



MAIN REGULATORY ISSUES FOR INVESTORS

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AGENDA

- **A2A Regulatory Affairs**
- **Regulatory topics**
 - ✓ ***Capacity Market***
 - ✓ ***Abolition of electricity regulated tariffs for final clients***
 - ✓ ***National Energy Strategy (SEN)***

THE WEIGHT OF REGULATED ACTIVITIES

The A2A Group is a multiutility involved in many businesses.

In 2016 the Regulated and Quasi-Regulated EBITDA was equal to 65% of the total EBITDA (~ €M 800 out of €M 1,231).

In the Regulated fields there are networks, capacity payment, incentives for renewables, must run power plant.

Quasi-Regulated includes waste collection in concession, district heating and public lighting.

Moreover, investments in Regulated and Quasi-Regulated businesses represent 87% of the total (i.e ~ €B 2.4 out of €B 2.75).

Following a snapshot of A2A diversified industrial portfolio.

DIVERSIFIED AND INTEGRATED BUSINESS PORTFOLIO

	ENVIRONMENT		ENERGY RETAIL		NETWORKS & HEAT ⁽²⁾				GENERATION & TRADING		SMART CITY		EPCG (Montenegro)	
	€M	%	€M	%	€M	%	€M	%	€M	%	€M	%	€M	%
2016 EBITDA⁽¹⁾	€M 231	20%	€M 120	11%	€M 285	25%	€M 69	6%	€M 352	31%	€M 6	1%	€M 69	6%
	Collection and street sweeping		Electricity / Gas sales ➢ free market ➢ regulated market		Electricity networks		Heat Generation, recovery and sales		Fuel sourcing		Data transmission		Power generation	
	Treatment				Gas networks		Heating Distribution		Whole-sale & Trading		Telephony and Internet access		Electricity networks	
	Disposal				Integrated Water Cycle		Energy Efficiency Services		Power generation		Video-surveillance			
	Heat / Electricity production				Public Lighting									

Ordinary EBITDA equal to €M 1,103

- (1) Equal to €M 1,132, calculated as Reported EBITDA (€M 1,231) net of non recurring items (€M 128) and EBITDA from "Corporate" (€M -29)
- (2) Infrastructure activities: electricity and gas networks, heating distribution and integrated water cycle. Energy efficiency activities: heat generation, recovery and sales, public lighting and other energy efficiency services.

Sources: A2A Strategic Plan, 2016 Results & Business Plan Update; Company Annual Reports

Business units: top strengths

- **Environment**
n. 1 for electricity produced by WTE plants
- **Energy Retail**
market leader for quality and customer satisfaction
- **Networks and District Heating**
incumbent in its 3 key gas areas first domestic operator in DH
- **Generation & Trading**
~2 GW hydro installed capacity in Italy
- **EPCG**
~0.7 GW hydro installed capacity (76% of total)



A2A REGULATORY AFFAIRS

- The new organisation of A2A Regulatory Affairs, set up in January 2015, **reports to the CEO directly.**
- **Regulators have been increasing and enlarging their range of action** – now impacting all A2A businesses, from natural monopolies to free market.
- **A2A is now facing a substantial group of regulatory stakeholders.** In addition to the most important, i.e. the Energy Authority (AEEGSI), also the Antitrust, the AGCOM, the Ministry of Economic Development and others including the European Commission.
- **Regulatory Affairs has to be:**
 - ✓ Close to the Regulators
 - ✓ Close to the Company top management
 - ✓ Close to the Business Units
- **Processes and Monitoring instruments:**
 - ✓ Regulatory Scenario → Budget and Business Plan
 - ✓ Regulatory Review → Ebitda @ Risk
 - ✓ Stakeholder Management → structured plan

A2A Regulatory Affairs is no longer limited to **monitoring and interpreting rules** but also **engages with many institutional bodies** to put forward A2A stakes thus becoming a **critical success factor** for the company.

REGULATORY HOT TOPICS 2017

○ 1 ● 5

	Impact on A2A	Business Unit
Capacity Payment /Market	●	▪ Generation & Trading
Competition Bill	◐	▪ Energy Retail
Ministerial Decree "White Certificates Guidelines"	◑	▪ Networks & District Heating ▪ Waste
Renewable and Heat Incentives	◑	▪ Generation & Trading ▪ District Heating
LGH integration	◑	▪ All BUs
Mothballing of Power Plants	◑	▪ Generation & Trading
Clean Energy for all Europeans (Winter Package) and SEN	◑	▪ All BUs

BU Generation & Trading

FROM CAPACITY PAYMENT TO CAPACITY MARKET (CRM)



Currently in Italy

The CRM was set up in 2003 to provide for capacity adequacy versus real time safety guaranteed by the ancillary services market.

- Eligible plants: programmable > 10 MW and active on the ancillary services market.
- Overall amount collected through bills: around €M 180, set by Regulator *ex ante*.
- Transitory status.

Currently in Europe

Capacity payments (SP, PT, GR and IR), *strategic reserve* (GE), *capacity market* (UK and F).

The way forward

Many EU countries are planning to introduce or revise their CRMs.

- **April 2015:** the EC launched a **sector inquiry** on state aid, to ensure that CRMs guarantee adequate safety of the electricity system without affecting competition. A2A has been included in the inquiry.
- **End 2016:** the EC concluded the sector inquiry. CRMs are necessary:
 - intermittent renewable sources coupled with demand reduction have added instability to the system causing safety management issues for both TSOs and DSOs (i.e. conventional sources now act as a *back up*, no longer as a *backbone*).

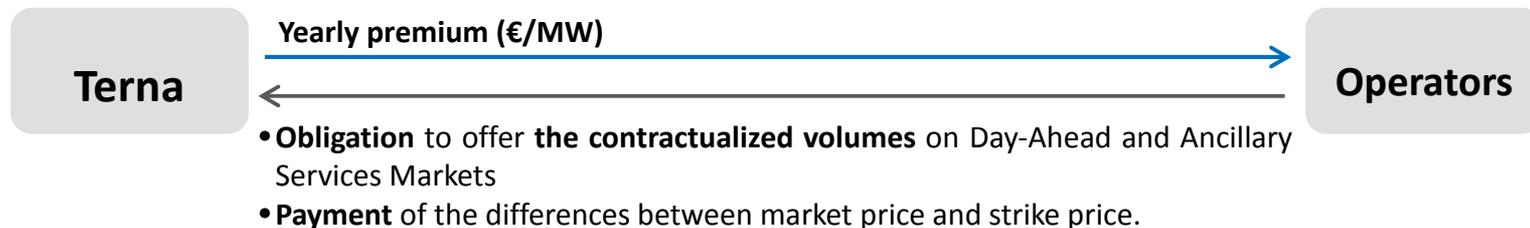
BU Generation & Trading

THE ITALIAN CRM FRAMEWORK (1)

CRM regulatory framework:

- the spot markets are not able to give signals for investments and disposals → “boom and bust” risk. Need to create a **centralised system** for managing the CRM, which provides long-term price signals and hedging;
- adequacy targets are set on a zonal basis considering a multi-year **demand curve defined by the TSO** (i.e. Terna);
- capacity procurement through auctions organised by Terna, voluntary participation;
- type of product -> reliability option (1-way CfD):
 - **premium** expressed in €/MW and **cap** set at 75,000 €/MW (OCGT – peak technology);
 - **strike price** expressed in €/MWh set on the OCGT variable cost (implying cap to revenues on Day-Ahead and Ancillary Services Markets);
- current eligibility requirements: new and existing plants (both programmable and non-programmable), not incentivised; load qualified to participate in the Ancillary Services Markets;
- EU requested the opening to -> foreign capacity, distributed generation and demand.

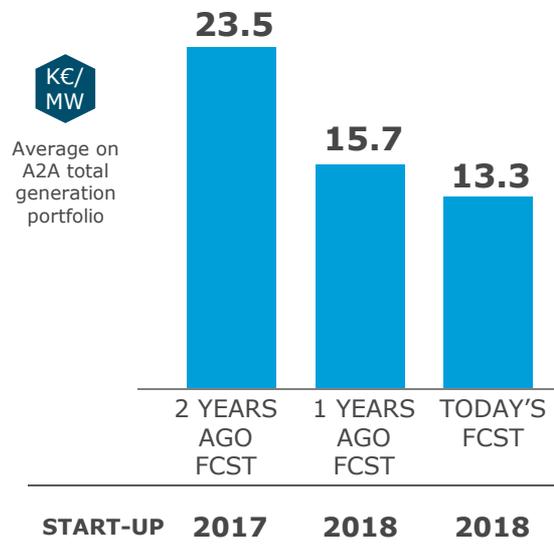
How the mechanism works



BU Generation & Trading

THE ITALIAN CRM FRAMEWORK (2)

A2A BP: CAPACITY MARKET REVIEWED CONSERVATIVELY



Expected system cost: €M 800

Capacity auctions expected to set premium in a 18-20 k€ range

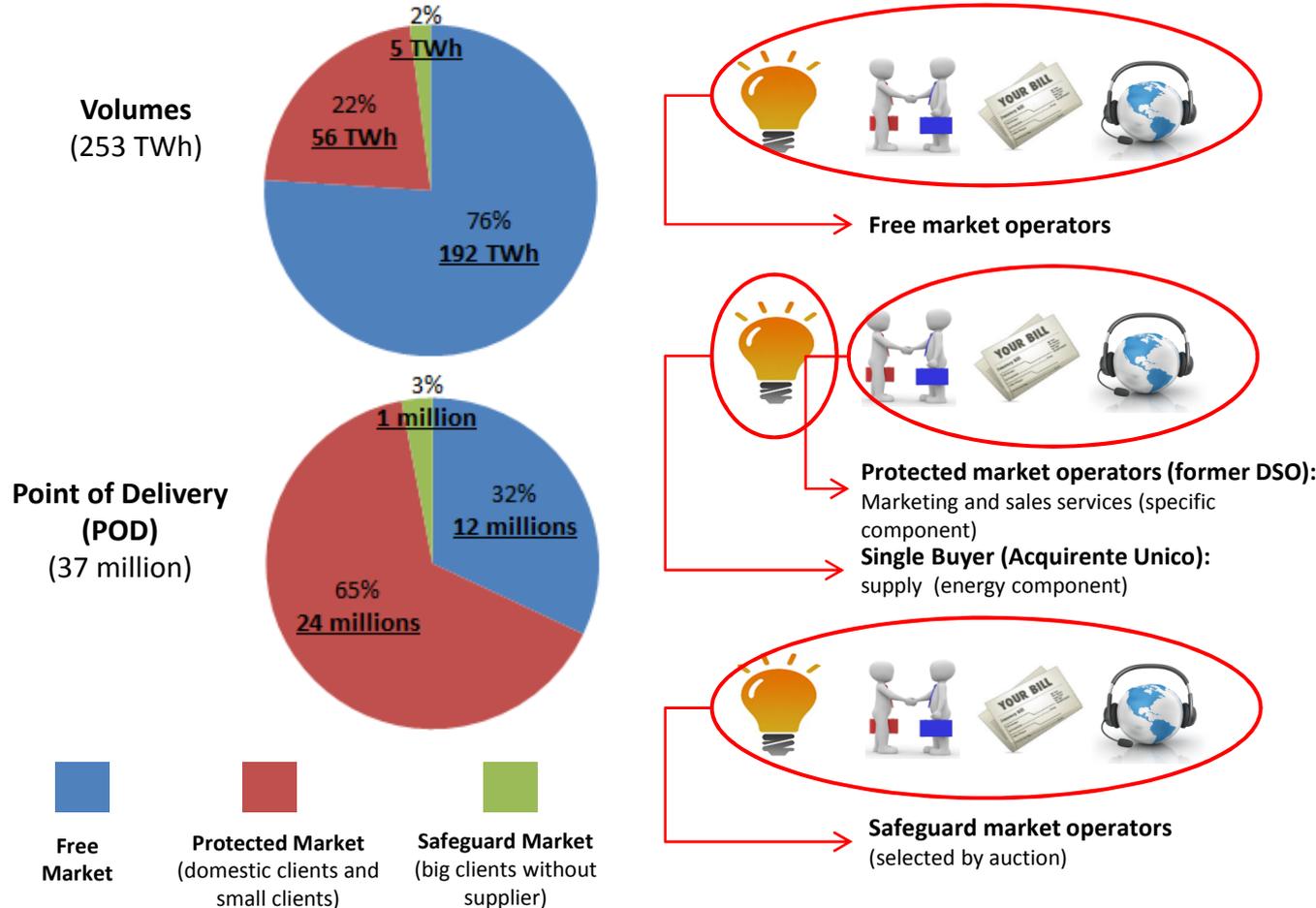
In progress the EC is evaluating the compliance of the Italian mechanism with EU state aid rules:

- *Pre-notification of the mechanism was submitted by the Italian Government to DG Competition in August 2015;*
- *Thereafter, many requests for clarification were sent by the EC to the Ministry of Economic Development, AEEGSI and Terna.*

The mechanism is expected to be fully operating as of 2018 (delivery)

BU Retail Energy

CURRENT STRUCTURE OF ELECTRICITY MARKET



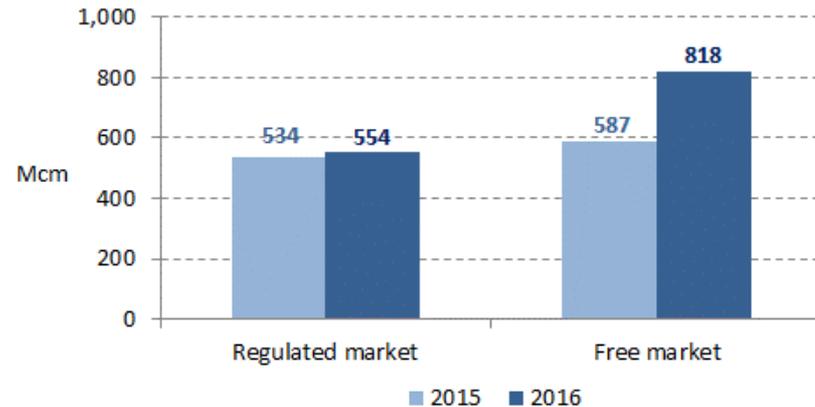
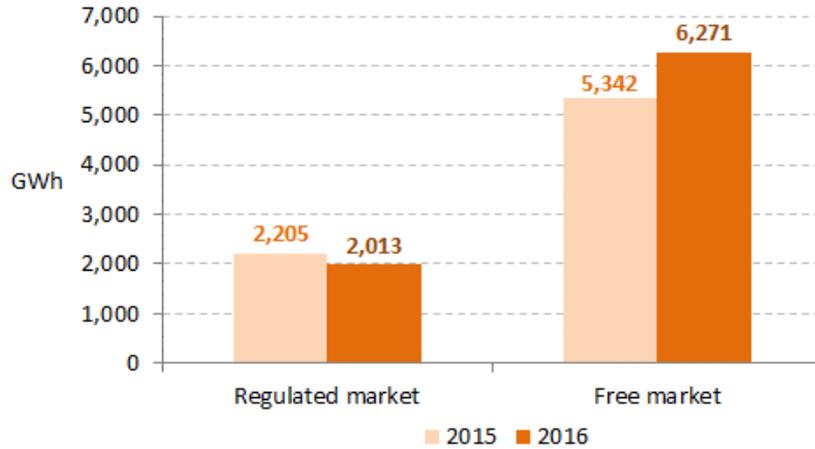
Single Buyer in the Protected Market

Public entity responsible for the electricity supply to the clients in the Protected Market:

- active on the wholesale markets (spot and forward). The purchased electricity is resold to the final client by sale companies on the basis of regulated price, quarterly updated by the Authority (the so-called «tutela di prezzo»);
- in 2015 the Single Buyer market share was equal to 22% (~ 56 TWh of the total electricity volumes).

BU Retail Energy

A2A –Retail Energy Market



Energy retail portfolio⁽¹⁾

	2016	2015
Electricity supply - POD (K)	1,040	954
- regulated market (K)	702	743
- free market (K)	338	211
Gas supply - POD (K)	1,306	1,099
- regulated market (K)	950	918
- free market (K)	356	181

(1) 2016 figures include Linea Group Holding and refer to 31/12. 2015 figures are average values

✓ +117% free market customers from 2014 to 2016

BU Retail Energy

ABOLITION OF THE REGULATED ELECTRICITY TARIFFS

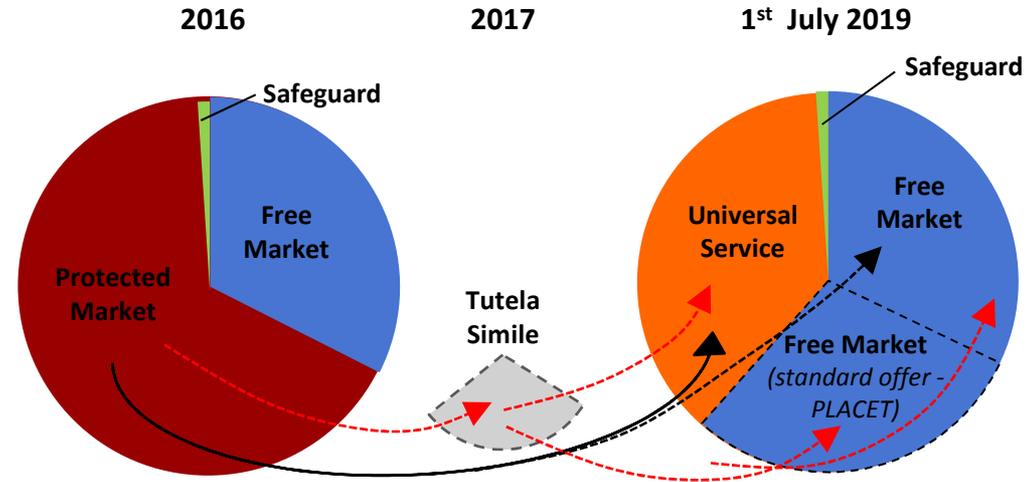
Competition Bill: end of electricity and gas protected tariffs as of 1 July 2019:

- **Objective:** increasing competition in the retail market through more informed and proactive customers.
- **Mechanism:** the moving of captive customers to the «free market» will depend on the final text of the Competition Bill. Auctions are now no longer the base case. How to address those customers who have not opted out will be defined by a subsequent decree. The Competition Bill will have to be discussed in the Senate again before being approved.

AEEGSI Resolution n. 369/2016: creation of **TUTELA SIMILE**.

In **2017** the consumers could either directly migrate to the “free market” or opt for this “semi-regulated” offer:

- *voluntary participation by customers and sellers through a platform managed by the Single Buyer;*
- *customers choose the sellers through the platform on the basis of the discount offered (€/client – bonus);*
- *AEEGSI sets a cap equal to 500,000 served customers for each seller;*
- *the energy component is in line with the protected market;*
- *the Tutela Simile contract will last for only 1 year.*



TUTELA SIMILE started on 1st January 2017

- www.portaletutelasimile.it has been created to allow protected customers to opt for the mechanism by comparing the offers;
 - 28 operators registered;
- Lack of success: less than 3,900 customers have opted in 5 months

ALL BUs

NATIONAL ENERGY STRATEGY (SEN)

The Italian National Energy Strategy (**SEN**) is a policy paper issued jointly by the Ministries for Economic Development and the Environment outlining Italy's long term decarbonisation strategy with a focus on the 2020 and 2030 energy and climate targets.

The European Commission has published "**Clean Energy for all Europeans**" a package of measures to keep the European Union competitive as the clean energy transition is changing the global energy markets.

The SEN was issued for public consultation on June 12th and final approval is expected during the summer.

Points of attention for A2A:

- **Energy Efficiency:** annual saving targets in line with the historical trend with a focus towards the residential and transport sectors. The White Certificates mechanism is confirmed (*business development*).
- **Renewables:** 2030 target at 48-50% for electricity, with a support for long term contracts (PPA) and an opening to bio energy from waste; target at 28-30% for heating, with the acknowledgement of a significant development potential for **district heating**; key role of **bio methane** in transport, as the main "advanced" bio fuel.
- **Electricity System/Market:** closure plan for coal power plants; key role of the capacity market for adequacy; ancillary market opening for demand side management, including renewables.
- **Gas market:** key role as a back up resource for renewables; diversification strategy for procurement.

ANNEX

EXTERNAL STAKEHOLDERS MANAGEMENT

Issues	Main external stakeholders				
	Ministry of Economic Development, others	Sector Authorities*	GSE **, Market Operator (GME), TSO (Terna)	Technical entities (ENEA, RSE, ...)	European Regulation
1. Wholesale Market	●	●	●		●
2. Energy Efficiency	●		●	● ●	● ●
3. Incentives for renewables	●		●		●
4. ETS	●		●		●
5. Tariffs	●	● ●			● ●
6. Retail Market	●	● ●			● ●
7. Incentives for quality		● ●			● ●
8. Unbundling		● ●			

● Electricity and Gas Networks, Retail and Antitrust

● Integrated Water Cycle and District Heating

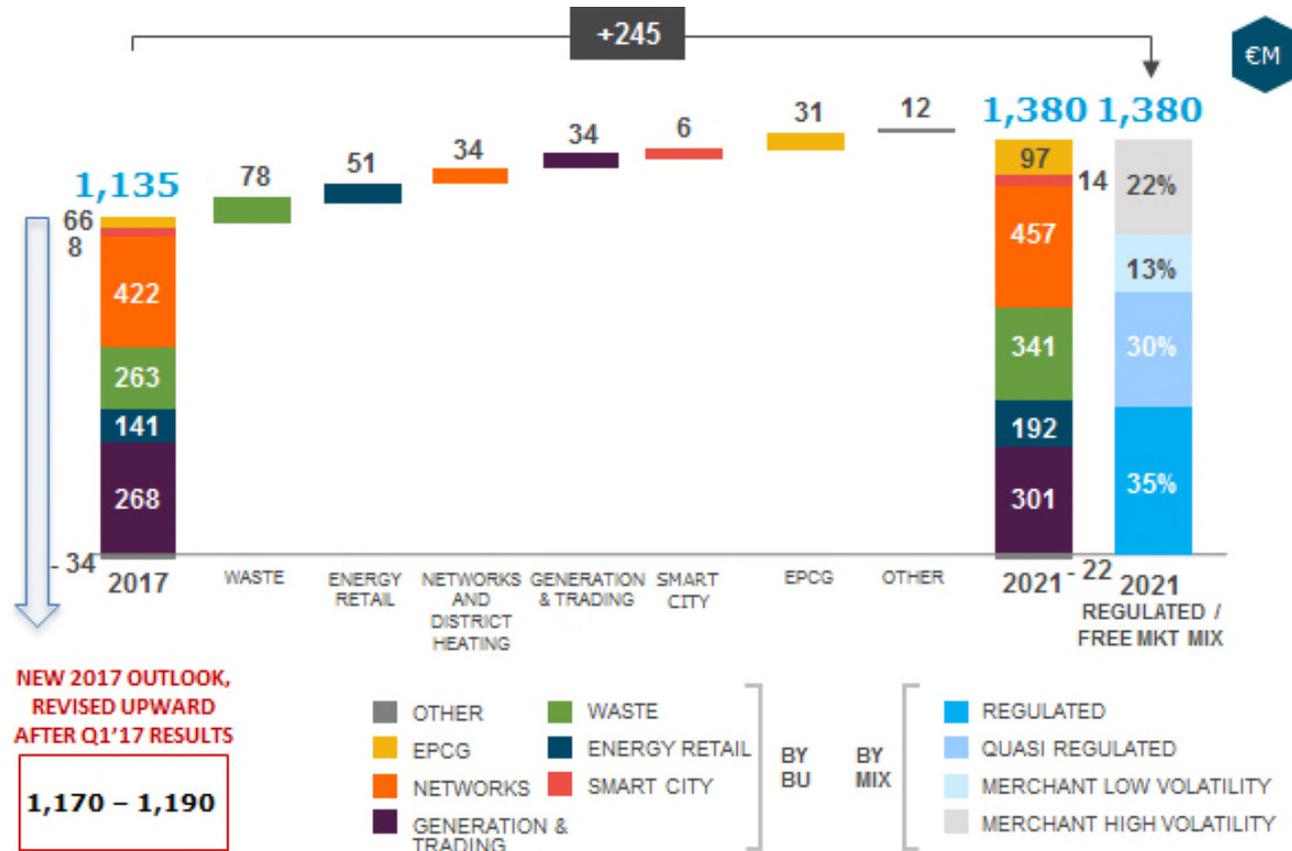
● Market and Environment

* AEEGSI, Antitrust, Water Local Authority, etc

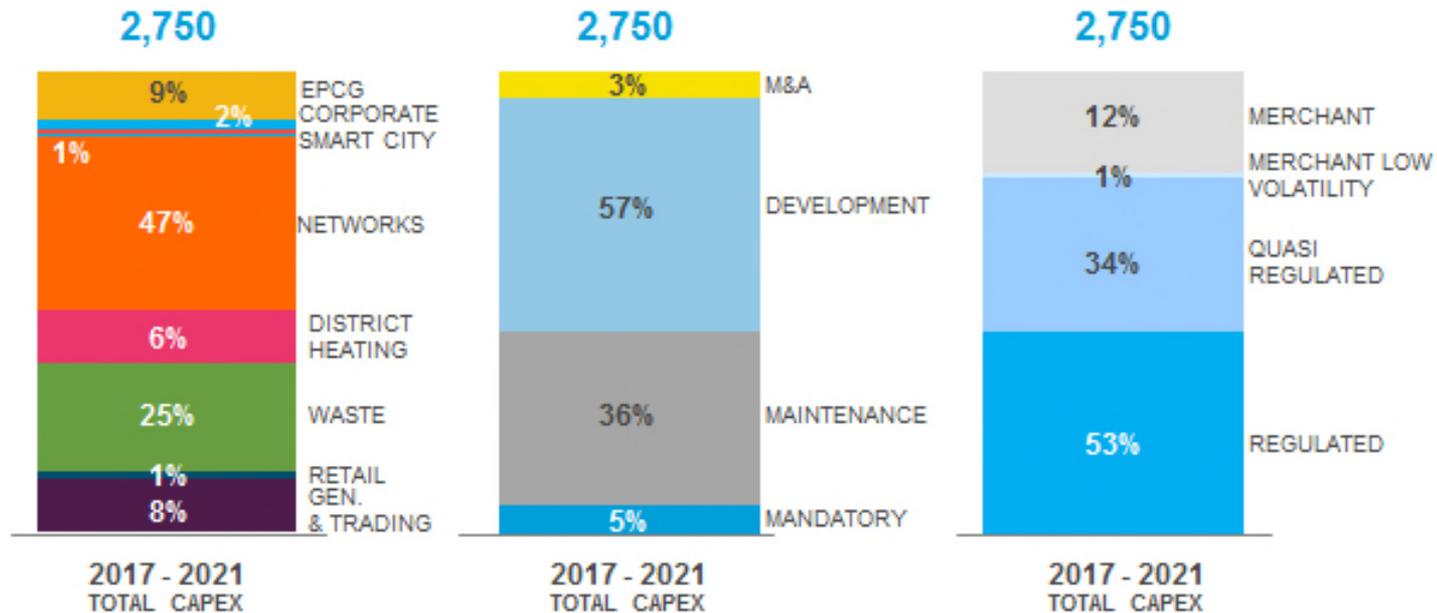
** The State-owned company which promotes and supports renewable energy sources in Italy.

Centralized Unit
Team working
Coordination

2017-2021 STRATEGIC PLAN: EBITDA EVOLUTION



2017-2021 STRATEGIC PLAN: CAPEX EVOLUTION



BU Energy Retail

"TUTELA SIMILE": REGISTERED OPERATORS AND BONUS⁽¹⁾

Offers for domestic market		
Operators	Bonus (€)	
1	Engie	115.0
2	Eni	106.0
3	Vivigas	84.0
4	Hera Comm	80.0
5	Gas Natural Vendita	75.0
6	E.ON	70.0
7	Illumia	65.15
8	Bluenergy	65.0
9	Lineapiù	65.0
10	AGSM Energia	60.0
11	Edison	55.0
12	AIM Energy	50.0
13	SGR	40.8
14	Green Network	40.2
15	Axpo	40.0
16	A2A Energia	40.0
17	Sorgenia	36.0
18	Estenergy	35.0
19	Enel Energia	33.0
20	Ascotrade	33.0
21	Gelsia	33.0
22	Dolomiti Energia	31.0
23	Gala	30.0
24	Enerxenia	30.0
25	Alperia	25.0
26	Enercom	20.0
27	Iren Mercato	12.0
28	Sinergas	10.0
Bonus	- Average	49.3
	- Median	40.1

Offers for non domestic market		
Operators	Bonus (€)	
1	Engie	200.0
2	Gas Natural Vendita	150.0
3	E.ON	120.0
4	AGSM Energia	110.0
5	Eni	106.0
6	Vivigas	102.0
7	AIM Energy	100.0
8	Bluenergy	100.0
9	SGR	96.6
10	Enel Energia	90.0
11	Green Network	82.8
12	Illumia	81.15
13	A2A Energia	80.0
14	Axpo	80.0
15	Lineapiù	80.0
16	Gala	72.0
17	Ascotrade	70.0
18	Gelsia	70.0
19	Dolomiti Energia	61.0
20	Sorgenia	52.0
21	Enerxenia	50.0
22	Estenergy	50.0
23	Edison	40.0
24	Enercom	40.0
25	Hera Comm	30.0
26	Sinergas	30.0
27	Iren Mercato	20.0
28	Alperia	10.0
Bonus	- Average	77.6
	- Median	80.0

(1) Discount to be applied on the yearly supply

Source: www.portaletutelasimile.it

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Publications



Concise and thorough insight in the A2A Group in the form of a long presentation divided into three main parts: Our World, Our Results and Our Responsibilities. The selected contents are all publicly available information, which you may find spread across a large number of Company documents

Investor Databook
(excel file)



- Historical economic, financial and operational company data as of 2008 – on annual and quarterly basis
- Economic, financial and operational data useful for building A2A earnings model – 2015 FY reported and 2016-20 BP forecast
- Tables of the Investor Guidebook mainly relevant to a quantitative analysis



Brief and synthetic document that shows the highlights and the strengths of A2A business model

The publications are available at the following link: <http://www.a2a.eu/en/investor/guidebook/>

Moreover A2A publishes the following documents in the **Investor Library Section** on A2A website:

- Documents prepared by the Market Analysis, Modeling and Pricing Unit of A2A
 - Overview of the Italian Energy Market (yearly basis)
 - Notes on energy and environmental markets (quarterly basis)
- Documents prepared by Divisional Managers of A2A
 - A2A Environment BU
 - A2A Networks & Heat BU
 - Main Regulatory Issues for Investors