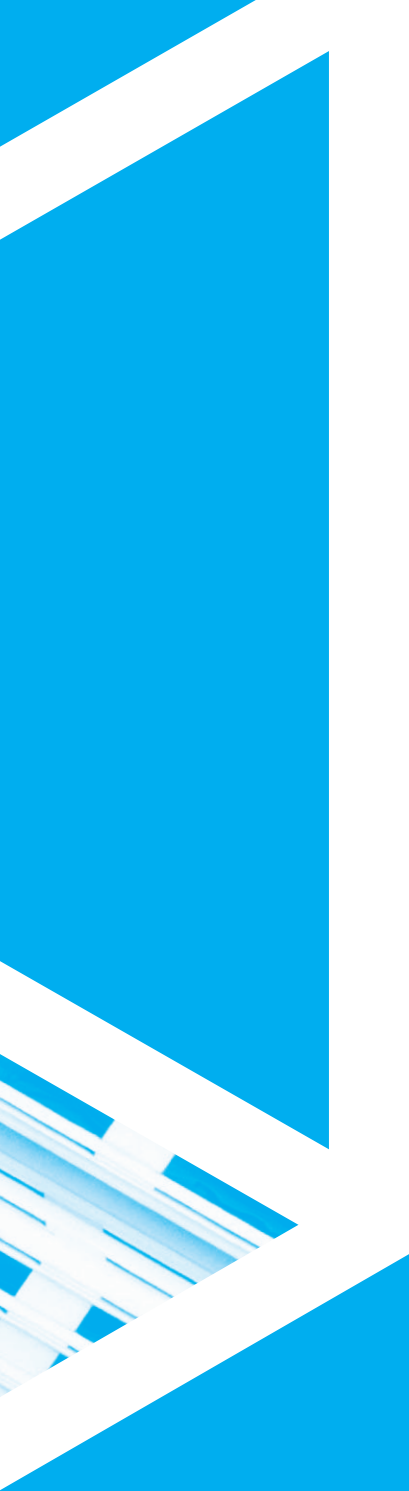
The Gross Operating Margin was negative for 32 million euro, down 3 million euro compared to December 31, 2016 due to non-recurring items that concerned the current year.

Depreciation, amortization, provisions and write-downs amounted to 19 million euro (26 million euro in the previous year).

Net of Depreciation, amortization, provisions and write-downs there was a Net Operating Loss of 51 million euro (negative for 55 million euro at December 31, 2016).

Capital expenditure for the year amounted to 29 million euro and mainly related to investments in information systems.

In 2017, there was an increase of 71 FTE compared to the previous year, due to the insertion of resources for the transfer of assets from other Business Units of the Group and the strengthening of the information technology business.



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....”.

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 not a static reference, but 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.

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.

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 also extended the regulatory and control powers of the Authority for Electricity, Gas and the Water System (AEEGSI which changes its name to ARERA - Regulatory Authority for Energy Networks and Environment) to the waste cycle, also differentiated, urban and similar.

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 Market”, 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 Market Manager. This Committee meets periodically involving from time to time the Managers of the Business Units concerned, and the Managers of the staff structures in order to transfer to them the new legislation and 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 Market implemented constantly updated monitoring and control tools (ex. Regulatory Review produced quarterly or the Regulatory Agenda prepared during the Budget/Plan), in order to consider the potential impacts of regulation on the company.

Since January 2017, the structure also oversees the regulatory risk for Linea Group Holding, in order to monitor and manage impacts in a coordinated manner.

The main topics involved in current changes in legislation, with major potential effects on the Group, are as follows:

- the rules governing the terms and conditions of large hydroelectric derivation concessions;
- the implementation of the capacity market discipline awaiting approval by the EU;
- tenders concerning the granting of concessions for the gas distribution service;
- the integrated water service reform not only from the tariff point of view but also for aspects of technical and commercial quality, measurement and unbundling;
- 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 the regulation of the sector by ARERA;
- the provisions of the 2017 Competition Law on the termination of price protection schemes for electricity and gas customers from July 1, 2019.

Energy scenario risk (commodity price risk)

Given the features of the sectors in which it operates, the A2A 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.

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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. 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 reference to the activities of the Generation and Trading Business Unit, the current context of the energy markets in which the production plants operate, with specific reference to the thermoelectric ones, is evolving in a moderately positive sense both as a result of an improvement in the overall economic scenario and as a result of the evolution of situations, also structural, of national and international energy contexts. However, the risk that this trend may be interrupted or subject to a trend reversal remains. 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, re-negotiation of service contracts with turbojet manufacturers, structural cost reduction programs.

In addition, a process of revision, standardization and overall adjustment of maintenance contracts is under way 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 and Territorial Relations, 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 monitoring is designed to ensure a proper perception of the plants and to create the best context to pursue the possibility of a future realization of projects for adaptation and conversion according to innovative and cutting-edge technologies. This is to guarantee occupational levels and to avoid incurring potential costs for decommissioning of sites.

We confirm the issue concerning the relationship of the Companies of the Environment Business Unit and the Networks and Heat Business Unit with some stakeholders, relating to the future construction of new plants, the expansion of existing ones or the provision of new services in the territories. With specific reference to waste-to-energy, waste recovery and wastewater treatment plants, also 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 implementation of development programs. To oversee the issue, the Group carries out an activity of constant dialogue with local communities and with the relevant Entities, 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 continuation of entrusting its activities in territories already served or in the awarding of public tenders for the same services in new areas; constant monitoring of opportunities, effective and efficient management of tenders and award of the same play a critical role in maintaining and developing the positioning of said services on the market and thus maintaining and expanding the Company's business.

Lastly, we confirm the issue related to potential impacts on the profitability of the Acerra plant as a result of possible criticality that may arise, pending the agreement between the Campania Region and A2A Ambiente S.p.A., in the definition of mechanisms to guarantee the revenues of the plant after the conclusion of the CIP 6 tariff regime.

An element of uncertainty that must be considered for a proper analysis of the economic and social context is represented by the “Brexit”: on June 23, 2016, the UK expressed itself through a referendum to decide whether to stay in the European Union. More than 30 million people have voted, and 51.9% opted for “leave”. The consequences of the “Brexit” are uncertain, also considering the fact that negotiations between the UK and the EU on exit conditions are still ongoing. The possible economic effects of the Brexit on the European Union could result in 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.

In the medium term, the IMF revised the growth forecasts for the United Kingdom downwards, while it confirmed the expansion scenario both at global level and for the Eurozone countries.

Accordingly, in consideration of the business operated by the A2A Group in the country and in other EU and non-EU countries, it is not believed that the Group is particularly exposed to the “Brexit” in the achievement of the corporate objectives it intends to pursue.

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.

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 at an agreed price of 250 million euro. The sale will be in seven annual, equivalent instalments starting from May 2018. The Government of Montenegro, a contractual counterparty to the exercise of the put option, has creditworthiness, as published by major rating agencies, equal or equivalent to B+.

Business interruption risk

The Group operates production sites and operationally and technologically complex services (power plants, waste disposal plants, cogeneration plants, distribution networks, waste collection and sanitation services, delivery services of drinking water, etc.), the malfunction or accidental damage 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 risk mitigation 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

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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.

In addition, the progressive adoption of advanced software and systems is planned at all of the Group's 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. 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.

In the Environment Business Unit, specific activities are in place and monitoring tools have been installed to prevent any possible risk of interruption to the waste transportation and disposal service. In particular, specific 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. 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 also aimed at increasing 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 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 so as to deal with the statistically most recurrent faults.

Within the transport and distribution networks of energy and gas, it is noted that interventions 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. To deal with these situations, in addition to the usual maintenance activities, the Group has planned and started the enhancement of actions to streamline the meshing of electricity grids and extraordinary plans for reclamation of the components considered critical for the continuity of operation. There are also and currently the subject of unification and optimization, in view of the recent organizational developments, 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 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.

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 the resulting possibility of critical matters arising regarding the optimal 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 in order to cope with corrosive phenomena. These operations are supplemented, as part of the maintenance of the network, by continuous engineering analysis supporting interventions for repairs. Measures to be implemented over the following years and designed 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.

A risk issue that is important and that is transversal to all business areas required to manage plants and infrastructure, is the one related to the unauthorized physical access of external personnel to the Group, which could impede the smooth running of operations with potential impact on the safety of operating personnel, unauthorized third parties, the sites and their surroundings, as well as economic impacts resulting from the need to have to interrupt production activities. 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. In addition, the Security Policy has recently been issued, and procedures are in place to regulate control of access to plants and surveillance services. Further interventions are being evaluated and have already been partly realized such as studies on the situation of gas plants to increase their safety level, strengthening of anti-intrusion alarm system and the installation of control systems for badge access, infra-red cameras and systems. The initiatives listed above are coordinated by the organizational structure Group Security, which is responsible for the management 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. The contractual conditions that characterize these policies were revised to align them to the way in which the plants work and to energy market conditions.

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Climate change risk

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. 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 Heat and Market Business Units, 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.

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. For the analysis and management of risks related to interest rate, a sensitivity analysis of financial charges was carried out within the Group, applying a theoretical variation upwards and downwards of 50 basis points of the reference Euribor interest rates to financial debt and financial derivative contracts. The section "Other information/Interest rate risk" of the Consolidated Financial Statements reports the results of the analysis and 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.

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, 2017, the Group contracted revolving committed credit lines for 600 million euro, unused. It also has unused long-term bank financing for a total of 120 million euro and cash and cash equivalents totalling 691 million euro. The management of liquidity risk is pursued by the Group also by maintaining a Bond Issue Program (Euro Medium Term Note Programme) sufficiently large and partially unused as to enable the Company to timely resort to the Capital market. As of today, this program amounts to 4 billion euro, of which 1,438 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 Statements illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. Lastly, at December 31, 2017, there was no situation of non-compliance with the covenants of the A2A Group companies.

Environmental risk

The risks associated with events that impact the environment or the health of the population living in the areas affected by the Group’s activities are the object of increasingly close attention by public opinion, public regulators and ever more 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, water purification plants for discharges 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.

With reference to the issue of waste water treatment, actions are being evaluated, planned and started for the upgrading and enhancement of existing infrastructure.

Lastly, it is noted that the Group pays particular 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 is significantly involved in preventing such risks and 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 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.

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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 order to arrive at a single model, a revision and updating process is currently taking place which will enable all the Group's operating companies to refer to a single integrated Quality, Environment and Safety management system.

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.

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 ISO 14001:2015. 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 also active in the prevention of abnormal situations or special external events such as the issues of risk associated to the transfer to the plants of off-specification materials. The Group implements strict control on incoming materials to plants, search for systems for monitoring of emissions in line with the best available technologies, the use of methods of analysis with low detection limit and that thus allow the detection of very low concentrations of micro-pollutants and the choice of materials and techniques for the flue gas purification system able to absorb even the possible presence of higher quantities of pollutants with respect to expectations and therefore ensure compliance with the prescribed limits.

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, constant dialogue with local communities and Entities, the publication of specific reports. The Group is in fact involved at various levels in constant and transparent dialogue in dealing 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).

Other environmental risk issues concern the possible introduction of more restrictive regulations that may require investments in plant adaptation as well as the review of production processes and waste management methods: currently of particular relevance are possible amendments to regulations relating to the classification of waste combustion residues in waste-to-energy plants (slag recovered from boiler bottoms). To deal with this issue, the Group has adopted a monitoring policy of regulatory change, collaborative dialogue with the institutions (Ministry of Environment and Protection of Land and Sea, Regions, etc.), as well as of active participation in trade associations and work groups set up at these entities. This is also in order to always be in line with the best available techniques regarding the environment and to efficiently plan any new investments that may be necessary. In this context, the Group participates, for example, in work tables for the definition of the BREF (Best Available Techniques Reference Document) for LCP (Large Combustion Plants), for Waste Treatment and for Waste Incineration.

The process of updating the Organizational and Management Model as per Legislative Decree no. 231/2001 with reference to the introduction of environmental offences following the enactment of Law 68/2015 is being progressively extended to the other Group companies.

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, meaning 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, 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 Customer Relationship Management - CRM, billing and credit management, it is noted that activities have been planned and started for the definition and subsequent implementation of activities to renew the existing platforms or plans to rationalize the applications used. The Group will continue to develop its information system structure and improve its efficiency by drawing up and progressively implementing a dedicated general architectural strategic plan.

In addition to defining outsourcing contracts for ICT services that envisage clearly defined service level agreements, the Group has developed a process to ensure the possibility of operating, even in the event of unavailability of one of the two Data Processing Centers (CED - Centro Elaborazione Dati), for some systems whose operational continuity is considered more critical. 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 oversights are currently present for availability of suppliers and resources within the Group to deal with logical attacks, virus attacks and system crashes. In addition, further activities were initiated aimed at further increasing the levels of reliability and continuity of provision of ICT services, such as the evaluation and subsequent implementation of projects, among them alternative, of infrastructural improvement of the CED of Brescia. Lastly, the structuring of the Business Continuity Plan was initiated, aimed at perspectively developing the tool through which the Group will be able to face further scenarios of unavailability of services for the most critical areas.

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. Lastly, the remaining activities related to the organic ICT security masterplan have been completed. In this regard, specific policies have been prepared on the use of mobile devices, which are increasingly used today for carrying out business activities. 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. Within Group ICT, a study was completed aimed at identifying the main characteristics of the current industrial process management systems (such as SCADA systems) that, because of an increasingly driven integration with “IT” (Information Technology) systems, are potentially exposed to security and integrity risks.

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Lastly, it is noted that insurance coverage is being evaluated specific for ICT aimed at mitigating the potential damages related to violations and intrusions into corporate systems (cyber-crime).

With reference to Linea Group Holding, in 2017 the company implemented a series of activities aimed at embarking on the operational path of integration with the A2A Group; in this regard, it is worth highlighting the issue of risk associated with convergence, on the broader A2A application map, of the company systems and platforms. To oversee this issue, we highlight that the necessary measures will be implemented to minimize the risk deriving from data conversions and transfer on different application maps. With the planned conferral of the subsidiary Linea Com into A2A Smart City, a common and integrated approach at the level of the Group's ICT services will be 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.

The prevention measures adopted aim for a "zero risk" objective through the Quality, Environment and Safety Policy (which provides for a program to upgrade the personnel safety management system to comply with ISO14001 and OHSAS18001 standards), 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 Environment, 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. In this sense, the model for managing contracts from a health and safety standpoint has been recently updated.

A gradual enhancement of the organizational control structure is planned, which among other things carries out specific inspections to monitor compliance with legislation as well as personnel update training. In this respect, specific training plans have been established for each business position and responsibility and a start has been made to these training courses. 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, with the aim of constantly improving control, the process has been nearly completed to revise the present model for managing employee health supervision carried out by a team of doctors situated locally who perform regular health personnel assessments. As part of this revision process, specific analysis and reporting tools will be developed regarding the results of the health supervision process.

A system for the analysis and control of accidents and injuries has been developed, in order to support the process of constant improvement in safety matters. 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.

Further potential risks for the Group are related to possible accidents in the management of traffic lights and street lighting that involve staff of the company or third parties. 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.

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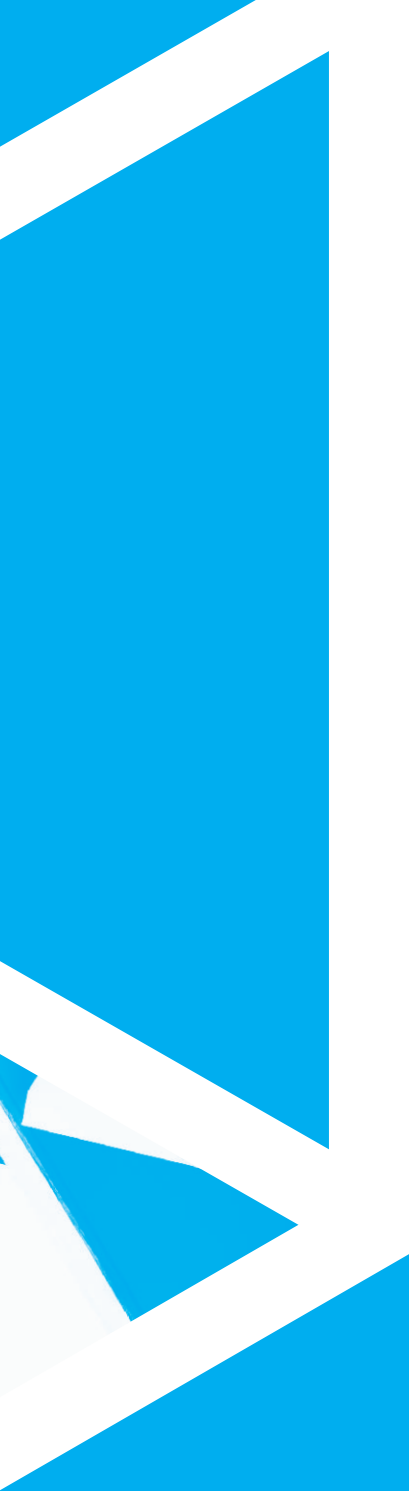
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7 Sustainability responsible management

Sustainability responsible management

For over twenty years, sustainability issues have been a focal point in the political agendas of countries, given the widespread, and ever increasing awareness by governments, companies and civil society of the need to activate concrete actions to ensure sustainable development.

In November 2015, the Board of Directors of A2A S.p.A. established the Committee for Sustainability and the Territory and decided to implement a demanding Corporate Social Responsibility program, based on four pillars: the publication of the Sustainability Report and gradual transformation into the Integrated Report; definition of a Sustainability Policy and Plan and the consequent introduction of sustainability objectives in the management incentive system; extension of the stakeholder engagement model based on multi-stakeholder forum and territorial sustainability reports; development of internal training programs aimed at consolidating a shared approach to sustainability.

On May 15, 2017, the A2A Shareholders' Meeting approved the first Integrated Report of the Group, prepared referring to the Integrated Reporting Framework (IR Framework) outlined by the International Integrated Reporting Council (IIRC). The document refers to the principles of the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative (GRI) and the Electric Utilities Sector Supplement – G4 Standard Disclosure.

Adopting the principles of the Integrated Report entails the objective of presenting the way in which an organisation creates value over time. It was therefore decided to adopt a structure for the financial statements based on the various types of capital, which constitute the variables that determine how value is created. Through the analysis of the types of capital that influence, and are in turn influenced by, the company's activities, A2A aims to provide a clear account of the existing, necessary integration between economic, social, and environmental aspects in company decision-making processes, but also in the definition of the Group's strategy, governance and business model. In 2018, A2A will publish an Integrated Report, which will also constitute the Non-Financial Disclosure pursuant to Legislative Decree 254/16 to all effects, which has introduced for certain categories of companies the obligation to report information relating to environmental and social issues.

The monitoring of the 2016-2020 Sustainability Plan, included in the document, showed that the Group is working in the right direction to reach the challenging targets set for both 2020 and 2030; however, there were critical elements that were discussed by top management in order to verify the underlying reasons, thus allowing to implement resolution strategies or to adjust targets where necessary, in line with the Business Plan.

Throughout 2017, the activity of listening to stakeholders continued with the forumAscolto in Milan and Friuli Venezia Giulia. The first, held on January 30, 2017, aimed to collect ideas and proposals for those who live in the city daily to make it better, more liveable and efficient. For the first time, all citizens were able to take part in this challenge, thanks to a specially dedicated web platform (www.forumascaltoa2a.eu), on which it was possible to upload ideas, vote, share and comment also on Facebook. The day's work resulted in 9 ideas, while A2A received 42 proposals on the online platform. Based on an evaluation of the feasibility of the proposals and the shared value generated, A2A has developed projects on four areas of intervention: mobility, urban design, public lighting and fight against food waste. The second forumAscolto, held in Udine on December 18, 2017, was first and foremost an opportunity to present the first territorial sustainability report of A2A of Friuli Venezia Giulia, referring in particular to the provinces of Udine and Gorizia where A2A is present with its activities. It is the sixth territorial report published this year after those of Brescia, Milan, Varese, Bergamo and Valtellina-Valchiavenna. In addition, the participants in the forum were involved, through working groups, in defining the issues of a call for tenders that A2A will launch in 2018 to support initiatives aimed at the sustainable development of the territory. The winners will be guaranteed, in addition to financial support, a light incubation path for the development of their project idea.

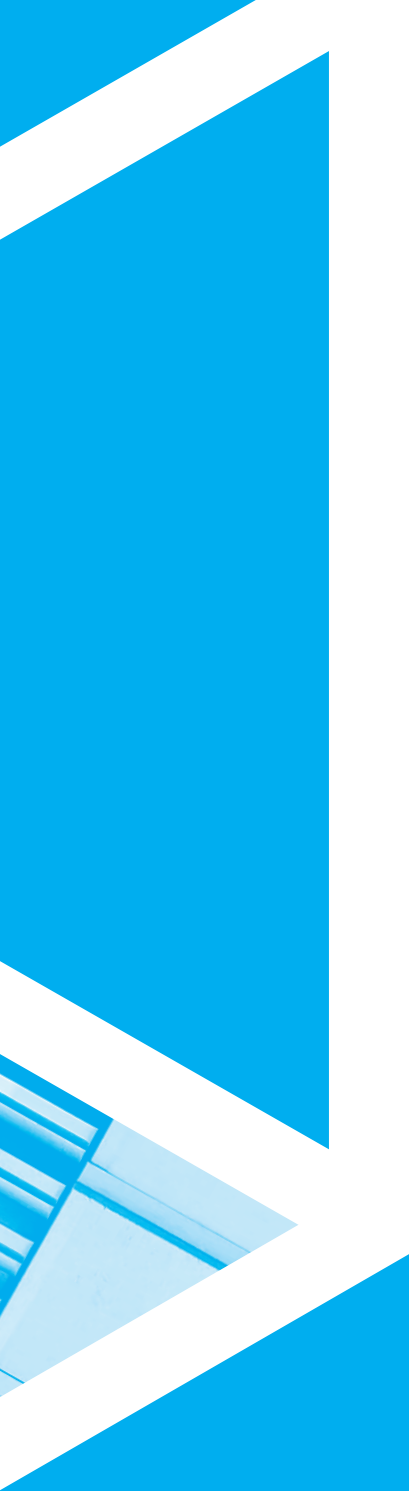
With respect to projects emerged from previous forums:

- in the Valtellina-Valchiavenna territory: in May, the Scuola Energetica project was concluded, to promote the theme of energy efficiency in some technical institutes in the province of Sondrio and the Ciclovía dell’Energia was inaugurated, the new panoramic cycling-trekking trail that crosses the A2A hydroelectric plants in the area;
- in Bergamo: on November 18, a Reuse Center was inaugurated in the ecological platform of via Goltara, a dedicated and equipped covered structure where citizens can freely dispose of their old goods to prolong their life cycle. In addition, the multimedia totem was inaugurated at the Bergamo waste-to-energy plant to provide information on the operation of the plant (heat and energy produced, emissions into the atmosphere). The “Action2Art” contest was also launched. It is dedicated to high schools for the construction of artefacts using objects conferred to the ecological platform;
- in Brescia: educational activities continued, developed with other operators in the area; we recall the “Brescia in circolo” event in the square, with Brescia Mobilità, on mobility, water and separate waste collection and the agreement for the creation of a new exhibition on the waste cycle at Parco dell’Acqua, in collaboration with Ambiente Parco; the extension of the district cooling continues.

Lastly, the social responsibility project that emerged from the Brescia forum continued, but operational throughout Lombardy, Banco dell’Energia, promoted by A2A with the AEM Foundation and the ASM Foundation, in collaboration with the Cariplo Foundation. The initiative entered its most important phase: in fact, the interventions that will receive the contribution of promoting entities, amounting to a total of 2 million euro, were identified. In particular, 15 projects have been selected and published online, promoted by 68 entities, aimed at supporting situations of economic and social vulnerability throughout Lombardy. The final recipients (about 6,000 people) will be intercepted by the associations and involved in a process that will support the payment of urgent expenses (such as the bills of any energy operator), 360° recovery paths, to counteract the risk of a shift towards poverty. Families can request the aid and be included in the recovery programs directly by contacting the related non-profit organization of their territory.

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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 2017, analyzed between the leading auditor EY S.p.A. and other auditors.

Description <i>thousands of euro</i>	Leading Auditor	Other auditors
A2A S.p.A.		
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 the ARERA	15.0	
Other testing and attestation engagements	45.0	
Total	335.0	-
Subsidiaries		
Audit of annual financial statements	711.3	
Periodic tests of accounting	190.8	
Review of half-yearly report	181.5	
Audit of the separate annual accounts for the ARERA	51.0	
Other testing and attestation engagements	-	
LGH Group	296.0	
Total	1,430.6	-
Associates and joint ventures (1)		
Audit of the information sent to shareholders for the consolidation	33.9	
Total	33.9	-
TOTAL A2A GROUP	1,799.5	-

(1) Fee costs incurred directly by A2A S.p.A..

In addition to the above audit work, companies belonging to the EY network also performed other engagements in 2017 for fees amounting in total to 123 thousand euro, which mainly related to activities as the Company’s legal auditor as specified by current legislation.

Treasury shares

At December 31, 2017, 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, 2017, 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 40 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, 2017”, 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, 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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	Other information