



a2a

SHAPING THE FUTURE TODAY



2018

Report
on Operation



Report on Operations 2018

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This is a translation of the Italian original “Relazione sulla Gestione 2018” 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

2018 was an important year for A2A: the tenth anniversary of its establishment. Our history began more than 100 years ago with the Milan and Brescia municipalized companies and, today as then, we are committed to listening to the needs of citizens and institutions in order to build together a path towards a more sustainable future. This decade gives us a greener company, oriented towards technological and digital innovation, able to become a point of reference among multi-utilities for a new model of territorial aggregation, bearer of an organizational culture, finally its own and original, generated by the successes and failures of its recent history.

Economic and financial performance in 2018 was excellent: a historical record was reached on Net Profit (344 million euro, +17% compared to 2017 and the best result since the establishment of A2A) and equaled the record of 2016 on Gross Operating Margin (1,231 million euro, +3% compared to 2017); thanks to the strong cash flow generation for the period (+204 million euro), the balance sheet and financial structure was further strengthened compared to last year (Net Financial Position/Gross Operating Margin ratio down 9%).

In line with what was started in 2017, we have improved our green footprint, strengthening the Group's presence in the renewable energy sector (94 MW of installed photovoltaic power, almost tripling the installed one at the end of 2017) and inaugurating in Cavaglià (Biella) the first plastic treatment plant of the Group, which will soon be followed by another in Muggiano (Milan).

In 2018, a significant business combination project was launched 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. This partnership process has allowed our community to expand further to 5 new provinces.

The objective for the next 5 years in line with the guidelines already defined in the Strategic Plan presented last year (TEC: T - Transformation; E - Excellence; C - Community), is to push further on environmental sustainability, technological innovation and services to local communities, achieving challenging economic and financial results thanks to these lines of development. In particular, in the Strategic Plan 2019-2023, almost 4 billion euro of investments are foreseen (of which about 300 million euro of development operations related to renewable energy), up by more than 700 million euro compared to the Strategic Plan 2018-2022. More than 70% of total investments are concentrated in the Networks and Waste businesses with the construction of 9 new waste treatment plants.

In 2023, the ambitious objective is to reach a gross operating margin of 1.5 billion euro and a profit of 0.5 billion euro (a compound annual growth rate of over 6% compared with the 2018 record value), while further strengthening its capital structure. Considerable emphasis will also be placed on shareholder return and the distribution of dividends, expected to increase constantly.

In an increasingly integrated way with the strategic plan, we have updated and made even more challenging the objectives of the 2019-2023 sustainability plan, based on the Sustainable Development Goals of the UN Agenda 2030. The reference to the four pillars remained firm: circular economy, decarbonisation, smartness in networks and services, people innovation, with objectives to 2023 that aim to reach excellent levels of separate collection (65% in Milan and 76% on average in the other municipalities served), reduce dispersion in aqueducts (-18% of linear water losses compared to 2018), build new purifiers (+93,000 population equivalent covered), promote the implementation of energy efficiency measures among customers (6.5 million tons of CO₂ avoided), make cities smarter (1,600 new recharging stations for electric vehicles and 18,000 smart environmental baskets), make communities aware of environmental issues (80,000 participants per year in visits and educational projects) and make A2A an even better place to work (25% of employees involved in smart working and weighted accident rate reduced by 19% compared to 2018). In 2018, Banco dell'Energia also continued its journey, bringing concrete help to 6,000 people, thanks to the implementation of the first 15 projects selected through the "Doniamo Energia" call, promoted by A2A with Fondazione Cariplo, while a second call has already been launched.



In recent years, we have seen a growing interest in financial markets to investigate the ability of companies to strategically manage sustainability issues. First in Italy, we signed a sustainable credit line of 400 million euro, which sees linked the interest rates of the loan, not only to the ESG performance of the company, but also to the achievement of specific business objectives related to decarbonisation, green energy and the circular economy, combined with the ESG annual rating of Standard Ethics.

The path of recent years confirms that we can play an important role in helping the country to face global challenges - climate change, energy transition, the circular economy, digitization, growing urbanization - and that we can find within scenarios changing significantly new opportunities for growth and value creation for the company and all its stakeholders.

Chairman of the Board of Directors
Giovanni Valotti

General Manager
Luca Valerio Camerano

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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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Key figures
of the A2A Group

Business Units

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

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

Generation and Trading

- Thermoelectric and hydroelectric plants
- Energy Management

Market

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

Waste

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

Networks and District Heating

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

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

International

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

A2A Smart City

- Telecommunication services

Corporate

- Corporate services



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*Geographical
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*Financial
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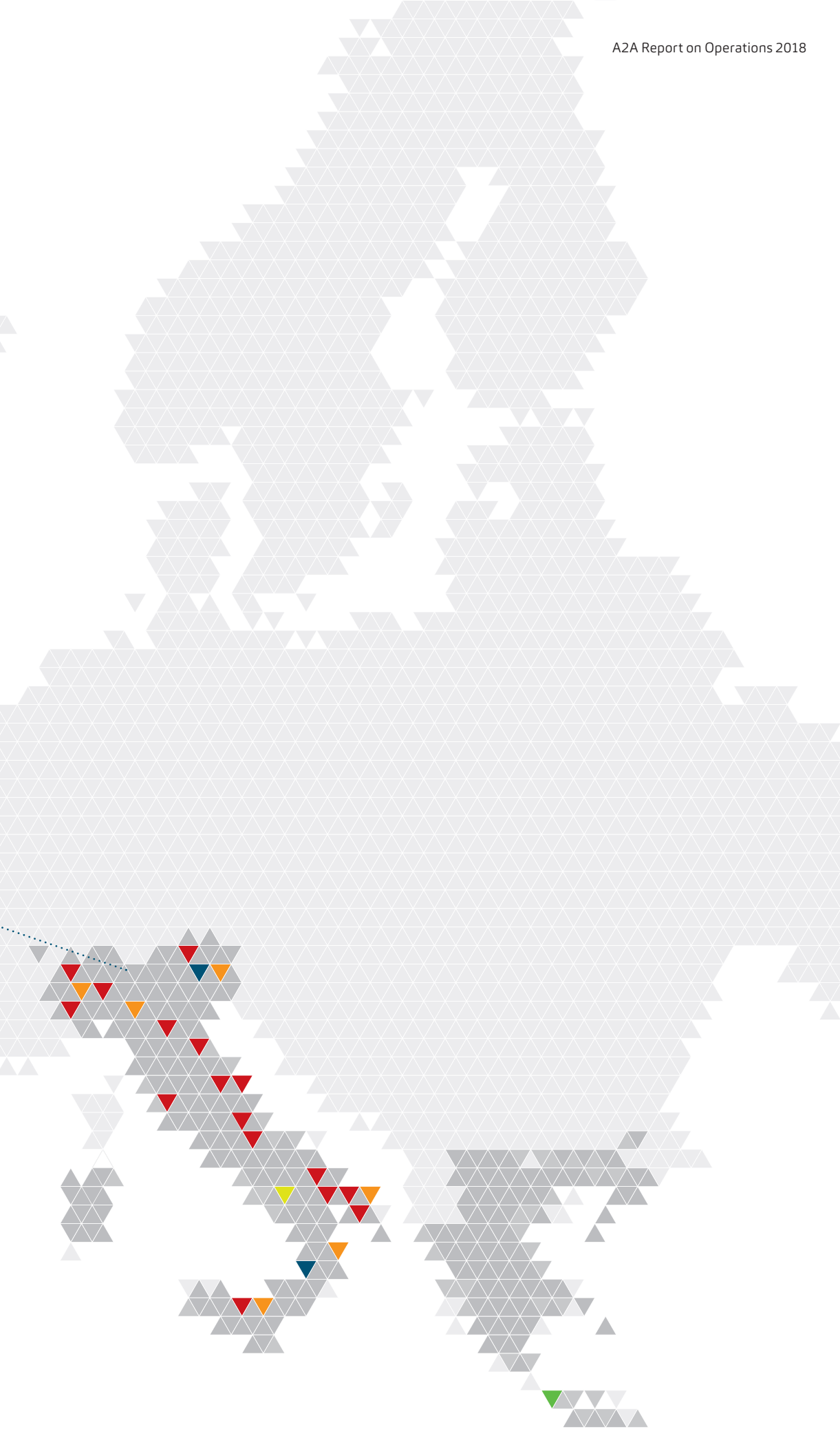
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Geographical areas of activity

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

Updated to December 31, 2018





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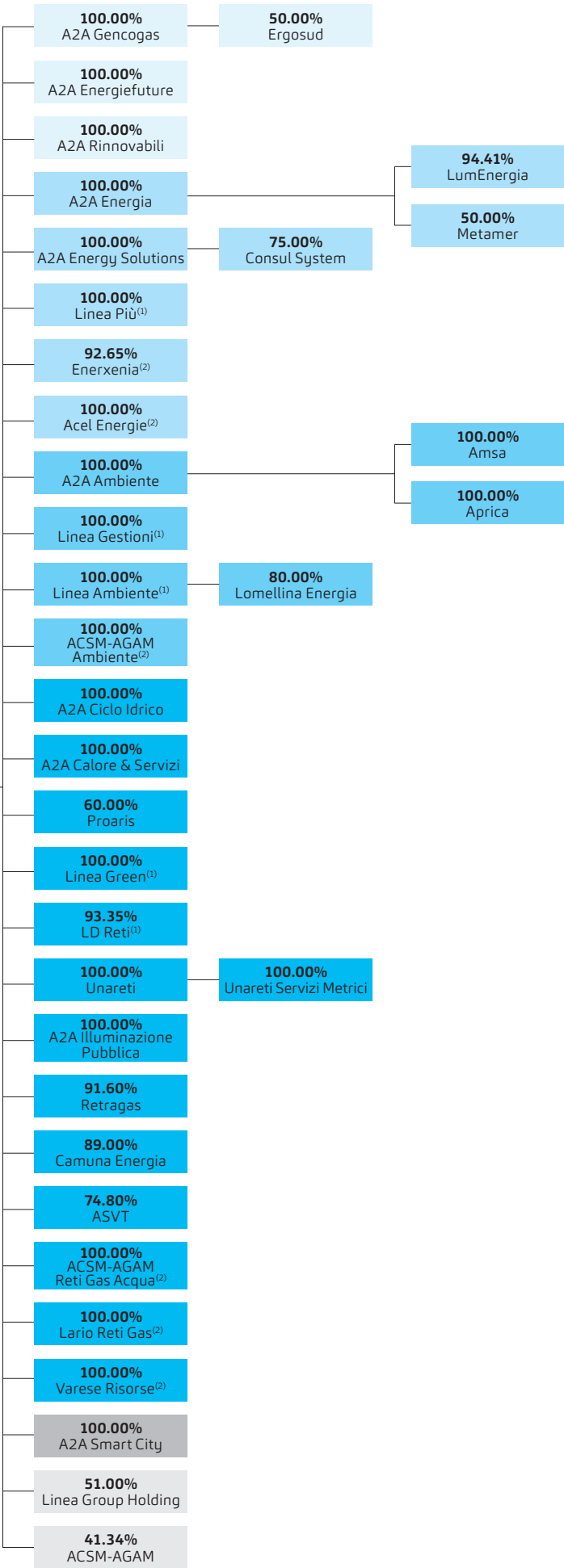
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Group structure

- Generation and Trading
- Market
- Waste
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- Other Companies

A2A S.p.A.



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

This chart shows the most significant shareholdings of the A2A Group. See attachments 3, 4 and 5 for full details of shareholdings.

Financial highlights at December 31, 2018 (**)



6,494

millions of euro

REVENUES



1,231

millions of euro

GROSS OPERATING
INCOME



344

millions of euro

RESULT OF THE YEAR



0.070

euro per share

DIVIDEND

Income statement figures

millions of euro

	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)
Revenues	6,494	5,796
Operating expenses	(4,598)	(3,962)
Labour costs	(665)	(635)
Gross operating income - EBITDA	1,231	1,199
Depreciation, amortization, provisions and write-downs	(643)	(489)
Net operating income - EBIT	588	710
Result from non-recurring transactions	14	-
Financial balance	(112)	(134)
Result before taxes	490	576
Income taxes	(157)	(192)
Net result from discontinued operations	21	(85)
Minorities	(10)	(6)
Group result of the year	344	293
Gross operating income/Revenues	19.0%	20.7%

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

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

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Balance sheet figures <i>millions of euro</i>	12 31 2018	12 31 2017
Net capital employed	6,545	6,239
Equity attributable to the Group and minorities	3,523	3,013
Consolidated net financial position	(3,022)	(3,226)
Consolidated net financial position/Equity attributable to the Group and minorities	0.86	1.07
Consolidated net financial position / EBITDA	2.5	2.6

Financial data <i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017
Net cash flows from operating activities	1,023	866
Net cash used in investing activities	(510)	(475)
Free cash flow (Cash Flow Statement figure)	513	391

Key indicators	12 31 2018	12 31 2017
Average 6-month Euribor	(0.266%)	(0.260%)
Average price of Brent (US\$/bbl)	71.6	54.8
Average of the PUN (Single Nationwide Price) Base load (Euro/MWh)	61.3	53.9
Average of the PUN (Single Nationwide Price) Peak load (Euro/MWh)	68.0	61.8
Average price of coal (Euro/tonne)	78.0	74.8
Average price of gas to the PSV (*) (Euro/MWh)	24.2	19.6
Average price of emission certificates EU ETS (**) (Euro/tonne)	15.9	5.8

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

(**) EU Emissions Trading System

Group's key operational indicators	12 31 2018	12 31 2017
Generation and Trading		
Thermoelectric production (GWh)	12,948	12,370
Hydroelectric production (GWh)	4,539	3,464
Electricity sold to wholesale customers (GWh)	12,494	8,781
Electricity sold on the Power Exchange (GWh)	12,422	13,774
Market		
Electricity sold to retail customers (GWh)	10,826	8,289
POD Electricity (#/1000)	1,135	1,054
Gas sold to retail customers (Mcm)	1,925	1,629
PDR Gas (#/1000)	1,511	1,298
Waste		
Waste collected (Kton)	1,671	1,605
Residents served (#/1000)	3,530	3,549
Waste disposed of (Kton)	3,547	3,360
Electricity sold by waste-to-energy (GWh)	1,807	1,772
Networks and District Heating		
Electricity distributed (GWh)	11,913	11,590
Gas distributed (Mcm)	2,745	2,480
Water distributed (Mcm)	72	69
RAB Electricity (M€)	646	649
RAB Gas (M€)	1,395	1,171
Heat sales (GWht)	2,768	2,682
Cogeneration production (GWh)	317	277

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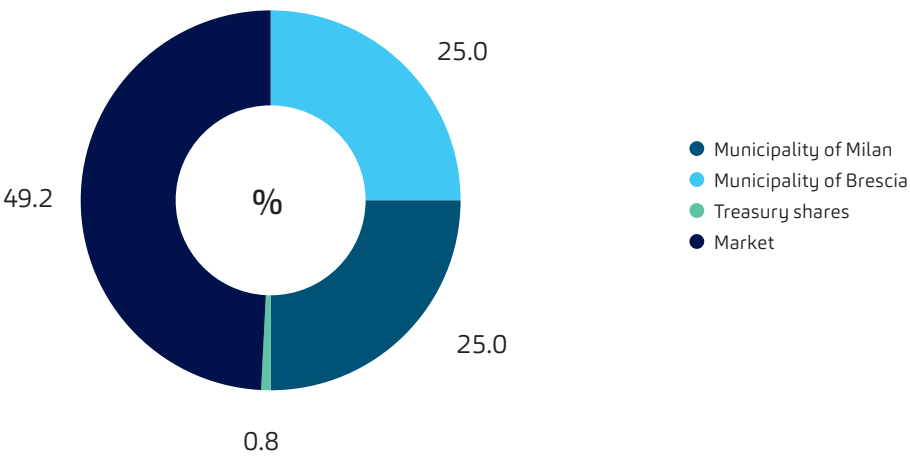
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Shareholdings (*)



(*) Source CONSOB for stakes higher than 3% (update at December 31, 2018)

Key figures of A2A S.p.A.	12 31 2018	12 31 2017
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 28, 2018 (millions of euro)	4,926
Share capital at December 28, 2018 (shares)	3,132,905,277

	2018
Average market cap (millions of euro)	4,763
Average daily volumes (shares)	9,807,945
Average price (€/share)	1.520
Maximum price (€/share)	1.687
Minimum price (€/share)	1.392

Source: Bloomberg

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

On May 23, 2018 A2A distributed a dividend equal to 0.0578 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

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

Source: Bloomberg and company information

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

In 2018 A2A obtained a B- rating on the CDP climate change and CDP Water questionnaires.

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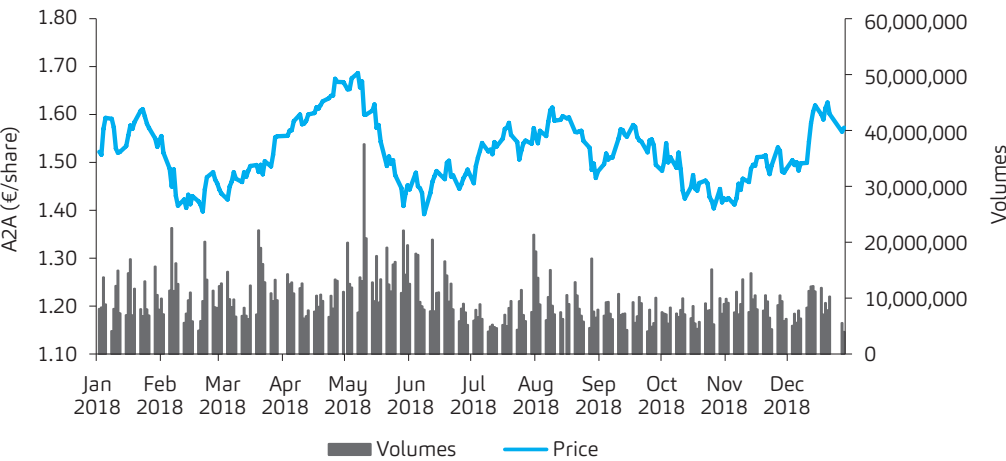
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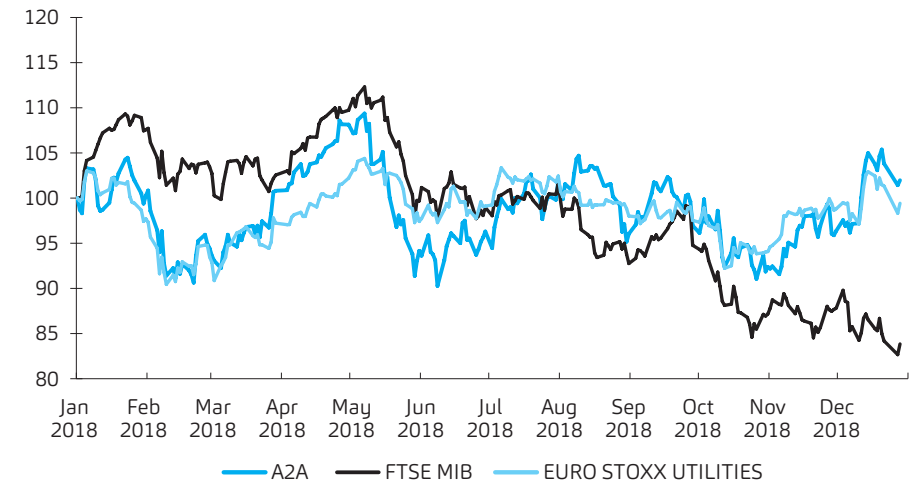
A2A: price and volumes



A2A vs FTSE MIB and EURO STOXX UTILITIES

(Price December 29, 2017 = 100)

Historical volatility in 2018
A2A: 22.3%
FTSE MIB: 17.9%



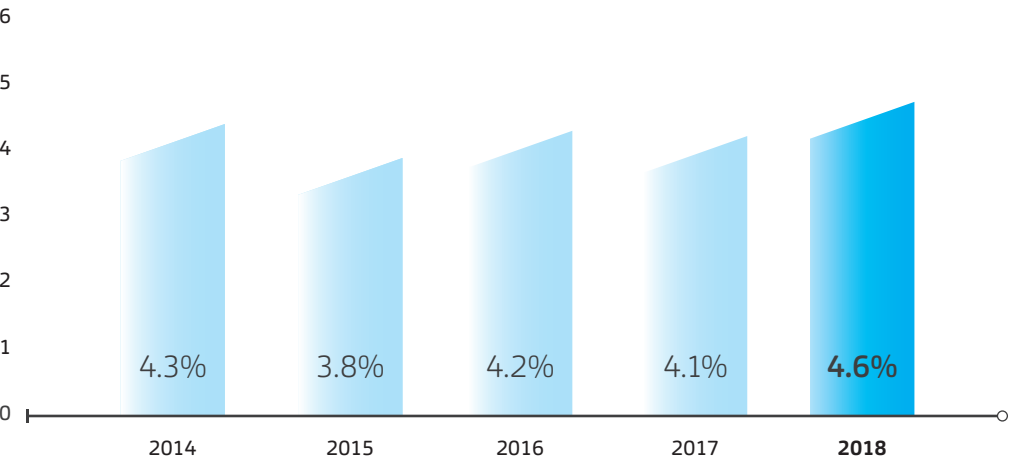
Source: Bloomberg

Rating

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

Source: Rating agencies

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



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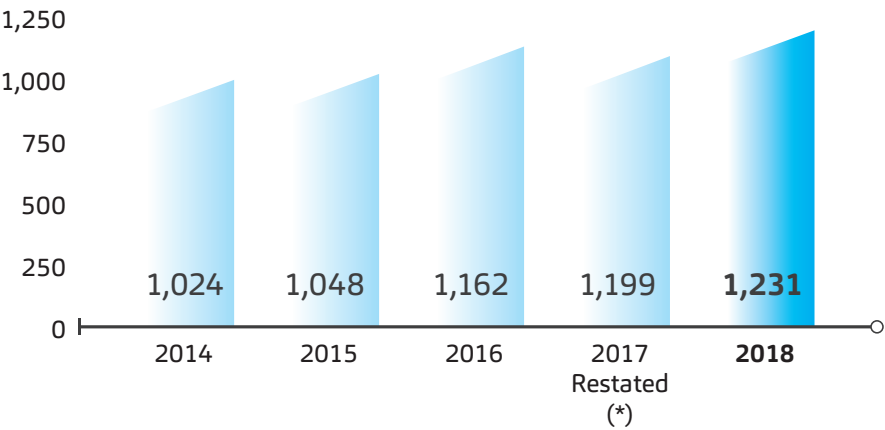
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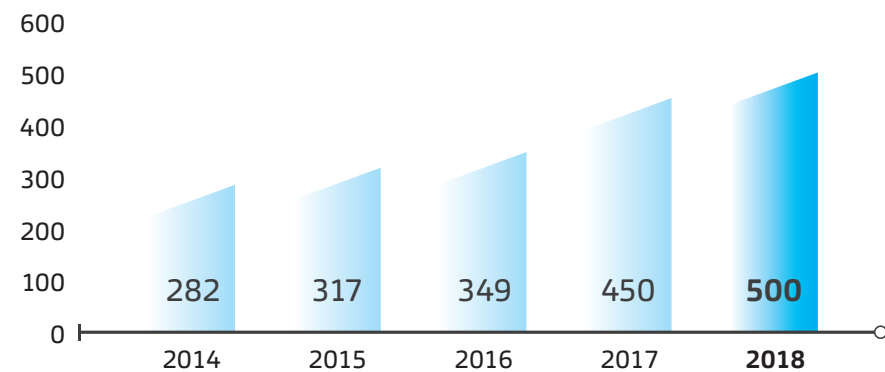
Gross Operating Income

millions of euro



Net Investments

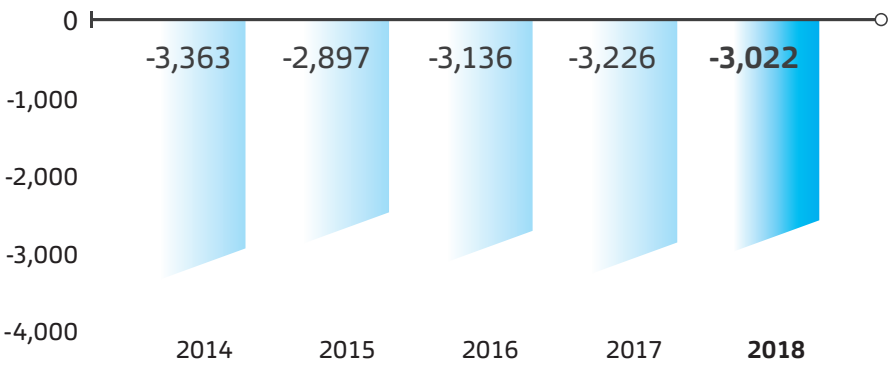
millions of euro



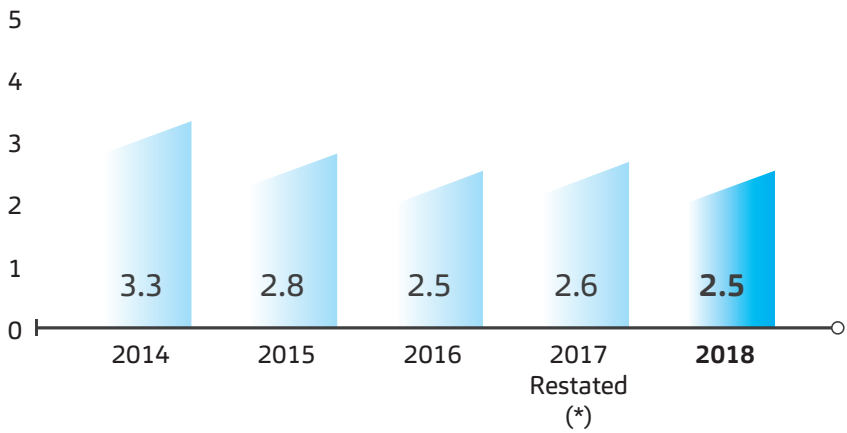
(*) The values at December 31, 2017 include the economic effects deriving from the reclassification for IFRS 5 purposes of EPCG Group items.

Net Financial Position

millions of euro

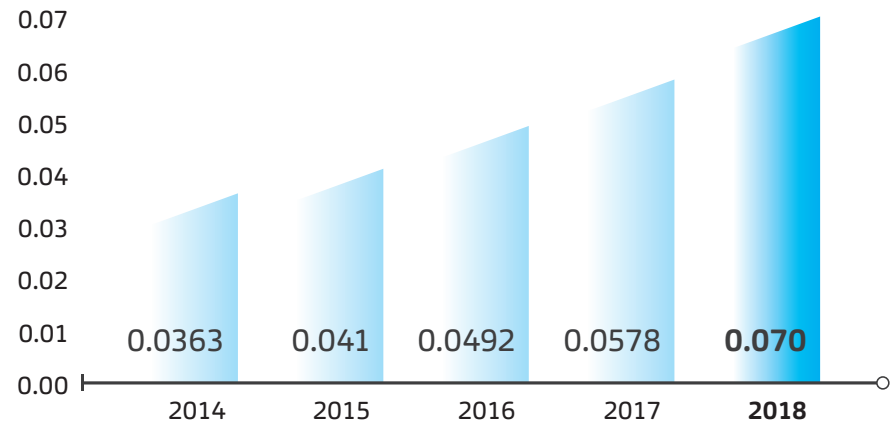


Net Financial Position / EBITDA



Dividend

euro per share



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Alternative Performance Indicators (APM)

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

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

These indicators are shown in the “Summary of results and financial position of the A2A Group”. For the Income Statement and the Balance Sheet, the comparative values refer to December 31, 2017.

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

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

Gross operating margin

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

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

Result from non-recurring transactions

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

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

Net fixed assets

Net fixed assets is determined as the algebraic sum of:

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

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

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

Working capital

Working capital is determined as the algebraic sum of:

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

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

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

Invested capital/Net invested capital

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

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

Sources of funds

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

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

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Net financial position/Net financial debt

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

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

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

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

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

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

Investments in tangible and intangible assets

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

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

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

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



2

Scenario
and market

Macroeconomic scenario

2018 Figures

In the course of 2018, the growth of the world economy continued: according to estimates by the International Monetary Fund (IMF), annual growth was 3.7% (0.1% more than forecast in October). However, there are signs of cyclical deterioration in many advanced and emerging economies, and world trade slowed down significantly.

Among the advanced countries, it should be noted that in the final part of the year, the growth rate should have remained robust in the United States and positive again in Japan after the marked decline of Gross Domestic Product (GDP) recorded in the third quarter. Among the main emerging economies, China has confirmed the slowdown in economic activity, which has been ongoing since the beginning of 2018, even in the last months of the year despite the fiscal stimulus measures introduced by the government. For the whole of 2018, Chinese GDP grew by 6.6%, compared to 6.8% in 2017, due to the weakening of domestic demand and trade tensions with the United States. This is the lowest annual growth rate since 1990, when the repression in *Tiananmen* had a negative impact. On the other hand, expansion remained strong in India, although at lower rates than in the first half of the year; in Brazil, the macroeconomic environment remains fragile.

According to the preliminary estimate of the International Monetary Fund (IMF), the GDP of the Eurozone is expected to increase by 1.8% in 2018. GDP slowed in the latter part of the year compared to the first two quarters as growth rates weakened in many economies. This slowdown is particularly attributable to the declines recorded in Germany and Italy. The German slowdown seems to have been affected by the entry into force of the new emission rules, which have forced car manufacturers to adapt to new standards. The Italian economy, on the other hand, was mainly affected by the drop in domestic demand due to the loss of consumer confidence.

As regards Italy, the Bank of Italy forecasts a probable second consecutive drop in GDP in the fourth quarter of 2018, which would cause the country to slide into the so-called “technical recession” as a result of two consecutive quarters of reduction in gross domestic product (-0.1% in the third quarter of 2018). For the whole year 2018, the estimate is of an average GDP of +1%.

With regard to the consumer price index in the Eurozone, Eurostat reported that inflation stood at 1.6% in December, a marked slowdown from the 1.9% recorded in November due to the deceleration in energy prices. The average inflation for the year is equal to +1.7%.

According to preliminary estimates by ISTAT, in December 2018 the national consumer price index in Italy (NIC) stood at +1.1%, down from +1.6% in November. On average for the year, acquired inflation is equal to +1.2%, which replicates “the annual trend of 2017”, and about half of it is explained by the rise in energy prices.

At its meeting of January 24, 2019, the ECB’s Governing Council left the reference rate at an all-time low of zero and reaffirmed its commitment to maintain it at current levels at least until the summer of 2019 and, in any event, as long as necessary to ensure that inflation continues to converge at levels below but close to 2% over the medium term. As regards non-standard monetary policy measures, the ECB’s Governing Council started in 2019 by discontinuing new purchases of government bonds but continuing to fully reinvest the capital redeemed on maturing bonds; this mode of operation is part of the asset purchase programme “for an extended period of time and in any case as long as it is needed” to maintain favourable liquidity conditions and a large degree of monetary accommodation.

Confirming its expectations, at its meeting of January 29 and 30, 2019, the Federal Reserve (FED) left interest rates on federal funds in the range of 2.25% to 2.50% unchanged, not prefiguring further increases during the year and in contrast to what was announced in December 2018, where some further gradual increases in rates were considered consistent with the economic situation.

The EUR/USD exchange rate was characterized in the first four months of 2018 by a period of substantial stability, at 1.22-1.23 dollars, followed by a depreciation of the single currency in the second half of the year (around 1.15-1.16 dollars) for uncertainties related to the Eurozone such as the slowdown in economic growth and political tensions. The average EUR/USD exchange rate was 1.18 dollars in 2018, up 4.6% from the previous year.

Outlook

Global economic activity is expected to decrease in 2019 and remain broadly stable thereafter. However, a number of risk factors remain, such as the loss of monetary policy support in the advanced economies, the impact of a negative outcome to trade negotiations between the US and China, the intensification of financial tensions in emerging countries and the way in which the process of the UK's exit from the European Union (Brexit) will be concluded. According to the most recent forecasts of the International Monetary Fund (IMF), world GDP will grow by 3.5% in 2019 and by 3.6% in 2020 (respectively 0.2% and 0.1% less than the October forecast).

Overall, advanced economies are expected to slow down: from +2.3% in 2018, they will grow by 2% in 2019 and 1.7% in 2020. Japan, which is estimated to have expanded by +1.1% in 2019, is against the trend, with reference to the expectation of a new economic stimulus package aimed at mitigating the impact of the VAT increase. Growth in the United States will nevertheless remain strong (the IMF estimates growth of +2.5% in 2019 and by +1.8% in 2020), thanks to strong domestic demand and despite the absence of the fiscal stimulus and the rise in interest rates. With regard to emerging economies, the International Monetary Fund (IMF) has left the growth forecast for the Chinese economy unchanged at +6.2% in 2019 and +6.6% in 2020. The brightest result is for India which, if as expected, will grow at a rate of +7.4% in 2019 and +7.7% in 2020 and will outperform China as the world's fastest growing economy. Brazil is expected to grow by +2.5% in 2019 and +2.2% in 2020, while the forecast for Russia remains unchanged, with growth in 2019 expected to be +1.6% and +1.7% in 2020.

Macroeconomic projections for the Eurozone, formulated by ECB experts in December 2018, forecast annual GDP growth of +1.9% in 2019, +1.7% in 2020 and +1.5% in 2021. Among the factors behind these forecasts, which are more pessimistic than in the past, is the slowdown in Germany, which will only grow by 1.3% in 2019, and the slowdown in Italy.

With regard to Italy, the International Monetary Fund cut its estimate of GDP growth in 2019 by 0.4 percentage points compared to the October forecast (from +1.0% to +0.6%), leaving the forecast of +0.9% for 2020 and +1.0% for 2021 unchanged. The review also includes concerns about sovereign and financial risks that impact on domestic demand and high rates of domestic debt that could put Italian banks under further stress with negative repercussions on economic activity.

Inflation in the Eurozone, according to the December forecasts formulated by ECB experts, is expected to gradually increase from 1.6% in 2019 to 1.7% in 2020 and reach 1.8% in 2021.

With regard to Italy, an inflation rate of 1.3% is expected in 2019 (source: Bank of Italy). Upward pressure on prices stems from wage developments that have returned to growth in the private sector since spring 2018 and are expected to gradually strengthen in the course of 2019.

As regards the level of interest rates, both the European Central Bank (ECB) and the Federal Reserve (FED) will be faced with important monetary policy choices and both will be faced with the risk of a fall in inflationary expectations. The FED will be "patient" in deciding on future rate increases with leading analysts who expect substantial stability throughout 2019. The ECB's interest rates will remain at zero at least until summer 2019 and in any case until inflation has reached stable levels of around 2%. In addition, although Quantitative Easing, i.e. the ECB's massive purchase of government bonds to support national economies, has now been concluded, the capital redeemed on maturing bonds will be reinvested in full during 2019.

With regard to the EUR/USD exchange rate, the trends in interest rate levels and thus the roles of central banks will be decisive. The estimates of the main analysts are bullish: the European single currency is expected to benefit both from the conclusion of the ECB's asset purchases and from the disappearance of the fiscal stimulus measures in the United States. Experts expect the EUR/USD exchange rate to rise to 1.19 in 2019.

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Energy market trends

Electricity

As far as the national electricity market is concerned, in Italy in 2018 there was a net requirement of 321,910 GWh (source: Terna), up 0.4% on 2017. At regional level, the change in demand compared to 2017 was differentiated: higher than the national average in the North (+0.6 %) and in the Center (+1.4%), lower in the South (-1.6%).

Net energy production in 2018 was 280,234 GWh, down 1.8% compared to 2017. Hydroelectric production sources increased, reaching 49,275 GWh (+31.2%); all renewables declined slightly, with geothermal sources -1.9%, wind sources -1.4% and photovoltaic sources -4.7%. Thermoelectric production declined by -7.6% compared to the previous year and stood at 185,046 GWh, discounting the difference with the previous year, when the contraction of nuclear production recorded in France and the consequent low import levels had pushed production upwards.

National production, excluding pumping, satisfied 87% of the demand for electricity in 2018, while net imports satisfied the remainder.

In terms of electricity prices, the average value of the Base Load PUN (Single National Price) in 2018 rose by 13.6%, amounting to 61.3 EUR/MWh against 53.9 EUR/MWh in 2017. The price showed a discordant trend over the year: starting from the low values of January, equal to 49.0 EUR/MWh, it peaked in September (76.3 EUR/MWh) and then dropped to 65.2 EUR/MWh in December. This trend was mainly affected by the trend in the cost of gas, a factor only partly mitigated by the supply of renewables and by increased imports from the northern border. Upward trend also for average prices in high load time slots (+10.1% for the Peak Load PUN reaching 68.0 EUR/MWh). The average price in low load time slots (Off-Peak PUN) recorded an increase of 16.0% to 57.6 EUR/MWh. For 2019, forward curves indicate Base Load PUN prices with average values close to 64.2 EUR/MWh.

Natural Gas

In 2018, the consumption of natural gas in Italy interrupted the upward trend of the last three years, but remained at levels well above the minimum reached in 2014. Specifically, demand for natural gas decreased by 3.2% compared to 2017, reaching 72,292 Mcm (source: Snam Rete Gas). This decrease is mainly due to the drop in consumption in the thermoelectric sector which, penalised by the recovery of renewable production, particularly from hydroelectric sources, fell by 8.1% compared to 2017 levels and stood at 23,382 Mcm. Consumption in the industrial sector fell slightly, by 0.8% to 14,254 Mcm, and in the civil sector by 32,302 Mcm (-1%).

On the supply side, the drop in demand was mainly absorbed by lower imports, which fell by 2.6% compared to the previous year and stood at 67,433 Mcm, despite accounting for 93% of total supply. Domestic production, amounting to 5,123 Mcm, fell to record lows and showed a decrease of 2.2% compared to 2017. The analysis of flows by entry point shows a widespread decrease, on an annual basis, in imports via pipeline, with the exception of those from Northern Europe, which are growing for the second consecutive year (+6.5%). The growing trend of gas imported from LNG terminals continues: among these, Cavarzere remains the most active, but still down 2% on the previous year.

Regarding prices, the average price of gas to the TTF for 2018 amounted to 22.8 EUR/MWh, up 31.9% over 2017. In 2018, the price of gas to the PSV continued to rise until September, when it reached a peak of 29.0 EUR/MWh, before decreasing in the last few months of the year to 25.2 EUR/MWh in December. Specifically, the average price of gas to the PSV in 2018 amounted to 24.2 EUR/MWh, up 23.3% compared to the previous year. For 2019, forward curves indicate prices with average values close to 23.1 EUR/MWh.

The trend in the respective prices resulted in a PSV-TTF differential of 1.35 EUR/MWh for the reporting period, down compared to the differential of 2017 (2.3 EUR/MWh). The gas market to the PSV tends to confirm a structural spread over the TTF for the year 2019, revealing a short market dependent on imports from North and Eastern Europe. For the year 2019, the most recent forward curves show a spread of around 2.1 EUR/MWh.

Oil and coal

2018 was a year of fluctuating oil prices. The price of Brent in the first half of 2018 remained constantly above 65 USD/barrel, showing an upward trend, which continued in the third quarter, where the price averaged 76 USD/barrel. In October, the price reached a peak of 80.6 USD/barrel and then dropped sharply in the last two months of the year to reach 57.9 USD/barrel in December. This decrease is mainly due to the increases in supply in the United States and Russia, which in 2018 exceeded Saudi production: American production reached a record level of 11.9 million barrels a day, mainly thanks to shale oil, which contributed with 8 million barrels a day; Russian production stood at 11.4 million barrels a day (source: Energy Information Administration). The agreement on the new production cut of 1.2 million barrels reached at the beginning of December between Opec countries and other producing countries (Opec Plus) was not enough to stop the decline in prices.

The average price of Brent was 71.6 USD/barrel for the year, up 30.5% from 2017 (54.8 USD/barrel). The most recent forecasts show a Brent price which, on average for the whole of 2019, is expected to be in a range between 65 and 70 USD/bbl, about 10 USD/bbl less than the maximum reached at the beginning of last October. The first part of the year is expected to be dominated by oversupply concerns and leading analysts expect Opec Plus countries to intervene again in April due to increased US production and weaker global demand.

According to the Energy Information Administration (EIA), global demand for oil averaged 99.2 million barrels a day in 2018, compared to 97.9 million barrels a day in 2017. In the year 2019, it is expected to increase by 1.29 million barrels per day and reach 100.5 million barrels per day. Growth will be driven by India, followed by China. According to the Energy Information Administration (EIA), supply in 2018 averaged 99.8 million barrels a day and in 2019, in line with forecasts of an increase in demand, it is expected to reach 100.6 million barrels a day thanks to increased production in the United States, Russia, Brazil and Canada.

With regard to coal, the beginning of 2018 was characterized by falling prices, which reached their lowest level in March (79.5 USD/tonne), before rising during the summer months and falling again in the last two months to reach a value of 87.4 USD/tonne in December. The average price of coal in 2018 was 91.7 USD/tonne, an increase of 9.4% over 2017 (83.8 USD/tonne) driven by demand from Asian countries. For 2019, the forward curves indicate an average price of 84 USD/tonne, with coal demand almost stable. In fact, behind this apparent balance there are forces of the opposite sign: on the one hand, there is the decline in coal consumption in Western Europe and the United States to which the Chinese reduction has been added; on the other hand, there are the growing figures from India and other Asian countries, including Indonesia, Pakistan, Bangladesh and the Philippines. The result is a “break-even” that should remain so for the next few years.

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3

Evolution
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Notification to the AGCM of the Multi-utility North Lombardy concentration operation

Pursuant to the provisions of Law 287 of October 10, 1990, on April 4, 2018, A2A S.p.A. notified the Anti-trust Authority (AGCM) of the concentration operation called Multi-utility North Lombardy, which provides for the acquisition of exclusive control by A2A S.p.A. of ACSM AGAM S.p.A. (Como-Monza multi-utility), previously subject to joint control by the Group, with simultaneous acquisition by the latter, following the merger by incorporation of some companies of the Lario Group, of the AEVV Group companies, of Aspem S.p.A., of a business unit of A2A Energia S.p.A. related to customers served in Varese and A2A Idro 4 S.p.A..

By decision of May 3, 2018, the AGCM resolved not to initiate the investigation as the operation does not give rise to the establishment or strengthening of a dominant position.

Generation and Trading Business Unit

Remuneration of production capacity availability

The current mechanism for remunerating the availability of production capacity is the Capacity Payment defined in 2003 by Legislative Decree no. 379 as an administered, transitional system aimed at ensuring the adequacy of the electricity system during critical days, identified by Terna and when the difference between supply and demand could be at minimum levels.

The mechanism has been operating since 2004 as a result of Resolution 48/04, which provides that the Authority determines annually *ex ante* a specific revenue collected through bills and paid in the form of two payments (called CAP1 and S) to plants authorized for the provision of dispatching services and that are available on critical days.

In 2018, the impact of the capacity payment on the A2A Group is estimated at around 16 million euro still unpaid (this amount is confirmed in line with the amount collected in 2017).

Legislative Decree no. 379 of 2003 had also established that under regime the remuneration of the availability should have been based on a market mechanism (capacity market) subsequently drawn up by Resolution ARG/elt 98/11, which provides an auction in which the operators assigned acquire the right to receive a premium (in euro/MW/year) for the obligation to offer all the capacity awarded on the energy markets (MGP) and services market (MSD), returning to the counterparty Terna the difference - if positive - between the reference prices of the markets and a strike price (in euro/MWh). It is technically a one-way difference contract.

Resolution 95/2015/l/eel has set a period of initial implementation with annual capacity contracts and a regime phase (or full implementation) with three-year contracts (15 years for new plants).

After a long period of informal discussions with the European institutions, the MiSE notified the Italian capacity market mechanism to DG Competition on August 23, 2017 that approved it on February 7, 2018 for 10 years, until December 31, 2028, having considered it compatible with the European Guidelines on state aid. At the same time, DG Competition approved a similar mechanism for Poland, the strategic reserve for Belgium and Germany, the interruptibility regime for Greece and the French demand management mechanism.

In March 2018, Terna put the first and full implementation rules into consultation, with a number of new features including:

- the introduction of “capacity undergoing rebuilding” and a minimum investment threshold of 209,000 €/MW to obtain the qualification of “capacity undergoing rebuilding” and “new capacity” and, therefore, access to fifteen-year contracts;
- the modification of the criteria for evaluating bids with the forecast of the portfolio emission index, which expresses the quantity of CO2 emitted, expressed in kg/MWh produced by all the production units of each participant in the auction;
- opening up to participation:
 - to all production units, without distinction of technology, also to those incentivized that, however, renounce the incentive of the GSE during the delivery period;
 - to consumption units (UCMC, Consumption Units for the Capacity Market);
 - to foreign capacity.

By means of Resolution 261/2018/R/eel, the Authority amended and supplemented the previous Resolution ARG/elt 98/11 to adapt the market bill to the discipline approved by DG Competition.

In December 2018, the EU Trilogue reached formal agreement on the text of the Electricity Regulation - a regulation contained within the Clean Energy Package - which, among other measures, defines the key rules and principles that the capacity mechanisms implemented in the EU Member States must respect. The agreement provides for the imposition of emission limits for participation in capacity mechanisms for both existing and new plants. However, a safeguard has been guaranteed for contracts concluded by December 31, 2019. The Trilogue has also defined in 10 years the maximum length of the capacity mechanisms. In March 2019, the EU Parliament and Council will be called upon to officially adopt the Regulation which, once published in the Official Journal, will be directly applicable in each Member State.

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The Italian Government has announced its intention to proceed with a new short formal notification to the Commission in order to immediately exclude from the capacity market plants with particularly high emission indices (e.g. coal-fired plants) with the aim of starting the mechanism in 2019, which, in any case, to be operational, requires two further formal interventions: the adoption of a Ministerial Decree by the Ministry of Economic Development and the publication of a resolution by the Authority setting the levels of the strike price and the premium caps.

Remuneration of plants essential for the safety of the electricity system

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

Also envisaged is the commitment by A2A Energiefuture S.p.A. to contain the requests reinstatement of costs below a cap proposed by the company that ensures at the same time the coverage of fixed costs, variable costs of management and equitable remuneration, as well as a saving for the system as said 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.

By means of Resolution 334/2018/R/eel, the balance relating to the essentiality regime of 2015 was paid by Terna for an amount of 22 million euro (of which approximately 7 million euro as contingent in 2018). The Authority has in fact recognized that the exceptional temperatures of the summer 2015 had a negative impact on the availability of the plant such as to have to reduce the power to comply with the legal limits relating to the temperature of discharge into the sea of the water needed for cooling. The Resolution accepted the methodology for calculating the unavailability proposed by A2A to Terna in 2016 and sent by Terna to the Authority.

By means of Resolution no. 549/2018/R/eel, the Authority ordered Terna to pay the first advance of 34.7 million euro for 2018. Receivables still to be collected in relation to 2018 essentiality amount to approximately 37 million euro.

Subsequently, by means of Resolution no. 608/2018/R/eel, the Authority ordered Terna to pay the second advance of 24.7 million euro for 2017.

Receivables still to be collected and relating to the essential nature of previous years (2016 and 2017) amount to a total of about 18 million euro.

During the first half of 2018, a request was submitted to Terna - later repeated in November to the Authority - for a review of the benchmark parameters of the imbalance due to the plant's particular features. The application is currently being examined by the Evaluation Authority.

Marginal plants in conservation and Terna requests for reactivation

In the winter of 2016-2017, in order to cope with the shutdown of nuclear plants in France, Terna asked for the reactivation of the thermoelectric plants in conservation of Ponti sul Mincio and Chivasso 2 and, subsequently, it also requested information on the timing of the reactivation of the Brindisi coal-fired plant (units 3 and 4) and of the Sermide 3 group.

Terna's requests were formulated pursuant to Law 290 of 2003, art. 1-quinquies, paragraph 1, which prescribes that generation plants with a nominal power greater than 10 MVA be kept in a state of perfect efficiency. 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.

A2A Energiefuture S.p.A. 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 to Sermide 3, A2A gencogas S.p.A. restored the full technical availability of the unit in May 2018 after transporting the transformer from Chivasso to replace the existing faulty one.

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 by means of 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 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 for delivery points 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 Regulation EU 460/2017 of March 17, 2017, currently in consultation, as well as the different price elasticity of the capacity demand of the various types of users.

By means of Resolution 306/2018/R/gas, the Authority approved the natural gas transmission and dispatching fees for 2019, while those for 2018 were approved by means of Resolution 795/2017/R/gas. In general, in 2019 compared with 2018, there was an increase in entry fees (approximately +10%) in the national network, in the variable unit fee for GC (+0.5%) and in the transitional measurement fee (+5.7%) and a slight decrease in the fees for leaving the national network (approximately -2%) and in the unit fee for regional network capacity (approximately -3%).

Valuation of electrical imbalances

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

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

Period July 2012-August 2014 (excluding June 2014)

Relating to the period July 2012 - August 2014 (excluding June 2014), by way of the appeal filed by some operators, Resolutions no. 342/2012/R/eel, no. 239/2013/R/eel and no. 285/2013/R/eel were annulled by the administrative judge for non-justification on the urgency of measures and for non-consultation. Terna therefore made recalculations of imbalance prices applying the discipline in force before and the adjustment invoices - despite the objections by the A2A Group companies - were directly compensated at 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.), Edipower S.p.A. (now A2A S.p.A.) and A2A Energia S.p.A. appealed to the Lazio Regional Administrative Court against the recalculations carried out by Terna as it did not take into account this initiation of proceedings. After about a year of consultations, Resolution 333/2016/R/eel closed the valuation process of imbalances for the period 2012-2014 and

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ordering no later than November 1, 2016, repayment by Terna to the A2A Group companies of the amount compensated in June 2015.

Despite having collected the amounts from Terna, the dispute is still pending as several operators, following independent paths, have appealed against the aforementioned Resolution 333/2016/R/eel, invoking its suspension, which was denied by the Regional Administrative Court but approved by the Council of State for some operators and subject to the provision of guarantees. The meetings of the Lombardy TAR are scheduled for 2019.

Period January 2015 - June 2016

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

By means of Resolutions 342/2016/E/eel and 459/2016/E/eel, the Authority 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.

These proceedings were concluded by means of Resolutions 813/2016/R/eel and 178/2018/S/eel, which 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 numerous briefs for its defence and received the communication of the preliminary results on December 13, 2017. By means of Resolution 122/2018/S/eel, the Authority imposed on A2A S.p.A. a reduced fine of 22,500 euro.

Terna pilot projects to open up the market for dispatching services to new resources

By means of Resolution 300/2017/R/eel, the Authority launched a process to open up the market for dispatching services (MSD) to new resources, mandating Terna to prepare pilot projects that operators can voluntarily join to provide resources through production units (UP), consumption units (UC) and storage.

Participation in and provision of services may also take place in aggregate form, and also permitted are previously excluded plant types such as production units powered by relevant and non-relevant non-programmable renewable sources, hitherto unlicensed programmable units and storage systems.

To date, Terna has proposed 6 pilot projects:

1. UVAC (Consumer Virtual-Enabled Units) approved by means of Resolution 372/2017/R/eel and which provide for:
 - access to MSDs for UCs which, even when aggregated, exceed 1 MW of adjustable power with on-demand remuneration;
 - one-way forward bargaining by Terna at critical times for the system in order to increase the resources available.

2. UVAP (Production Virtual-Enabled Units) approved by means of Resolution 583/2017/R/eel and which provide for:
- voluntary authorization of UP, even if not relevant and which, aggregated, exceed 1 MW of adjustable power;
 - on-demand remuneration only.
3. Voltage regulation in specific grid zones approved by the Authority by means of Resolution 675/2018/R/eel (Terna has requested the supply of reactive energy in some specific grid poles, including in the Brindisi area without the supply of active energy).
4. UPR (Relevant Production Unit), consultation ended on March 30, 2018, not yet approved by the Authority and which provides access to MSD for relevant UPs not currently enabled (renewable non-programmable, UP now not obligatorily enabled).
5. UPI (Integrated Production Units), storage for primary frequency regulation, approved by the Authority by means of Resolution 402/2018/R/eel and which provide for:
- possibility of providing primary control at enabled UPs or UPRs through integrated Storage Units, thus freeing the half-band control of 1.5% of the power that enabled UPs are obliged to reserve for Terna;
 - limit of 30 MW on the qualified power on the Continent.
6. UVAM (Mixed Virtual-Enabled Units), approved by means of Resolution 422/2018/R/eel and which provide for:
- overcoming UVAC and UVAP projects through the definition of UVAM which may include UC and UP: UVAC and UVAP holders will have limited time to comply with the UVAM Regulation and not forfeit their MSD entitlement;
 - forward bargaining, the same as for UVAC.

A2A S.p.A. has qualified its own UVAP for about 6 MW and a UVAC for 1 MW. The latter was also called in the forward auction for the month of August, receiving a fixed premium (about 5,000 euro) and, as for the UVAP, a variable remuneration depending on the revenue on the MSD.

An internal task force was set up to implement UPI and UVAM projects in order to seize new opportunities on MSD.

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

Legislative Decree 3 March 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 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.

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In 2018, the incentive (I) was 98.95 €/MWh, while in 2019, it was 92.11 €/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 (I) is set at 84.34 euro/MWh (calculated with respect to the average market price recorded in 2010).

As of January 1, 2016, incentives are paid quarterly by the GSE by the second quarter following the reference one and on the basis of the signing of an Agreement and upon registration and validation of the plants on the GSE portal. 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, 2018 are estimated at 41.7 million euro.

At 31 March 2018, the last date, the Group requested the GSE withdrawal of the warehouse for a total of 636,749 between GC and GC TLR for a counter-value of 63.1 million euro.

Recognition of IAFR qualification for the hydroelectric plant of Ampezzo by the GSE

As a result of the entry into force of the Ministerial Decree of June 23, 2016 - which contains rules for the merger with the previous Ministerial Decree of July 6, 2012 and Ministerial Decree of December 18, 2008 - A2A S.p.A. submitted a request to the GSE for the reopening of the IAFR qualification for the hydroelectric plant of Ampezzo.

On May 11, 2018, after a new documentary investigation, the GSE notified its acceptance of the application limited to the two groups of the power plant that entered into operation following the partial renovation work on October 31, 2012 and for a period of 15 years.

A2A S.p.A. has obtained recognition of the balance from the GSE for the issue of incentives in the form of GC for the years 2013-2015 and feed-in premium for the years 2016-2017 for a total amount of approximately 22.8 million euro.

Large hydroelectric diversion concessions

Upon conversion into law (Law no. 12/2019) with amendments to Legislative Decree no. 135 of December 14, 2018 (Simplification DL), the Legislator intervened in article 11-quater with an overall reorganization of the regulations concerning large-scale diversion hydroelectric concessions (> 3 MW).

In recent years, the failure to implement the primary rules aimed at allowing tenders for the award of expired concessions had led to the temporary continuation of management by the current owners.

Article 12 of Legislative Decree 79/1999, in its previous version, provided that the Regions should allocate concessions on the basis of criteria to be defined by a Ministerial Decree agreed between Min. Development and Min. Environment, and adopted in agreement with the Unified State-Regions Conference, which was never issued, thus resulting in a de facto extension of the management of concessions expired under paragraph 8 bis of said article 12, which provided for the exercise of the concession by the outgoing concession holder until reassignment, under unchanged conditions.

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

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

The procedure for awarding the contract must be started within 2 years of the entry into force of the Regional Laws mentioned above and, in any case, no later than March 31, 2022.

The duration of the new concessions will be between 20 and 40 years, with the possibility of extending the maximum period by a further 10 years depending on the complexity of the project proposal and the amount of investment.

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

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

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

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

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

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

The concessions for large-scale diversion of water for hydroelectric use held by A2A S.p.A. located in Valtellina (for a nominal capacity of the concession of approximately 200 MW) have for the most part expired¹ and are currently exercised in “temporary continuation”, also under the terms of Presidential Decree no. X/7693 of January 12, 2018 of the Lombardy Region, which has already requested the payment of an additional fee provisionally determined at the rate of 20 euro/kW, a fee that A2A S.p.A. has not paid so far having challenged all regional resolutions to the Superior Court of Public Waters under the aforementioned paragraph 8-bis of art. 12 of Legislative Decree 79/1999, which provided for the continuation under unchanged conditions (more than 17 million euro claimed by the Region for the period January 1, 2011 - December 31, 2018, which were however allocated to the financial statements).

Other A2A S.p.A. concessions (plants in Mese, Udine and Calabria with a total nominal concession capacity of about 345 MW) expire in 2029.

Settlement gas: determination of prior items 2013-2017

By means of Resolution 670/2017/R/gas and 782/2017/R/gas, the Authority approved the provisions on settlement gas defining the methodology for determining physical and economic adjustment items for the years 2013-2016.

The economic items were 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-year adjustment session were announced by Snam Rete Gas S.p.A. to transport users in June 2018; however, in consideration of the numerous reports received, the transport company deemed it appropriate to grant an additional time window for the definitive assumption of the economic items for the purpose of calculating the potential exposure of the system to each user.

Invoices paid by A2A S.p.A. totalled 7.7 million euro. The amount has been set aside in the balance sheet net of the amounts relating to 2013 (equal to approximately 554,000 euro) which have been managed as contingent liabilities since the financial statements for that year are closed.

In September 2018, an operator challenged before the Lombardy Regional Administrative Court, requesting annulment after suspension, Resolutions 670/2017/R/gas, 782/2017/R/gas, in part,

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

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Resolution 72/2018/R/gas on the reform of the settlement of gas and the additional measures of the Authority and Snam Rete Gas S.p.A. in connection therewith. The Regional Administrative Court rejected the request for suspension and a judgment on the merits is now pending.

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

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

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

By means of Resolution 737/2017/R/gas, the Authority redetermined the coefficient k , setting it at 0.952 for both thermal years 2010-2012, while by means of Resolution 32/2019/R/gas it envisaged:

- a mechanism for recognizing the amounts due to sellers by establishing a component on the gas distribution and metering tariff paid by customers with consumption up to 200,000 Smc/year (technically a sub-component of UG_2 called UG_{2k});
- the establishment of a special account with the CSEA;
- the collection of revenue will take place over a period of three years starting on April 1, 2019;
- the amounts due to the sellers will be reduced on the basis of the average 24-month unpaid ratio differentiated by type of customer;
- the sellers concerned, who have supplied customers in protection during the reference period, must submit to CSEA an appropriate request to participate in the mechanism by May 31, 2019.

The amounts will be settled in three sessions between April 1, 2020 and December 31, 2021.

For the A2A Group as a whole, this has an economic impact of around 20 million euro.

Market Business Unit

2017 Competition Law and termination of price protections

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

- the end of the electricity and gas price protection regimes as of July 1, 2019 (deadline subsequently extended to July 1, 2020 under Law 108/2018);
- 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 has fulfilled the following obligations required by the 2017 Competition Law:

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

The requirements for the MiSE are still pending:

- approval of the Electricity Sales List;
- social bonus reform;
- MD on the modalities of implementation of the end of price protection schemes according to mechanisms that ensure competition and plurality of suppliers and offers in the free market.

Functional Unbundling and Brand Unbundling

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

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

A2A Energia S.p.A. appealed art. 17.9 of Resolution 296/2015/R/com that introduces an obligation for sellers to use information channels, physical and personal spaces separated between sale on the

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free market and greater protection service without providing coverage of the costs. A postponement of the hearing was requested (previously scheduled for 12 May 2016), considering that Resolution 659/2015/R/eel provided that, under the annual updates of the RCV, the Authority took into account the costs relating to debranding between free market and greater protection. In implementation of this provision, the Authority, as part of the annual update of the RCV component for 2019 established by means of Resolution no. 706/2018/R/eel, granted operators the greatest protection for the costs incurred in 2017 in implementation of the aforementioned TIUF provisions.

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

These requirements were assessed in the context of the investigation activity launched by the AGCM against A2A Energia S.p.A. and A2A S.p.A. in May 2017, to ascertain allegedly abusive conduct in the manner of proposing an offer extended to the market in 2016 - Proceedings A512, concluded in December 2018 without the imposition of penalties on the two companies (see the specific paragraph on the subject).

In the weeks immediately preceding the adoption of the closure measure by AGCM, by means of Resolution 561/2018/E/eel, the Authority approved a programme of controls on the separation of trademarks and communication policies with regard to companies operating in the free market and higher protection sales activities, which will be completed by June 30, 2019.

Charge of the RAI fee in the electricity bill

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

The Ministerial Decree of the Ministry of Economic Development provides for the recognition of costs to companies collecting the fee for a maximum total of 14 million euro/year and for the two-year period 2016 and 2017 only. Resolution 291/2017/R/eel defined the criteria for the allocation of this contribution: the amounts due to each company are calculated by the Single Buyer S.p.A. and communicated to the Revenue Agency which, in December 2017, liquidated A2A Energia S.p.A. 551,558 euro, while the contribution for 2018 will be paid in January 2019 in the amount of 565,756 euro.

Components to cover marketing costs on greater electricity protection, on the free electricity market and on gas protection: years 2018 and 2019

Resolution 927/2017 /R/eel updated for 2018 the RCV component to cover the commercialization costs incurred by the operator of greater electricity protection, compared to 2017 and with reference to the Central-Northern area, a reduction for domestic customers and an increase for non-domestic customers (the overall impact for A2A Energia S.p.A. was equal to about 0.3 million euro).

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). By means of Resolution 364/2018/R/eel, the Authority confirmed, with effect from July 1, 2018, the values of the PCV component previously defined.

Resolution 916/2017/R/gas updated for 2018 the QVD component covering the costs of commercialization of gas retail sales with a slight increase compared to 2017 (overall impact for A2A Energia S.p.A. equal to approximately 0.4 million euro).

Resolution 706/2018/R/eel updated the PCV and RCV components for 2019. The update was upward for the PCV, while, with reference to the Centre-North area, the RCV suffered a reduction for non-

domestic customers and an increase for domestic customers (the overall impact expected for A2A Energia S.p.A. is equal to approximately 4.4 million euro).

As part of this latest update, the Authority granted operators greater protection for the costs incurred for the implementation of debranding (formerly TIUF) to the extent of the increases recorded with reference to the operating costs inferable from the CAS drawn up in accordance with the TIUC.

Resolution 707/2018/R/gas updated for 2019 the QVD component covering the costs of commercialization of gas retail sales with a slight increase compared to 2018 (expected impact for A2A Energia S.p.A. equal to approximately 0.2 million euro).

Additional mechanisms to cover efficient costs on the electricity protected market

With reference to the additional cost compensation mechanisms for greater electricity protection, the following is noted:

- as a result of the request submitted with reference to the mechanism to compensate for arrears of end customers of the TIV, aimed at recognizing any charges related to arrears exceeding the unpaid ratio already considered for the purpose of updating the RCV component (COMP 2017), in 2018, an amount equal to 7.6 million euro was paid to A2A Energia S.p.A.;
- as a result of the request submitted with reference to the mechanism regarding the exit of customers from the greater protection service, aimed at recognizing the additional fixed cost connected to a customer exit rate towards the free market greater than that implicitly recognized in the definition of the RCV component (PUC 2017), in 2018, an amount equal to 65,000 euro was paid to A2A Energia S.p.A.;
- as a result of the application submitted with reference to the mechanism aimed at encouraging the distribution of the electronic bill for 2017, in 2018, an amount equal to 6,500 euro was paid to A2A Energia S.p.A..

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

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

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

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

- by means of Resolution 97/2018/R/com, it defined the scope of application, reaffirmed the timing of entry into force of the provisions of the Budget Law, and introduced disclosure obligations on the part of sellers to end customers in order to make them aware of the possibility of objecting to the two-year prescription;
- by means of Resolution 264/2018/R/com, it introduced a transitional measure that allows the transport user, in the event of non-collection due to an exception of prescription raised by the end customer due to settlements and adjustments attributable to the responsibility of the distributor, to request the distribution company to recalculate the amounts;
- by means of Resolution 569/2018/R/com, it introduced new and additional information requirements and defined the procedures for objecting to the prescription in cases where the responsibility for the delay in invoicing is attributable to the seller, the distributor or presumably the customer;
- by means of Resolution no. 683/2018/R/com, it extended to the gas sector the possibility for sellers to request the distributor to refund sums paid in excess in the event of non-payment due to the exceptions of prescription raised by end customers, linked to recalculations for which the responsibility is attributed to the distributor, confirmed the adoption of the per-day criterion for the

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purposes of identifying the period covered by prescription and postponed to a subsequent measure the definition of the timing and methods by which users of electricity dispatching and users of natural gas balancing, in the event of non-collection due to an exception of prescription raised by the end customer for the responsibility of distributors, are entitled to request Terna and Snam Rete Gas, respectively, to review the economic items relating to the dispatching or balancing service.

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

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

A2A Energia S.p.A. was selected, through a public tender procedure, for the period January 1, 2019 - December 31, 2020, as the electricity supplier for the safeguard service in the Marche, Umbria and Tuscany regions.

The prices charged are determined in accordance with the Authority's rules and the calculation methods laid down by the MiSE and include wholesale electricity costs, dispatching and commercialization costs. In particular, A2A Energia S.p.A. applies to the energy supplied and the related grid losses:

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

Initiation of sanctioning and prescriptive procedure for the invoicing of consumption

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

On December 14, the Company promptly submitted a proposal for commitments, pursuant to article 45 of Legislative Decree 93/11 and article 16 of Annex A to Resolution 243/2012/E/com, which is still being assessed by the Authority.

Closure without imposition of penalties of the AGCM A512 investigation against A2A Energia S.p.A. and A2A S.p.A. for alleged abuse of a dominant position

With a decision of December 20, 2018, notified on January 8, 2019, AGCM closed the investigation proceedings initiated in May 2017 against A2A Energia S.p.A. and A2A S.p.A. for the assessment of an alleged abuse of a dominant position in the sale of electricity, in violation of article 102 TFEU on reports by Edison S.p.A. and AIGET.

The Authority considered that *"the evidence on file"* does not allow to demonstrate that the two companies *"have engaged in the abusive conduct of the dominant position assumed in the measure of initiation"* and decided that with regard to them *"the reasons for intervention no longer apply, pursuant to article 102 TFEU"*.

The proceeding is therefore closed without the imposition of penalties.

The decision closes a complex and articulated investigation, in the course of which the contents of the initiating measure had been thoroughly revised in August 2018 with the sending of the CRI (Communication of Investigating Findings) in which the Offices had challenged the company's conduct different from that initially profiled.

During the course of the proceedings, however, AGCM did not identify any evidence to support the allegations, which is why A2A Energia S.p.A., in its final statement and hearing, provided unequivocal evidence of the groundlessness of the findings - and of the allegations made by the complainants - demonstrating the full legitimacy of its actions.

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

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

The company filed an appeal before the Lazio Regional Administrative Court against the provision. The surcharge for the online card payment service was not due to the use of the payment instrument, but to the provision of a service that brings with it an objective added value (also considering that since January 1, 2017, the company has discontinued the function of collection at the physical counters).

In addition, in order to protect the opposing needs for the protection of users and the creation of a competitive market, in which the economic and financial equilibrium of operators is safeguarded, art. 19 of Directive 2011/83/EU (Consumer Rights Directive), implemented by the rule in art. 62 of the Consumer Code, provides that Member States prohibit professionals to impose on consumers, in relation to the use of certain payment instruments, fees that exceed those incurred by the professional for the use of such instruments thus legitimizing, in our opinion, the conduct of A2A Energia S.p.A..

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

Notification to the AGCM of the A2A Energia S.p.A. concentration operation - X3 Energy S.p.A.

On October 26, 2018, A2A Energia S.p.A. submitted to the AGCM a notification for the concentration transaction involving the acquisition by the company of the business unit of X3 Energy S.p.A., relating to the sale of gas and electricity.

By means of order of November 20, 2018, AGCM decided not to initiate the investigation referred to in article 16, paragraph 4, of Law 287/90, as the concentration does not give rise to the creation or strengthening of a dominant position.

The transaction with X3 Energy S.p.A. therefore took effect on December 1, 2018. The business unit acquired is active in the SME and Large Business segment with customers mainly located in Emilia Romagna and in Central-Northern Italy for about 4,500 supply points. The total annual turnover is approximately 130 million euro.

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Waste Business Unit

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

In 2018, with reference to the cycle of waste, including differentiated, urban and similar waste, the Authority adopted various resolutions to initiate proceedings in order to perform the regulatory and control functions assigned to it by the 2018 Budget Law and to collect information on the sector.

The resolutions provide for the convening of technical meetings with stakeholders, as well as the publication of recognition documents and, given the complex governance of the sector, they have been sent to the MATTM, the MEF, the Presidency of the Council of Ministers, the Regions and the ANCI.

Initiation of proceedings by the Authority

Handling of complaints and disputes with users

Resolution 82/2018/R/rif initiated the procedure for the identification of the first activities relating to the definition of a system of safeguards for the handling of complaints and disputes of end users, aimed at extending to the waste sector the system of safeguards already in place for the regulated energy and water sectors (TICO - Resolution 209/2016), which provides for a special Conciliation Service with the use of the Single Buyer (Consumer Desk).

The procedure is expected to be closed by December 31, 2019, without prejudice to any findings and/or intermediate consultations connected with further measures taken by the Authority.

Tariff regulation

By means of Resolution 225/2018/R/rif, the procedure for the adoption of tariff regulation measures with regard to the integrated waste cycle was initiated, with particular reference to:

- a) definition of the tariff method for determining the fees for the integrated waste service and the individual services that constitute management activities (even in the case of TARI);
- b) establishment of the criteria for the definition of tariffs for access to treatment plants;
- c) procedures for approving tariffs set by the relevant governing body or competent authority for the integrated service and by treatment plant operators;
- d) verification of the correct drafting of the ambit plans.

In a press release dated May 10, 2018, ARERA in any case established that, in order to guarantee a clear and certain framework of rules for the sector, until the adoption of the tariff measures, the criteria and operating procedures laid down by the regulations in force prior to Law no. 205/17 regarding the definition and approval of the tariffs to be applied continue to apply on a temporary basis until such time as they are adopted.

Quality regulation

By means of Resolution 226/2018/R/rif, the procedure was initiated for the adoption of measures to regulate the quality of service in the integrated waste cycle, focused on the:

- a) definition of the levels of quality of services, after consultation with the Regions, managers, consumer associations and
- b) dissemination of knowledge and transparency of the conditions under which services are provided for the benefit of users.

Registry and monitoring

By means of Resolution 715/2018, the procedure was initiated with regard to the creation of a specific sector registry and the definition of forms to be used for monitoring the tariffs of the integrated service for the management of urban and similar waste for the years 2018-2019.

Regarding these aspects, a specific consultation and publication of the final measure is expected by the first half of 2019.

Request for information about the service of treatment of urban and assimilated waste

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

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

DCO 713/2018/R/rif on “Criteria for determining the fees for the integrated management service for urban and similar waste and for the individual services constituting management activities”

The DCO 713/2018 presents the first guidelines of the Authority for the tariff regulation of the single services that characterize the integrated waste management service (the phase of collection and transport, and that of disposal and treatment).

In 2019, additional, more detailed DCO will be published, outlining the mechanisms for approving and articulating user charges and the criteria for defining the conditions of access to recovery and disposal facilities.

ARERA envisages the start of regulation from 2020 (on the basis of actual costs in 2018) consisting of a first half period (2020-21) in which the new mechanisms for defining and verifying tariffs will be introduced, as well as the first criteria for accounting unbundling of the activities managed, and a second half period (2022-23) focused on cost and service efficiency, as well as possible measures to encourage the aggregation of collection and transport operators.

For the two-year “transitional” period (2018-2019) a monitoring activity is foreseen in which the Authority could carry out assessments on the correct application of the principle of cost efficiency.

Incentive of biomethane used in the transport sector

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

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

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

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

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

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

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

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

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

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. As of this date, the plant sold its production on the electricity market in merchant mode.

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

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

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

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

Incentives for plants powered by biomass, biogas and sustainable bioliquids

The 2016 Stability Law (Law 28 December 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.

In August 2017, the MiSE notified this aid measure to the DG Competition for its assessment in light of the aforementioned Guidelines on state aid. The procedure is still open at the Commission.

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

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

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

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

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

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

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

The Directives must be implemented in the regulations of Member Countries by July 5, 2020.

The EU Delegation Law (approved by the CoM on September 6) has established the principles that the Government must use in the transposition decrees by which the Directives will be transposed into Italian law.

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

Tenders for the assignment of waste treatment and disposal services - AGCM preliminary investigation for Linea Ambiente S.r.l., LGH S.p.A. and A2A S.p.A. (with A2A Ambiente S.p.A.'s involvement in the inspection activities) by hypothesis of agreement

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

AGCM has taken action following a report by AMA (a company wholly owned by the Municipality of Rome and operating in the environmental services sector) regarding the outcome of two tender

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procedures (nos. 17 and 40/2018) launched by the same company for the treatment of undifferentiated waste (RUR) and the recovery or disposal of waste, FOS (Stabilized Organic Fraction) and CDR produced by TMB owned by AMA, as well as the transport of these materials to the treatment plants.

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

The AGCM points out that it cannot be ruled out that *“the success of any consultation (...) required the involvement of two of the main Italian groups active in the sector (A2A and Hera), which could have submitted bids in the tenders launched by AMA and managed the related services”*.

The procedure is expected to be completed by the end of 2019.

The Authority therefore decided to carry out inspections of the companies involved in the proceedings on December 18, 2018.

The premises of LGH S.p.A. were not subject to verification, while A2A Ambiente S.p.A. was also involved in the inspection activities. At the moment, A2A Ambiente S.p.A. is not a party to the proceedings, since the Authority considered that it could be in possession of documents relevant to the correct reconstruction of the facts under investigation.

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 entered into force on July 4, 2017 is applied from July 5, 2018.

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 29 August 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 12 August, 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), applied 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 March 1, 2018, no. 21 Provisions for implementing the principle of delegating the reserve of code in criminal matters pursuant to article 1, paragraph 85, letter q) of the Law of June 23, 2017, no. 103.

This decree, in article 3, provides for an amendment of title VI bis of the Criminal Code relating to crimes against the environment. In particular, this involves the inclusion of the new article 452-quater decies concerning the activities organized for the illicit traffic of waste:

“Whoever illegally transfers, receives, transports, exports, imports, or however, manages large quantities of waste materials by means of numerous operations and by equipping vehicles and based on continuous organized activities, in order to make an unfair profit shall be punished with imprisonment of from one to six years [...].”

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With the inclusion of this new article, the crime of illicit traffic in waste is moved to the Criminal Code by means of organized activities previously provided for by article 260 of Legislative Decree April 3, 2006, no. 152.

Commission Communication 124/01 - Technical guidelines for the classification of waste

The European Commission Official Journal C 124 of April 09, 2018 published the Commission Communication 124/01 Technical guidelines for the classification of waste.

The aim of the communication is to provide technical guidelines on some aspects of the Waste Directive 2008/98/EC and the decision 2000/532/EC of the Commission on the list of waste, as amended in 2014 and 2017.

In particular, it provides clarification and guidance to national authorities, including local authorities, and businesses (e.g. for permits), on the correct interpretation and application of relevant EU waste classification legislation, notably on the identification of hazard characteristics, assessing whether the waste has any hazard characteristic and, ultimately, classifying the waste as hazardous or non-hazardous.

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

From July 5, 2018, to determine the hazard characteristic HP14 (ecotoxic) for waste, it is mandatory to apply the provisions of Regulation (EU) 2017/997 amending Annex III to Directive 2008/98/EC, following the completion of the additional study to “ensure the completeness and representativeness of the information on the possible effect of an alignment of the assessment of the hazard characteristic HP 14 “Ecotoxic” to the criteria of Regulation (EC) no. 1272/2008

With the entry into force of this regulation, the criteria for the classification of waste as hazardous for the aquatic environment will be the same as the classification of mixtures hazardous for the aquatic environment according to the CLP Regulation, but with the difference that the waste legislation does not provide for the articulation into different categories for chronic toxicity and the multiplication factor M is not taken into account.

Legislative Decree May 30, 2018, no. 81 - Implementation of Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC

This decree is aimed at improving air quality, safeguarding human health and the environment.

The objectives that are intended to be pursued with the decree are those indicated in art. 1 of the same:

- a) air quality objectives and progress towards the long-term objective of achieving air quality levels in line with guidelines published by the World Health Organization;
- b) the European Union’s biodiversity and ecosystem objectives, in line with the Seventh Environmental Action Programme;
- c) the synergy between air quality policies and those related to the emission sectors covered by national reduction commitments, including climate and energy policies.

The decree provides for the elaboration, adoption and implementation of national air pollution control programmes, the elaboration and updating of national emission inventories and projections and the monitoring of negative impacts of air pollution on ecosystems.

Decision no. 1147/2018 of August 10, 2018 - Conclusions on best available techniques (BAT) for waste treatment in accordance with Directive 2010/75/EU of the European Parliament and of the Council

The document, addressed to the types of waste treatment plants indicated in the Scope of Application, contains the description of the techniques (BAT), the information to assess their applicability and the associated emission levels (BAT-AEL) as well as the indications for monitoring.

The provisions of the Conclusions will be used by the Competent Authorities as a reference in the definition of the conditions for integrated environmental authorization, pursuant to Part II of Legislative Decree 152/2006. Within 4 years from the publication of the Decision, the authorization acts and if necessary the plants themselves, will have to be adapted to its forecasts.

DGR (Regional Council Resolution) Lombardy August 2, 2018, no. XI/449 - Approval of the update of the Regional Plan of Interventions for Air Quality (PRIA)

The document updates most of the intervention files of the Regional Air Quality Plan issued in 2013. In particular, the PRIA envisages applying the stricter limit values for NO_x and dust laid down in the BAT conclusions issued or being published for new plants or substantial changes involving the installation of new units (the latter only in the most critical areas) for large energy production and incineration plants.

Decree Law September 28, 2018, no. 109 - Urgent provisions for the city of Genoa, the security of the national infrastructure and transport network, the 2016 and 2017 earthquakes, work and other emergencies

As of September 29, 2018, Decree Law no. 109 of September 28, 2018 (Ponte Morandi Decree) has been in force, which contains a very important provision on sewage sludge in agriculture. This is article 41, entitled “Urgent provisions on the management of sewage sludge”, according to which “in order to overcome critical situations in the management of sewage sludge, pending an organic review of the legislation in the sector, for the purposes of use in agriculture of the sludge referred to in article 2, paragraph 1, letter a) of Legislative Decree no. 99 of January 27, 1992, the limits of Annex IB of the aforementioned decree continue to apply”. Article 41 also introduces a specific parameter for C10 - C40 hydrocarbons, “for which the limit is: ≤ 1 000 (mg/kg as is)”.

Pending the conversion law, which could make amendments to the text of the Decree, it is clear that the Decree Law confirms that the reference standard regarding the limits to be applied for the use of sewage sludge in agriculture is Legislative Decree 99/1992.

Decree Law December 14, 2018, no. 135 - Urgent provisions on support and simplification for businesses and public administration

Article 6 of the Decree Law provides that from January 1, 2019, the waste traceability control system (SISTRI) is to be abolished and that until a new waste traceability system organized and managed directly by the Ministry of the Environment and the Protection of Land and Sea is defined and fully operational, the traceability of waste is to be guaranteed through the loading and unloading register and the waste identification form, as provided for in articles 188, 189, 190 and 193 of Legislative Decree 152/2006 in the text in force prior to the amendments made by Legislative Decree 205/2010.

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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 with respect to the sale company and the use of information channels, physical and personal spaces separate from those of the sales activity to avoid the risk of confusion in the end customer.

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

The procedures for recovering costs incurred in order to comply with the provisions under examination were the subject of consultation in 2017 (DCO 307/2017/R/com). The Authority is oriented to consider the cost data of the operators, possibly deducted of the costs already recognized by other regulatory mechanisms. As part of this consultation, in March 2018, the Authority began collecting data on the operating and capital costs incurred in 2015, 2016 and 2017 by operators to comply with the separation of the trademark. Liquidation is expected in 2019.

2017 final and 2018 provisional reference tariffs for the distribution and metering of natural gas

By means of Resolution 149/2018/R/gas, the Authority approved the 2017 final reference tariffs for the distribution and metering of natural gas (based on 2016 final Capex, net of divestments and grants related to the same year), while Resolution 177/2018/R/gas approved the provisional ones for 2018 (based on the 2017 pre-final Capex). Compared to 2017, the DCVER component is set to zero to cover operating costs related to metrological verifications, as these costs will be recognized at the end of the list, as the final balance will continue to include, until 2020, capital costs relating to the remote management of electronic meters.

The tariffs are defined with a WACC of 6.1% for distribution activities and 6.6% for metering (Resolution 583/2015/R/com - TIWACC).

By means of Resolution 639/2018/R/com, the Authority approved the update of the WACC for the period 2019-2021, which is set at 6.3% for gas distribution activities and 6.8% for metering. For the years 2020-2021, these values could change during the tariff review of the fifth gas regulatory period.

RAB GAS value underlying 2018 provisional tariffs <i>millions of euro</i>	Unareti	ASVT	LD Reti	ACSM-AGAM Group (*)	Total
Cap. Centralized	48	1	11	12	72
RAB Gas Distribution	797	11	158	187	1,153
RAB Gas Metering	124	1	20	23	168
Total	969	13	189	222	1,393

(*) includes the companies ACSM-AGAM Reti Gas-Acqua S.p.A., Lario Reti Gas S.r.l., Serenissima Gas S.p.A., Aspem S.p.A. and Reti Valtellina Valchiavenna S.r.l..

Resolution 904/2017/R/gas established the procedures for the recognition of costs relating to metering activities for 2018 and 2019:

- the costs of the remote metering/remote management systems and the concentrators continue to be recognized in the final balance within the limits of a maximum ceiling;
- the standard costs for some classes of meters are reviewed, together with a revision of the weight of the standard cost (from 50% to 40%) with respect to that of the actual cost for the purpose of the recognition in the tariff of the investments related to electronic meters;

By means of Resolutions 859/2017/R/gas and 711/2018/R/eel, the mandatory tariffs to be applied to final customers for gas distribution and metering services for 2018 and 2019, respectively, were defined.

Initiation of proceedings for the formation of measures on tariffs and quality relating to the gas distribution and metering service, for the fifth regulatory period (2020-2026)

By means of Resolution 529/2018/R/gas, the Authority initiated the procedure aimed at defining measures concerning tariffs and quality for the gas distribution and metering service in force during the fifth regulatory period (2020-2026), defining specific priorities for the gas sector, including:

- promote the adequacy, allocation efficiency and safety of infrastructures, making the recognition of new investments subject to cost-benefit analyses, also in line with the approach adopted for the evaluation of gas tenders;
- pursue production efficiency in the provision of the service with the gradual absorption of the differentiation in the costs recognized by classes of companies;
- support environmental sustainability through the dissemination of renewable gases and new technologies (activation of innovative pilot projects);
- promote the efficiency and effectiveness of the metering service;
- promote competition also in the conduct of tenders for the provision of the service;
- facilitate the simplification of regulation mechanisms.

With the same Resolution, the Authority further postponed the entry into force of the standard cost method for the recognition of investments in natural gas distribution networks (starting with investments in 2020), in line with the future adoption of cost evaluation logics based on total expenditure (TOTEX).

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

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

- with effect July 2017 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 for accessible meters 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 non-compliance with this standard, an automatic indemnity of 35 euro is provided (the Authority considers smart gas meters accessible in any case, regardless of their actual physical location).

With effect from 2018 and with reference to distribution companies with more than 50,000 end customers at December 31, 2016, the obligation to ensure at least one successful reading during the year is introduced for each active PDR with a traditional meter that is partially accessible or not accessible. Otherwise, for these points the distributor is obliged to replace traditional meters with electronic meters. 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 will be charged to the distribution company equal to 4 euro for each non-replaced meter, until replacement of the meter. In-depth discussions are underway with the Authority regarding the application of these provisions and the related criticalities encountered by operators, also in light of the relevant guidelines for the subject under examination expressed in the consultation document 570/2018/R/com.

With the same start date and perimeter, an indicator is introduced to monitor the percentage of meters accessible with successful readings, differentiated by classes of consumption. The Authority reserves the right to make the comparative publication of these indicators.

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2018 and 2019 reference tariffs for the transport and metering of natural gas

Resolution 795/2017/R/gas set the fees for transport and dispatching of natural gas for 2018 applicable to users while Resolution 757/2017/R/gas approved the 2018 eligible revenues for individual operators, including Retragas S.p.A..

Resolution 575/2017/R/gas had extended the validity of the current tariff regulation for the natural gas transport and metering service also 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, and the timing of approval of tariffs, made consistent with the obligations deriving from the European network code on harmonized tariff structures for gas transportation (TAR code).

In the first half of 2018, the Authority, with Resolutions 306 and 280/2018/R/gas, approved both fees for transport and dispatching of natural gas and revenues allowed for individual operators for 2019.

By means of 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 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 Capex already underway. The Capex in progress of Retragas S.p.A. do not fall within this mechanism.

The consultation process is underway to define the regulatory framework applicable for the fifth regulatory period starting in 2020.

RAB gas transport value Retragas S.p.A. underlying 2018 final tariffs <i>millions of euro</i>	
RAB Gas Transport	40
RAB Gas Transport Metering	2
Total	42

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 20 May 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 of January 11, 2017 also partially resolved the uncertainty about the coverage, in terms of tariff contribution, of the securities generated by the energy efficiency projects proposed in 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 assigned to the regulator by the legislator, the Authority, by means of Resolution 514/2012/R/gas, drew up the draft standard service contract for the regulation of relations between local authorities that grant concessions and operators of natural gas distribution services, a contract that was later approved by the Ministry of Economic Development by Ministerial Decree of February 5, 2013. Subsequently, by means of Resolution 571/2014/R/gas, the Authority proposed an amendment - regarding the recognition of amortization quotas in favour of the granting bodies - to this model of standard service contract, although this amendment was not implemented by the Ministry of Economic Development.

Finally, following the amendments introduced by the Competition Law 2017 regarding the simplification of the procedure for the evaluation of reimbursement values and calls for tenders, the Authority adopted Resolution 905/2017/R/gas with which it rationalized the regulation relating to its tasks by articulating the provisions on the subject in 2 integrated texts. The main amendments introduced, of particular importance for the contracted stations, relate to the procedure for evaluating the reimbursement value and the call for tenders:

- with regard to the evaluation of the reimbursement, a simplified regime is provided for in the framework of the 2017 Competition Law, which may be accessed by the areas for which (i) the local Granting Authority may also certify through a suitable third party, possessing adequate requisites of independence, honorability and professionalism (the definition of the latter is left to the Local Authorities), that the reimbursement value has been determined by applying the provisions contained in the 2014 Guidelines; (ii) the VIR-RAB deviation, aggregate area, does not exceed 8%; and (iii) the VIR-RAB deviation relating to the local assets of the individual Municipality does not exceed 20%;
- a simplified procedure has been introduced with regard to the call for tenders, which provides (at least 60 days before the expiry of the deadline for its publication) for the Contracting Stations to send the Authority a prospectus containing: (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 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 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 hearing, previously scheduled for December 20, 2018, was postponed to June 20, 2019 by a Decree of the President of the Regional Administrative Court published on November 19, 2018.

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

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

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

At the beginning of October, 2i Reti Gas filed an appeal with the Lombardy Regional Administrative Court against the aforementioned outcome of the tender. The hearing on the merits was held to discuss the appeal filed by Unareti S.p.A. against the tender documents of the Contracting Authority (for details, see the previous paragraph), which, therefore, will be held on the same date set for June 20, 2019.

2017 final and 2018 provisional reference tariffs for the distribution and metering of electricity

By means of Resolutions 150/2018/R/eel and 174/2018/R/eel, the Authority approved the 2017 final tariffs of reference for electricity distribution and metering activities, while by way of Resolutions 175/2018/R/eel and 176/2018/R/eel, it approved the 2018 provisional tariffs. In particular, the 2017 final tariffs consider Capex up to 2016, including those relating to commercialization activities, 2016 disposals and 2016 contributions, while the 2018 provisional ones are calculated considering the pre-final Capex in 2017.

The tariffs for 2017 were determined using a WACC of 5.6% (Resolution 583/2015/R/com-TIWACC) and based on the tariff regulation of Resolution 654/2015/R/eel (TIT 2016 - 2019).

By means of Resolution 639/2018/R/com, the Authority approved the update of the WACC for the period 2019-2021, which is set at 5.9% for the distribution and metering of electricity.

Lastly, by means of Resolutions 882/2017/R/eel and 907/2017/R/eel, the 2018 obligatory tariffs applicable to non-domestic customers and domestic customers were defined. Similarly, 2019 obligatory tariffs were defined by means of Resolutions 671/2018/R/eel and 673/2018/R/eel.

RAB EE value underlying 2018 provisional tariffs millions of euro ^(*)	Unareti	LD Reti	Reti Valtellina Valchiavenna	Total
RAB EE Distribution	520	31	13	564
RAB EE Metering	67	13	2	82
Total	587	44	15	646

(*) Company estimate.

It is specified that the 2017 and 2018 tariffs and the underlying amounts were influenced by the sale to e-Distribuzione S.p.A. of the network assets relating to certain overruns of the Milan city network in some neighbouring municipalities.

Moreover, by means of Resolution 212/2018/R/eel, the Authority acknowledged the eligibility of the incentive for certain investments made in 2012 and 2013 relating to (i) the renovation of MV networks in historic centres (extra WACC of 1.5% for 8 years) and (ii) the replacement of existing secondary cabin transformers with new ones with very low losses (extra WACC of 1.5% for 12 years). For these investments, the CSEA paid the previous incentive (2014-2017 tariffs) in May 2018, while in the future incentive will be included directly in the reference tariffs.

Finally, Resolution 237/2018/R/eel defined the criteria for recognizing the costs of electricity distribution and metering services up to 25,000 PODs (in this case the tariffs for the distribution

activity will be calculated using a parametric method whereby the recognized opex and capex will be fixed taking into account certain relevant quantities such as distributed energy and user density (opex) and, together with the previous ones, the age of the networks (capex), while those for the metering activity will take into account a conventional profile of installation of the LV electronic meters and their average cost). The transition to this method will take place gradually over the period 2018-2023. Currently, as a result of the above resolution, specific data collection is underway in order to launch the new tariff mechanism. The same Resolution provided that for distributors serving at least 25,000 PODs and up to 100,000 PODs, the individual regime applies and, as a result, by means of Resolutions 318/2018/R/eel and 497/2018/R/eel, the Authority approved the reference tariffs for the years 2016 and 2017 for these operators.

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 working tables involving distributors, the Authority and Terna.

Articles 129, 130, 131, 132 of the TIQE provide the innovative functions of medium voltage distribution networks in areas with high penetration of distributed generation from renewable sources, while article 134 introduces plans for the modernization of old risers in urban areas in order to support any increases in the simultaneous use of power as a result of the change in the domestic tariff. Unareti S.p.A. has adhered to this opportunity and has prepared some analyses concerning the geographical context in which it operates, shared with the Authority, together with a proposal for a plan to replace risers.

The DCO 331/2018/R/eel illustrates the guidelines regarding the regulatory framework applicable to the plans for the reclamation of obsolete risers in condominiums and recalls many of the observations made by operators, including the recognition in tariff of the costs of restoration of the necessary construction works, valued at standard costs and the introduction of a penalty for condominiums that have not allowed the reclamation works, consisting of the exclusion from particular types of indemnity.

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.

Following the disruption caused by bad weather that affected central Italy in 2017, Resolution 127/2017/R/eel introduced amendments to the quality regulation, making it more rigid towards operators:

- elimination of the maximum reimbursement limit 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, indemnity from a maximum of 300 euro to 1,800 euro);
- 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).

In March 2018, Unareti S.p.A. sent the data relating to the continuity of service recorded in 2017 and necessary for the calculation of bonuses/penalties within the output-based regulation of the electricity distribution service. On the basis of initial estimates, a penalty of approximately 0.9 million euro can be assumed.

Resilience Plans for the electrical network

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

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

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

Following this, Resolution 31/2018/R/eel: i) introduces the obligation for all the main distribution⁽²⁾ companies to draw up, and periodically communicate to the Authority, resilience plans for at least three years and coordinated with Terna or with the reference and/or underlying distributor; ii) provides for a single reputational incentive mechanism consisting of the obligation to publish the resilience plan on the website by June 30 of each year.

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

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

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

At the end of June 2018, Unareti S.p.A. sent out its 2018-2020 plan, which will be updated in light of the regulatory amendments described above.

LV electricity 2.0 meters and related smart metering systems

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

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

In collaboration with the AGCOM, the Authority will 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. On this issue, the respective Authorities 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.

Following this, DCO 245/2018/R/eel was published, containing guidelines on the development of additional chain 2 channels to supplement the one already provided for, in addition to the possible additional incremental functions of version 2.1 of these instruments (storage of reading data collected at the time of removal, storage of reading data relating to month t-1 for a period of more than 24 months, demand side response functions, management of certain quantities directly within 2G meters

² The “main distribution companies” are those with: i) more than 300,000 users; ii) more than 100,000 users; iii) less than 100,000 users directly connected to the National Transmission Grid.

and not through the systems of distributors/dealers). Finally, the first considerations regarding the implementation of the pre-paid offers, made possible by these instruments, were elaborated.

With regard to the procedures for the recognition of costs incurred for the replacement of 1G smart meters with 2G meters that meet the characteristics defined by Resolution 87/2016/R/eel, Resolution 646/2016/R/eel provided for the following:

- 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 to capital costs;
- it 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 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, it might be possible to anticipate/postpone the installation plan 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, Brescia, Rome, Turin) excluded from the benefits - also commercial - offered by the 2G at the same time as other areas of the country, even less urbanized, managed by the incumbent whose commissioning plan is already underway.

A first rough estimate of the potential plan of Unareti S.p.A. 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, Resolution 646/2016/R/eel established the methods of recognition of investments in 1G meters for 2017, then extended with Resolutions 882/2017/R/eel and 419/2018/R/eel also for 2018 and 2019, limiting the unit cost recognized for these years to 105% of the unit cost of 1G meters for the year 2015.

Resolution 419/2018/R/eel also defined the method for the recognition of investments in 2G meters made outside the replacement plan and relating to “ordinary user management”. In detail, the maximum recognizable gross investment value per 2G meter installed in the years 2018 and 2019 is equal to the sum of:

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

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

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

The Lombardy Regional Administrative Court, in accepting appeals submitted by some sellers, declared Resolution 268/2015/R/eel (CADE - Standard network code for electricity transport) illegitimate in the part in which it provides that the guarantees that sellers are required to provide to

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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 decision of the Council of State no. 5620/2017 of November 30, 2017 rejected the Authority’s appeal confirming the annulment of Resolution 268/2015/R/eel and orientations outlined above.

The Authority appealed against the sentence and intervened transitionally with Resolution 109/2017/R/eel reducing the quantification of guarantees and at the same time 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.

Pending a legislative reform of the discipline, Resolution 50/2018/R/eel confirmed the provisions of Resolution 109/2017, introducing a compensation mechanism for OGS paid but not collected by distributors. At the hearing on November 7, 2018, the Lombardy Regional Administrative Court, rejecting the appeal filed by Codacons, confirmed the validity of this mechanism.

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

Energy Efficiency Certificates (TEE) or White Certificates (WC) are negotiable certificates issued by the GSE that certify the achievement of energy savings in final uses through the realization of energy efficiency interventions. The system was introduced by Ministerial Decrees July 20, 2004 as amended, and provides for electricity and natural gas distributors to reach annual quantitative targets for primary energy savings, expressed in tonnes of oil equivalent (TOE) saved. 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 from Energy Service Companies – ESCO). The Authority defines the procedures for determining and disbursing the tariff contribution to be recognized to the distributors subject to the obligations by payment in the bill.

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

		National Energy Saving Targets (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.

The MiSE Ministerial Decree of January 11, 2017 was amended by the Ministerial Decree of May 10, 2018, which provides, starting from June 1, 2018, a maximum recognition value (cap) for the final tariff contribution for each year of obligation equal to 250 €/WC. In addition, the possibility is given to the GSE to issue WC to the overrun: from May 15 to May 31, the GSE issues WC to the obliged parties

that request it at a value equal to the difference between 260 euro/WC and the value of the tariff contribution for the year of obligation, up to a maximum delta of 15 euro.

The obliged parties can request it until the minimum obligation is reached, provided they are already in possession of a WC amount of at least 30% of the minimum obligation on their ownership account. For the cancellation of these WC for the purpose of fulfilling the obligation, the tariff contribution will not be recognized.

The obliged subjects that purchase WC from the GSE can redeem all or part of the sum paid for the purchase against the delivery of the WC generated by projects or bought on the market. The redemption takes place from the first WC and is possible only if the obliged party holds a number of WC exceeding the minimum obligation for the current year of obligation. However, it is not possible to proceed with the redemption in the same year of obligation in which the WC were issued.

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

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

The other changes include the obligation for parties registered in the WC Register to notify the GME of the investments held in the share capital of other parties registered in the WC Register or in the WC market. The information is made public by the GME on its website.

Furthermore, the following definitions have been modified:

- baseline consumption is the primary energy consumption of the technological system assumed as a reference point for the purpose of calculating the additional energy savings for which WC are recognized. The baseline consumption is equal to the value of the consumption before the realization of the energy efficiency project. In the case of new plants, buildings or sites for which there are no energy consumption values prior to the intervention, the baseline consumption is equal to the reference consumption;
- projects involving the use of renewable sources for non-electric uses are allowed only in relation to their capacity to increase energy efficiency and generate non-renewable energy savings.

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

Unareti S.p.A. is the third distributor in Italy obliged to achieve energy savings under the WC mechanism. At May 30, 2018, part of the residual 2016 was cancelled (101,219 WC with a remaining portion to be cancelled at May 31, 2019 equal to 92,739 on a 2016 obligation equal to 484,895) as well as 61% of the 2017 obligation (i.e. 173,578 WC out of 284,554 WC) . Following the fulfilment of the obligation, on September 27, 2018, the company received a total amount of 85.6 million euro from CSEA.

The final tariff contribution for the year of obligation 2017 (June 1, 2017 - May 31, 2018) was 311.45 euro/WC against an estimated value of 170.29 euro/WC and a weighted average value of the prices recorded on the organized market of the GME of 313.45 euro/TEE.

The energy efficiency obligations attributed to Unareti for the year 2018 (June 1, 2018 - May 31, 2019) amount to 293,839 TEE. For the year 2018, the reference tariff contribution has been set at 250.54 €/WC. At November 30, 2018, Unareti cancelled 78,300 TEEs (equal to about 26% of the 2018 obligation), collecting 13.7 million euro from CSEA (against an advance payment of 175 €/TEE, defined in Resolution 487/2018/R/EFR).

By means of Determination 1/2019, the Authority sent to the MiSE and the GSE the quantities of WC for each distributor subject to the obligations for the year 2019, pursuant to the Ministerial Decree of January 11, 2017. For Unareti S.p.A. this is a total of 322,008 WC.

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

Entrustment of the SII in the province of Brescia and consultative referendum

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

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

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

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

Under discussion at the Environment Commission of the Chamber is the PdL on public water management AC 52 (Daga) - *Provisions on public and participatory management of the integral cycle of water* whose main contents are:

- forfeiture of all existing concessions and all forms of management of the SII and their transformation into special companies or companies under public law within 1 year from the date of entry into force of the law;
- exclusion of the Authority from the definition of the tariff and from the regulation/control on the SII in order to return the competences to the MATTM;
- creation of public funds for investments in water infrastructure and a fund for the re-publication of the SII;
- infrastructure and tariff paid through the use of general taxation and allocation of resources by other ministries;
- public participation in the management of the SII through appropriate instruments (greater transparency and attention to the quality of the resource).

On November 18, 2018, a consultative referendum was held on the fully public management of the SII in the province of Brescia, following the approval, by the Provincial Council, of the proposal presented by the Public Water Committee by 54 Brescia municipalities, representing at least 33% of the population living in the province. The consultation was attended by 23% of those entitled to vote with "YES" with 97% of preferences.

The meeting of Auditors must approve the final decision on the management model (mixed or in-house providing) of the SII to be implemented in the province of Brescia.

Updating of 2018-2019 tariffs and monitoring of the implementation of investments

As established by the EGA Guidelines, as of January 1, 2017, A2A Ciclo Idrico S.p.A. has been proceeding with the billing of the previous tariff items relating to the 2007-2011 period approved by the EGA Council with Resolution July 5, 2016, no. 16 (and equal to about 10 million euro/year over 5 years). At the same time, the company is applying the tariffs approved by the Authority with Resolution 807/2016/R/idr for the period 2016-2019.

Resolution 918/2017/R/idr defines the procedures to update the tariffs for the two-year period 2018-2019 using the cost parameters that can be deduced from the 2016 and 2017 financial statements. By means of the same Resolution, the parameters of the Water Risk Premium were updated (from 1.5% to 1.7%), as well as the inflation rates to update operating costs, gross fixed investment deflators, and rate t_c for the calculation of financial and fiscal charges. Therefore, the component covering financial and tax charges is 5.33%.

The companies of the A2A Group submitted in June 2018 the preliminary information for the determination of the tariffs for the two-year period 2018-2019 to the EGA of Brescia, which is carrying out the appropriate assessments. The elements available seem to confirm the tariff increases already approved by the Authority, with a redefinition of the adjustments due after 2019. Final approval is expected by the first half of 2019.

DCO 573/2018/R/idr illustrated the criteria for monitoring the implementation of the investments planned in the SII at the basis of the tariff increases already approved and in the approval phase, in order to ensure the correct application of the regulation, as well as to identify possible liability profiles linked to the failure to implement the planned infrastructure interventions.

The proposals involve the two regulatory periods MTI 2014-2015 and MTI2 2016-2019. The first audit relates to the MTI 2014-2015 and the proceedings are expected to be completed by April 30, 2019.

Review of the tariff structure

In order to harmonize the tariff structure applied to end users throughout the national territory, Resolution 665/2017/R/idr approved the Integrated Text of Water Service Fees (TCSI) that entered into force on January 1, 2018.

The TCSI introduces the concept of standard per-capita tariff and includes:

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

The tariff structure is adopted by the EGA on the basis of the information and data provided by the operators and must be submitted to the Authority by June 30, 2018. At least in the last billing cycle of the 2018 year, the operator must issue bills on the basis of the new structure approved by the EGA.

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Resolution 636/2018/R/idr initiated a procedure for monitoring the application of the tariff structure criteria laid down by the TICS I in order to:

a) carry out a survey on the new tariff structures applied by the operators, focusing the analysis in particular:

- on the methods of transposing - for the determination of the variable share of the aqueduct service - the per capita criterion, according to the number of components of domestic users;
- the extent of the consumption bands defined by the EGAs and the unit tariffs of the same associates, focusing in particular - with reference to resident domestic users - on the fee applied to the segment of facilitated consumption commensurate with the amount of water needed to meet basic needs;
- on the fees for collection and treatment services applied to non-domestic users authorized to discharge their industrial waste water into the public sewerage system.

b) on verifying the correct application of the TICS I criteria and procedures, including the respect of the constraints aimed at ensuring the social sustainability of the fees charged in the implementation of the reform.

Social water bonus

Resolution 897/2017/R/idr 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 households that are residents with 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) 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 an individual contract, will receive the social bonus in a single solution from the manager with the methods identified by the latter. The social 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.

Regulation of technical quality

Resolution 917/2017/R/idr, in line with other regulated services, introduced rules in the SII to regulate technical quality, providing for a gradual approach starting from January 1, 2018 aimed at standardizing the national service level through specific incentive mechanisms differentiated according to the deviation between the current situation and the future target with the objective to promote investments and also to prioritize them according to the expected outputs.

The incentive to improve technical quality includes a premium-penalty mechanism and a multi-stage performance assessment that will be activated in the year 2020 with reference to 2018 and 2019 performances. To access them, operators must possess certain regulatory compliance requirements on the one hand and data availability on the other.

The Resolution established 6 specific indicators for the SII phases:

- aqueduct: water leaks, service interruptions and quality of the water supplied;
- sewerage: adequacy of the sewage system;
- treatment: disposal of sludge in landfill and quality of treated water.

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 relationship between operator and user also changes with the obligation for the operator, in case of non-compliance with the specific standards, to pay to the user an automatic indemnity even more than once a year (max 2) and to pay it also to indirect users (ex. condominium utilities related to a single contract).

The regulation of the technical quality is completed by the obligations of monitoring, registration and communication both to the Authority and to the user.

For A2A Ciclo Idrico S.p.A. and for ASVT S.p.A., the Plan of interventions relating to the years 2018 and 2019 and related to the tariffs approved by means of Resolution 807/2016 /R/idr has been updated and integrated with the investments necessary to pursue the challenging technical quality objectives envisaged by Resolution 917/2017/R/idr. Capex in the two-year period amount to a total of approximately 118 million euro, destined, in order of priority, in addition to the resolution of European infringements in the sewerage and treatment sector, to the reduction of network losses (both companies are classified in class C) and to improve the quality of the water supplied.

Alternative resolution of disputes

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

It is expected that from July 1, 2018, the attempt to reconcile the disputes that have arisen between a water user and related manager will be voluntary and available - also through the Conciliation Service of the Authority - both for issues relating to the aspects regulated by the Authority and for all other issues of interest to the user of the SII with the exception of those not falling within the scope of the TICO and those relating to water quality.

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 means of Resolution 638/2016/R/idr, the Authority initiated the procedure for the adoption of directives to reduce arrears in the SII. Despite the issuing of two DCOs (603/2017/R/idr and 80/2018/R/idr), the proceedings have not yet been concluded.

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

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

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

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

With Report 268/2018/R/idr, the Authority drew up a first list of necessary and urgent measures. For the A2A Group, the list shows the construction of the aqueduct, sewerage and treatment network, which is currently completely absent, in the municipality of Calvisano managed by A2A Ciclo Idrico S.p.A., to which a loan of approximately 22 million euro is allocated. Funding will only be disbursed following the relevant Prime Ministerial Decree. The total investment (21.8 million euro

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for the aqueduct alone, plus 23.5 million euro for sewerage/treatment) will be developed in the next regulatory period 2020-2023.

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

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

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

The Authority is also entrusted with 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.

After a first resolution (Resolution 282/2017/R/tlr) regarding sub-billing, the Authority defined with Resolution 24/2018/R/tlr (TUAR), as amended, the criteria for determining the connection fees and methods by which users can exercise the right to withdrawal.

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

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

By means of Resolution 277/2018/R/tlr, the Authority, following the critical issues highlighted by operators, postponed the deadline for the entry into force of the TUAR from June 1, 2018 to October 1, 2018 with the end of the regulatory period December 31, 2021.

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

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

Automatic compensation is provided in the event of non-compliance with specific standards for reasons attributable to the operator, the value of which is commensurate with the power contractually committed by the user, in order to consider the size of the user affected by the violation. For users with contractually committed power up to 50 kW (single-family users and small condominiums) the compensation is equal to 30 euro. For users with contractually committed power exceeding 50 kW and up to 350 kW, the compensation is equal to 70 euro.

Resolution 574/201/R/tlr approved the rules on "Information obligations for entities operating in the district heating and cooling sector (OITLR)", at the same time providing for the repeal of previous resolutions 339/2015/R/tlr and 23/2018/R/tlr with a view to rationalizing the provisions on the obligations of operators.

DCO 637/2018/R/tlr sets out the Authority’s proposals for minimum requirements for transparency of district heating and cooling services, aimed both at promoting competition in the market for air conditioning services and at protecting service users. In the first half of 2019, an additional DCO is planned with the aim of finalizing the final measure in June 2019.

By means of DCO 691/2018/R/tlr, the first guidelines on the technical quality of district heating services are presented, with reference to security and continuity of service, as well as energy and environmental performance. This consultation is based on data collection initiated by the Authority with reference to the networks managed in 2017 and the main activities and procedures currently adopted by operators to ensure security and continuity of service.

Given the absence of tariff leverage, unlike in other regulated sectors, the legislative framework does not allow the application, to date, of economic incentive mechanisms such as bonuses-penalties. The Authority is therefore oriented to use in the first regulatory period only service obligations, standards (specific or general) and reputational mechanisms (publication of operators’ performance). In the first half of 2019, an additional DCO is planned with the aim of finalizing the final measure in July 2019.

New incentives for the development of district heating networks

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

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

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

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

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

Relapse of the dispute concerning Resolution ARG/gas 89/10 on contracts for the supply of heat

The resolution of the dispute concerning the introduction of a reduction coefficient k for the indexed component of the QE (gas raw material) for the thermal years 2010-11 and 2011-12 referred to in Resolution ARG/gas 89/10 (see the dedicated paragraph in the Generation and Trading Business Unit section) also had an impact on contracts for the supply of heat to end customers, the prices of which were indexed to the trend of the values of the economic conditions of reference for the gas protection service.

The adjustment activities carried out by A2A Calore & Servizi S.r.l. only with regard to customers still active and with the forecast of forms of installment have made it possible to recover a total of approximately 1.8 million euro.

Tax credit recognized to the heat produced by the biodegradable part of waste

The tax credit tool for district heating was introduced by Law 448 of 1998 (Finance Law 1999) for end users connected to networks powered by biomass in the municipalities falling within climate zones E and F. The mechanism was subsequently made permanent with the 2009 Finance Law.

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As of 2014, the amount of the benefit is equal to 21.94 euro/MWh of heat to be translated on the sale price to the end user: the heat supplier, responsible for the application of the tax credit on the supply bills, becomes a creditor against the tax authorities.

At the end of 2016, A2A Calore & Servizi S.r.l. began discussions with the Revenue Agency (AdE) aimed at verifying the applicability of the credit only to the portion of heat production deriving from the waste-to-energy treatment of municipal and industrial solid waste classifiable as biomass. Art. 2 of Legislative Decree 387/2003 incorporates, in fact, Directive 2001/77/EC establishing that “[...] *biomass refers to the biodegradable part of products, waste and residues from agriculture (including plant and animal substances) and from forestry and related industries, as well as the biodegradable part of industrial and municipal waste*”.

On May 9, 2017, A2A Calore & Servizi submitted a request to the Revenue Agency and a copy to the MiSE regarding the Brescia district heating system, on the correctness of the determination of the above tax credit in proportion to the amount of thermal energy produced from biomass present in municipal and industrial solid waste, as can be determined using the reference technical standard (UNI/TS 11597 of 2015).

On April 24, 2018, the AdE declared admissible the request of the company which, with effect from October 1, 2018, discounted from the amount in the bill, the tax credit proportionally to the renewable heat that feeds the network to which customers are connected.

International Business Unit

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

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

In 2018, a project was initiated in Spain for the design, supply, realization and start-up, as a sub-appointed supplier, of a waste treatment plant with 150,000 t/y of MSW.

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

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Results

The consolidation scope at December 31, 2018 changed compared to the corresponding year due to the following operations:

- line-by-line consolidation of the ACSM-AGAM Group as of July 1, 2018;
- line-by-line consolidation of a group of companies that own 5 photovoltaic plants in Italy through A2A Rinnovabili S.p.A. and Fair Renew S.r.l. held (60%), incorporated in July 2018;
- line-by-line consolidation of A2A Integrambiente S.r.l., 74% owned by A2A Ambiente S.p.A., 25% by Amsa S.p.A. and 1% by Aprica S.p.A., in order to provide environmental sanitation services;
- line-by-line consolidation of the NewCo A2Abroad S.p.A., incorporated in December 2018;
- sale of the shareholdings in Rudnik Uglja Ad Pljevlja (previously consolidated using the equity method) and completion of the liquidation process of Vespia S.r.l. and Ecofert S.r.l..

Moreover, the economic data at December 31, 2018 are not homogeneous with respect to the previous year due to the following contributions:

- incorporation, in July 2017, of A2A Rinnovabili S.p.A., which progressively acquired during the last quarter of 2017 a portfolio of 13 companies owning photovoltaic plants;
- full deconsolidation of the Montenegrin subsidiary EPCG as from July 1, 2017, the results of which as at December 31, 2017 are shown under the item "Results from assets held for sale";
- line-by-line consolidation of LumEnergia S.p.A., as a result of the increase to 92.7%, starting from July 2017, of the investment held by the subsidiary A2A Energia S.p.A.;
- establishment and line-by-line consolidation, in the second half of 2017, of the consortium A2A Security S.c.p.a., of the company A2A Energy Solutions S.r.l. and of the company A2A IDRO4 S.r.l.;
- increase in the stake held in Azienda Servizi Valtrompia S.p.A. and consequent line-by-line consolidation, as from March 1, 2017.

The results of the A2A Group for the period ended December 31, 2018 are set out below, with figures for the previous year:

<i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	Change
Revenues	6,494	5,796	698
of which:			
- Revenues from the sale of goods and services	6,271	5,590	681
- Other operating income	223	206	17
Operating expenses	(4,598)	(3,962)	(636)
Labour costs	(665)	(635)	(30)
Gross operating income - EBITDA	1,231	1,199	32
Depreciation, amortization and write-downs	(623)	(444)	(179)
Provisions	(20)	(45)	25
Net operating income - EBIT	588	710	(122)
Result from non-recurring transactions	14	-	14
Net financial charges	(116)	(139)	23
Affiliates	4	5	(1)
Result before taxes	490	576	(86)
Income taxes	(157)	(192)	35
Result after taxes from operating activities	333	384	(51)
Net result from discontinued operations	21	(85)	106
Minorities	(10)	(6)	(4)
Group result of the year	344	293	51

In 2018, the **Revenues** of the A2A Group amounted to 6,494 million euro, up 12% compared to the previous year. The increase in revenues is mainly due to revenues from the sale of electricity and gas - following the growth in wholesale volumes and the rise in prices - the increase in sales on the free market, particularly to customers, and the increase in Green Certificate revenues. The full consolidation of the ACSM-AGAM Group generated a positive impact of 187 million euro on consolidated revenues in the second half of the year.

The **Gross Operating Margin** equalled 1,231 million euro, a rise of 32 million euro compared to 2017 (+2.7%). The effect of consolidating the ACSM-AGAM Group since July 1, 2018 on the gross operating margin was 32 million euro.

Net of the non-recurring items (64 million euro in 2017; 39 million euro in 2018) and changes in the consolidation scope, mainly in respect of the ACSM-AGAM transaction, the Gross Operating Margin grew by 33 million euro (+3%).

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The following table highlights the composition by Business Unit:

<i>millions of euro</i>	12 31 2018	12 31 2017	Change	Change %
Generation and Trading	370	356	14	3.9%
Market	206	216	(10)	(4.6%)
Waste	268	261	7	2.7%
Networks and District Heating	410	391	19	4.9%
A2A Smart City	11	7	4	57.1%
International	-	(2)	2	n.s.
Corporate	(34)	(30)	(4)	13.3%
Total	1,231	1,199	32	2.7%

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 370 million euro, an increase of 14 million euro compared to the previous year, of which 2 million euro relative to the ACSM-AGAM Group.

Net of non-recurring items recorded in the two comparative periods (+11 million euro in 2018 and +3 million euro in 2017) and changes in scope, the Gross Operating Margin increased by 5 million euro.

The positive result booked by the business unit was boosted by the sale of the whole of the long position held in Green Certificates, together with the May recording of the contribution made by green certificates of Ampezzo, the increased hydroelectric and thermoelectric combined cycle productions, the rise in electricity prices (+14% of the PUN baseload) and the contribution made by newly-acquired companies operating in the photovoltaic industry.

These positive effects were partially reabsorbed by the negative impacts deriving from the lesser contribution made by the dispatching services market in the last quarter of 2018 as compared with the same period of last year and from the worsening of some variables of the energy scenario (gas and CO2). The high gas prices (+23% on 2017 of the average gas price at PSV) and the increase in environmental expenses (CO2) in fact resulted in a significant decrease, as compared with last year, of the spreads on the MGP, in particular for combined cycle plants (clean spark spread peakload), which are down 60% on 2017). The gas portfolio also recorded a significant decline in margins following higher costs of procurement.

The Gross Operating Margin of the Market Business Unit amounted to 206 million euro, including 30 million euro from non-recurring items (+51 million euro in 2017) and 7 million euro from the consolidation of the ACSM-AGAM Group.

Net of non-recurring items and changes in the consolidation scope, the ordinary Gross Operating Margin of this business unit grew by 5 million euro (+3% on the previous year). In the year under review, the contribution margin of the electricity and gas segments rose by approximately 19 million euro thanks to the increase in the number of mass market customers (approximately 190 thousand on the end of 2017, net of the ACSM-AGAM effect) and larger electricity and natural gas sales volumes to large customers on the free market. Growth in the retail energy sector was only partly offset by higher costs, mainly for marketing and external communication to attract new customers.

Moreover, the New Energy Solutions sector provided a contribution to the increase in the Gross Operating Margin (approximately 2 million euro) thanks to the optimization of the Energy Efficiency Certificate portfolio (TEE).

The Gross Operating Margin of the Waste Business Unit came to 268 million euro (261 million euro at December 31, 2017), of which 3 million euro from the new ACSM-AGAM Group.

Net of the non-recurring items in the two periods considered (+10 million euro in 2017; -1 million euro in 2018) and changes in scope, this business unit's ordinary Gross Operating Margin from continuing operations is up 17 million euro (+7%).

Results were driven by both the management of waste-to-energy plants, thanks to greater revenues from the sale of energy, the increase in the quantities disposed of and, especially, the positive trend in urban waste transfer prices, and the management of industrial treatment plants (waste-to-energy

plant in Filago and greater transfers to the landfill of inert lots of Corteolona). These effects more than offset the lower profit margins following the lower revenues from recycled paper due to the drop in sales prices and the increase in costs to dispose of collected waste (multi-material and large items).

The Gross Operating Margin of the Networks and District Heating Business Unit amounted to 410 million euro (391 million euro as at December 31, 2017). The consolidation of ACSM-AGAM contributed 26 million euro to this total.

Net of non-recurring items (+4 million euro in 2017 and +3 million euro in 2018) and changes in scope, the Networks and District Heating Business Unit recorded a decline of 2 million euro in the ordinary Gross Operating Margin (-1% on last year): the positive effects deriving from the increase revenues admitted for gas distribution, the increase in water sector tariffs resolved by the Regulatory Authority and the greater margins recorded in the district heating segment, although penalised by the rising costs of CO2, offset the reduction in revenues admitted for electricity distribution and other types of revenues for gas distribution.

The Gross Operating Margin of the International Business Unit was nil (negative for 2 million euro in the previous year).

In 2018, A2A Smart City recorded Gross Operating Margin of 11 million euro, an increase of about 4 million euro over the previous year. The increase in profit margins was mainly due to projects kicked off in the second half of 2017 for the construction of infrastructure to lay optical fibre cables, above all in Brescia.

“Depreciation, amortization and write-downs” amounted in total to 643 million euro (489 million euro at December 31, 2017).

“Depreciation, amortization and write-downs” totalled 623 million euro (444 million euro at December 31, 2017), representing an overall increase of 179 million euro of which 18 million euro deriving from the first-time consolidation of the ACSM-AGAM Group.

Amortization of intangible assets amounted to 91 million euro (72 million euro at December 31, 2017). Amortization totalled 19 million euro, including 9 million euro relating to the first-time consolidation of the ACSM-AGAM Group, 4 million euro relating to the effects of the purchase price allocations of companies operating in the photovoltaic sector acquired in the previous year and those acquired in 2018, 3 million euro relating to the effects of the purchase price allocations of the ACSM-AGAM Group, 1 million euro relating to the water distribution network and 2 million euro relating to the implementation of information systems.

Depreciation of tangible assets show an increase of 34 million euro compared to December 31, 2017 and mainly includes:

- higher depreciation, for 5 million euro, resulting from the change in the useful life of the assets related to the electricity grid made last year;
- higher depreciation resulting from the consolidation of the companies operating in the photovoltaic sector acquired starting from the second half of 2017 for 7 million euro;
- higher depreciation of 9 million euro, mainly relating to the investments which went into production after December 31, 2017;
- higher depreciation of 6 million euro, relating to the first-time consolidation of the ACSM-AGAM Group;
- higher depreciation, for 3 million euro, related to the implementation of the New Data Center.

Write-downs in the year amounted to 160 million euro and mainly refer to the write-down of the Monfalcone plant and the write-down of goodwill relating to the “A2A Reti Elettriche” CGU.

The balance of “Provisions for risks” shows a net negative effect of 5 million euro (positive for 10 million euro at December 31, 2017) due to allocations in the year of 44 million euro, offset by the surpluses of 49 million euro since some ongoing disputes have ceased to exist.

Provisions for the year concerned 8 million euro for the provision for public water derivation fees, 8 million euro for provisions relating to the effect of updating the appraisal for the Brindisi Plant, 7 million euro for provisions for funds for personnel lawsuits and disputes, 2 million euro for provisions for tax funds and 5 million euro for provisions for expenses funds for closure and post-closure of landfills, 7 million euro provisions for other disputes and 7 million provisions deriving from the first-time consolidation of the ACSM-AGAM Group.

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The “Bad debt provision” amounted to 25 million euro (35 million euro at December 31, 2017), consisting of the accrual for the period.

As a result of these changes “**Net operating income**” amounted to 588 million euro (710 million euro for the year ended December 31, 2017).

The item “**Result from non-recurring transactions**” amounted to 14 million euro (it had no value at December 31, 2017) and refers for about 6 million euro to the income from the sale of the equity investment held in Rudnik Uglja Ad Pljevlja and for 8 million euro to the income from the acquisitions made during the year of the companies of the Rinnovabili Group.

“**Net financial charges**” amounted to 116 million euro (139 million euro at December 31, 2017), representing a decrease of 23 million euro. In the previous year, financial charges included 17 million euro for the cost incurred by A2A S.p.A. for the partial repurchase of bonds maturing in 2019 and 2021.

The result from “**Affiliates**” was positive for 4 million euro (positive for 5 million euro at December 31, 2017), and is mainly attributable to the positive valuations of the shareholding in ACSM-AGAM S.p.A. consolidated using the equity method until June 30, 2018 and other minor shareholdings.

“**Income taxes**” for the year amounted to 157 million euro (192 million euro at December 31, 2017).

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

In the previous year, this item showed a negative value of 85 million euro mainly related to the net result, less than 1 million euro and relating to the first six months of 2017 of EPCG, in addition to the write-down of 60 million euro and the discounting charge of 26 million euro to adjust the value of the shareholding to fair value.

The “**Group result of the year**”, after the minorities were deducted, was positive and amounted to 344 million euro (positive for 293 million euro at December 31, 2017).

Balance sheet and financial position

It is noted that compared to the end of the previous year, the scope of consolidation changed for the following transactions:

- line-by-line consolidation of the ACSM-AGAM Group as of July 1, 2018;
- A2A Rinnovabili, a wholly-owned subsidiary of A2A S.p.A., completed the acquisition of two photovoltaic portfolios in Italy in 2018. Specifically, on February 28, 2018, it acquired 6 companies owning 5 photovoltaic plants from IMPAX (AIFM) Limited - part of the Impax Asset Management Group p.l.c. and on December 17, 2018, the acquisition of the Italian portfolio of the Talesun Group consisting of a holding company and nine project companies was completed.
In addition, in 2018, A2A Rinnovabili completed the establishment, in partnership with the Ente Autonomo Fiera Internazionale di Milano, of Fair Renew S.r.l., in which it holds a 60% stake, and the establishment of 758AM S.r.l., in which it holds a 20% stake;
- incorporation and line-by-line consolidation of A2A Integrambiente S.r.l., holder of the urban hygiene contract with Gelsia Ambiente S.r.l.;
- incorporation and line-by-line consolidation of A2Abroad S.r.l. in December 2018;
- conclusion of the liquidation process of Vespia S.r.l. and Ecofert S.r.l.;
- sale of the shareholding of 39.49% in Rudnik Uglja Ad Pljevlja previously consolidated using the equity method.

Net fixed assets

The “**Net fixed assets**” amounted to 6,131 million euro, up by 351 million euro compared to December 31, 2017.

The changes that occurred are detailed below:

- tangible fixed assets increased by 14 million euro due to:
 - the first-time consolidation of acquisitions in 2018, accounting for an increase of 177 million euro;
 - investments amounting to 305 million euro, essentially in the Networks and District Heating Business Unit for 124 million euro, the Waste Business Unit for 102 million euro and the Generation and Trading Business Unit for 53 million euro. Investments of around 26 million euro were then recorded, divided between the Corporate Business Unit, Market Business Unit and A2A Smart City;
 - other increases of 24 million euro, mainly due to the effects of updated estimates and discount rates used to estimate future decommissioning and restoration costs;
 - a decrease of 116 million euro due to write-downs for the year, due to the results of the Impairment Test phase;
 - a decrease of 4 million euro following disposals in the year, net of accumulated depreciation;
 - depreciation for the year of 372 million euro.
- Intangible assets increased by 439 million euro on December 31, 2017, due to:
 - the effect of the first-time consolidation in 2018, which resulted in an increase of 333 million euro;
 - capex of 195 million euro, mainly in the Networks and District Heating Business Unit for 151 million euro, the Market Business Unit for 16 million euro, the Corporate Business Unit for 21 million euro, and an additional 7 million euro divided between the Waste and Generation and Trading Business Units;
 - net increase of 49 million euro due to other changes mainly due to: the completion of the Purchase Price Allocation process for the ACSM-AGAM Group and the acquisition of the photovoltaic portfolio from IMPAX (AIFM) Limited for 116 million euro, the reduction in environmental certificates for the industrial portfolio for 71 million euro, the increase of 8 million euro due to the acquisition by A2A Energia S.p.A. of the customers of the “Gas&Power Business” from X3 Energy S.p.A. and further negative category changes and exchange rates for 5 million euro;
 - a decrease of 44 million euro due to write-downs of the A2A Reti Elettriche CGU due to the impairment test;
 - sales of assets, net of accumulated amortization, for 3 million euro;
 - decrease for depreciation in the year for 91 million euro.
- Equity investments and other non-current financial assets, at 23 million euro, decreased by 48 million euro compared to December 31, 2017. The change is mainly due to the reclassification, following the conclusion of the industrial partnership transaction, of the equity investment in ACSM-AGAM S.p.A. for 44 million euro, now fully consolidated, and for 7 million euro to the sale of the equity investment held in Rudnik Uglja Ad Pljevlja. In addition, 2 million euro were generated by the collection of dividends and 4 million euro by the positive valuation of equity investments. The first 2018 consolidations brought in 4 million euro, net of the reclassification to assets held for sale of 3 million euro of two equity investments held by ACSM-AGAM.
- Other net non-current liabilities amounted to 122 million euro, showing a net increase of 5 million euro on December 31, 2017. The change is mainly due to the effects of the first-time consolidation in 2018, which amounted to 3 million euro.
- “Deferred tax assets” amounted to 264 million euro (301 million euro at December 31, 2017) and, net of the 15 million euro decrease arising from the first-time consolidation of the companies acquired in 2018, show a decrease of 22 million euro.

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- Provisions for risks, changes and liabilities for landfills showed an increase of 17 million euro. Net of the first 2018 consolidations, which contributed 4 million euro, the changes are mainly due to: net provisions of 8 million euro in decommissioning provisions relating to the effects of the update of the appraisal for the Brindisi power plant, a net decrease of 12 million euro in the provision for tax disputes, mainly as a result of the positive conclusion of disputes with the Puglia region of the subsidiary A2A Ambiente. Utilizations for the period totaled 21 million euro and other changes 39 million euro, due mainly to the impact of the updated appraisal report for the Piacenza and Cassano power plants and updates to the discount rates for assets that are not fully depreciated, offset by a corresponding entry in "Tangible assets".
- Employee benefits decreased by 5 million euro, which, net of the first-time consolidations that resulted in a charge of 8 million euro, includes: 18 million euro in net disbursements for the year, a net decrease of 26 million euro in payments for the period to pension funds and provisions for the year of 31 million euro.

Working capital

"Working capital" amounted to 302 million euro, an increase of 67 million euro over December 31, 2017. The main changes are detailed below:

- Inventories showed an increase of 40 million euro mainly due to the net increase in fuel and natural gas stocks. The first-time consolidation entries totaled 5 million euro.
- Trade receivables amounted to 1,781 million euro, an increase of 110 million euro compared to December 31, 2017. The changes that occurred, net of the effects of the first-time consolidation (69 million euro), are due mainly to the increase of 85 million euro related to the change in the scope of consolidation, offset by an improvement in the management of the customer portfolio (44 million euro).
- Other current assets amounted to 313 million euro, an increase of 97 million euro compared to December 31, 2017. Net of the positive effect of the first 2018 consolidations of 57 million euro, the differences relate to: an increase of 67 million euro related to the increase in commodity derivatives due to both the change in the fair value measurement at the end of the year in question and the change in the quantities hedged; a decrease of 3 million euro in receivables from Cassa per i Servizi Energetici e Ambientali and other decreases of 24 million euro.
- Trade payables amounted to 1,413 million euro, an increase of 32 million euro compared to the end of the previous year. The changes that occurred, net of the first 2018 consolidations, equal to 44 million euro, show a decrease of 12 million euro.
- Other current liabilities amounted to 581 thousand euro, an increase of 60 million euro compared to December 31, 2017. The change of 68 million euro, net of the effects of the first-time consolidation, is due to an increase of 70 million euro in current derivatives related to the measurement at fair value of commodity derivatives outstanding at the end of the year, adjusted by other decreases of 78 million euro, mainly due to a reduction of 52 million euro in tax payables, 22 million euro in amounts owed to the CSEA, excise taxes and tariff components and 4 million euro in other decreases.
- Assets and liabilities for current taxes amounted to a credit of 15 million euro, which, compared to a credit position of 103 million euro at December 31, 2017, show a decrease of 88 million euro. The first 2018 consolidations brought in a liability of 1 million euro.

"Non-current assets held for sale" at December 31, 2018 show a balance of 112 million euro and mainly refer to the fair value of the investment in EPCG, 18.7% held by A2A S.p.A. (41.75% at December 31, 2017).

The consolidated **"Employed capital"** at December 31, 2018 amounted to 6,545 million euro and was covered by Equity for 3,523 million euro and the Net Financial Position for 3,022 million euro.

Shareholders' equity

The change of the Shareholders' equity was positive for 510 million euro. The net profit for the year generated a positive effect of 344 million euro, offset by the distribution of 180 million euro in dividends. In addition, there was positive valuation of cash flow hedge derivatives and the bad debt provision as defined by IFRS 9 at 9 million euro, in addition to positive valuations for 1 million euro as defined by IAS 19.

The first-time consolidation of ACSM-AGAM had a positive impact on Group equity of 331 million euro.

The **"Net financial position"** amounted to 3,022 million euro (3,226 million euro at December 31, 2017). The cash flow generated in the year was positive and amounted to 235 million euro, after the payment of dividends for 180 million euro and investments in the year for 500 million euro.

The change in the scope of consolidation led to a negative adjustment to the "Net financial position" of 31 million euro, including 125 million euro for the acquisitions completed by A2A Rinnovabili and A2A Energia during the year, 52 million euro for the consolidation of the ACSM-AGAM Group, offset by the collection of the first and second tranches deriving from the exercise of the put option on EPCG for a total of 118 million euro and the receipt of dividends from the same for 15 million euro. In addition, 13 million euro were collected from the sale of the equity investment in Rudnik Uglja Ad Pljevlja.

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<i>millions of euro</i>	12 31 2018	12 31 2017	Change
CAPITAL EMPLOYED			
Net fixed assets	6,131	5,780	351
- Tangible assets	4,620	4,606	14
- Intangible assets	2,302	1,863	439
- Shareholdings and other non-current financial assets (*)	23	71	(48)
- Other non-current assets/liabilities (*)	(122)	(117)	(5)
- Deferred tax assets/liabilities	264	301	(37)
- Provisions for risks, charges and liabilities for landfills	(642)	(625)	(17)
- Employee benefits	(314)	(319)	5
<i>of which with counter-entry to equity</i>	<i>(101)</i>	<i>(47)</i>	
Net Working Capital and Other current assets/liabilities	302	235	67
Net Working Capital:	555	437	118
- Inventories	187	147	40
- Trade receivables	1,781	1,671	110
- Trade payables	(1,413)	(1,381)	(32)
Other current assets/liabilities:	(253)	(202)	(51)
- Other current assets/liabilities (*)	(268)	(305)	37
- Current tax assets/tax liabilities	15	103	(88)
<i>of which with counter-entry to equity</i>	<i>(25)</i>	<i>(39)</i>	
Non current assets held for sale (*)	112	224	(112)
<i>of which with counter-entry to equity</i>	<i>109</i>	<i>224</i>	
TOTAL CAPITAL EMPLOYED	6,545	6,239	306
SOURCES OF FUNDS			
Shareholders' equity	3,523	3,013	510
Total financial position beyond one year	2,968	3,488	(520)
Total financial position within one year	54	(262)	316
Total Net Financial Position	3,022	3,226	(204)
<i>of which with counter-entry to equity</i>	<i>19</i>	<i>29</i>	
TOTAL SOURCES	6,545	6,239	306

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

millions of euro

	01 01 2018 12 31 2018	01 01 2017 12 31 2017
NET FINANCIAL POSITION AT THE BEGINNING OF THE YEAR	(3,226)	(3,136)
First-time consolidation contribution	(142)	(87)
Effect of change in EPCG consolidation method	-	(206)
Net result (**)	348	297
Amortization, depreciation	463	410
Write-downs/disposals of tangible and intangible assets	167	43
Affiliates	(4)	(5)
Write-downs of assets held for sale	-	86
Net interest for the year	116	139
Net interest paid	(114)	(115)
Net taxes paid	(102)	(192)
Changes in assets and liabilities (*)	149	203
Cash flow from operating activities	1,023	866
Investments in tangible and intangible assets	(500)	(454)
Investments in shareholdings and securities	(25)	(23)
Disposals of fixed assets and shareholdings	13	-
Dividends received from shareholdings	2	2
Net cash flows from investment activities	(510)	(475)
Free cash flow	513	391
Dividends paid by the parent company	(180)	(153)
Dividends paid by the subsidiaries	(5)	(2)
Other non-monetary changes	3	(24)
Cash flow from dividend distribution and other changes	(182)	(179)
Changes in financial assets/liabilities with counter-entry to equity	15	(9)
NET FINANCIAL POSITION AT THE END OF THE YEAR	(3,022)	(3,226)

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

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

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Project of industrial and corporate partnership between multi-utilities: A2A, ACSM-AGAM, Aspem, AEVV and Lario Reti Holding

On July 1, 2018, the Merger and Demerger transactions were effective between ACSM-AGAM, Aspem, AEVV, Lario Reti Holding and A2A S.p.A., which constituted the Multi-utility of the North. From July 1, the accounting and tax effects also commenced and as a result, the A2A Group fully consolidated, starting from that date, the new ACSM-AGAM Group.

The main steps of the project that led to the establishment of the Multi-utility of the North are described below.

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 would have been as follows: A2A 38.91%, Lario Reti Holding 23.05%, the Municipality of Monza 10.53%, the Municipality of Como 9.61%, the Municipality of Sondrio 3.3% and the Municipality of Varese 1.29%. A reduction of free float to around 13% was expected.

The reality resulting from the project is 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 an 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.

On March 12, 2018, the Municipalities of Como, Monza, Sondrio and Varese, shareholders of the entities involved in the Aggregation Project, adhered to said Project, signing the related contractual documents. Furthermore, also on the same date, the positive opinion on the exchange ratio of the Merger and the Demerger was released by the independent expert.

On May 16, 2018, the Extraordinary Meeting of ACSM-AGAM approved: (i) the merger by incorporation into ACSM-AGAM of A2A IDRO4, Aspem, AEVV Energie, ACEL Service, AEVV and Lario Reti Gas; (ii) the partial demerger of A2A Energia S.p.A. for the benefit of ACSM-AGAM mainly concerning the business unit consisting of energy customers located in the Province of Varese, together with an increase in capital serving the Merger and Demerger exchange ratio, for 120,724,700 euro, through the issue of a total of 120,724,700 ordinary shares; (iii) modification of some of the Company's articles of association.

On the basis of the exchange ratio of the Merger and Demerger described above, A2A obtained voting rights in excess of 30% of the voting rights exercisable in the ACSM-AGAM meeting, thus exceeding the threshold of TOB (Takeover Bid) mandatory pursuant to article 106 of the TUF Consolidated Finance Act (Legislative Decree no. 58/1998).

The unit price of the TOB coincided with the value attributed to an ACSM-AGAM share for the purpose of determining the exchange ratio of the Merger and will be 2.47 euro.

On June 25, 2018 was the stipulation of the deed of merger by incorporation into ACSM-AGAM of A2A IDRO4, Aspem, AEVV Energie, ACEL Service, AEVV and Lario Reti Gas and the partial demerger of A2A Energia S.p.A. for the benefit of ACSM-AGAM (mainly concerning the mass market customers business unit of the province of Varese), implementing merger and demerger resolutions taken by the competent bodies of each of the aforementioned companies.

Filing of the TOB by A2A S.p.A. and Lario Reti Holding S.p.A.

On July 20, 2018, A2A S.p.A. and Lario Reti Holding S.p.A. (the Bidders) communicated that they have submitted to CONSOB - pursuant to and for the purposes of articles 102, 106, paragraph 1, and 109, of Legislative Decree no. 58 of February 24, 1998, as subsequently amended and supplemented (the TUF) and article 37-ter of the Issuers' Regulation - the bid document (the Bid Document) relating to the total obligatory takeover bid pursuant to articles 102, 106, paragraph 1, and 109 of the TUF (the Bid). On August 2, 2018, CONSOB approved the terms of the Bid Document submitted.

The shares tendered, equal to 26,264,874, correspond to 13.31% of the Issuer's share capital, i.e. all the ordinary shares issued, less the shares already held, directly or indirectly, by the Bidders and the Municipality of Como, the Municipality of Monza, the Municipality of Sondrio and the Municipality of Varese.

The Bidders paid the subscribers to the Bid a price of 2.47 euro for each share tendered. A2A and LRH will pay the fee to the extent of 73.41% and 26.59% respectively.

The acceptance period for the Bid, agreed with Borsa Italiana, pursuant to art. 40, paragraph 2, of the Issuers' Regulations, began on August 20, 2018 and ended on September 7, 2018.

Final results of the bid and reopening of the deadline

On September 13, 2018, the intermediary in charge of coordinating the Collection of Adhesions to the Bid announced that 14,221,841 shares of the Issuer, equal to approximately 54.14% of the shares subject to the Bid and corresponding to approximately 7.2% of the share capital of the Issuer, had been tendered during the relevant adhesion period. The total value is approximately 35,127,947 euro.

It should also be noted that the Bidders, taking into account the shares tendered in acceptance of the Bid and the shares already held together with the Municipalities of Como, Monza, Sondrio and Varese, came to hold a total of 185,300,761 ordinary shares of the Issuer, equal to approximately 93.89% of the share capital.

In consideration of the purchase by the Bidders of at least half of the securities subject to the Bid pursuant to article 40-bis, paragraph 1, letter b), no. 2 of the Issuers' Regulations, it is confirmed that the conditions for the reopening of the terms of the Bid have been met.

This reopening took place on the trading day following the payment date (i.e. the trading day following September 14, 2018) for five trading days, i.e. on September 17, 18, 19, 20 and 21, 2018.

Final results of the bid following reopening of the deadline

On September 27, 2018, 2,537,851 shares of the Issuer were tendered to the Bid during the reopening of the terms, equal to approximately 9.66% of the shares subject to the Bid and to approximately 1.28% of the share capital of the Issuer, for a total value of approximately 6,268,491 euro.

Overall, the reopening of the terms resulted in tendered to the Bid 16,759,692 shares of the Issuer, equal to approximately 8.493% of the share capital of the Issuer, for a total value of approximately 41,396,439 euro.

Taking into account, therefore, the shares already held by the "jointly and severally liable" (Municipalities of Como, Monza, Sondrio and Varese) and those tendered in both periods of the Bid, the Bidders came to hold a total of 187,838,612 ordinary shares of the Issuer, equal to approximately 95.18% of the Issuer's share capital.

The obligation to purchase (sell-out), pursuant to article 108, paragraph 1 of the TUF, of the remaining shares not tendered to the Bid and equal to 9,505,182 shares of the Issuer, equal to 4.82% of the share capital (equivalent to approximately 23,477,799 euro).

The Purchase Procedure had a period of adhesion October 1, 2018 - October 19, 2018; date of payment set on October 26, 2018.

The final results of the purchase obligation procedure pursuant to art. 108, paragraph 1, of the TUF (Totalitarian TOB) were announced on October 25, 2018: 488,229 shares of the Issuer, equal to

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approximately 5.136% of the shares subject to the purchase obligation and approximately 0.247% of the share capital of the Issuer, were tendered to the purchase obligation, for a total value of approximately 1,205,925.63 euro.

Recovery of the free float

Pursuant to article 108, paragraph 1 of the TUF, at the end of the Purchase Procedure described above, the Bidders proceeded to recover the free float sufficient to ensure a regular course of trading.

The sale to recover the Issuer's free float took place and was closed on December 12, 2018, through an accelerated order collection procedure reserved for qualified investors in Italy and institutional investors abroad.

The procedure concerned 10,717,426 ordinary shares of the Issuer, representing 5.43% of the Issuer's share capital.

The sale price per share was 1.46 euro for a total value of 15,647,442 euro.

The Transaction was settled on December 17, 2018. From the operation to recover the free float, A2A S.p.A. realised a loss of 7.7 million euro.

At the end of the transaction, A2A S.p.A. held 41.34% of the total share capital of ACSM-AGAM S.p.A..

A2A completes two acquisitions in the photovoltaic sector, installed capacity rises to 98 Mwh

In 2018, the A2A Group, through its subsidiary A2A Rinnovabili S.p.A., completed two acquisitions bringing its total installed capacity to 98 Mwh.

On February 28, 2018, the acquisition of 5 photovoltaic plants in Italy from a fund managed by IMPAX (AIFM) Limited - part of Impax Asset Management Group plc - for a total of 15.7 Mwh was completed.

On December 17, 2018, A2A and TS Energy Europe S.A. signed an agreement governing the acquisition by A2A Rinnovabili S.p.A. of the Talesun portfolio in Italy, amounting to 43.2 MWp. It is also planned to set up a joint venture that will have the objective of developing up to 300 MWp of photovoltaic plants in market parity and will provide asset management services for the A2A portfolio.

The Board of Directors of A2A S.p.A. has taken a framework resolution for the issue of bonds

Taken on March 1, 2018 was a resolution authorizing the issuance of one or more non-subordinated bonds, unsecured and non-convertible, for the MTN program up to a maximum total of 1 billion euro, by April 30, 2020.

Income from the issue of bonds may be used, inter alia, to finance and/or refinance the Group's investments and/or to maintain adequate levels of liquidity, as well as to be used for one or more liability management operations. The decision falls within the context of the A2A Group's medium-term financial strategy also aimed at ensuring efficient management of the Group's repayment profiles, extending the average life of the debt and supporting the rating.

The Board of Directors of A2A S.p.A. have approved the 2017 results

On March 20, 2018, was the meeting of the Board of Directors of A2A S.p.A. which, chaired by Mr. Giovanni Valotti, approved the drafts of the Separate financial statements and of the Consolidated annual financial report at December 31, 2017.

The Board of Directors of A2A S.p.A. also approved the tenth annual report on the Group's sustainability performance, which this year represents for the first time the non-financial Consolidated Statement pursuant to Legislative Decree 254/2016, the Italian law that established the mandatory reporting of non-financial performance for large companies of public interest, implementing Directive 2014/95/EU.

The ordinary shareholders' meeting of A2A S.p.A. was scheduled on first call on April 27, 2018 and on second call on April 30, 2018.

The Board of Directors of A2A S.p.A. has examined and approved the A2A Group’s 2018-2022 Strategic Plan

The 2015-2017 three-year plan, which is updated annually, is univocally recognizable in the 3R&3D strategic design, and has been completed. The 2015-2017 plan 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. In parallel, the financial targets have been exceeded: since 2014, EBITDA has grown by 187 million euro, the NFP/EBITDA ratio has fallen to 2.7x, the ROI has exceeded 11%, and dividends have increased steadily up to 5.8 euro cents per share in 2017, with a percentage change of over 60%.

The A2A Group presented a new 2018-2022 Plan that focuses on three strategic guidelines (“TEC”): 1. T - Transformation: strengthening and change of the reference businesses, included in the four business lines of A2A; 2. E - Excellence: organization agility, operational excellence and process efficiency; 3. C - Community: attraction and valorization of our people, and full involvement of the external ecosystem. The three guidelines are supported by a strong base represented by Sustainability, the inspiring principle of development.

EPCG Put Option: agreement with the Government of Montenegro

On April 27, 2018, the Government of Montenegro approved the agreement negotiated with A2A S.p.A. for the accelerated execution of the put option on the entire shareholding in EPCG, exercised on July 3, 2017, which will be implemented in 4 tranches in the period between May 1, 2018 and July 31, 2019, instead of the seven years originally envisaged by the Shareholders’ Agreement of August 29, 2016.

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

On April 27, 2018, the ordinary shareholders’ meeting of A2A S.p.A. approved the 2017 financial statements.

Furthermore, the following resolutions have been adopted:

- approval of the proposal made by the Board of Directors to distribute a dividend of 0.0578 euro per ordinary share to be paid as from May 23, 2018 (ex-dividend no. 21 May 21, 2018) and record date May 22, 2018;
- vote in favour of the first part of the 2018 Remuneration Report;
- approval of the adjustment of the fee for the audit of the accounts and of the activities related to the additional activities (revision of the “Non-financial annual declaration pursuant to Legislative Decree 254/2016”) communicated by EY S.p.A., approving for this purpose an annual supplement of 15,000.00 euro of the fees due to EY S.p.A. for each financial year starting from the revision of the “Non-financial annual declaration pursuant to Legislative Decree 254/2016” at December 31, 2017;
- authorized – subject to revocation of the resolution authorizing the purchase and disposal of treasury shares adopted by the Ordinary Meeting of May 15, 2017, to the extent not already used – the Administrative Body to carry out transactions for the purchase and disposal of treasury shares, according to the purposes, procedures and terms expressly established.

Moody’s has improved the rating of A2A from BAA3 to BAA2 with stable outlook

The rating agency Moody’s Investors Service (Moody’s) improved, on April 27, 2018, the “long-term issuer” and “senior unsecured debt” ratings from Baa3 to Baa2. Moody’s also improved the “long-term EMTN” rating to (P)Baa2 from (P)Baa3.

The outlook of ratings is stable.

Moody’s has positively assessed the company’s well-diversified business structure, flexibility and strong liquidity profile along with the continuous improvement of its financial structure.

The Board of Directors of A2A S.p.A. has examined and approved the quarterly Information as at March 31, 2018

On May 10, 2018 was the meeting of the Board of Directors of A2A S.p.A. which, chaired by Mr. Valotti, examined and approved the results as at March 31, 2018.

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Below are the main results achieved by the Group:

- Gross Operating Margin amounted to 408 million euro, up 4% compared to March 31, 2017 restated;
- Group net profit of 173 million euro (180 million euro at March 31, 2017), due to the higher tax burden;
- Capex totaled 76 million euro, up 43% compared to the first quarter of 2017;
- Cash generation for 90 million euro. The net financial position decreased to 3,176 million euro, despite the impact of 41 million euro of the M&A transactions concluded in February 2018.

The Board of Directors of A2A S.p.A. has examined and approved the Information as at June 30, 2018

On July 31, 2018 was the meeting of the Board of Directors of A2A S.p.A. which, chaired by Mr. Valotti, examined and approved the results as at June 30, 2018.

Below are the main results achieved by the Group:

- Gross Operating Margin amounted to 657 million euro, up 3% compared to June 30, 2017 restated;
- Group net profit 267 million euro, up 70% with respect to the corresponding period of 2017. Ordinary net profit– excluding EPCG effects – is up 2%
- Capex totaled 187 million euro, up 21% compared to the first half of 2017;
- Cash generation for 196 million euro. Net financial position amounts to 3,030 million euro decreasing by 196 million with respect to December 31, 2017.

A2A and Fondazione Fiera Milano: the partnership for the construction of one of the largest rooftop solar systems in Europe gets underway

A2A and Fondazione Fiera Milano today signed a joint venture for the construction of one of the largest solar rooftop systems in Europe, at the Rho-Fiera Milano site. The joint venture is 60% owned by A2A Rinnovabili, the A2A Group company that operates in the green energy market, and 40% by Fondazione Fiera Milano.

The plant will have an installed capacity of over 10 MWp (peak megawatts) that can further grow to about 14 MWp. Its implementation, which will take place without state incentives, will allow Fiera Milano and nearby users to be supplied with energy through the PPA-Power Purchase Agreements, agreements for long-term energy supply contracts, and will allow savings of about 5 thousand tonnes of CO₂ per year and over 2 thousand TOE (tonnes of oil equivalent). The agreement between A2A and Fondazione Fiera Milano also provides for the development of solutions for infrastructures for recharging electric vehicles and energy storage within the Fair area.

A2A subscribes to the first credit line in Italy linked to sustainability policies and “Standard Ethics Rating”

On August 29, 2018, the A2A Group signed a sustainable credit line of 400 million euro with a duration of 5 years which, for the first time in Italy, sees the margins of the loan linked not only to the ESG (environmental, social and governance) performance of the company, but also to the achievement of specific business objectives linked to decarbonisation, green energy and the circular economy.

The credit line, which for A2A replaces a previous agreement signed in 2013, has incorporated as environmental targets two of the objectives that the A2A Group has defined in its Policy and in the 2018-2022 Sustainability Plan: in the circular economy the first goal concerns the increase in the recovery of material from waste treated in the Group's plants; the second objective, in line with the decarbonisation process in which A2A is already committed, is linked to the growth of the share of green energy produced from renewable sources that will be sold in the mass market segment. Achieving these targets will allow A2A to benefit from more favourable rates.

Unareti - Milan Gas Tender

The Municipality of Milan, the Contracting Authority of the tender for the concession of the natural gas distribution service in the “Milan 1 - City and Plant of Milan” area, communicated on September 5, 2018 to the A2A Group company Unareti S.p.A. the definitive award of the tender with an overall score of 98.12 points out of 100.

The territorial area of Milan 1 includes 830,000 redelivery points active on the Municipalities of: Milan, Baranzate, Bollate, Cinisello Balsamo, Corsico, Novate Milanese and Sesto San Giovanni.

The concession is valid for 12 years and is worth a total of 1,370,000,000 euro.

The measure awarding the gas distribution service, ordered by the Municipality of Milan, has been challenged by Zi Rete Gas S.r.l., which has requested and obtained the precautionary suspension of the award and request for access to the documents.

Reference should be made to the section “other information” of the consolidated financial statements for further details.

A2A wins the management of the Electric Mobility network in the Municipality of Milan

On November 8, 2018, A2A, through its subsidiary A2A Energy Solutions, was awarded the management and maintenance service for charging stations for electric vehicles and charging bars located on the digital islands of the Municipality of Milan.

The agreement, lasting 3 years, provides for the renewal of the public charging network, the innovation of the e-moving service, smart parking technologies and the fight against illegal parking.

A2A Ambiente inaugurates one of the most technological plants in Europe for the recovery of plastics

A2A Ambiente, a company of the A2A Group, inaugurated a plant for the recovery of plastic in Cavaglià (BI) on November 9, 2018. Starting from the individual bags that are delivered by the citizens, the plant is able to treat, select and divide 13 different types of plastics, which can then be sent for recycling and become new objects.

Technological excellence is the foundation of this structure, and process automation with screens, optical scanners and windshifters enables 45,000 tonnes of material to be processed annually. Tons of plastic which, as a second raw material, become a fundamental element of the circular economy process. The plastic recovery center has been built with highly insulated materials and is equipped with a 300 kW photovoltaic system on the roof that contributes to the power supply of the site with 330,000 kWh per year of 100% green energy.

The Board of Directors of A2A S.p.A. has examined and approved the quarterly Information as at September 30, 2018

On November 13, 2018 was the meeting of the Board of Directors of A2A S.p.A. which, chaired by Mr. Valotti, examined and approved the results as at September 30, 2018.

Below are the main results achieved by the Group:

- Gross Operating Margin amounted to 875 million euro, stable compared to September 30, 2017 restated;
- Group net profit 335 million euro, up 48% with respect to the corresponding period of 2017. Ordinary net profit - excluding EPCG effects - of 309 million euro, down 3% compared to the same period of 2017 (2 million euro, the effect of the first-time consolidation of the ACSM-AGAM Group);
- Capex totaled 304 million euro, up 24% compared to the first half of 2017;
- Net cash flows of 304 million euro were generated, in addition to the positive cash flows of 75 million euro from the change in the consolidation scope, offset by the negative net debt of 30 million euro arising from the first-time consolidation of ACSM-AGAM. The “Net financial position” amounted to 2,877 million euro (3,226 million euro at December 31, 2017).

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A2A Energia acquires the Gas & Power division of X3 Energy and wins important national public tenders

A2A Energia, with effect from December 1, 2018, acquired the Gas&Power business unit of X3 Energy, a company with strong roots in Emilia Romagna and with customers mainly in central and northern Italy.

The acquired portfolio has more than 4,500 supply points for about 220 Mm³ of gas and 165 Gwh of electricity and a total annual turnover of 130 million euro. The acquisition also allows A2A Energia to speed up the completion of the network of Key Agents specializing in the sale of electricity, gas and energy efficiency services to small and medium-sized enterprises.

A2A Energia has also recently won several important tenders of national importance for the supply of electricity: lot 4 of Tuscany, Marche and Umbria relating to the "Safeguard Service" for the two-year period 2019-2020; the three lots provided for in the CET tender for the supply to the Public Administrations of the Region of Tuscany in 2019; and finally two Consip lots, both valid for 12 months from activation (lot 4 of Trentino Alto Adige and Friuli Venezia Giulia and lot 9 of Umbria and Marche). The total turnover of the lots assigned to A2A Energia can be quantified as over 400 million euro for the two-year period 2019-2020.

Significant events after December 31, 2018

Linea Ambiente S.r.l. - Grottaglie Landfill

On January 28, 2019, Linea Ambiente, a wholly-owned subsidiary of Linea Group Holding controlled by A2A, was notified of TAR Lecce ruling no. 143/2019, which upheld the appeal filed by the municipalities of Grottaglie, San Marzano di San Giuseppe and Carosino for the annulment of the AIA decree issued by the Province of Taranto, on the basis of which the transfers to the Grottaglie landfill site were suspended. The company has filed an appeal with the Council of State for the annulment of Judgment 143/19 TAR Lecce.

On March 14, 2019, the Attorney General of Linea Ambiente was remanded in custody as part of a broader investigation with respect to the former President of the Province of Taranto in connection with the issue of the AIA decree for the Grottaglie landfill (DD 45/2018).

The criminal facts that have arisen do not in themselves have any technical or legal effect on the appeal proceedings pending before the Council of State.

The judgment of the Regional Administrative Court of Lecce no. 143/2019, which is the subject of the appeal, ruled exclusively on the need to leave the final assessment to the issue of the authorisation to the Presidency of the Council of Ministers; in fact, according to the Judge of First Instance, it was not even for the proceeding administration to assess whether the dissent expressed by one of the holders of the qualified interests could or could not be considered reasoned, and this assessment was due to the Council of Ministers itself.

This legal argument was opposed by the Company in its appeal with grounds of appeal that maintain unchanged, from a legal point of view, their seriousness and validity. Therefore, at this stage and on the basis of the information available, it does not seem possible to state that the ongoing criminal investigation and the precautionary measures ordered within the framework of the investigation can exert, from a technical point of view, a direct influence on the decision to be taken by the Council of State.

Therefore, there are no elements such as to modify the assumptions used in the impairment tests of the Waste CGU.

At December 31, 2018, the A2A Group was responsible for the Grottaglie landfill for a total value of 55 million euro.

A2A Group: 2018 preliminary consolidated results presented

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

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

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

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

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

As part of the "Multiutility of the North" merger, it should be noted that, on February 27, this year, the ACSM-AGAM S.p.A. has asked A2A to issue a guarantee to cover possible damage resulting from any incorrect assessment of the duration of the contract for urban hygiene services in the Municipality of Varese (originally of ASPEM S.p.A. and now of Acsm Agam Ambiente S.r.l.) and, in any case, to make a formal commitment to do everything in its power to re-establish the effective equivalence between the "contributions" of the shareholders of ASPEM (A2A S.p.A. for 90% and the Municipality of Varese

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for 10%) and the number of ACSM-AGAM shares received following the completion of the Merger and Demerger Operations.

At the date of the merger of ASPEM into ACSM-AGAM and the demerger of ACSM-AGAM into Acsm Agam Ambiente (July 1, 2018), in fact, ASPEM was entrusted with the environmental hygiene service in the Municipality of Varese, in execution of the service contract signed on November 15, 1999, expiring on December 31, 2030; the determination of the exchange ratio in the context of the Merger and Demerger Operations gave value to this deadline on December 31, 2030.

However, on July 17, 2018, following the completion of the Merger and Demerger Operations, the Municipality of Varese passed the first of a series of resolutions to identify the model for the management of the public urban hygiene service, from January 1, 2019, in view of the expiration of the contract on December 31, 2018 resulting - according to the interpretation of the Municipality - from the application of article 34, paragraph 22 of Decree Law no. 179 of October 18, 2012, as supplemented by article 8 of Law no. 115 of July 29, 2015.

Consequently, in September 2018, Acsm Agam Ambiente appealed to the Regional Administrative Court of Milan for the annulment of the executive decision that provided for the call for public procedure to select an economic operator that would prepare the tender documents to entrust the urban hygiene service and the resolution of the Board that provided a deed of guidance to the offices of the Municipality to initiate the procedure for the reorganization of the urban hygiene service. With subsequent additional reasons, Acsm Agam Ambiente also challenged (i) the award of the tender referred to, (ii) the Board resolution that provided for a reorganisation of the urban hygiene service, (iii) the tender for the award of the urban hygiene service and (iv) the management decision that provided for the extension of the urban hygiene service to Acsm Agam Ambiente until September 30, 2019. The hearing was fixed for June 20, 2019. The dispute is complex and the outcome is uncertain, also due to the absence of previous jurisprudence.

In its letter of February 27, 2019, Acsm Agam expressly reserved any assessment of possible legal actions against A2A. Although A2A believes that the Municipality committed an error of interpretation of the regulations and the merger agreements do not provide for guarantees, in response to the letter of February 27, 2019, in order to avoid possible disputes and litigation and the related charges and taking into account the broader relationships existing between the parties to the Aggregation process, A2A and Acsm Agam, on March 28, 2011, have defined an indemnity agreement under the terms of which A2A will make a non-refundable payment to Acsm Agam in the event that Acsm Agam Ambiente's appeal is rejected in the first and second instance, Acsm Agam Ambiente is not awarded the service (for the remaining period up to December 31, 2030) and any award is made on worse terms than at present. To this end, the Group has set aside a provision of about 17 million euro.

AGSM Verona, AIM Vicenza and A2A sign letter of intent

On March 20, 2019, the companies above signed a non-binding letter of intent to start studying a joint project aimed at assessing the possible acquisition of Ascopiave Group assets relating to the sale of gas and electricity and the potential establishing of a partnership in the gas distribution sector.

The study that will immediately cover the Ascopiave affair, will run for approximately nine months, after which the parties may agree, where the necessary conditions are met, on an interest in pursuing the matter, submitting the next steps to the examination and approval of their respective shareholders.

Outlook for operations

Also in 2018, after 2016 and 2017, the A2A Group confirmed a record year: the best result in terms of Net Profit since the establishment of the Group (344 million euro) was recorded and the record Gross Operating Margin of 2016 (1,231 million euro) was equaled. The Group is proceeding in the direction outlined in the 2018-2022 Strategic Plan, following the three guidelines Transformation, Excellence and Community (in short “TEC”): the update of the Strategic Plan has seen the reconfirmation of all the objectives identified in the 2018-2022 Plan and the acceleration of important developments, such as growth in the renewable energy sector, the construction of new waste treatment plants and the focus on electricity and gas networks. Expectations for 2019 are good despite the absence of the contribution of Green Certificates (over 100 million euro contribution to the gross operating result of 2018): Gross Operating Margin is expected to be between 1,155 and 1,185 million euro (including 25 million euro in non-recurring positive income items); net profitability is expected to be between 300 and 330 million euro. The strong generation of operating cash will be used to finance record investments (expected to amount to about 700 million euro) which, together with the distribution of higher dividends, will result in a net cash absorption of about 200 million euro.

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Proposal for the allocation of net profit for the year ended December 31, 2018 and the distribution of a dividend

The annual financial statements of A2A S.p.A. for the year ended December 31, 2018 show a net profit of 373,091,108.00 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 373,091,108.00 euro as follows:

- 18,654,555.00 euro to the legal reserve;
- 217,642,870.00 euro as an ordinary dividend payable to shareholders to ensure a remuneration of 0.070 euro for each outstanding ordinary share;
- 136,793,683.00 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 22, 2019, with coupon detachment on May 20, 2019 and record date May 21, 2019.

The Board of Directors



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Summary of results sector by sector

<i>millions of euro</i>	GENERATION AND TRADING		MARKET		WASTE		
	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	
Revenues	3,854	3,262	2,230	1,810	1,022	980	
- of which inter-sector	1,036	136	280	724	119	83	
Labour costs	88	89	46	39	304	298	
Gross operating income - EBITDA	370	356	206	216	268	261	
% of revenues	9.6%	10.9%	9.2%	11.9%	26.2%	26.6%	
Depreciation, amortization, provisions and write-downs	(293)	(161)	(37)	(29)	(87)	(99)	
Net operating income - EBIT	77	195	169	187	181	162	
% of revenues	2.0%	6.0%	7.6%	10.3%	17.7%	16.5%	
Result from non-recurring transactions							
Financial balance							
Result before taxes							
Income taxes							
Result after taxes from operating activities							
Net result from discontinued operations							
Minorities							
Group result of the year							
Gross investments (1)	57	64	21	11	105	107	

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

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

It should be noted that the income statement data from January 1 to December 31, 2017 have been reallocated to make them homogeneous to the results by "Business Unit" from January 1 to December 31, 2018.

	NETWORKS AND DISTRICT HEATING		A2A SMART CITY		CORPORATE		INTERNATIONAL		ELIMINATIONS		INCOME STATEMENT	
	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)	01 01 2018 12 31 2018	01 01 2017 12 31 2017 Restated (*)
	1,110	960	53	30	220	203	8	1	(2,003)	(1,450)	6,494	5,796
	329	301	31	24	208	182	-	-	(2,003)	(1,450)		
	102	98	9	5	115	105	1	1			665	635
	410	391	11	7	(34)	(30)	-	(2)			1,231	1,199
	36.9%	40.7%	20.8%	23.3%	(15.5%)	(14.8%)	-	n.s.			19.0%	20.7%
	(200)	(180)	(5)	(2)	(21)	(18)	-	-			(643)	(489)
	210	211	6	5	(55)	(48)	-	(2)			588	710
	18.9%	22.0%	11.3%	16.7%	(25.0%)	(23.6%)	-	n.s.			9.1%	12.2%
											14	-
											(112)	(134)
											490	576
											(157)	(192)
											333	384
											21	(85)
											(10)	(6)
											344	293
	275	229	11	10	31	29	-	-			500	450

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<i>millions of euro</i>	GENERATION AND TRADING		MARKET		WASTE		
	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	
Tangible assets	1,976	2,080	36	32	703	670	
Intangible assets	81	86	244	113	42	51	
Trade receivables and current financial assets	778	673	772	585	333	358	
Trade payables and current financial liabilities	851	792	438	322	311	319	

(*) It should be noted that the balance sheet data at December 31, 2017 have been reallocated to make them homogeneous to the results by "Business Unit" at December 31, 2018.

	NETWORKS AND DISTRICT HEATING		INTERNATIONAL		A2A SMART CITY		CORPORATE		ELIMINATIONS		TOTAL GROUP	
	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)	12 31 2018	12 31 2017 (*)
	1,761	1,696	-	-	39	22	184	184	(79)	(78)	4,620	4,606
	1,903	1,611	-	-	3	1	135	93	(106)	(92)	2,302	1,863
	381	375	5	1	27	17	168	147	(667)	(477)	1,797	1,679
	369	314	3	1	21	12	782	533	(668)	(475)	2,107	1,818

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

Generation and Trading Business Unit

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

Market Business Unit

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

Waste Business Unit

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

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

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

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

Networks and District Heating Business Unit

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

International Business Unit

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

A2A Smart City

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

¹ Total installed capacity of 8.9 GW.

Corporate

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

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Generation and Trading Business Unit

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

Quantitative data - Electricity sector

Gwh	12 31 2018	12 31 2017	CHANGE	% 2018/2017
SOURCES				
Net production	17,551	15,846	1,705	10.8%
- thermoelectric production	12,948	12,370	578	4.7%
- hydroelectric production	4,539	3,464	1,075	31.0%
- photovoltaic production	64	12	52	n.s.
Purchases	33,758	50,041	(16,283)	(32.5%)
- exchange	12,364	9,451	2,913	30.8%
- wholesalers	3,089	3,456	(367)	(10.6%)
- Trading/Service portfolio	18,305	37,134	(18,829)	(50.7%)
TOTAL SOURCES	51,309	65,887	(14,578)	(22.1%)
USES				
Sales to Group Retailers	8,088	6,198	1,890	30.5%
Sales to other wholesalers	12,494	8,781	3,713	42.3%
Sales on the exchange	12,422	13,774	(1,352)	(9.8%)
Trading/Service portfolio	18,305	37,134	(18,829)	(50.7%)
TOTAL USES	51,309	65,887	(14,578)	(22.1%)

The sales figures are stated gross of any losses.

The Group's electricity output during the current year amounted to 17,551 GWh, to which should be added purchases of 33,758 GWh for a total availability of 51,309 GWh.

Despite a decline in the third quarter of the year, hydroelectric production was up sharply (+31%) compared with 2017, a year of low hydroelectric production.

Thermoelectric production increased by about 5% compared with the previous year: the increase, which was sustained in the first nine months of the year, slowed in the fourth quarter due to the lower demand for energy in the period. An important contribution was made throughout the year by the Scandale plant thanks to its full dispatching in 2018.

A comparison with 2017 shows growth in photovoltaic production (+52 GWh) following the consolidation of new companies acquired in late 2017 and early 2018.

Purchases of electricity amounted to 33,758 GWh (50,041 GWh at December 31, 2017): more purchases on the stock exchange were more than offset by lower volumes traded as part of trading activities.

During the reporting period, higher sales were recorded on wholesale markets (+42.3%) and to the Market Business Unit (+30.5%). On the other hand, stock exchange sales and volumes traded within the trading business decreased by 9.8% and 50.7% respectively.

Overall In the period in question, electricity sales of the Generation and Trading Business Unit reached a total of 51,309 GWh (65,887 GWh at December 31, 2017).

Quantitative data - Gas sector

<i>millions of cubic metres</i>	12 31 2018	12 31 2017	CHANGE	% 2018/2017
SOURCES				
Procurement	5,092	4,597	495	10.8%
Withdrawals from stock	30	(18)	48	n.s.
Internal consumption/GNC	(15)	(14)	(1)	7.1%
Trading/Service portfolio	5,267	4,357	910	20.9%
TOTAL SOURCES	10,374	8,922	1,452	16.3%
USES				
Market Business Unit uses	1,585	1,659	(74)	(4.5%)
Thermoelectric uses	2,098	1,855	243	13.1%
Heating and Waste Business Unit uses	101	104	(3)	(2.9%)
Wholesalers	1,323	947	376	39.7%
Trading/Service portfolio	5,267	4,357	910	20.9%
TOTAL USES	10,374	8,922	1,452	16.3%

Quantities are stated at standard cm at an HCV of 38100 MJ on delivery.

The volume of gas sold in the year in question amounted to 10,374 million cubic meters, an increase of 16.3% over 2017 (8,922 million cubic meters).

The main gains were made in the volumes of natural gas sold to wholesalers (+39.7%) and in the volumes managed by the Trading Portfolio (+910 million cubic meters), due to an increase in intermediation activities. Unit sales to thermoelectric users increased by 13.1%, due to an increase in consumption by combined-cycle facilities this year, while unit sales to the Market Business Unit were down slightly (-4.5%) and to the other Business Units of the Group (-2.9%).

Economic data

<i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	3,854	3,262	592	18.1%
Gross Operating Margin - EBITDA	370	356	14	3.9%
% of Revenues	9.6%	10.9%		
Depreciation, amortizations, provisions and write-downs	(293)	(161)	(132)	82.0%
Net Operating Income - EBIT	77	195	(118)	(60.5%)
% of Revenues	2.0%	6.0%		
Investments	57	64	(7)	(10.9%)
FTE	1,103	1,112	(9)	(0.8%)
Labour costs	88	89	(1)	(1.1%)

The revenues amounted to 3,854 million euro, up by 592 million euro compared to the previous year. The increase was driven by greater sales of electricity and gas, the increase in prices and higher Green Certificate revenues.

The Gross Operating Margin of the Generation and Trading Business Unit amounted to 370 million euro, an increase of 14 million euro compared to the previous year, of which 2 million euro relative to the ACSM-AGAM Group.

Net of non-recurring items recorded in the two comparative periods (+11 million euro in 2018 and +3 million euro in 2017) and changes in scope, the Gross Operating Margin increased by 5 million euro.

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The positive result booked by the business unit was boosted by the sale of the whole of the long position held in Green Certificates, together with the May recording of the contribution made by green certificates of Ampezzo, the increased hydroelectric and thermoelectric combined cycle productions, the rise in electricity prices (+14% of the PUN baseload) and the contribution made by newly-acquired companies operating in the photovoltaic industry.

These positive effects were partially reabsorbed by the negative impacts deriving from the lesser contribution made by the dispatching services market in the last quarter of 2018 as compared with the same period of last year and from the worsening of some variables of the energy scenario (gas and CO₂). The high gas prices (+23% on 2017 of the average gas price at PSV) and the increase in environmental expenses (CO₂) in fact resulted in a significant worsening, as compared with last year, of the spreads on the MGP, in particular for combined cycle plants (clean spark spread peakload), which are down 60% on 2017). The gas portfolio also recorded a significant decline in margins following higher costs of procurement.

Depreciation, amortization, provisions and write-downs totalled 293 million euro (161 million euro at December 31, 2017). The increase of 132 million euro is attributable for 116 million euro to the recognition during the year of the write-down of the assets of the Monfalcone power plant and for the remaining part to higher amortization relating to the newly acquired companies operating in the photovoltaic sector and to higher provisions for risks recorded in 2018.

As a result of the above changes, net operating income amounted to 77 million euro (195 million euro for the six months ended December 31, 2017).

In 2018, Investments amounted to 57 million euro and mainly concerned the extraordinary maintenance interventions at the hydroelectric plants in Mese, Udine, Calabria and Valtellina for around 15 million euro, the combined cycle thermoelectric plants for approximately 13 million euro and the traditional cycle plants of Monfalcone (9 million euro) and San Filippo del Mela (2 million euro). Development interventions are also recorded (7 million euro) and adjustments to comply with standards for 9 million euro, of which 8 million euro relate to the combined cycle thermoelectric plant of Chivasso.

In the year under review, FTEs for the period amounted to 1,103 units (1,112 FTEs in the previous year). The reduction of 9 FTEs is mainly due to the transfer of resources to other Business Units of the Group.

Market Business Unit

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

Quantitative data

	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Electricity Sales				
Electricity Sales Free Market (GWh)	9,192	6,455	2,737	42.4%
Electricity Sales under Greater Protection Scheme (GWh)	1,634	1,834	(200)	(10.9%)
Total Electricity Sales (GWh)	10,826	8,289	2,537	30.6%
	12 31 2018	12 31 2017	CHANGE	% 2018/2017
POD Electricity				
POD Electricity Free Market (#/1000)	569	431	138	32.0%
POD Electricity under Greater Protection Scheme (#/1000)	566	623	(57)	(9.1%)
Total POD Electricity (#/1000)	1,135	1,054	81	7.7%
	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Gas Sales				
Gas Sales Free Market (Mcm)	1,338	1,039	299	28.8%
Gas Sales under Greater Protection Scheme (Mcm)	587	590	(3)	(0.5%)
Total Gas Sales (Mcm)	1,925	1,629	296	18.2%
	12 31 2018	12 31 2017	CHANGE	% 2018/2017
PDR Gas				
PDR Gas Free Market (#/1000)	633	447	186	41.6%
PDR Gas under Greater Protection Scheme (#/1000)	878	851	27	3.2%
Total PDR Gas (#/1000)	1,511	1,298	213	16.4%

The quantities are stated gross of losses.
The data related to the POD and PDR does not include the numbers relating to large customers

The Market Business Unit sold 10,826 GWh of electricity in the year under review, up 30.6% on the previous year (8,289 GWh), and 1,925 million cubic meters of natural gas (+18.2% compared to 2017). The ACSM-AGAM Group contributed 178 GWh to the increase in electricity sales and 193 Mcm to the increase in gas sales.

The growth in both the electricity and natural gas segments was mainly due to the greater volumes sold to large customers on the free market, which more than offset the lower sale volumes to “protected” customers.

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Economic data

<i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	2,230	1,810	420	23.2%
Gross Operating Margin - EBITDA	206	216	(10)	(4.6%)
% of Revenues	9.2%	11.9%		
Depreciation, amortizations, provisions and write-downs	(37)	(29)	(8)	27.6%
Net Operating Income - EBIT	169	187	(18)	(9.6%)
% of Revenues	7.6%	10.3%		
Investments	21	11	10	90.9%
FTE	829	691	138	20.0%
Labour costs	46	39	7	17.9%

Revenues were 2,230 million euro (1,810 million euro as at December 31, 2017), up 23.2% due to larger quantities sold, particularly to large electricity customers. Revenues rose by 124 million euro in the second half of the year following the consolidation of the ACSM-AGAM Group.

The Gross Operating Margin of the Market Business Unit amounted to 206 million euro, including 30 million euro from non-recurring items (+51 million euro in 2017) and 7 million euro from the consolidation of the ACSM-AGAM Group.

Net of non-recurring items and changes in the consolidation scope, the ordinary Gross Operating Margin of this business unit grew by 5 million euro (+3% on the previous year). In the year under review, the contribution margin of the electricity and gas segments rose by approximately 19 million euro thanks to the increase in the number of mass market customers (approximately 190 thousand on the end of 2017, net of the ACSM-AGAM effect) and larger electricity and natural gas sales volumes to large customers on the free market. Growth in the retail energy sector was only partly offset by higher costs, mainly for marketing and external communication to attract new customers.

Moreover, the New Energy Solutions sector provided a contribution to the increase in the Gross Operating Margin (approximately 2 million euro) thanks to the optimization of the Energy Efficiency Certificate portfolio (TEE).

Depreciation, amortization, provisions and write-downs totalled 37 million euro, of which 7 million related to the ACSM-AGAM Group (29 million euro in 2017).

As a result of the above changes the sector earned EBIT of 169 million euro (187 million euro in the previous year).

In the reporting period, the business unit investments totalled approximately 21 million euro, including the ACSM-AGAM Group's investments of 3 million. More specifically, approximately 14 million euro were for the energy retail segment, mainly for evolutive maintenance and the development of the hardware and software platforms; approximately 5 million euro went to new projects to develop the public lighting segment and 2 million euro to improve mobility (e-moving) and energy efficiency in the New Energy Solutions segment.

In 2018, net of 104 employees of the ACSM-AGAM Group, there was an increase of 34 FTE compared with the same period of the previous year. The increase is due in part to the full consolidation of the company LumEnergia S.p.A. and the transfer of resources from other Business Units and partly to greater hiring for the strengthening of certain areas of activity, in line with the development objectives of the Market Business Unit.

Waste Business Unit

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

Quantitative data

	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Waste collected (Kton)	1,671	1,605	66	4.1%
Residents served (#/1000)	3,530	3,549	(19)	(0.5%)
Waste disposed of (Kton)	3,547	3,360	187	5.6%
Electricity sold (GWh)	1,807	1,772	35	2.0%
Heat sold (GWht) *	1,419	1,363	56	4.1%

(*) Quantities at the plant entrance

In 2018, waste collected grew on 2017 to 1,671 thousand tonnes (+4.1%) on account of the contribution of the new municipalities business acquired in 2018 and in the last few months of the previous year and the contribution of the ACSM-AGAM Group.

The quantity of waste disposed of, amounting to 3,547 thousand tonnes, increased (+5.6%) compared to 2017, due not only to the contribution of the ACSM-AGAM Group, but also to the greater quantities disposed of at the Silla 2 and Parona waste-to-energy plants and at some of the Group’s own treatment and recovery plants. These disposals more than compensated for the lower quantities sent to landfills, some of which reached saturation levels throughout the year.

During the year under review, there was an increase in both the quantities of heat sold (+4.1%), as a result of the higher quantities requested by the district heating sector, and sales of electricity (+2%).

Economic data

millions of euro	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	1,022	980	42	4.3%
Gross Operating Margin - EBITDA	268	261	7	2.7%
% of Revenues	26.2%	26.6%		
Depreciation, amortizations, provisions and write-downs	(87)	(99)	12	(12.1%)
Net Operating Income - EBIT	181	162	19	11.7%
% of Revenues	17.7%	16.5%		
Investments	105	107	(2)	(1.9%)
FTE	5,913	5,769	144	2.5%
Labour costs	304	298	6	2.0%

During the year, the Waste Business Unit recorded revenues of 1,022 million euro (980 million euro at December 31, 2017), up by 42 million euro compared to the same period of the previous year. The first-time consolidation of the new ACSM-AGAM Group contributed 16 million euro to the growth in Business Unit revenues.

The Gross Operating Margin of the Waste Business Unit came to 268 million euro (261 million euro at December 31, 2017), of which 3 million euro from the new ACSM-AGAM Group.

Net of the non-recurring items in the two periods considered (+10 million euro in 2017; -1 million euro in 2018) and changes in scope, this business unit’s ordinary Gross Operating Margin from continuing operations is up 17 million euro (+7%).

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Results were driven by both the management of waste-to-energy plants, thanks to greater revenues from the sale of energy, the increase in the quantities disposed of and, especially, the positive trend in urban waste transfer prices, and the management of industrial treatment plants (waste-to-energy plant in Filago and greater transfers to the landfill of inert lots of Corteolona). These effects more than offset the lower profit margins following the lower revenues from recycled paper due to the drop in sales prices and the increase in costs to dispose of collected waste (multi-material and large items).

Depreciation, amortization, provisions and write-downs equalled 87 million euro (99 million euro at December 31, 2017). The change is due to the release of surpluses of tax dispute provisions recorded in the current year.

As a consequence of the above changes Net Operating Income amounted to 181 million euro (162 million euro in the previous year).

Capex in 2018 amounted to 105 million euro, of which 2 million euro relative to the ACSM-AGAM Group, and were mainly related to development and maintenance work on waste-to-energy plants (38 million euro), treatment plants and landfills (33 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, as well as other restructuring works on company buildings and the maintenance of operating systems relative to the collection segment, for a total of 34 million euro.

The increase of 144 FTE is due to changes in the scope of consolidation that occurred in the two comparative years (-78 FTE for the deconsolidation of the Aspem group and +194 for the simultaneous consolidation of the ACSM-AGAM Group), to the winning of new tenders or the expansion of urban waste collection and sanitation services, to the transfer of resources to other Business Units, as well as to the hiring of new employees who left the company in the previous year and to the expansion of some facilities that carry out waste treatment activities.

Networks and District Heating Business Unit

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

Quantitative data - Networks

	12 31 2018	12 31 2017	CHANGE	% 2018/2017
Electricity distributed (GWh)	11,913	11,590	323	2.8%
Gas distributed (Mcm)	2,745	2,480	265	10.7%
Gas transported (Mcm)	372	370	2	0.5%
Water distributed (Mcm)	72	69	3	4.3%
RAB Electricity (M€) ⁽¹⁾	646	649	(3)	(0.5%)
RAB Gas (M€) ⁽²⁾	1,395	1,171	224	19.1%

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

Electricity distributed was 11,913 GWh and the quantities of gas distributed were 2,745 Mcm, up 2.8% and 10.7%, respectively, from the previous year.

A total of 72 million cubic metres of water was distributed (69 million cubic metres in 2017), up compared to the volumes distributed in the previous year following the consolidation of volumes distributed by the new ACSM-AGAM Group.

Quantitative data - Heat

Gwh	12 31 2018	12 31 2017	CHANGE	% 2018/2017
SOURCES				
Plants in:	1,350	1,324	26	2.0%
- Lamarmora	447	467	(20)	(4.3%)
- Famagosta	104	100	4	4.0%
- Tecnocity	66	69	(3)	(4.3%)
- Other plants	733	688	45	6.5%
Purchases from:	1,880	1,809	71	3.9%
- Third parties	437	421	16	3.8%
- Other Business Units	1,443	1,388	55	4.0%
TOTAL SOURCES	3,230	3,133	97	3.1%
USES				
Sales to end customers	2,768	2,682	86	3.2%
Distribution losses	462	451	11	2.4%
TOTAL USES	3,230	3,133	97	3.1%

- Note:
- The figures only refer to district heating. Sales relating to heat management are not included.
- Purchases include the quantities of heat purchased from the Waste Business Unit.

Heat sales of the Business Unit in 2018 amounted to 2,768 GWht, an increase of 3.2% compared to 2017. The increase of 86 GWht is due to the commercial development, as well as to the changes in the scope of consolidation resulting from the consolidation of ACSM-AGAM.

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Economic data

<i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	1,110	960	150	15.6%
Gross Operating Margin - EBITDA	410	391	19	4.9%
% of Revenues	36.9%	40.7%		
Depreciation, amortizations, provisions and write-downs	(200)	(180)	(20)	11.1%
Net Operating Income - EBIT	210	211	(1)	(0.5%)
% of Revenues	18.9%	22.0%		
Investments	275	229	46	20.1%
FTE	2,658	2,299	359	15.6%
Labour costs	102	98	4	4.1%

The Networks and District Heating Business Unit’s revenues amounted to 1,110 million euro (960 million euro as at December 31, 2017). Growth in revenues is mainly due to the greater revenues relating to the sale of heat and tariff contributions recognised to distributors to cancel out the energy savings obligations (TEE) as well as the contribution made by the ACSM-AGAM Group for 61 million euro.

The Gross Operating Margin of the Networks and District Heating Business Unit amounted to 410 million euro (391 million euro as at December 31, 2017). The consolidation of ACSM-AGAM contributed 26 million euro to this total.

Net of non-recurring items (+4 million euro in 2017 and +3 million euro in 2018) and changes in scope, the Networks and District Heating Business Unit recorded a decline of 2 million euro in the ordinary Gross Operating Margin (-1% on last year): the positive effects deriving from the increase revenues admitted for gas distribution, the increase in water sector tariffs resolved by the Regulatory Authority and the greater margins recorded in the district heating segment, although penalised by the rising costs of CO2, offset the reduction in revenues admitted for electricity distribution and other types of revenues for gas distribution.

Depreciation, amortization, provisions and write-downs amounted to 200 million euro (180 million euro in the previous year), of which 8 million related to the ACSM-AGAM Group. The further difference is due in part to higher amortization and depreciation and in part to the higher write-down of the goodwill of the electricity grids following the impairment test, compared to that recorded in the previous year.

As a result of the above changes, Net Operating Income amounted to 210 million euro, substantially in line with the previous year.

The Investments in the period in question equalled 275 million euro (14 million euro relative to the ACSM-AGAM Group) and regarded:

- in the electricity distribution segment, development and maintenance work on plants and in particular the connection of new users, maintenance work on secondary cabins, the extension and refurbishment of the medium and low voltage network and the maintenance and upgrading of primary plants (81 million euro);
- in the gas distribution subsector, development and maintenance work on plants relating to the connection of new users and the replacement of medium and low pressure piping and smart gas meters (94 million euro);
- in the integrated water cycle sector, work carried out on the water transportation and distribution network and the sewerage networks and purification plants (51 million euro);
- in the district heating and heat management sector, development and maintenance of plants and networks for a total of 49 million euro.

In 2018, FTEs stood at 2,658 units (+359 FTEs compared to 2017). The change is due to changes in the scope of consolidation that occurred in the two comparison periods (mainly due to the deconsolidation of the Aspem group for -53 FTE and the consolidation of the ACSM-AGAM Group for +376 FTE), and to the hirings made for investments planned in the companies of the Business Unit and for the replacement of personnel who left in the previous year and not replaced at the same time.

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International Business Unit

Economic data

<i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	8	1	7	n.s.
Gross Operating Margin - EBITDA	-	(2)	2	n.s.
% of Revenues	-	n.s.		
Depreciation, amortizations, provisions and write-downs	-	-	-	n.s.
Net Operating Income - EBIT	-	(2)	2	n.s.
% of Revenues	-	n.s.		
Investments	-	-	-	n.s.
FTE	14	12	2	16.7%
Labour costs	1	1	-	0.0%

The International Business Unit generated revenues of 8 million euro as at December 31, 2018 through the construction of high-tech waste treatment plants.

Gross Operating Margin and Net Operating Income were almost nil (negative for 2 million euro in the previous year).

In the year under review, FTE amounted to 14 units (12 FTE in 2017).

A2A Smart City

Economic data

millions of euro	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	53	30	23	76.7%
Gross Operating Margin - EBITDA	11	7	4	57.1%
% of Revenues	20.8%	23.3%		
Depreciation, amortizations, provisions and write-downs	(5)	(2)	(3)	n.s.
Net Operating Income - EBIT	6	5	1	20.0%
% of Revenues	11.3%	16.7%		
Investments	11	10	1	10.0%
FTE	148	77	71	92.2%
Labour costs	9	5	4	80.0%

In 2018, the revenues of the company A2A Smart City S.p.A. came to 53 million euro, up by 23 million euro compared to the previous year due to both the greater contribution of Linea Com S.r.l. - a company operating in the telecommunications sector of the LGH Group incorporated into A2A Smart City starting from February 2018 - and the expansion of the services offered to other Group companies and to third-party operators.

Gross operating margin was 11 million euro, up approximately 4 million euro with respect to last year. The increase in profit margins was mainly due to projects kicked off in the second half of 2017 for the construction of infrastructure to lay optical fibre cables, above all in Brescia.

Depreciation, amortization, provisions and write-downs amounted to 5 million euro (2 million euro in 2017).

Net of Depreciation, amortization, provisions and write-downs, Net Operating Income amounted to 6 million euro (5 million in the previous year).

Capex in the period, amounting to 11 million euro, mainly refers to work on the telecommunication networks.

The increase of 71 FTE compared to 2017 is mainly due to the inclusion of resources for the transfer of assets from other Business Units of the Group (Linea Com S.r.l. from Corporate LGH).

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<i>millions of euro</i>	01 01 2018 12 31 2018	01 01 2017 12 31 2017	CHANGE	% 2018/2017
Revenues	220	203	17	8.4%
Gross Operating Margin - EBITDA	(34)	(30)	(4)	13.3%
% of Revenues	(15.5%)	(14.8%)		
Depreciation, amortizations, provisions and write-downs	(21)	(18)	(3)	16.7%
Net Operating Income - EBIT	(55)	(48)	(7)	14.6%
% of Revenues	(25.0%)	(23.6%)		
Investments	31	29	2	6.9%
FTE	1,353	1,199	154	12.8%
Labour costs	115	105	10	9.5%

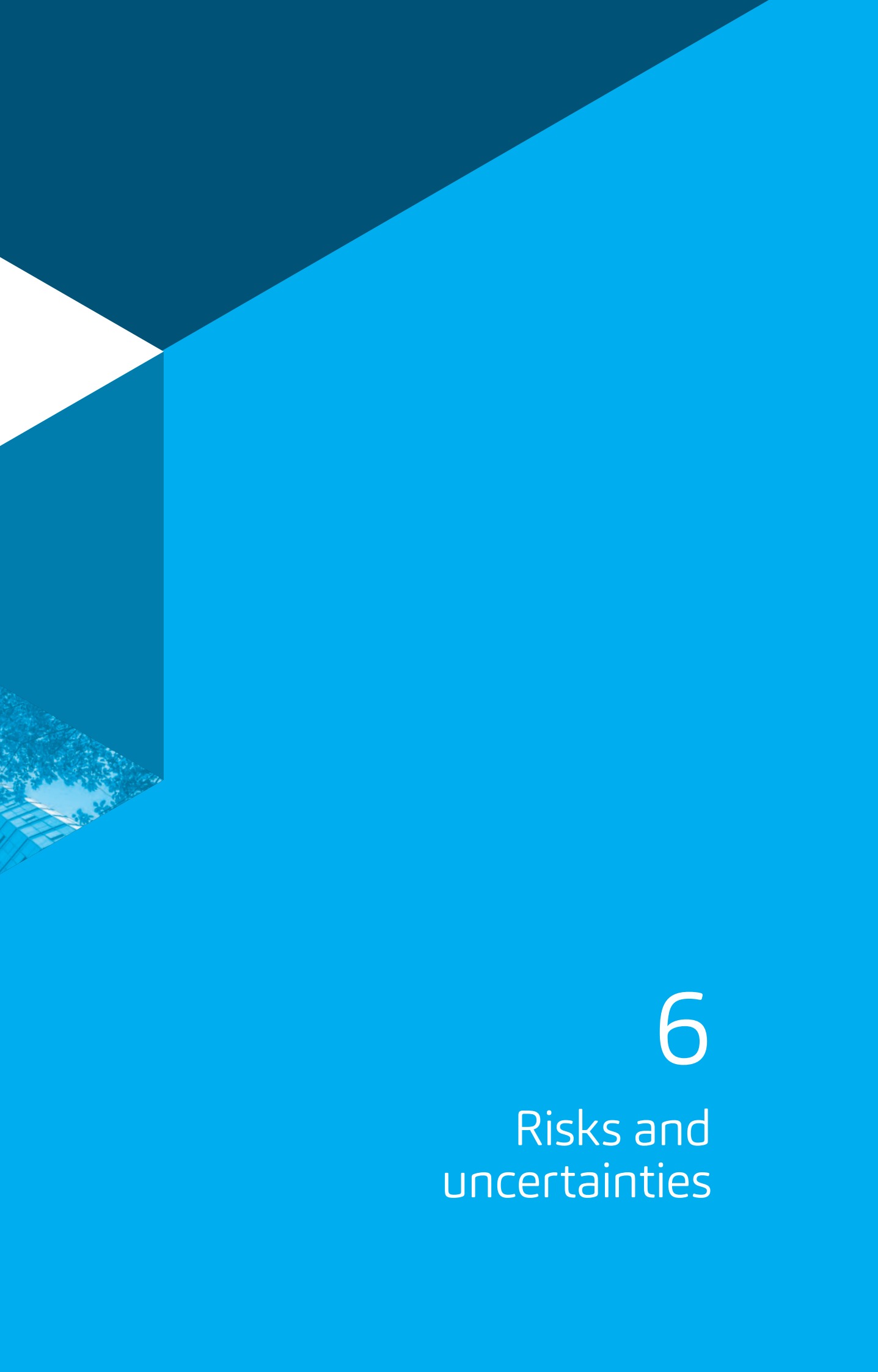
The Gross Operating Margin, corresponding to the corporate structure costs not recharged to the various Group companies, amounted to -34 million euro in 2018, of which -6 million related to the ACSM-AGAM Group (-30 million in the corresponding period of the previous year).

Depreciation, amortization, provisions and write-downs amounted to 21 million euro (18 million euro in the previous year), of which 4 million related to the ACSM-AGAM Group.

After depreciation, amortization, provisions and write-downs there was a Net operating loss of 55 million euro (a net operating loss of 48 million euro in 2017).

Capex of the period amounted to 31 million euro, of which 2 million euro relating to the ACSM-AGAM Group mainly related to work on IT systems.

In 2018, FTEs stood at 1,353 units (+154 FTEs compared to 2017). Net of the changes in the scope of consolidation (deconsolidation of the Aspem group for -17 FTE and simultaneous consolidation of the ACSM-AGAM Group for +180 FTE) and the transfer of assets to and from the other Business Units of the Group, there was an increase of 32 FTE compared with 2017, due to the strengthening of the activities of some of the Corporate Departments.



6

Risks and uncertainties

Risks and uncertainties

The A2A Group has a risk assessment and reporting process which is based on the Enterprise Risk Management method of the Committee of Sponsoring Organizations of the Treadway Commission (CoSO report) and best risk management practice and is in compliance with the Corporate Governance Code as updated by Consob in 2011, which states: “...Each issuer shall adopt an internal control and risk management system consisting of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the main risks....”.

The Group has also implemented a specific procedure that defines in detail the roles, responsibilities and methodologies for the Enterprise Risk Management (ERM) process.

This process requires a risk model to be set up that takes account of the Group’s characteristics, its multi-business vocation and the sector to which it belongs. This model is 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.

The ERM process also supports the Group’s ISO9001 and ISO14001 certifications.

Set out below is a description of the main risks and uncertainties to which the Group is exposed.

It is noted that in terms of greater estimated impact on the Group, the main types of risk are the following, in order of importance:

- legislative and regulatory amendments;
- energy scenario;
- economic and social-environmental context;
- business interruption;
- climate changes;
- information technology.

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 - Regulation 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 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 every six months or the Regulatory Agenda drawn up at the time of the Budget/Plan), in order to consider the potential impacts on the regulation on the company.

From January 2017, the organizational structure also monitors the regulatory risk for the LGH Group in order to monitor and manage its impact in a coordinated manner.

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

- rules governing large derivation hydroelectric concessions following the recent amendment during conversion of the Simplification Decree Law into law;
- implementation of the capacity market regulations, which were approved by DG Competition on February 7, 2018 and whose approval is expected by the Ministry of Economic Development;
- tenders concerning the granting of concessions for the gas distribution service;
- the PdL currently under discussion at the Environmental Commission of the Chamber on “Provisions on public and participatory management of the integral water cycle” for impacts that - if approved - it may have on the integrated water service;
- the certification of energy savings within the White Certificates mechanism by the Energy Services Manager;
- the impact on the development of district heating due to the start of regulation of the sector by ARERA for the aspects relating to commercial and technical quality only;
- the impact on the waste sector that the first ARERA measures may have after the granting of regulatory and control powers following the 2018 Budget Law;
- the provisions of the 2017 Competition Law on the termination of price protection schemes for electricity and gas customers from July 1, 2020.

For in-depth information about these risks, please refer to “Evolution of the regulation and impacts on the Business Units of the A2A Group” section.

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Energy scenario risk (commodity price risk)

Given the features of the sectors in which it operates, the Group is exposed to energy scenario risk, namely the risk linked to changes in the price of energy raw materials (electricity, natural gas, coal and fuel oil) and the exchange rates connected with these. Significant, unexpected and/or structural changes in commodity prices, especially in the medium term, may result in a reduction in the Company's operating margins.

The Group has approved an Energy Risk Policy that regulates the procedures by which commodity risk are monitored and managed, or the highest level of variability to which the result is exposed with reference to the trend of prices of energy commodities.

Consistent with the provisions of the Policy, the commodity risk limits of the Group are defined and approved annually by the Board of Directors.

Market risk is managed by constantly monitoring the total net exposure of the Group's portfolio and addressing the main factors affecting the trend. Appropriate hedging strategies are defined, where necessary, designed to maintain this risk within the established limits, typically through hedging at 12 months and partially at 24 months.

The objective of stabilizing the cash flows generated by the asset portfolio and outstanding contracts is thus pursued through the management of physical contracts and derivative financial instruments, limiting to the extent possible, the volatility of the Group's economic and financial results following changes in commodity prices.

Economic and social-environmental context risk

The Group's activities are sensitive to economic cycles and general economic conditions in the countries in which it operates. A slowing economy could determine, for example, a drop in consumption and/or of industrial production, having as a result a negative effect on the demand for electricity and of other carriers offered by the Group, thereby affecting the results and prospects and preventing the implementation of planned development strategies. Moreover, the operational activities of sites and infrastructures, their profitability, the implementation of adjustment programs or conversion of certain facilities rather than growth in some business areas, planned by the Group, may be impaired as a result of possible actions taken by some stakeholders, not favourable to the presence of the sites due to a negative perception of Group activities in the areas served.

With regard to the activities of the Generation and Trading Business Unit, the current context of the energy markets in which the production facilities operate, with specific reference to the thermoelectric ones, confirms the moderately positive trend, with reference to an overall economic framework and a still favourable national and international energy context. However, there is still the risk that this trend could be interrupted or subject to a trend reversal, with important economic repercussions also in combination with the possible failure or delayed implementation of the capacity market discipline at national level. It is therefore evident that all the measures undertaken on generation plants at the time, such as activities and projects aimed at guaranteeing operating flexibility, efficiency and availability when these requirements are requested from the production units, remain active and operative. These include, in particular, the planning of flexible investments in combined cycle plants, modernization of plants and machinery, and structural cost containment programs.

In addition, a process of revision, standardization and overall adjustment of maintenance contracts was implemented as well as specific rationalization actions in the management of spare parts warehouses. Also regarding the production of energy from thermoelectric sources, it is noted that the Group pays particular attention, by means of stable and cooperative dialogue, through the organizational structure Institutional 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. Also with regard to the generation of electric power, there was the evolution of the issue of risk related to the award of large derivation hydroelectric concessions in connection with the conversion into law of the so-called "Simplification Decree Law" and the related criteria, as well as the definition of incremental costs for concessionaires compared with the current regulations.

With regard to the Waste Business Unit and the Networks and District Heating Business Unit, the issue is confirmed with regard to relations with certain stakeholders regarding the future construction of

new plants, the expansion of existing plants or the provision of services in new territories. With specific reference to waste-to-energy, waste recovery and wastewater treatment plants, due on the one hand to the increasing extremes of public debate at local and national level on the need for such plants and on the other hand, to an incorrect perception of the works, forms of opposition and protest could be promoted, amplified through the use of social networks, with potential effects on the performance of existing activities and on the implementation of development programs.

To oversee the issues, the Group carries out an activity of constant dialogue with local communities and with the relevant Entities and Authorities, also through participation in public debates, special press conferences and communication and awareness campaigns, as well as through the organization of multi-stakeholder forums, designed to promote dialogue with the territory. The forum was established with the aim of identifying solutions that can respond in a targeted and effective manner to the needs and expectations of stakeholders and that allow promoting the environmental, economic and social sustainability activities carried out by the Company and the Group and services provided in the territory.

We also highlight that the Group Companies active in the business of public lighting and management of the integrated waste cycle, street cleaning and other essential services for the environment, sanitation and decorum of the city are particularly focused on the quality of services provided, also with a view to continuation of entrusting its activities in territories already served and in the awarding of public tenders for the same services in new areas; to maintain and develop the positioning of said services on the market and thus maintain and expand the Company’s business, the organizational structures dedicated to constant monitoring of opportunities and effective and efficient management of tenders were enhanced.

Finally, with reference to the issue mentioned above and relating to the potential impact on the profitability of the Acerra plant at the end of the CIP6 tariff regime, it should be noted that the mitigation actions put in place led to the signing of new contracts with the Campania Region for the Acerra waste-to-energy plant and with the Metropolitan City for the Caivano STIR (signed on November 7 and November 15, 2018 respectively) to guarantee plant revenues.

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 timing and conditions are still ongoing. The possible economic effects of the Brexit on the European Union could result in a significant decrease in growth for the United Kingdom, greater volatility in financial markets, lower exports to the UK due to the weakening of the pound on the euro but also in re-addressing investments expected in Great Britain to other EU countries.

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. The sale of portions, based on the latest agreements with the Government of Montenegro, is expected to end with payment of the last instalments by July 2019. 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+.

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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 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 procedures and controls are put in place to ensure conformity of waste entering the plants and the adoption of a unified protocol for the acceptance of waste entering the waste-to-energy plants, at site level. Furthermore, a dedicated software supports the carrying out of checks and, in general, the correct handling of waste. In addition, there are plants, systems and specific operating procedures for loading and exiting of the materials deposited at the waste storage and treatment sites aimed at limiting the risk of fire. The Business Unit is additionally introducing steps to optimize the management of certain sites in order to make the disposal process more efficient. Lastly, it is noted that structural interventions were planned and partly concluded on all plants of the Group, and in particular on the large waste-to-energy plants, designed to ensure a higher reliability and perspective of operability over time, such as the realization of electrical backup lines, replacing thermomechanical components that have reached the end of their technical life, renovation of structures designed to reduce deteriorations, extraordinary maintenance aimed at increasing the reliability of machinery and the thermal potential of these plants, upgrades of control systems of the plants that are technologically obsolete. To mitigate any repercussions on the Group's reputation due to a temporary impossibility to transport waste, mutual assistance exists between the Group's plants and there is centralized coordination of planned stoppages for maintenance.

With reference to the eventual interruption issue of waste collection and urban sanitation services due to possible strikes by staff or exceptional weather events in the territories of the municipalities served by the Group Companies, the company has specific management and planning procedures for the recovery of collection activities or sweeping aimed at restoring the standards of service quality in the days immediately following. Means are also available to deal with situations of emergency, control and monitoring of vehicles in service at the areas served (even in online mode through the control room equipped with the latest technical equipment), spare parts warehouses managed and structured to deal with the statistically most recurrent faults.

Within the transport and distribution networks of energy and gas, it is noted that works were planned and started designed to increase the reliability of services and to ensure the ongoing appropriateness of the infrastructure with the evolution and expansion of urban areas and territories served by the various Group companies, such as the implementation and expansion of automation systems and remote control of stations and cabins, and the construction of new cabins for electricity and gas. As part of the operating activities of the electricity grids, the issue of continuity of service during periods of special climatic conditions with potential reputational risks arising from possible interruptions of service delivery is confirmed as particularly relevant. 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. In addition, there is a risk issue connected with the acceptance by the Regional Administrative Court of Lecce of the appeal by the Municipality of Grottaglie against the Province, Region and Linea Ambiente S.r.l. for the cancellation of the authorisation to extend the waste landfill in Torre Caprarica: with immediate effect, the transfer of waste to the landfill has ceased and the A2A Group appealed against the sentence before the Council of State in order to restore the site's operations.

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 & District Heating Business Unit is engaged in the development of new solutions for the so-called smart grids, where through the introduction of digital technology new features are realized to address the increasing complexity resulting from the deployment of distributed generation sources connected to the LV networks and to better meet the demands of the Regulator and the expectations of customers. Also within the context of innovative business, the Group is committed to developing the offer, for private and institutional customers, of smart services such as remote metering, video surveillance, LED public lighting, parking, sharing and power supply services of electric vehicles as well as energy efficiency services. The risks associated with the provision and development of said services relate to the quality of the same, with consequent repercussions on the level of customer satisfaction. To oversee said issues, we highlight remote monitoring of plants consisting of receiving signals and alarms from equipment and systems, maintenance procedures to ensure efficiency and safety of users, procedural body for handling complaints and other Quality Management System procedures.

Operative means of regulating the customer’s consumption during specific time bands have been successfully tested in the district heating sector; these are designed to avoid excessive peaks in the use of installed power with consequent improvement of working of the networks. In addition, studies are underway for the construction of new plants is being (electric boilers to be kept in reserve, construction of thermal accumulations at some of the Company’s sites) and new heat transport networks, aimed at covering peak energy demand and improving the structure of the network and revamping of existing networks in order to cope with corrosive phenomena. These operations are supplemented, as part of the maintenance of the network, by continuous engineering analysis supporting works for repairs. Measures were also carried out to ensure the continuity of the district heating service are also underway for situations in which there is a temporary interruption of the supply of heat to the network by the waste-to-energy plants of the Group.

A significant risk issue, which is transversal to all business areas required to manage plants and infrastructures, is that related to unauthorized physical access of personnel outside the Group at the premises, facilities or ICT infrastructures, with potential repercussions on the correct performance of the operating activities and on the safety of operating personnel, unauthorized third parties, the sites and the surrounding environment. To mitigate these possible events, we note the implementation of

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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 projects for the standardisation of access registration systems at offices and plants, 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. As regards access to the Data Processing Centers (CED), checks have been carried out on the effectiveness of the current control systems and the authorization procedures have been reviewed. The initiatives listed above are coordinated by the organizational structure Group Security, which is responsible for the coordination of all security aspects in order to ensure the protection of human and material resources, industrial assets and information managed by the A2A Group.

Finally, the Group takes out insurance cover against any direct and indirect damage which may arise from other types of risk. As part of the insurance contract periodically (every 3 years), inspections are carried out on the plants and measures to improve the safety of assets and loss prevention are recommended/verified. The contractual conditions that characterize the insurance policies were revised to align them to the way in which the plants work and to energy market conditions.

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 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. Finally, there was the use of innovative forecasting systems and the launch of pilot projects to cover climate risk (weather derivatives) for the district heating sector. With reference to the Integrated Water Service, there is also the risk linked to the scarcity of the water resource destined to the distribution of drinking water in the event of particularly drought seasons, with consequent negative repercussions of a mainly reputational nature; to guarantee the continuity of the service, the A2A Group monitors and maps leaks from the aqueducts to identify the priority of the interventions, has commissioned studies to improve the interconnection of the aqueducts and is collaborating with the University of Brescia for the study and application of the Water Safety Plan, a project to systematically guarantee the safety of a drinking water system, the quality of the water supplied and the protection of consumer health.

The A2A Group also monitors the risk resulting from the lack of specific and adequate contingency plans to manage in a timely manner the consequences of extreme phenomena such as landslides, floods or other unforeseeable natural events; the issue is mitigated by the presence of emergency procedures at plant level which, for hydroelectric plants, are also drawn up in compliance with civil protection documents issued by the Prefectures. Lastly, it must be considered that these extreme natural phenomena may not directly affect the Group's plants but, in any case, interfere with further infrastructures of hydraulic systems (channels, dams, ducts) or electrical systems (Terna's high voltage lines).

Interest rate risk

Interest rate risk is related to the uncertainty associated with the trend in interest rates, changes in which can result in, given a certain amount and composition of debt, an increase in net financial expenses. The volatility of financial expenses associated to the performance of interest rates is therefore monitored and mitigated through a policy of interest rate risk management aimed at identifying a balanced mix of fixed-rate and floating rate loans and the use of derivatives that limit the effects of fluctuations in interest rates.

To provide a better understanding of the risks of interest rate fluctuations to which the Group is subjected annually at December 31, a sensitivity analysis was conducted of net financial expenses and valuation items of derivative financial contracts as a result of interest rate fluctuations. The section “Other Information/Interest Rate Risk” of the consolidated Financial Report illustrates the effects on the change in the fair value of derivatives resulting from a change in the forward curve of interest rates of +/- 50 bps.

Credit risk

Credit risk relates to the possibility that a counterparty, commercial or trading, may be in default, or fail to respect its commitment in the manner and timing provided by contract. This type of risk is managed by the Group through specific procedures and appropriate mitigation actions.

This risk is overseen by both the Credit Management function allocated centrally (and the corresponding functions of the operating companies) and the Group Risk Management Organizational Unit responsible for supporting the Group companies with reference to both commercial and trading activities.

Specifically, with regard to trading activities and in compliance with the procedures in place (Energy Risk Policy, Risk Management, Deal Life Cycle), Group Risk Management, based on proprietary systems, assesses the Rating of Counterparties, defines the Probability of Default and attributes the Maximum Exposure to Risk, systematically verifying compliance with the limits of Counterparty Risk.

A further parameter monitored, which helps to limit the risk of concentration on the individual counterparty, is represented by the Credit VaR, namely the assessment of risk in terms of potential loss, with a certain confidence level, associated to the entire loan portfolio.

In relation to commercial counterparties and in compliance with the procedures in place (Credit Risk Policy), risk is mitigated through preventive assessment, attainment of guarantees and collateral, compensation management, optimization of credit reminders and recovery processes as well as the use of monitoring and reporting tools. Group Risk Management intervenes in the management of commercial credit both directly and indirectly, through a specific proprietary model, in defining the creditworthiness and credit limit of business customers, for which derogation to guarantee release is required.

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, 2018, the Group contracted revolving committed credit lines for 540 million euro, unused. It also has unused long-term bank financing for a total of 120 million euro and cash and cash equivalents totalling 624 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 Report illustrates in detail these risks related to the A2A Group. The same section also lists the loans that contain financial covenants. In any case, at December 31, 2018, there was no situation of non-compliance with the covenants of the A2A Group companies.

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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 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, purification plants for waste water of energy production and waste treatment plants, systems for continuous/period measurement of polluting concentrations in emissions. With regard to the issue concerning the management of reservoirs, with specific reference to maintenance/removal of the sediments and the corresponding possible negative effects on water and on the local area, it is noted that there are controlled and specific arrangements for the execution of drainage operations to minimize the effects on the environment.

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

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.

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.

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 anomalous situations or particular external events, such as for example the risk issues related to the transfer to plants of out-of-specification materials; the Group carries out a strict control on the materials entering the plants and has adopted internal

guidelines for the control of waste, which are then implemented with specific procedures at plant level; it has also started the research and experimentation of emission monitoring systems in line with the best available technologies for the continuous measurement of micro-pollutants, and uses materials and techniques for the fume purification system able to absorb even the possible presence of greater quantities of pollutants than expected, thus ensuring compliance with the prescribed limits. Other possible external events concern the anomalous discharges of pollutants in public sewage systems that convey to the Group's purification plants; to timely intercept and manage any peaks of pollutant concentration, a program has been launched to upgrade analysis stations of waste water that transits through public sewers before entering the purification plants.

Particular attention is paid to the risk of fire at waste and waste material storage sites, such as recycling plants and ecological platforms: the issue is managed both in the context of security and prevention of unauthorised access and through the implementation of prevention measures at the main sites, in addition to those indicated in the fire prevention certificate.

In the area of gas and electricity distribution, there is a procedural body focused on controls concerning the management of excavated material deriving from construction sites on the networks, the definition of check lists on environmental aspects, the monitoring of the activities of contractors in compliance with the provisions of the company guidelines, specific training programmes for operating personnel at sites equipped with temporary storage to guard against potential risks resulting from the non-optimal management of waste produced directly by the company's own activities and indirectly by the activities of its contractors.

Another risk area concerns the possible exploitation of environmental data and information which, although without foundation, may damage the image of the Group or hinder the smooth operation of the plants. To monitor these risks, the Group carries out constant monitoring of the environmental parameters of both the quality of water distributed and their emissions, and manages the publication of specific reports. The Group is also involved at various levels in constant and transparent dialogue in dealings with entities, with the communities of reference and with stakeholders, also through tools such as Environmental declarations (published for sites participating in the EMAS regulation).

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: of particular relevance were amendments to regulations underlying 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, ARPA, etc.), as well as of active participation in trade associations and work groups set up at these entities, which led to sharing the results of the experiments carried out by the Group and the methods of sampling, analysis and classification of residues, eliminating many of the uncertainties associated with the topic.

In order to always be in line with the best techniques available in the environmental field and to efficiently plan any new investments that may be necessary, the Group participated and participates in working groups to define BREF (Best Available Techniques Reference Document) such as those for LCP (Large Combustion Plants), Waste Treatment and Waste Incineration.

The Group also monitors jurisprudence in the environmental field in order to adopt a preventive and precautionary approach for areas in which environmental legislation is not univocally defined. In this context, the possible direct and indirect consequences on the business of the recent ruling issued against another operator in the framework of the discipline relating to the End of Waste have been assessed.

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 was completed for the parent company and for the main companies and is being progressively extended to the other Group companies as well as those recently incorporated and/or acquired.

The A2A Group has taken out insurance cover against damage arising from both accidental and gradual pollution in order to cover any residual environmental risk, i.e. against events caused by a sudden and unpredictable fact, and against the environmental damage inherent in continuing operations.

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Information technology risks

The activities of the A2A Group are managed through ICT systems which support the main business processes: operational, administrative and commercial. Potential risk factors include the inadequacy, fragmentation of existing platforms of such systems compared to business needs or the failure to keep these updated, possible “downtime” making the systems unavailable and the inadequate handling of the aspects linked to the integrity and confidentiality of information. These risk factors are mitigated by controls governed by the Group Information & Communication Technology (ICT) Organizational Structure.

The process within the Group of integrating and consolidating its ICT systems, also determined on the basis of past and present changes in corporate structures, has led to a number of important objectives being reached. Following the integration of distribution support systems on a single platform, the program for the convergence of the main systems supporting commercial activities has also been completed. In areas where there are still inadequacy and fragmentation of systems and platforms used, in consequence of which there may be inefficiencies in the implementation of business processes such as 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 rationalize and renew existing platforms. The Group will continue to develop its information system structure and improve its efficiency by progressive implementation of long-term architectural strategic plan that is periodically updated.

In addition to defining outsourcing contracts for ICT services that envisage pre-defined service level agreements, the Group has developed a process to ensure operating continuity, even in the event of unavailability of one of the two Data Processing Centers (CED), of some systems of particular relevance for the business. Furthermore, the transportation activities of the Milan Data Center were completed at the infrastructure of an external supplier, thus making a significant step forward in achieving higher levels of security in terms of service continuity. It is also underlined that there is currently the availability of suppliers and resources within the Group to cope with logical attacks, viral attacks and system failures and that the assessment of vulnerabilities and the related remediation plan for the most critical applications is underway. Lastly, the Business Continuity Plan structuring activities were started, aimed at prospectively establishing the instrument through which the Group will be able to deal with further scenarios of unavailability of services for the areas considered most critical; as part of this project, the evaluation and subsequent implementation of alternative solutions for infrastructural improvement of the Brescia CED is particularly important, with the aim of further increasing the levels of reliability and continuity in the provision of ICT services.

Data confidentiality and security are subject to specific controls by the Group, through internal policies, tools to segregate access to information, as well as through specific contractual agreements with any third parties who may have to access sensitive information. To further improve the oversight in place, the alignment is being performed between the model of organizational roles and model of technical roles of Segregation of Duties implemented in the systems; said verification will be followed by the implementation of profiles designed to strengthen security aspects for critical information systems. Network Access Control (NAC) measures have been introduced to the elements of the corporate network (computers, servers, firewalls and routers) and Cyberark tools, which represent a specific approach to network management and security and which aim to strengthen network security, monitoring all access based on the security policy. An agreement has been signed with CNAIPIC (National IT Anti-Crime Center for the Protection of Critical Infrastructures), in order to establish forms of direct collaboration and management of possible incidents. Lastly, the remaining activities related to the organic ICT security masterplan for the two-year period 2016/2017 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. In addition, an audit was completed in the ICT area of the Group, aimed at identifying the main characteristics and potential critical points of the current industrial process management systems (such as, for example, SCADA systems) which, due to an ever-increasing integration with IT (Information Technology) systems, are potentially exposed to security and integrity risks; the evidence of this study led to the definition of a development plan for a new model of governance of these systems, as well as to the planning of the activities for the creation of a SOC (Security Operation Center) for the monitoring of the process control systems of the plants and infrastructures of the network.

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, from last year, 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 conferral of the subsidiary Linea Com S.r.l. into A2A Smart City S.p.A., a common and integrated approach at the level of the Group's ICT services was shared.

Health and safety risk

The Group operates in a heterogeneous business environment characterized by a strong technology element and the presence of personnel at its plants and throughout its territory.

Certain Group activities are, by their nature, more exposed to the risk of “typically work-related” accidents linked to the operational services in the territory and the performance of technical services and activities at the plants.

Through the Quality, Environment and Safety Policy (also issued as part of the personnel health and safety management system to comply with OHSAS 18001), the prevention measures adopted aim for a “zero risk” objective, encouraging a constant rise in the level of safety in the workplace. In particular, in this respect, the adoption of additional models for measuring the Health and Safety risk at the level of single plant is underway.

A central Prevention and Protection Service has been set up as part of the Quality, Environment and Safety Organizational Structure in order to harmonize the objectives of safety and protection in Group companies and to monitor that these standards are also being followed by contractors at both the prequalification stage and the execution stage at worksites. In this sense, the model for managing contracts from a health and safety standpoint has been recently updated.

The organizational control structure, among other activities, carries out specific inspections to monitor compliance with legislation as well as personnel update training. In this regard, specific obligatory training plans are defined and implemented for each company role and task. In addition, the Leadership in Health and Safety – LiHS training programs have been implemented and are being progressively extended to all Business Units, which envisage at all levels emotional involvement on the issue of security and the dissemination of security culture through leaders identified within the operating areas.

A project to revise the present organizational model is ongoing based on the establishment of guidelines, methodologies, instruments and controls provided by the Environment, Health and Safety Organizational Structure and assisted by the support of specific Environment, Health and Safety functions in each Business Unit and by the active involvement of the operating structures.

Finally, the employee health surveillance management system is active, conducted with the aid of a team of doctors located in the various areas who carry out periodic assessments on the state of health of personnel. As part of this system, there are specific analysis and reporting tools 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.

In addition, the health and safety risks for the A2A Group take on an extensive connotation with the possible involvement of third parties (contractors' personnel, users, citizens, etc.) in connection with the nature and methods of carrying out various businesses operated by Group companies; reference is made, for example, to any accidents in the management of traffic lights and public lighting systems, the management of electricity and gas distribution networks, also with reference to aspects of

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interference of the relative work sites with the urban fabric of reference, the collection of waste and street sweeping, which involves the use of road vehicles, including large ones.

To mitigate this risk issue, activities have been planned for replacement of the most outdated electrical circuits, test campaigns and, if necessary, replacement of older supports, and implementation was completed of new systems for remote control of lighting points. With regard to road safety for vehicles carrying out urban waste collection and sanitation activities, training and awareness-raising activities have been carried out for vehicle drivers, and the adoption of technological systems for remote control and limiting vehicle speed is being considered.



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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. A further role in this trend is being played by the UN 2030 Agenda, with its 17 Sustainable Development Goals.

In April 2016, A2A redesigned its sustainability strategy in light of the UN Agenda priorities, defining a Sustainability Policy through hinged on four cornerstones: circular economy, decarbonisation, smartness in networks and services and people innovation. Two years down the road, the Board of Directors, supported by the investigations of the Sustainability and Territory Committee, has chosen to repeat its commitments made through to 2030 and approve – at the meeting held March 20, 2018 – a new five-year sustainability plan, with a set of operative objectives, connected and integrated with the Group's business, referring to a time frame and perimeter that are in line with the new Business Plan.

On April 27, 2018, the second Group Integrated Report was presented to the A2A Shareholders' Meeting, which has also been configured as the first Non-Financial Statement pursuant to Legislative Decree 254/16, which introduced for certain categories of companies the obligation to report information relating to environmental and social issues. The document has been prepared taking as a reference the *Integrated Reporting Framework* (IR Framework), outlined by the *International Integrated Reporting Council* (IIRC), as well as the *GRI Standards* of the *Global Reporting Initiative* (GRI) and, for some indicators, follows the *GRI G4 Electric Utilities Sector Supplement*.

The document also include monitoring of the Sustainability Plan, revealing that the Group is working in the right direction to achieve the challenging goals set for both 2022 and 2030. Since July, A2A has been included in the *FTSE4 Good Index Series*, the series of ethical indices designed to measure the sustainability performance (ESG) of companies in the main world markets. This is a very important goal for the Group, which is working hard to transform its business, within a framework of sustainability, which is the guiding principle of its development. For some time now, in fact, the sustainability of a company's operations has become one of the most important evaluation criteria used by the world of finance to buy or sell securities on the market. The indices, created by FTSE Russell (Provider controlled by the *London Stock Exchange*), are used by a wide variety of investors to create and evaluate responsible investment funds and other related products.

Sustainability performance reporting also continued at local level. In particular, in 2018, the 2017 Sustainability Reports of Milan, Brescia, Bergamo, Valtellina-Valchiavenna, Friuli Venezia Giulia and Piedmont were published and presented in public events. The documents contain a description of the contribution to the achievement of the UN sustainable development objectives with reference to the territory and, to make the report even more effective and immediately understandable, a different formula has been adopted than in the past, focusing on the web. In this sense, within the platform www.forumascolto2a.eu a dedicated section has been created, in which it is possible to obtain more information on the Group's performance in the various territories, as well as retrace the information and projects that A2A carried out in 2018.

As part of the stakeholder listening program, called forumAscolto, work continued on the realization of projects selected after the Milan forum, held in January 2017. In particular:

- **Urban Decor:** in November 2018, the awareness campaign was started for dog owners and all the citizens of Milan, entitled "VERI AMICI?" (REAL FRIENDS?). To support this activity, the installation of new bins with free dispensers of bags and ashtrays in the dog areas is nearing completion.
- **Food waste:** with the support of A2A and AMSA, in 10 open municipal markets, the "Bancarella di Recup" (Recuperation Stand) has been set up, where unsold fruit, vegetables and bread are donated to those in need.
- **Public lighting and municipalities:** a plan of 149 public lighting projects (replacement and expansion of lighthouse towers) is underway for a total investment of 15 million euro.
- **Smart mobility :** the INFORETI smartphone app was created, which allows making reports, receiving information and updates on Unareti sites.

Furthermore, following the initiative held in Udine in 2017, the call to action “creiAMO FVG” was launched on March 1, 2018, with the aim of promoting business projects in line with the needs of local communities, trying to provide a new impetus to the region’s sustainable tourism sector. On June 27, 2018, during the “Conoscenza in festa” event in Udine, the winning projects were announced:

- for the province of Udine, the project “Albergo diffuso Sauris” won, which provides for the organization of experiential activities to be carried out in the lake basin of Sauris, through the use of canoes, kayaks and electric boats, combined with other cultural experiences and the discovery of local food products;
- for the province of Gorizia, it won the project “ISONZO: il fiume ed i suoi borghi – una storia su 2 ruote” (the river and its villages – a story on two wheels), which aims to promote tourism along the Isonzo basin through the use of bicycles, developing tourist packages with more days and making use of collaborations with local tour operators and with other local companies.

In addition to financial support, these entrepreneurial ideas were guaranteed a light incubation path for the development of the project, which ended in December 2018.

Also on November 22, the forumAscolto Piedmont was held, with the aim of understanding the specificity of the territory and developing a discussion on issues that are important for A2A and its stakeholders. This event was attended by 29 representatives of Piedmont civil society (associations, customers, suppliers, local administrations, etc.). At the end, A2A undertook to launch a call for ideas in 2019 to support initiatives capable of creating shared value and aimed at the sustainable development of the Piedmont area. As in the case of Friuli Venezia Giulia, the winners will be guaranteed, in addition to financial support for a total of up to 50,000 euro, a light incubation path for the development of their project idea, in collaboration with a local incubator.

In addition, the Banco dell’energia (Energy bank) – the social responsibility project that emerged from the Brescia forum – promoted by A2A with the AEM Foundation and the ASM Foundation has relaunched again, in collaboration with the Cariplo Foundation, the “Doniamo Energia2” call for proposals to identify further actions aimed at supporting economic and social vulnerability throughout Lombardy.

As regards relations with the communities, in a more general sense, the offer of educational activities has been extended with excellent feedback from schools and citizens. The educational-interactive exhibition “Il gioco delle 4R”, focused on the waste cycle and addressed to first-degree primary and secondary schools, was brought to Milan and exhibited in the various Municipalities of the city. Two days were organized, in Milan and Brescia, to conclude the contest “Missione Terra” for the 2017-2018 school year. The Milan initiative involved 35 third, fourth and fifth primary classes of 16 different institutions, in a challenge in 5 types of games on recycling and waste reduction, saving water and energy, separate waste collection and the fight against waste; in Brescia the same format was repeated, involving grest (summer groups) and families.

In addition, for the academic year 2018 - 2019, the competition “Missione Terra Global Goal Protocol” was launched , an educational project that A2A has developed, in collaboration with Asvis (Italian Alliance for Sustainable Development) and the Global Compact Network Italy Foundation, dedicated to Italian kindergartens and primary schools and secondary schools, first and second grade. This year, the A2A Group wanted to dedicate the project to the 17 Global Goals promoted by the UN, i.e. the 17 objectives that the governments of the 193 UN member countries have committed to achieve by 2030. These are issues that are of fundamental importance to everyone, such as the fight against poverty, the eradication of hunger and respect for the environment.

Finally, in 2019, a new website for schools will be launched, a single innovative digital platform, where it will be possible to find a lot of information on the initiatives dedicated by A2A to schools, all free of charge, on issues such as energy and the environment, new technologies applied to services for cities, sustainability and the objectives of sustainable development.

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Sustainability responsible management

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8

Other
information

Other information

Audit of the financial statements and disclosures pursuant to article 149-duodecies of the Consob Issuers’ Regulations

The annual financial statements of A2A S.p.A. have been 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 2018, analyzed between the leading auditor EY S.p.A. and other auditors.

Descrizione thousands of euro	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	
Total	290.0	-
Subsidiaries		
Audit of annual financial statements	752.0	
Periodic tests of accounting	194.0	
Review of half-yearly report	187.0	
Audit of the separate annual accounts for the ARERA	47.0	
LGH Group	263.0	
ACSM-AGAM Group		400.0
Total	1,443.0	400.0
Associates and joint ventures		
Audit of the information sent to shareholders for the consolidation	34.0	
Total	34.0	-
TOTAL A2A GROUP	1,767.0	400.0

In addition to the above audit work, companies belonging to the EY network also performed other engagements in 2018 for fees amounting in total to 188 thousand euro, which mainly related to activities as the Company’s legal auditor as specified by current legislation.

Treasury shares

At December 31, 2018, 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, 2018, no treasury shares were held through subsidiaries, finance companies or nominees.

Each share has a par value of 0.52 euro.

Secondary locations

The company does not have secondary offices.

Related parties and tax consolidation

Details of related party transactions are provided in note 39 to the consolidated financial statements and note 36 to the separate financial statements as required by article 2428 of the Civil Code.

Consob Market Regulation (no. 16191/2007)

Article 2.6.2 of the Italian Stock Exchange Rules on the conditions as per articles 36 and 39 of the Consob Market Regulation (no. 16191/2007)

As far as the subsidiary EPCG is concerned, in order to comply with article 39 of the Market Regulation issued by Consob on the “Conditions for listing of shares of parent companies of companies instituted and regulated by the laws of non-European Union Member States” as per article 36 of that Regulation, A2A S.p.A. has adapted to the provisions on the adequacy of the administration and accounting systems, with respect to the size of operations, and the information flow to management and the central auditor necessary to control the consolidated financial statements of the parent company.

There have been no acquisitions during the year of companies registered in non-European Union countries which considered on their own are material for the purpose of the legislation in question.

* * *

The information on corporate governance and ownership structures required by article 123-bis of Legislative Decree no. 58/1998, as amended, is contained in a separate document “Report on Corporate Governance and Ownership Structures for the year ended December 31, 2018”, 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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