



Acea

Business Plan

2018-2022

March 2018

Agenda



THE ACEA GROUP TODAY



MARKET SCENARIO AND TRENDS



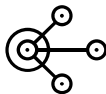
NEW BUSINESS PLAN 2018-2022



STRATEGY AND CONSOLIDATED TARGETS



MAIN OPERATING SEGMENTS



STRATEGIC OPPORTUNITIES



CLOSING REMARKS



Q&A



ANNEX

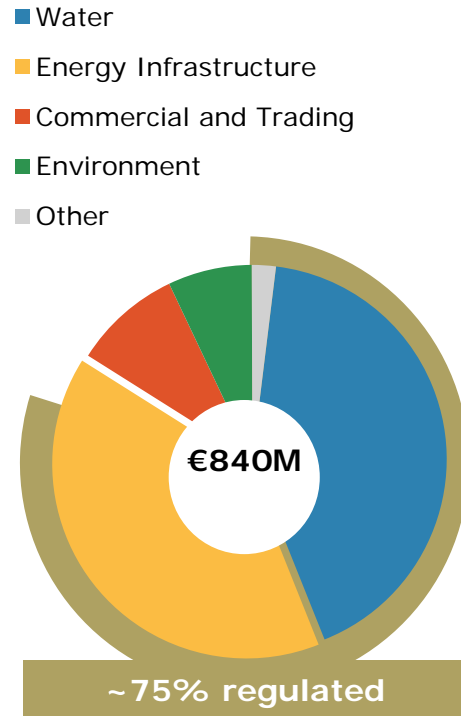
THE ACEA GROUP TODAY

A market LEADING multiutility

FOOTPRINT



EBITDA 2017



SHAREHOLDERS (1)

- 51.0% Roma Capitale
- 23.3% Suez
- 5.0% Caltagirone Group
- 20.7% Other

MARKET POSITION IN ITALY 2017

- No. 1 WATER**
 - 9m customers
 - RAB €1.3bn
- No. 2 ELECTRICITY DISTRIBUTION**
 - 1.6m PODs
 - RAB €1.9bn
- No. 5 PUBLIC LIGHTING**
 - 200k Lighting Points operated
 - 80% LED
- No. 6 SALE OF ELECTRICITY AND GAS**
 - 1.4m customers
 - ~6.8 TWh of electricity sold
- No. 6 ENVIRONMENT**
 - > 1m tons of waste treated
 - 354 GWh of electricity produced

(1) CONSOB data at March 2018

MARKET SCENARIO AND TRENDS

SEGMENT TRENDS expected in the coming years in the Group's core businesses

WATER



- Strong **regulatory and government drive** to ensure
 - greater industrial development
 - new investment to cut gap in infrastructure and plant and boost network resilience
- **Consolidation in the industry** backed by leading players

ENERGY



Key elements of the **National Energy Plan 2017**

- **Decarbonisation** by driving **electrification** and the development of an increasingly "**distributed**" model
- Increase in **energy security** to guarantee network **flexibility, adequacy and resilience**
- **Technology** and **innovation** to enable the "new downstream", making customers more active and aware (e.g. Demand Response)
- Full **deregulation** of the market and industry consolidation

ENVIRONMENT



- **Circular Economy** ("Closing the Loop") in order to recycle and recover materials
- New plant (greenfield and brownfield) to **make up the infrastructure gap**, above all in the treatment of **organic waste** (e.g. biodigesters)

STRATEGY AND CONSOLIDATED TARGETS

The Group's new strategic PILLARS



Business Plan 2018-2022

Industrial growth

Local focus and Sustainability

Technology, Innovation and Quality

Operational Efficiency

Capex of €3bn

RAB €4bn

(+€0.8bn vs. actual)

1.9m Customers
Power & Gas

1.7m tons of waste treated
(+70% vs. actual)

15 pp reduction in water leaks

Decarbonisation with drive for "electrification"

(boosting available capacity from 3kW to 6kW for all residential users)

Closing the loop and increasing recovery of materials (e.g. sludge and composites)

€400m+ in investment linked to innovative projects

Smart Grid and Smart City

Improvements to the Customer Journey

Capex and Opex discipline (-€300m in total)

20% reduction in cost to serve

Generational turnover for 300+ FTEs

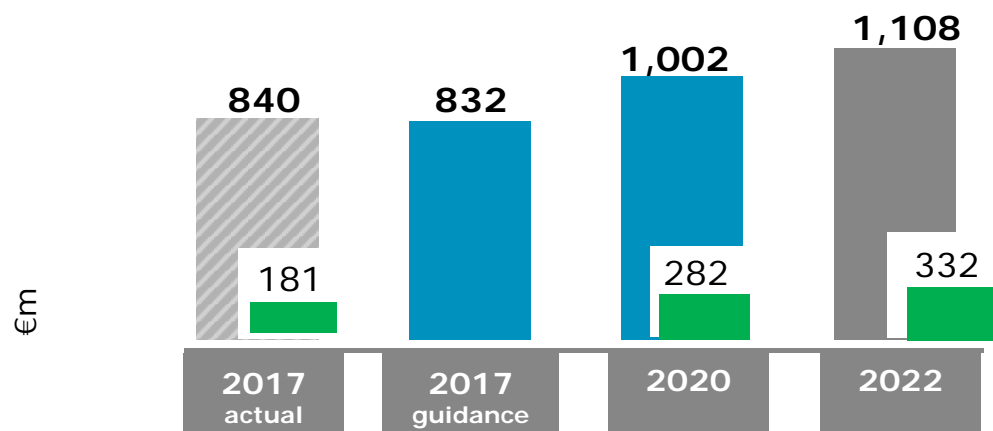
STRATEGY AND CONSOLIDATED TARGETS

Strong and sustainable GROWTH

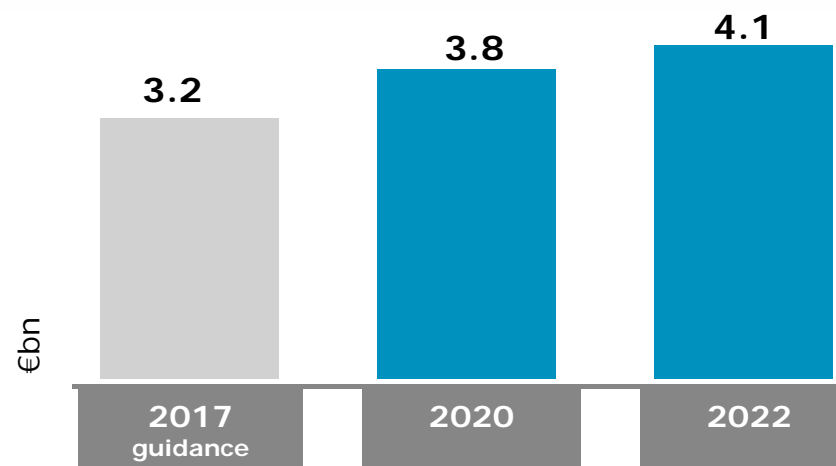
Pre-tax ROIC	2020	2022
	>10%	>10%

EBITDA growth with CAGR +5.9%

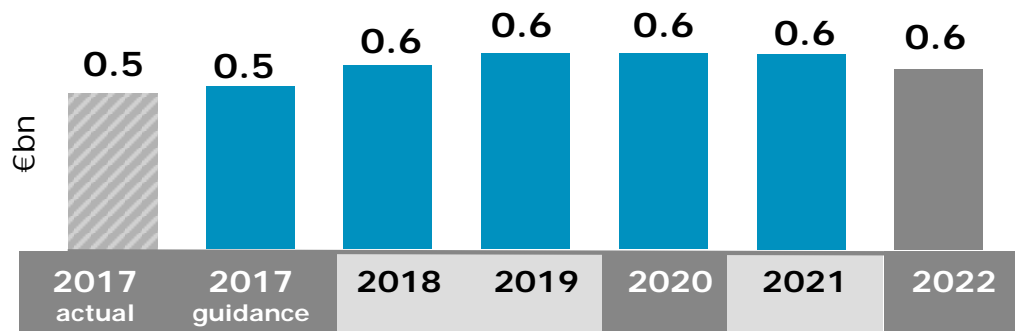
Growth in **Net Profit***



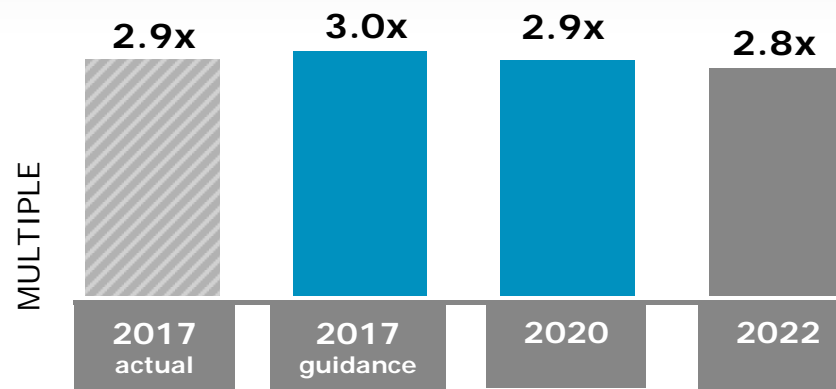
RAB up 25% by 2022



CAPEX of €3.1bn

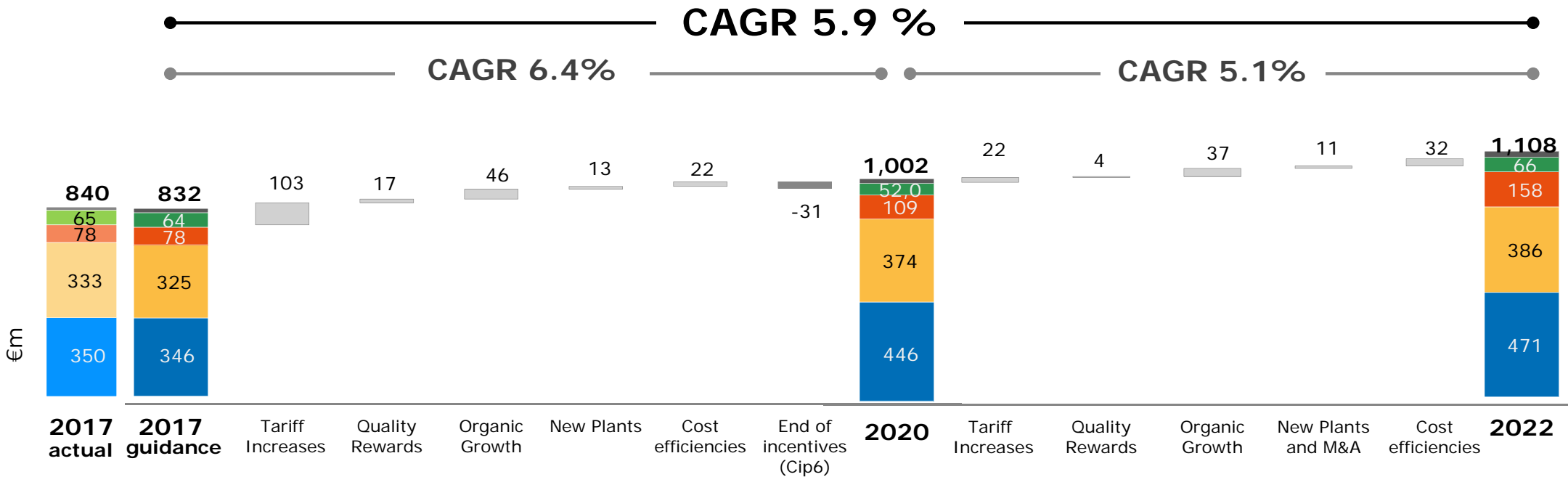


NET DEBT/EBITDA down to 2.8X

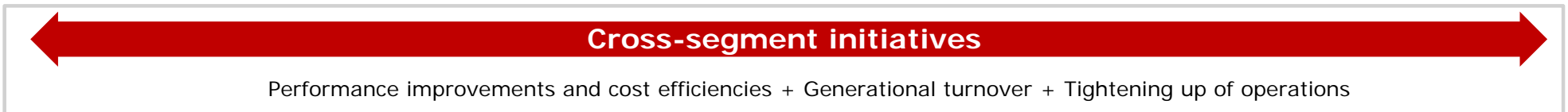


STRATEGY AND CONSOLIDATED TARGETS

EBITDA growth based on solid business rationale



■ Water ■ Energy Infrastructure ■ Commercial & Trading ■ Environment ■ Other



Water	Energy Infrastructure	Comm. and Trading	Environment	Other
<ul style="list-style-type: none"> Tariff increases linked to investment (including impact of investment incentives) Rewards for Commercial Quality 	<ul style="list-style-type: none"> Tariff increases linked to investment Reduction in penalties for network losses 	<ul style="list-style-type: none"> Growth of Power and Gas customer base Reduction in cost to serve 	<ul style="list-style-type: none"> End of CIP6 incentives Expansion of existing plants Development of new plants and M&A 	<ul style="list-style-type: none"> Development of overseas services

More than €3bn of INVESTMENT

STRATEGIC LEVERS



Capex Remix



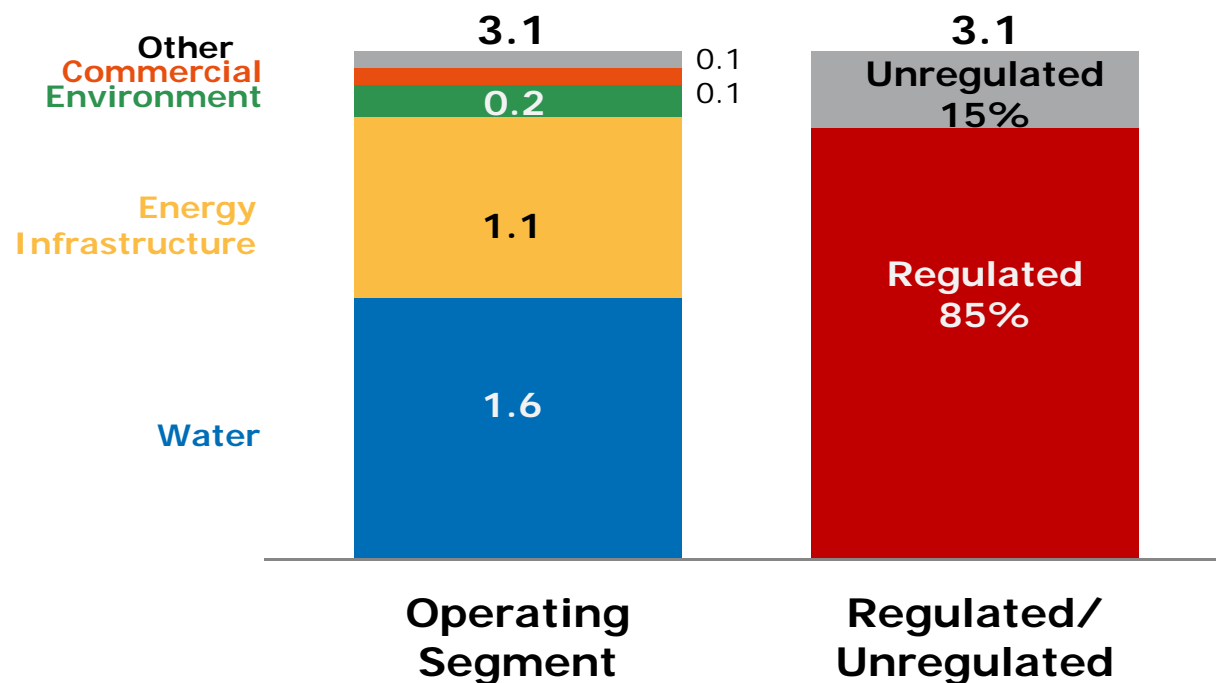
Focus on Infrastructure



Capex Discipline

GROUP'S INVESTMENT

€bn



Over €400m to be invested in INNOVATION

GROWTH LEVERS



INFRASTRUCTURE

Security and efficiency



PEOPLE

Welfare of personnel



CUSTOMERS

Customer-centricity

Over €400m
for
innovative
industrial
projects

SCOPE OF APPLICAZION



Smart & Resilient Grid



Smart Meters
(electricity and water)



Automation and Robotics



Advanced sensor
technology



Predictive modelling



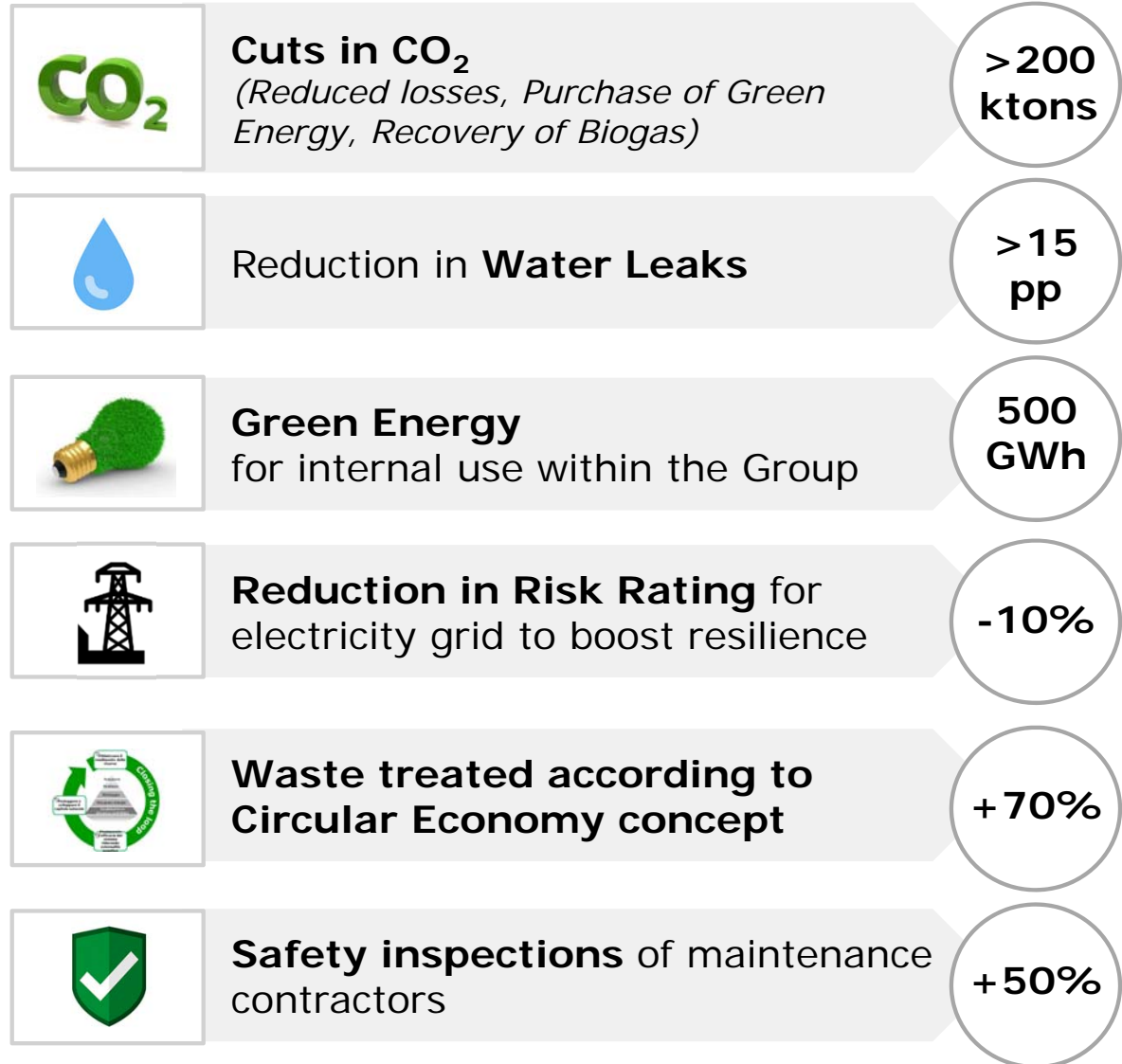
Physical security and
Cyber-security

STRATEGY AND CONSOLIDATED TARGETS

The new SUSTAINABILITY plan

ACEA Group's Sustainability Plan 2018-2022
with targets associated with investment of approx. **€1.3bn**

United Nations Sustainable Development Goals (SDGs)

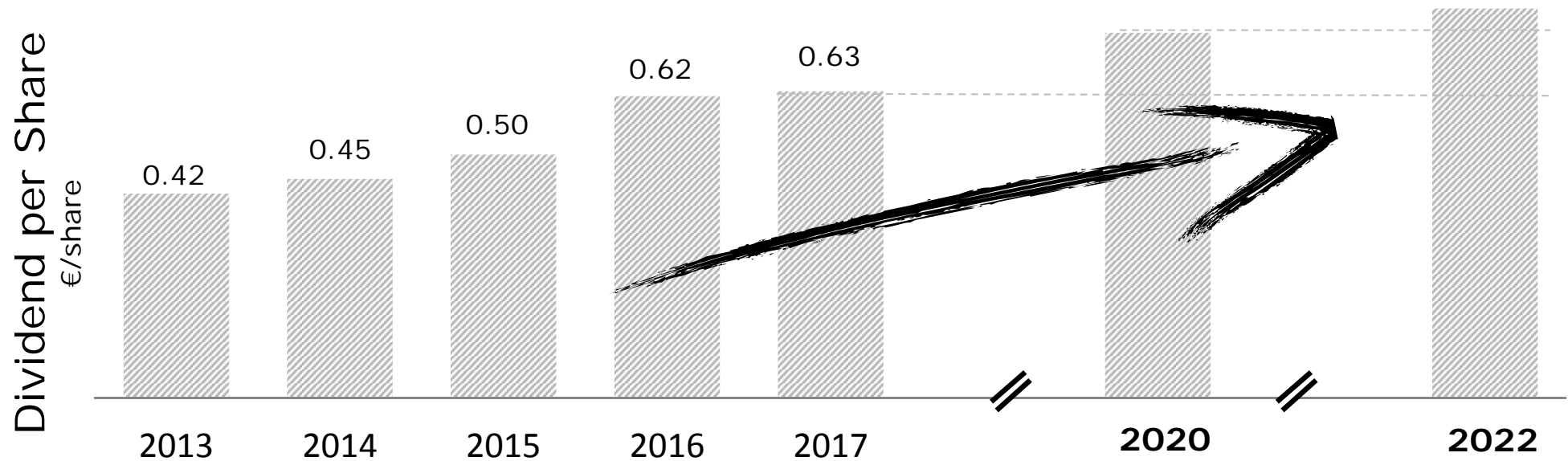


Growing DIVIDENDS, Pay-out above 50%, €0.7bn payable over the plan

Growing Dividends

Pay-out above 50%

€0.7bn payable over the plan



STRATEGY AND CONSOLIDATED TARGETS

Financial strategy aims to cut cost of debt

FitchRatings	MOODY'S
BBB+	Baa2
<i>Stable outlook</i>	<i>Stable outlook</i>

- Situation at 31 Dec. 2017**
- Average Maturity ~5.3 yrs
 - Average cost of debt ~2.6%

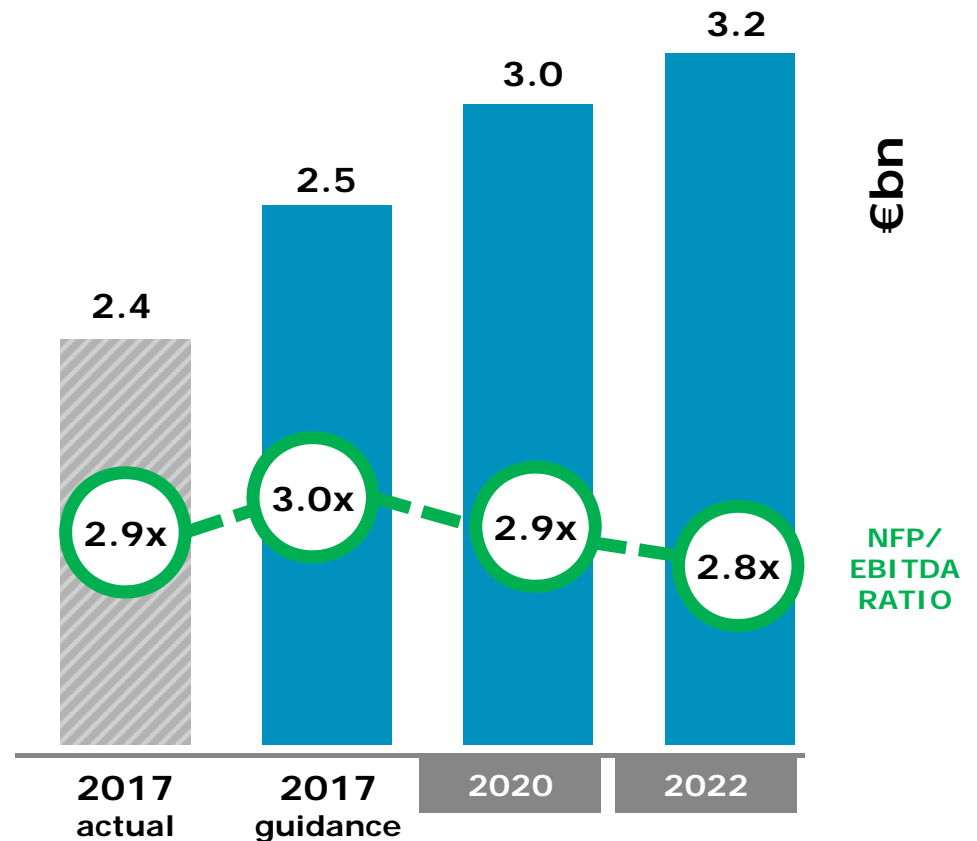
February 2018 – **successful placing** of Euro 1 billion **bonds** overall under the EMTN Programme in two tranches:

- 300 €m, 5 years, rate 3 months Euribor plus 0.37%
- 700 €m, 9.4 years, fixed rate 1.5%



The new "all-in" average cost of debt is 2.3% with an average term to maturity of approx. 6 years

Net Debt (NFP) NFP/EBITDA Ratio





WATER

Key Targets for the Segment



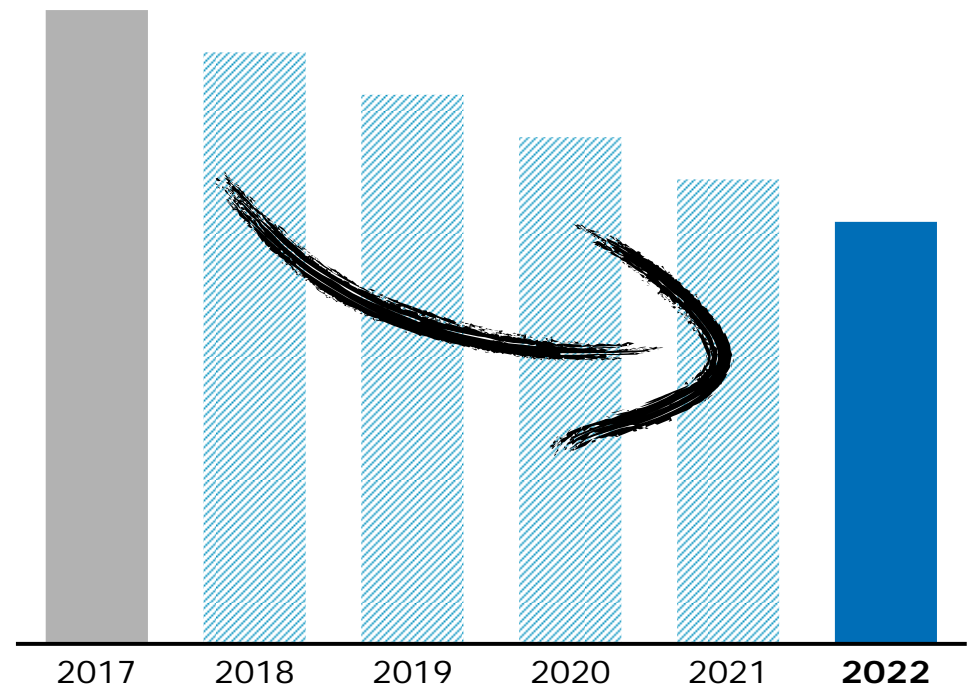


INFRASTRUCTURE DRIVE and efficiency improvements

Key initiatives included in Plan

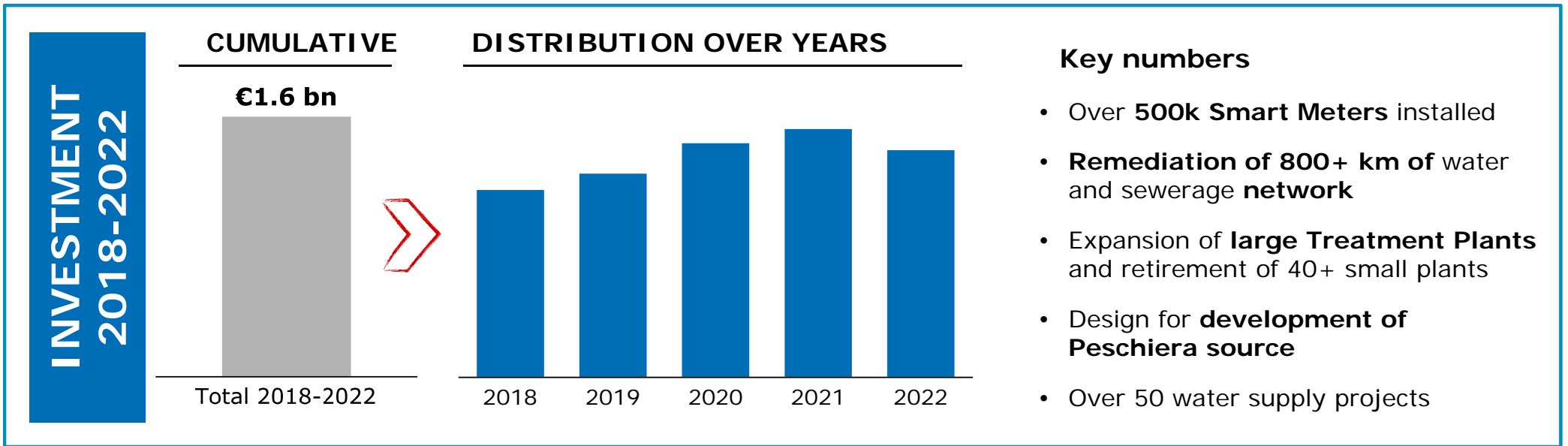
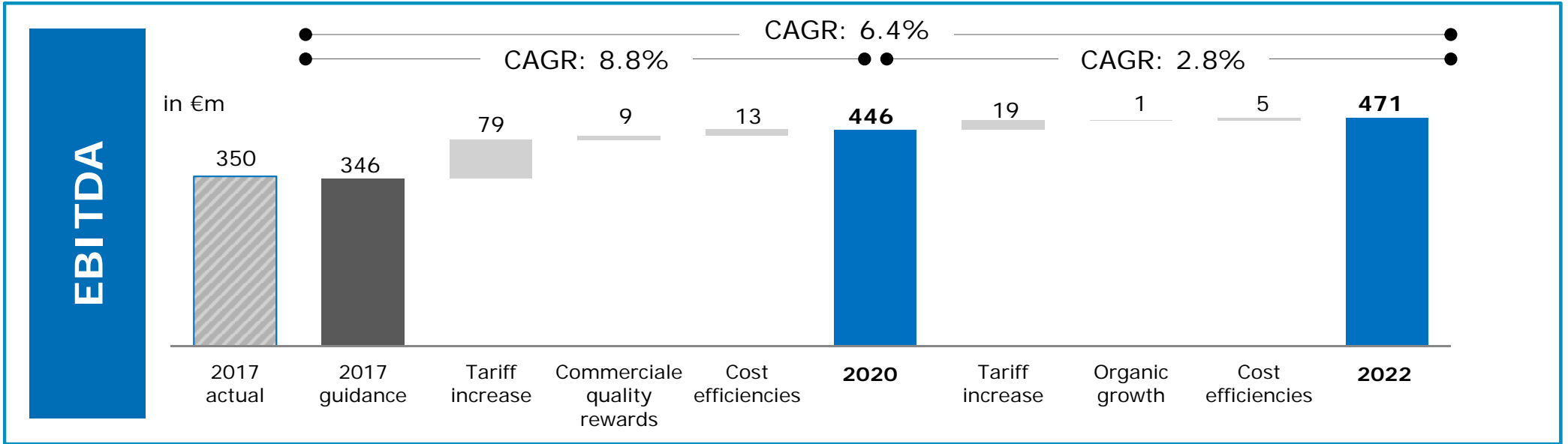
- Extraordinary plan to **upgrade network, reduce leaks and manage water emergency**
- **Rationalisation of small treatment plants** and development/expansion of large plants
- Rollout of **smart meters**

15 pp cut in **Water loss**





EBITDA UP 36% and INVESTMENT of €1.6bn





ENERGY INFRASTRUCTURE

Key Targets for the Segment



ENERGY INFRASTRUCTURE

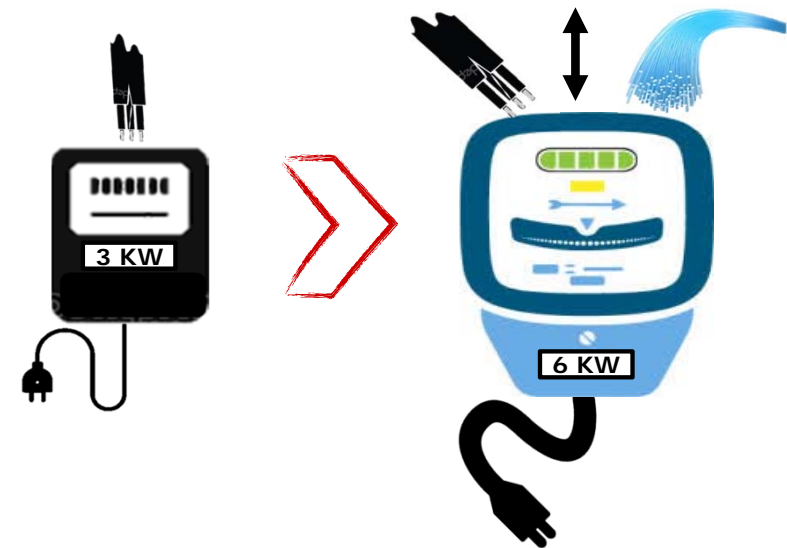
Becoming an advanced DSO to increase network resilience and enable new services

Key initiatives included in Plan

- **LV network upgrade to:**
 - Increase network resilience
 - Increase capacity to enable electrification (customers up from 3KW to 6KW)
- **Rollout of smart grid** for city of Rome to **enable new services**
 - Laying of fibre
 - New 2G meters

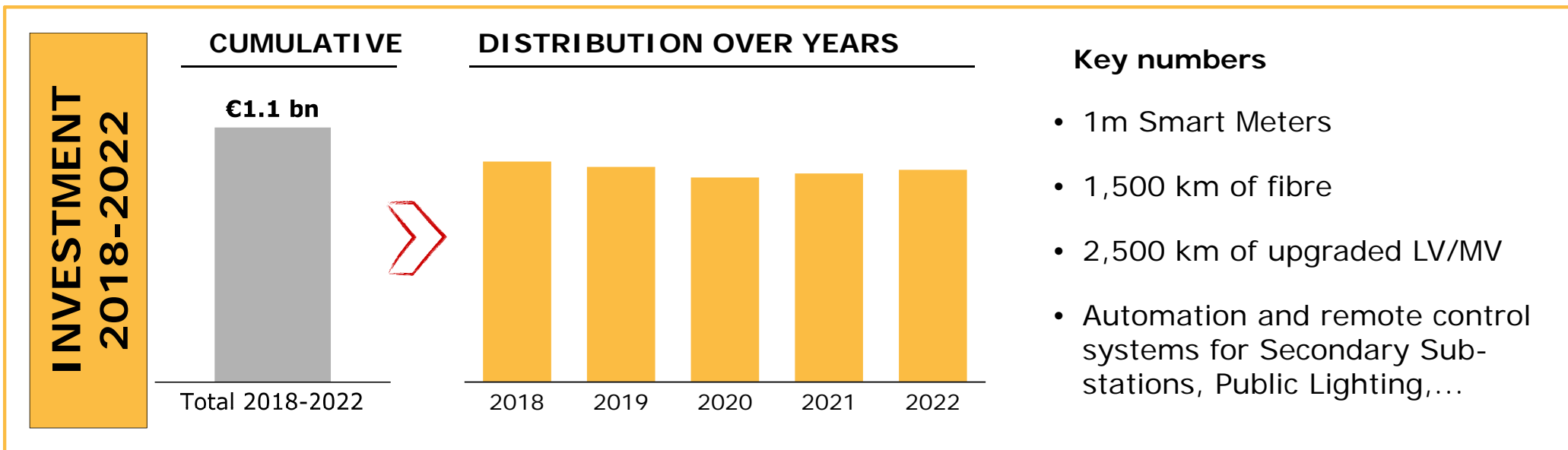
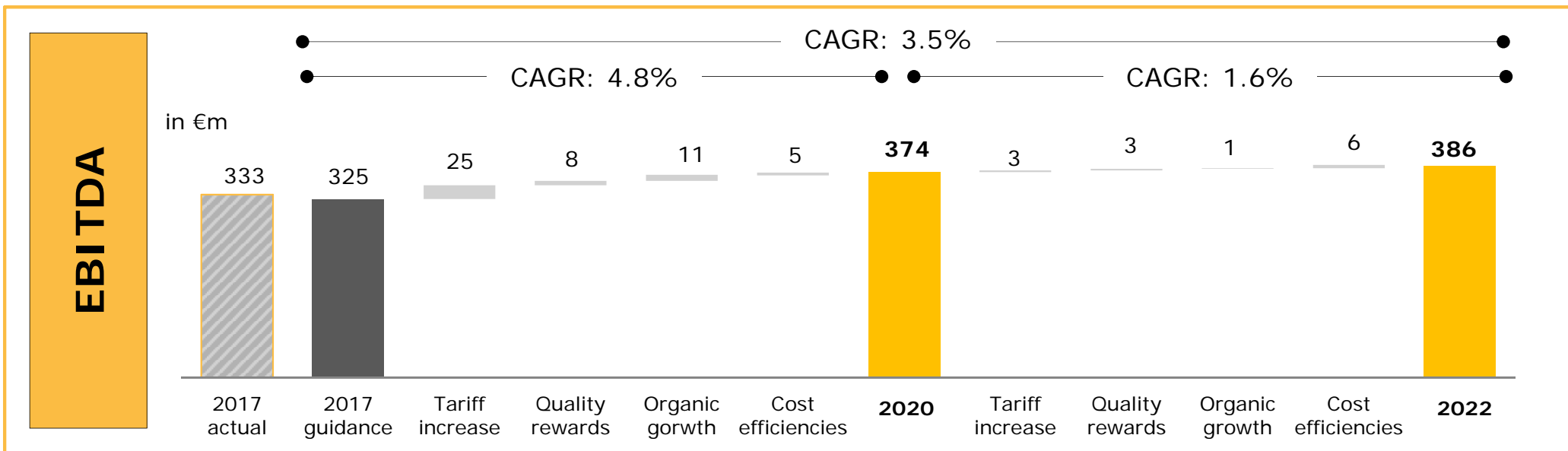
To boost resilience and drive electrification

1m 2G
Smart Meters





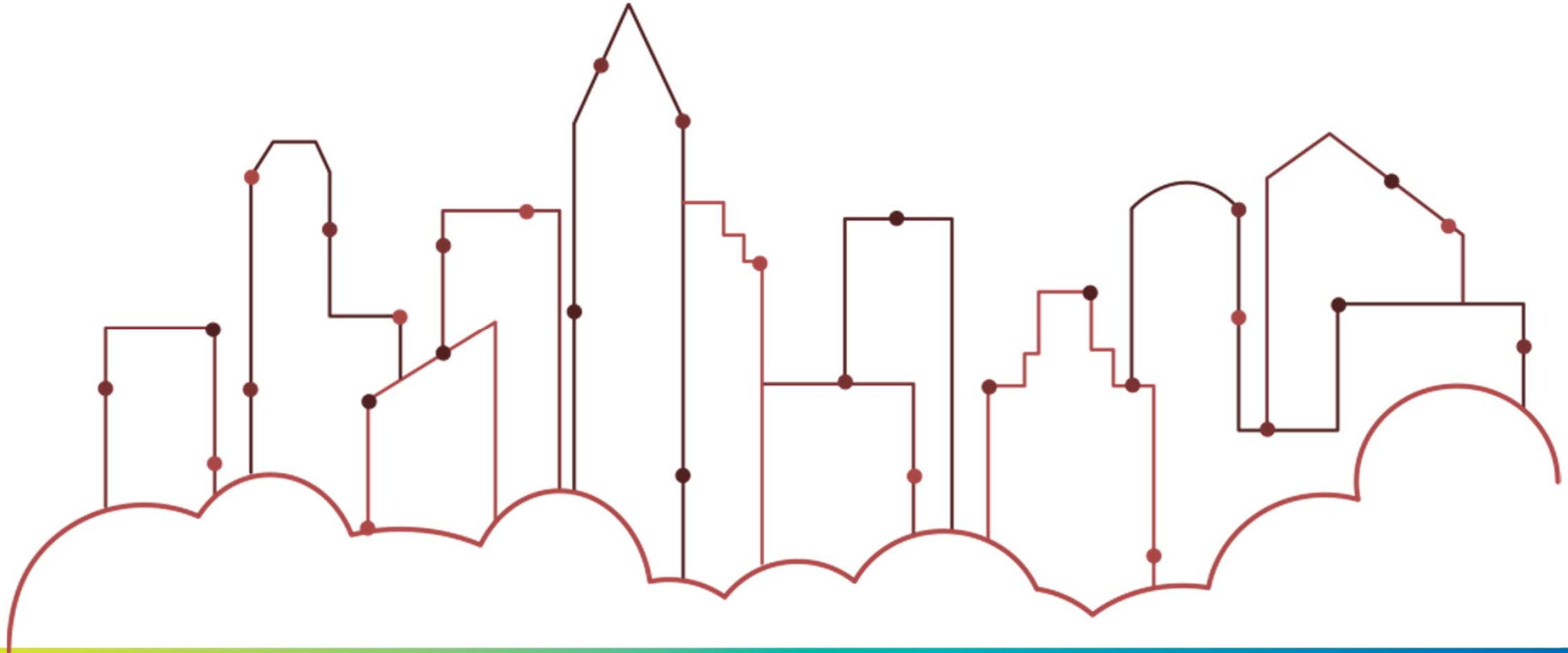
EBITDA UP 20% AND INVESTMENT OF €1.1BN





COMMERCIAL AND TRADING

Key Targets for the Segment





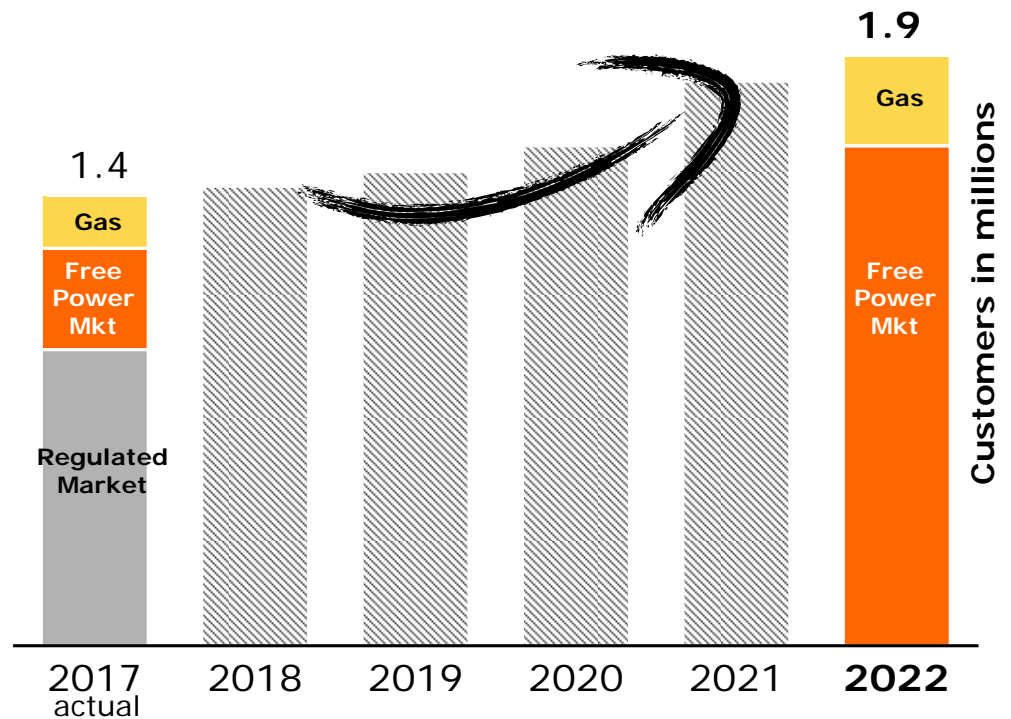
COMMERCIAL AND TRADING

MARKETING DRIVE and leading role in CONSOLIDATION within the sector

Key initiatives included in Plan

- **Marketing drive** through Digital and Cross Selling channels to play a **leading role in consolidation** (following the phase-out of the enhanced protection market)
- **Performance improvement** throughout the Customer Journey (Customer Care, Billing,..) **and optimisation of the cost structure** (Costs to Serve)
- Improved **customer quality** and **debt collection** capabilities

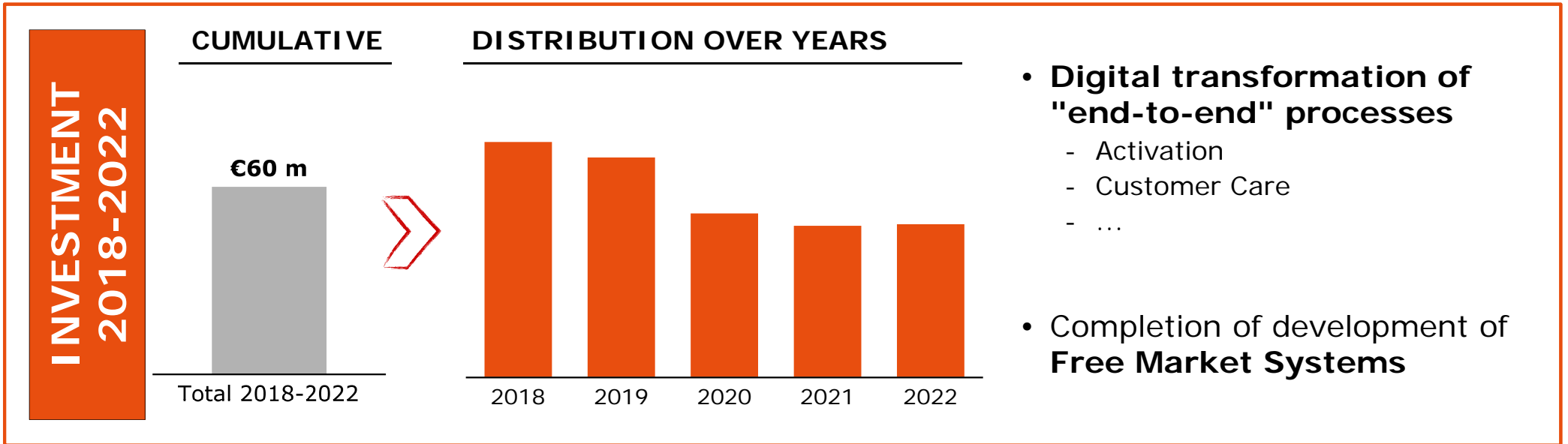
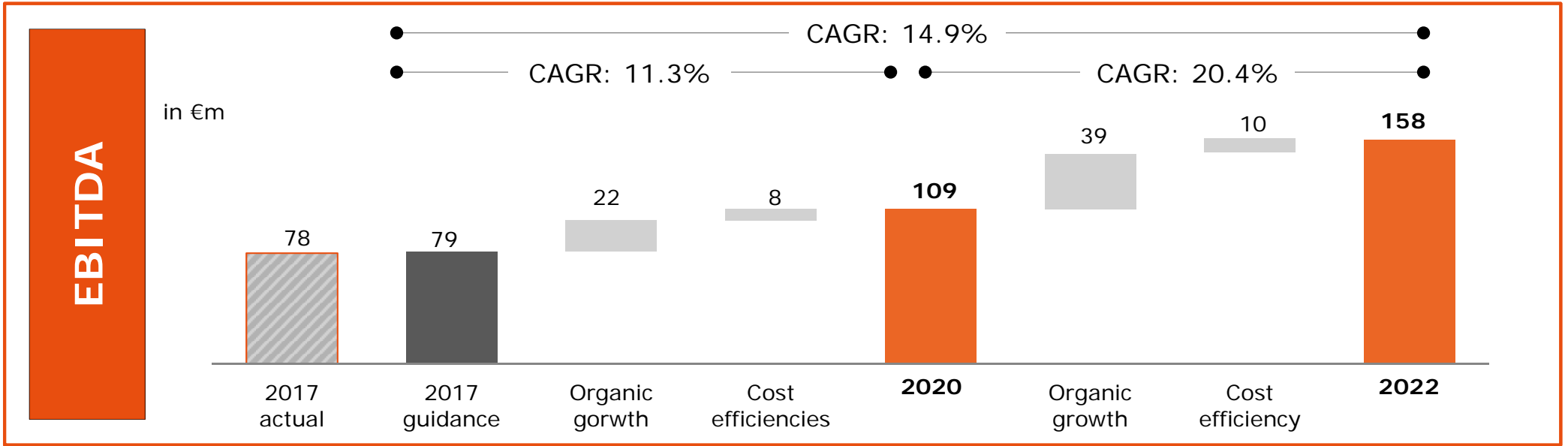
33% growth in
Number of Customers

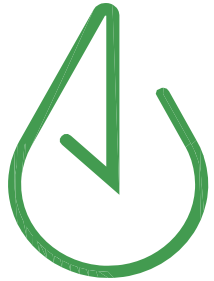




COMMERCIAL AND TRADING

EBITDA to double by 2022 through increase in customer base and performance improvements





ENVIRONMENT

Key Targets for the Segment



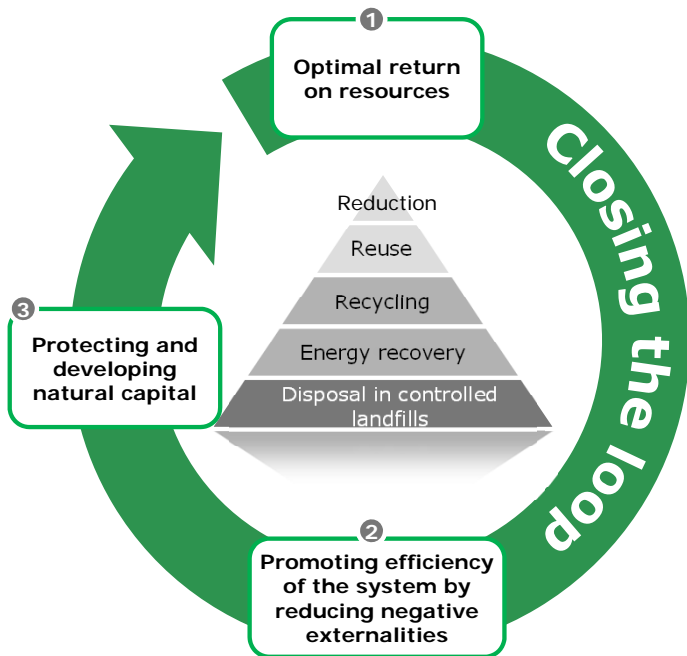
ENVIRONMENT



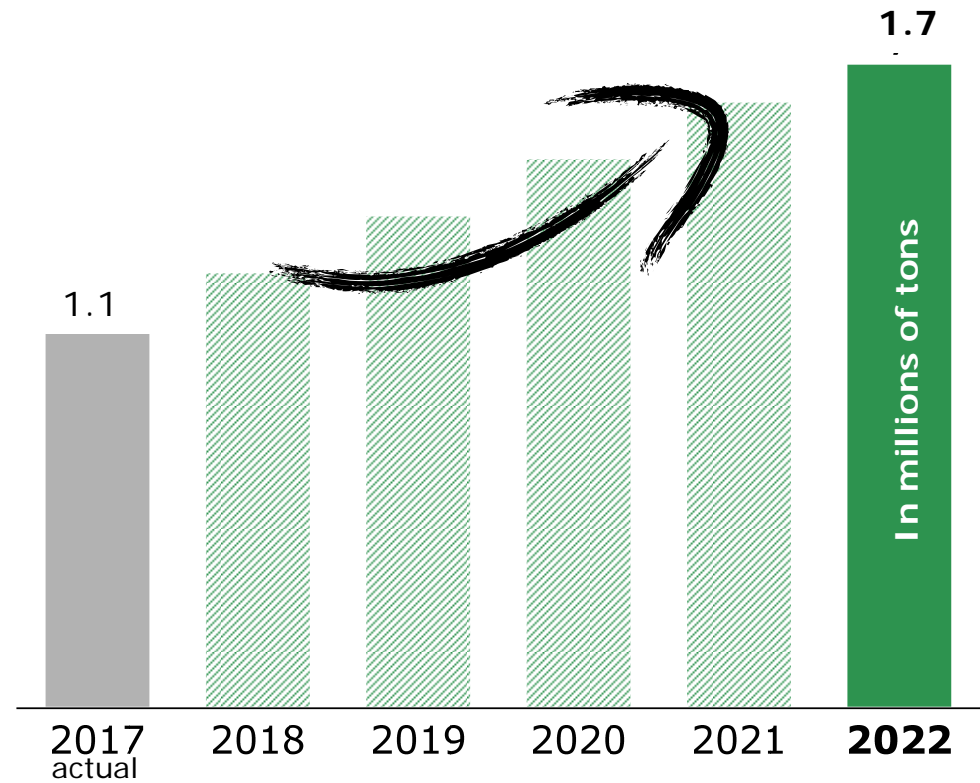
70% growth in waste treated by end of Plan

Key initiatives included in Plan

Boost to waste treatment activities in keeping with circular economy goals, "closing the loop"



70% growth in waste treated

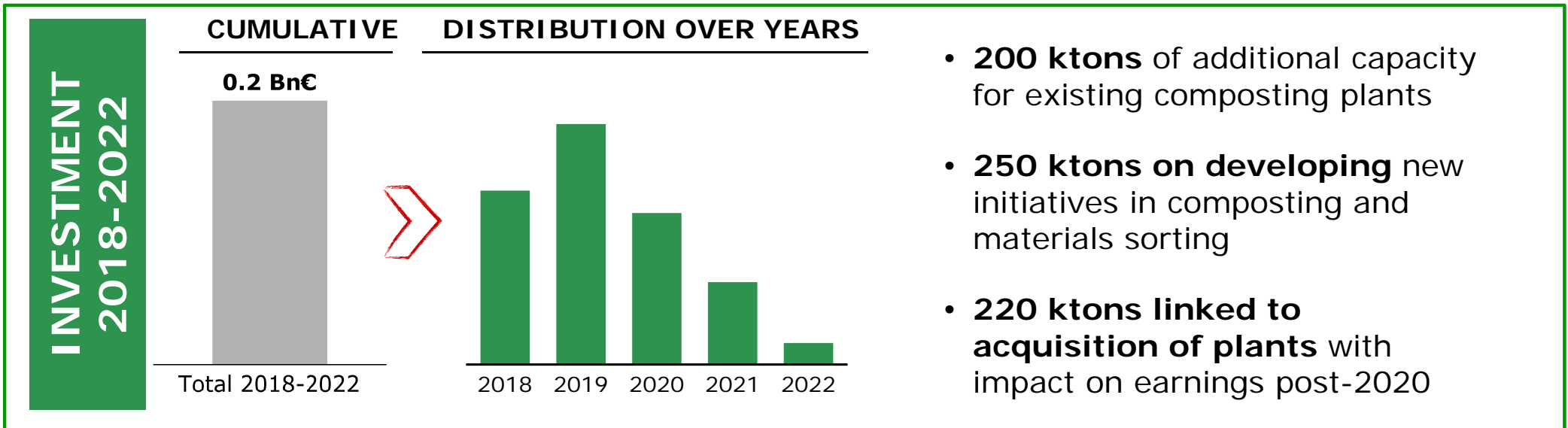
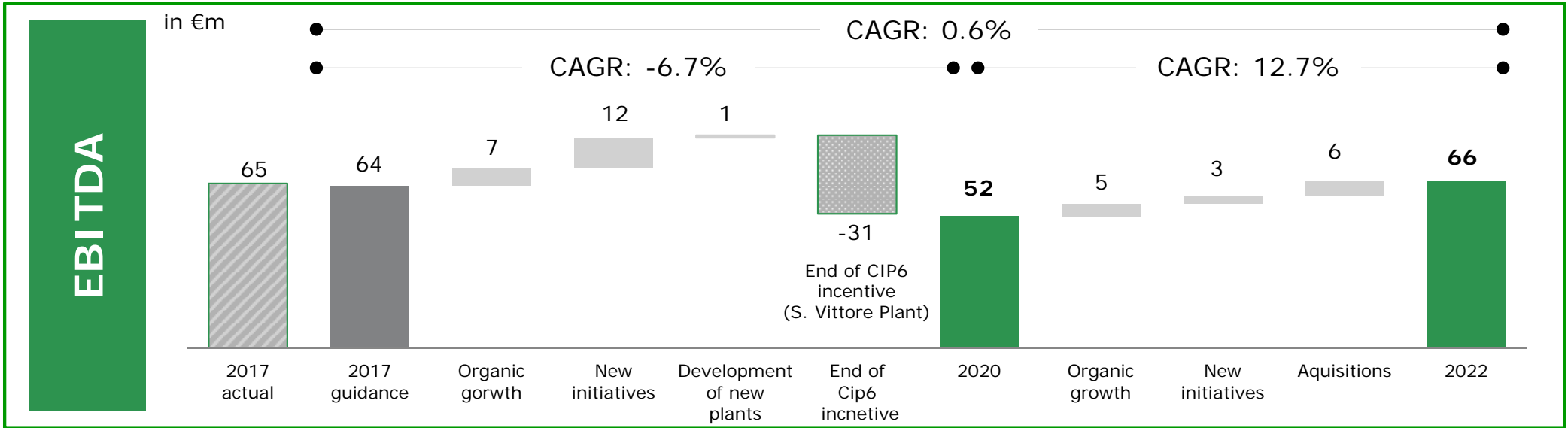


Note: goals proposed by the European Commission, revised upwards by the European Parliament (15 Mar 2017)

ENVIRONMENT



Expiry of CIP6 offset by new initiatives and selective acquisitions










STRATEGIC OPPORTUNITIES

Potential UPSIDE to Business Plan



Potential STRATEGIC INITIATIVES that could be implemented in the FIRST THREE YEARS OF PLAN

OPPORTUNITY	STATE OF PLAY	EBITDA WHEN FULLY IMPLEMENTED	CAPEX/ ACQUISITION COST
 WATER CONSOLIDATION in areas where already present (Tuscany, Campania, Lazio)	Talks with local authorities are in progress with a view to developing businesses and ensuring adequate investment for the benefit of citizens and local communities	€m 70 - 200	€m 150 - 300
 WATER Increase in capacity of the PESCHIERA source	Start-up of talks with national authorities and those in the local area to agree on financing for the project (Design already included in Plan for 2018-20)	<i>Not calculated</i>	About 400
 Entry into GAS DISTRIBUTION market	Initial contacts made with selected operators in areas of interest to Acea Group	10 - 50	80 - 400
 SMART ENERGY SERVICE	Agreements and MoUs being concluded with Industrial and Technology Partners (e.g. Open Fiber)	25 - 50	25+
 Consolidation of position in waste treatment (Composting)	Talks under way with owners of plants in Central Italy regarding potential acquisitions	5 - 10	25-50
TOTAL		100 - 300	

CLOSING REMARKS

The ACEA group's NEW STRATEGIC PATH



Organic growth

6% CAGR for EBITDA from 2017 to 2022



€3bn in CAPEX focusing on INFRASTRUCTURE



Performance IMPROVEMENT to drive growth with like-for-like workforce and maximise efficiencies, guaranteeing quality and reliability

DPS

Growing DIVIDENDS with a Pay-out >50%



Keeping the Group's **DEBT** under control, with NET DEBT/EBITDA decreasing to **2.8x in 2022**



UPSIDE of up to 30% for EBITDA linked to initiatives already included among **Strategic Opportunities**

APPENDIX

Main assumptions

Main assumptions		2018	2019	2020	2021	2022
Exchange	<i>\$/€</i>	1.14	1.18	1.20	1.10	1.00
Brent	<i>\$/Bbl</i>	50.00	52.00	53.00	51.64	52.59
PUN	<i>€/MWh</i>	48.79	51.42	52.63	55.19	56.72
EU-ETS	<i>€/tons CO2</i>	8.19	10.81	13.43	16.05	18.67
CIP6	<i>€/MWh</i>	218.63	218.64			



2017 Results

2017 RESULTS

- **Adjusted EBITDA** €840.0m +7.0% ➡ AHEAD OF GUIDANCE AND BUSINESS PLAN FORECAST
- **CAPEX** €532.3m ➡ IN LINE WITH GUIDANCE
- **NET DEBT** €2,421.5m
Adjusted NET DEBT €2,325.1m ➡ IN LINE WITH GUIDANCE AND AHEAD OF BUSINESS PLAN FORECAST

2018 GUIDANCE

- **EBITDA** +3%/+5% versus 2017.
- **CAPEX** a growth in investments - with respect to €532m in 2017 - in line with the 2018-2022 Business Plan
- **NET DEBT** €2.6bn – €2.7bn.

BUSINESS PLAN 2018-2022

- At the end of November 2017, Acea approved a Business Plan for the period 2018-2022, in discontinuity with respect to the past, with a significant increase in investment in both water and electricity infrastructure.
- Investment of €3bn.
- Average annual EBITDA growth ~6%.
- Operational efficiencies with cost and capex savings of €300m for the period 2018-2022.
- Total dividend payout over life of Plan €0.7bn; dividend payout ratio to remain above 50%.
- Net Debt/EBITDA falling to 2.8x in 2022.

AGREEMENT WITH OPEN FIBER

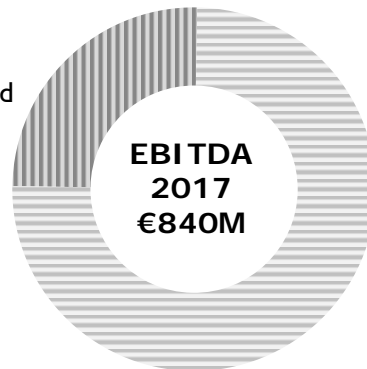
- Acea has entered into an agreement with Open Fiber for the rollout of an ultrafast broadband communications network in the city of Rome.
- The project will involve the construction of a next generation fibre network, offering ultrafast connectivity to the inhabitants of Rome, in the next five years.
- The network will enable a series of cultural, health and social services and the development of new services by businesses and the public sector, in part through the creation of new applications for use in telecommunications and in the automation of electricity and water networks.

BOND ISSUE

- In February 2018, Acea successfully issued bonds as part of its €1bn EMTN programme, divided into two tranches:
 - €300m, maturing 8 February 2023 and paying coupon interest of 3-month Euribor +0.37%.
 - €700m, maturing 8 June 2027 and paying a fixed rate of 1.5%.
- The new “all-in” average cost of debt is 2.3% with an average term to maturity of approx. 6 years.

Low risk profile

From non-regulated businesses
25%



From regulated businesses
75%



42%
of Group
EBITDA



40%
of Group
EBITDA



9%
of Group
EBITDA



7%
of Group
EBITDA



2%
of Group
EBITDA

Water

Leading operator in Italy

Lazio, Tuscany, Umbria and Campania

- Water sold: 421m cubic metres
- Customers: nearly 9m

Energy Infrastruc.

No. two operator in Italy in electricity distribution

- Electricity distributed: ~ 10TWh in the city of Rome
- Public lighting and floodlighting managed: over 217,000 lighting points
- Energy efficiency projects
- Hydroelectric power plants (122 MW)
- Thermo/cogen plants/PV (98MW)

Comm. & Trading

One of the main Italian energy player

- Electricity sold: ~ 6.8 TWh
- Free market customers : ~ 0.3m
- Enhanced protection market: ~ 0.9m
- Gas Customers: ~ 0.2m

Environment

No. 6 Italian operator

- Umbria, Lazio and Tuscany
- Waste treated: over 1m tons
- Electricity produced (WTE): 354 GWh

Overseas

- Presence in Latin America

ACEA'S OWNERSHIP

City of Rome	Suez	Caltagirone Group	Other
51.0%	23.3%	5.0%	20.7%

Source: CONSOB, March 2018

2017 financial highlights

(€m)	2017	2016	% Change	2017*	2016*	% Change
	a	b	a/b	adjusted c	adjusted d	c/d
Consolidated revenue	2,797.0	2,832.4	-1.2%	2,797.0	2,720.9	+2.8%
EBITDA	840.0	896.3	-6.3%	840.0	784.8	+7.0%
EBIT	359.9	525.9	-31.6%	406.2	414.4	-2.0%
Group net profit/(loss)	180.7	262.3	-31.1%	214.5	210.5	+1.9%
Dividend per share (€)	0.63[^]	0.62	+1.6%			
Capex	532.3	530.7	+0.3%			

* The adjusted results do not include:

- for 2017, the negative impact – amounting to €46.4m before tax – primarily resulting from reductions in the receivable due from ATAC (€6.4m) and the amount due to Areti from Gala (€15.7m), the write-down of the assets owned by Acea Ambiente and Acea Produzione (€12.2m)
- for 2016, primarily the positive impact (€111.5m before tax) of elimination of the regulatory lag

[^] The Board of Directors will propose payment of the dividend to the Annual General Meeting of shareholders, called for 20 and 27 April in first and second call, respectively.

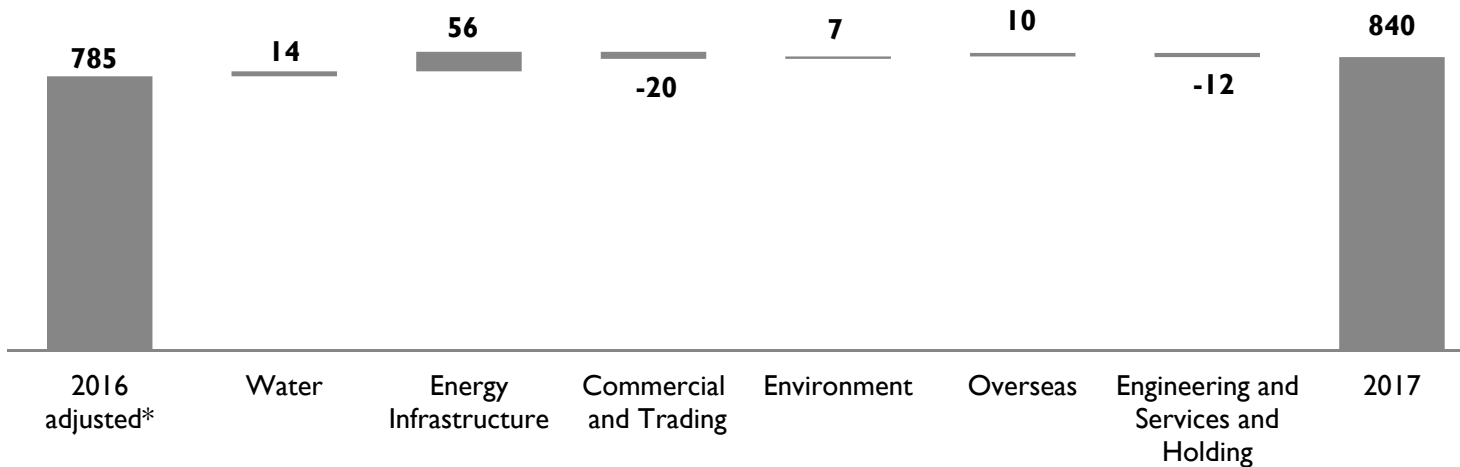
(€m)	31 Dec 2017 (a)	30 Sep 2017 (b)	31 Dec 2016 (c)	%Change (a/b)	% Change (a/c)
Net Debt	2,421.5	2,487.3	2,126.9	-2.6%	+13.9%
Adjusted Net Debt**	2,325.1	2,428.3	2,126.9	-4.2%	+9.3%
Invested Capital	4,244.9	4,279.9	3,884.9	-0.8%	+9.3%

** Adjusted net debt for 2017 does not include the overall impact, amounting to €96m, of the reduction in amounts due from GALA (€30m) and ATAC (€6m), and the impact of split payments (€60m).

EBITDA

Ahead of guidance and the Business Plan forecast

EBITDA (€m)



Change in scope of consolidation versus 2016

2017 EBITDA (€m)	17.1
• Acque Industriali	0.4
• GEAL	1.3
• TWS	2.7
• Aguas de San Pedro	12.6
• Acea Gori Servizi	0.1

Net Debt

31 Dec 2017 (€m)	2.1
------------------	-----

Average Group workforce

2017	2016
5,494**	5,048

* The adjusted figure for 2016 does not include the positive impact of elimination of the regulatory lag

** The figure reflects the change in the scope of consolidation

EBITDA and Key quantitative data

2017 financial highlights



Water

EBITDA main drivers

- ↑ Acea ATO2: +€15.2m (quality bonus €31m)
- ↑ Acea ATO5: +€2.7m
- ↑ Change in scope of consolidation
- ↓ Companies consolidated using equity method -€2.4m

(€m)	2017 (a)	2016 (b)	%Change (a/b)	Key quantitative data	2017	2016
EBITDA	349.6	336.0	+4.0%			
<i>of which: Profit/(Loss) from companies consolidated using equity method</i>	24.1	26.5	-9.1%	Total volume of water sold (Mm³)	421	421
Capex	271.4	227.1	+19.5%			

	2017 (a)	2016 (b)	Change (a-b)
Average workforce	1,796	1,818	-22

EBITDA and Key quantitative data

2017 financial highlights



Energy Infrastructure

EBITDA main drivers

- ↑ Distribution +€45.5m (adjusted)
- ↑ Generation +€8.8m (mainly due to increased hydroelectric production)
- ↑ Public Lighting: LED plan launched in June 2016 (+€1.4m)

(€m)	2017 (a)	2016 (b)	2016 adjusted* (c)	%change (a/b)	%change (a/c)	Key quantitative data	2017	2016
EBITDA	332.6	388.3	276.8	-14.3%	+20.2%	Total electricity distributed (GWh)	10,040	10,009
- Distribution	287.3	353.3	241.8	-18.7%	+18.8%	Number of end users ('000s)	1,626	1,629
- Generation	40.8	32.0	32.0	+27.5%	+27.5%	Total electricity produced (GWh)	426	405
- Public Lighting	4.4	3.0	3.0	+46.7%	+46.7%			
Capex	209.4	225.8		-7.3%				

	2017 (a)	2016 (b)	change (a-b)
Average workforce	1,366	1,380	-14

*After adjusting for the positive impact of elimination of the "regulatory lag" (€111.5m)

EBITDA and Key quantitative data

2017 financial highlights



Commercial and Trading

EBITDA main drivers



Recognition, in Q2 2016, of additional revenue of approximately €10m linked to impact of the contract, entered into in March 2016, for the commercialisation of smart meters.



Sales activity: lower margins in free market

(€m)	2017 (a)	2016 (b)	% Change (a/b)	Key quantitative data	2017	2016
EBITDA	78.1	98.0*	-20.3%	Total Electricity sold (GWh)	6,843	8,316
				<i>Enhanced Protection Market</i>	2,652	2,757
				<i>Free Market</i>	4,191	5,559
Capex	19.4	27.4	-29.2%	Number of electricity customers ('000s)	1,213	1,254
				<i>Enhanced Protection Market</i>	893	959
				<i>Free Market</i>	320	295
				Total Gas sold (Mm³)	103	107
Average workforce	474	473	+1	Number of gas customers ('000s)	167	149

* EBITDA for 2016 includes non-recurring income of approx. €10m

EBITDA and Key quantitative data

2017 financial highlights



Environment

EBITDA main drivers



Greater quantity of electricity sold by the San Vittore plant (first line in operation from 1 October 2016)



Aprilia composting plant fully operational



Change in scope of consolidation (Acque Industriali and Iseco)

(€m)	2017 (a)	2016 (b)	%change (a/b)	Key quantitative data	2017	2016
EBITDA	64.5	57.2	+12.8%	Treatment and disposal* (‘000s of tonnes)	1,077	822
Capex	15.4	34.0	-54.7%	WTE electricity produced (GWh)	354	302

	2017 (a)	2016 (b)	change (a-b)
--	-------------	-------------	-----------------

* Includes ash disposed of

Average workforce **355** **238** **+117**



Overseas



Line-by-line consolidation
Aguas de San Pedro: +€10.1m

EBITDA main drivers

(€m)	2017	2016	%change
------	------	------	---------

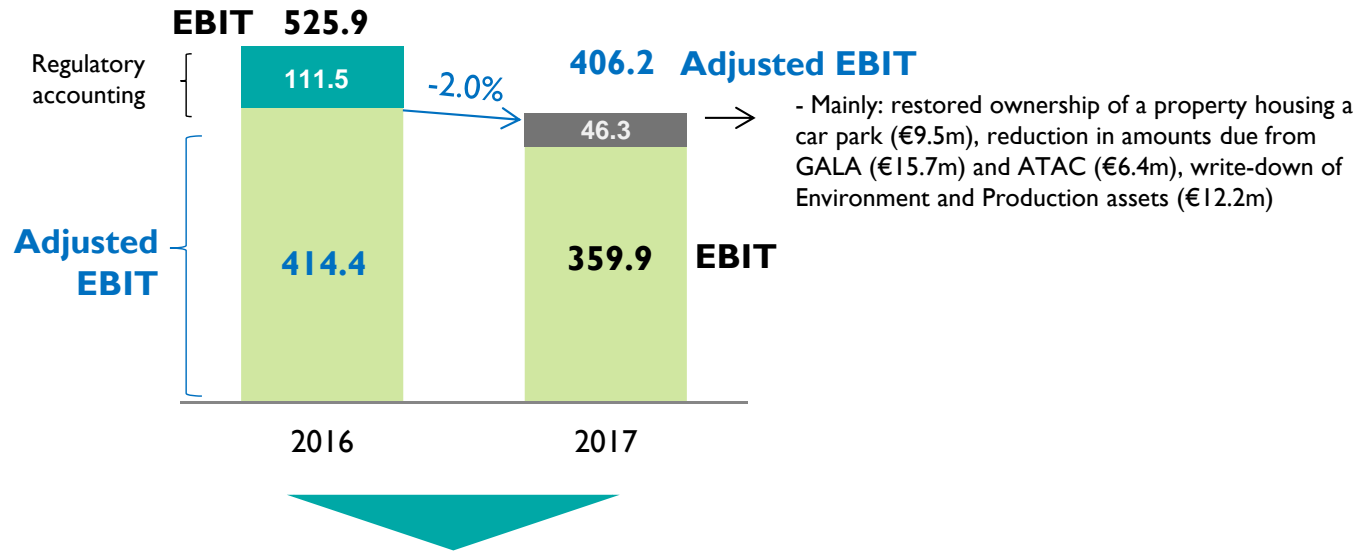
EBITDA **14.4** **4.4** **n/s**

Capex **5.2** **1.5** **n/s**

	2017	2016	change
--	------	------	--------

Average workforce **595** **336** **+259**

EBIT (€m)

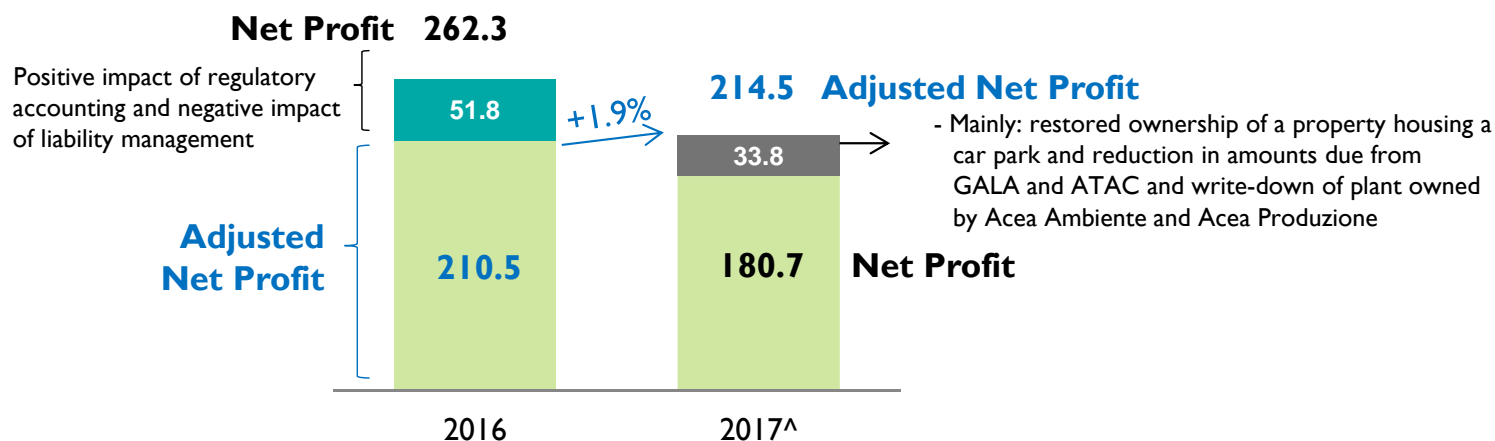


(€m)	2017	2016	% change
Depreciation	328.9	254.2	+29.4%
Write-offs	90.4	64.7	+39.7%
Provisions	60.8	51.5	+18.1%
Total	480.1	370.4	+29.6%

✓ Higher depreciation due to increased capex for IT, with shorter useful life and restored ownership of a property housing a car park, write-down of plant owned by Acea Ambiente and Acea Produzione

✓ Increased provisions for bad debts and reduction in amounts due from GALA and ATAC

NET PROFIT (€m)



TAX RATE	2016	2017 [^]
	34.5%	33.3%

[^] Higher depreciation due to increased capex for IT with shorter useful life – after taxation – has reduced net profit by €38m

DIVIDEND HISTORY

	2014	2015	2016	2017
DPS (€)	0.45	0.50	0.62	0.63 [°]
Total Dividend (€m)	95.8	106.5	132.0	134.2
Dividend yield*	4.6%	4.2%	5.2%	4.7%
Payout**	59%	61%	50%	74%

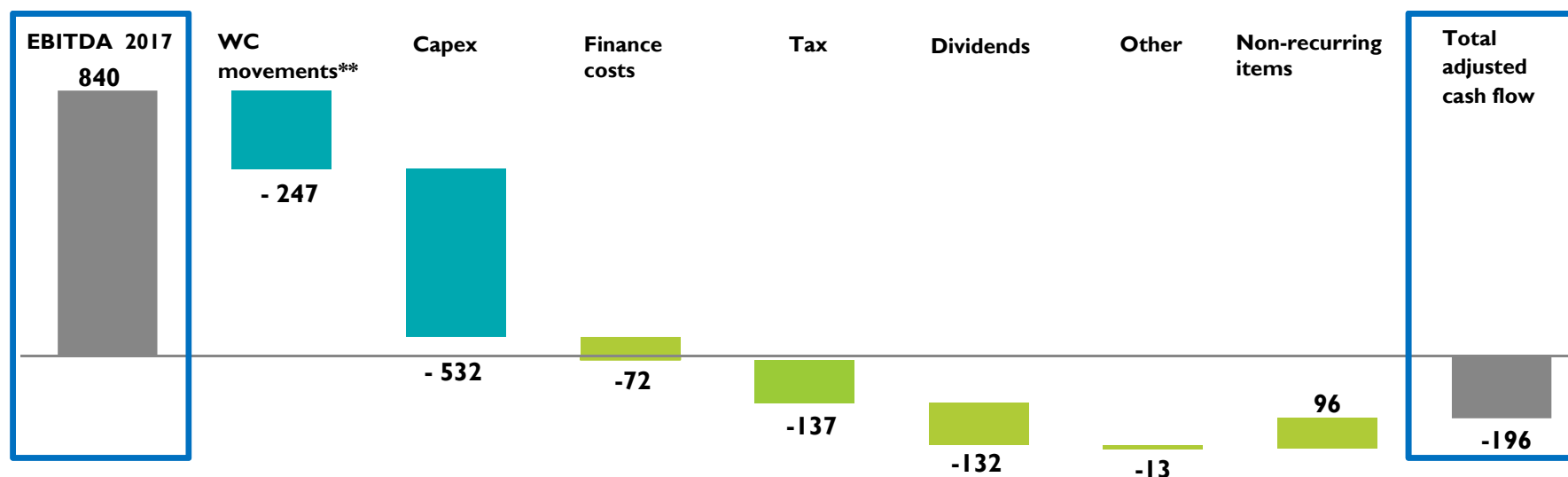
[°] The Board of Directors will propose payment of the dividend to the Annual General Meeting of shareholders, called for 20 and 27 April in first and second call, respectively.

* Based on average price for the year

** Based on consolidated net profit after non-controlling interests

	2017	2016
EBITDA	840	896
Delta WC	(247)	(85)
CAPEX	(532)	(531)
FREE CASH FLOW	61	281
Net finance income/(costs)	(72)	(110)
Income tax expense	(137)	(110)
Dividends	(132)	(107)
Other	(13)	(72)
TOTAL CASH FLOW	(292)	(117)
TOTAL ADJUSTED CASH FLOW*	(196)	(117)
Net Debt at beginning of period	2,127	2,010
Net Debt at end of period	2,421	2,127
Adjusted Net Debt *	2,325	2,127

Net debt fell €66m in Q4 2017, declining from €2,487m to €2,421m at 31 Dec 2017, due to cash inflow from Working Capital of ~ €100m



* Adjusted net debt for 2017 does not include the overall impact, amounting to €96m, of the reduction in amounts due from GALA and ATAC, and the impact of split payments

** Before provisions for bad debts

Net Debt

Ahead of guidance and beating Business Plan forecast

(€m)	31 Dec 2017 (a)	30 Sep 2017 (b)	31 Dec 2016 (c)	Change (a-b)	Change (a-c)
NET DEBT	2,421.5	2,487.3	2,126.9	(65.8)	294.6
Medium/Long-term	2,706.6	2,475.9	2,743.1	230.7	(36.5)
Short-term	(285.1)	11.4	(616.2)	(296.5)	331.1
Adjusted NET DEBT*	2,325.1	2,428.3	2,126.9	(103.2)	198.2

NET DEBT/EQUITY
31 Dec 2017

1.3x

NET DEBT/EQUITY
31 Dec 2016

1.2x

Net Debt/EBITDA
31 Dec 2017

2.9x

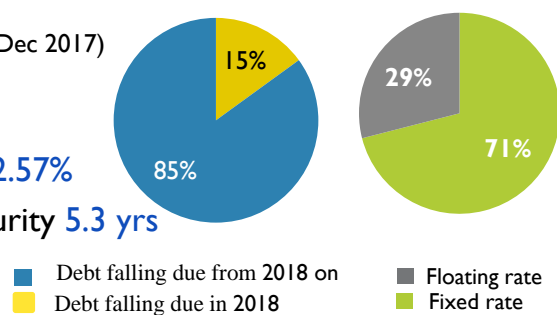
Net Debt/EBITDA
31 Dec 2016

2.4x

Debt structure

(maturity and interest rates at 31 Dec 2017)

- > Fixed rate 71%
- > Average overall cost 2.57%
- > Average term to maturity 5.3 yrs



Rating

FitchRatings

MOODY'S

BBB+

Baa2

Outlook stable

Outlook stable

* Adjusted net debt for 2017 does not include the overall impact, amounting to €96m, of the reduction in amounts due from GALA and ATAC and the impact of split payments.



9M 2017 Results

9M 2017 financial highlights

(€m)	9M 2017	9M 2016	% change	9M 2017 adjusted*	9M 2016 adjusted*	% change
	a	b	a/b	c	d	c/d
Consolidated revenue	2,037.9	2,047.5	-0.5%	2,037.9	1,971.0	+3.4%
EBITDA	625.8	646.1	-3.1%	625.8	569.6	+9.9%
EBIT	291.3	378.1	-23.0%	319.5	301.6	+5.9%
Group net profit/(loss)	152.6	200.9	-24.0%	173.4	149.4	+16.1%
Capex	368.9	346.8	+6.4%			

* The adjusted results do not include :

- for 2017, the negative impact – amounting to approx. €28m before tax – resulting from:
 - the sentence restoring ownership of a property that houses a car park for company vehicles (€9.5m)
 - the reduction in the amount due to Areti from GALA (€12.8m)
 - the reduction in the amount due from ATAC (€6.0m)
- for 2016, the positive impact (€76.5m before tax) of elimination of the regulatory lag

(€m)	30 Sept 2017 (a)	31 Dec 2016 (b)	30 Sept 2016 (c)	% change (a/b)	% change (a/c)
Net Debt	2,487.3	2,126.9	2,138.7	+16.9%	+16.3%
Adjusted Net Debt**	2,428.3	2,126.9	2,138.7	+14.2%	+13.5%
Invested Capital	4,279.9	3,884.9	3,820.8	+10.2%	+12.0%

** Adjusted net debt for 2017 does not include the overall impact, amounting to €59m, of the reduction in amounts due from GALA (€30m) and ATAC (€6m), and the impact of split payment (€23m).

H1 2017 Results

HI 2017 financial highlights

(€m)	HI 2016	HI 2017	% change	HI 2016	HI 2017	% change
	a	b	b/a	adjusted* c	adjusted* d	d/c
Consolidated revenue	1,386.7	1,372.5	-1.0%	1,323.4	1,372.5	+3.7%
EBITDA	443.7	414.1	-6.7%	380.4	414.1	+8.9%
EBIT	274.1	194.9	-28.9%	210.8	213.9	+1.5%
Profit/(Loss) before tax	232.3	164.4	-29.2%	169.0	183.4	+8.5%
Group net profit/(loss) (before non-controlling interests)	154.3	110.3	-28.5%	111.6	124.3	+11.4%
Group net profit/(loss) (after non-controlling interests)	149.5	103.5	-30.8%	106.9	117.5	+9.9%
Capex	220.8	252.2	+14.2%			

* The adjusted results do not include:

for HI 2017, the negative impact resulting from:

- restored ownership of a property that houses a car park for company vehicles (€9.5m);
- the provision for the reduction in the amount due to Areti from GALA (€9.5m).

for HI 2016, the positive impact (amounting to €63.3m before tax) of elimination of the regulatory lag.

(€m)	30 June 2016 (a)	31 Dec 2016 (b)	30 June 2017 (c)	% change (c/a)	% change (c/b)
Net Debt	2,131.9	2,126.9	2,401.4	+12.6%	+12.9%
Adjusted Net Debt**	2,131.9	2,126.9	2,377.4	+11.5%	+11.8%
Equity	1,631.4	1,757.9	1,744.1	+6.9%	-0.8%
Invested Capital	3,763.3	3,884.8	4,145.5	+10.2%	+6.7%

** Adjusted net debt for 2017 does not include the impact of the reduced amount due from GALA.

Regulatory framework

- *Water*
- *Electricity distribution*

TARIFF REGIME FOR SECOND REGULATORY PERIOD 2016-2019

ARERA Resolution 664/2015 - Water Tariff Regime for the second regulatory period (WTR-2)

The tariff regime for the **four-year period 2016-2019 (the second regulatory period)** is based on a matrix chart with 6 different **regulatory framework** depending on the ratio of required capex to the value of existing infrastructure, eventual changes in the operator's objectives or operations (consolidation, significant improvements in service quality) and the value of the operator's opex per inhabitant served compared with the estimated average opex for the sector as a whole in 2014.

Key points in the Resolution are set out below:

- The **duration of the regulatory period** has been set at **four years**, with **biennial revision** (for the years 2018-2019) of the value of the RAB, the components subject to adjustment and opex, taking into account any accounting and inflation adjustments, in addition to certain of the parameters used in calculating the cost of debt (see the next slide that provides details of the content of Resolution 918/17, which has established rules and procedures for the biennial revision).
- Allowed revenues are based on **full cost recovery** subject to efficiency and capped in terms of tariff growth.
- **A cap on annual tariff increases (tariff multiplier)** ranging from 5.5% to 9%, depending on the regulatory framework approved by local authorities.
- A **"sharing" mechanism**, based on a regulatory framework that penalises the least efficient operators.
- Introduction of a **system of rewards and penalties linked to the contractually required quality standards**. The reward component is excluded from any tariff caps.
- The possibility of recognising a **cost component relating to the cost of upgrading to meet the contractually required quality standards (Opex_{QC})**, if not already included in the existing Service Charter (recognition does not permit the recognition of rewards at local level).
- The mechanism for recognising a portion of **late payment costs** has been defined, taking into account the varying impact of this problem throughout the country (the maximum recognised cost, calculated on the basis of annual turnover, has been set at **2.1% in the North, 3.8% in Central Italy and 7.1% in the South** and providing incentives for the adoption of efficient credit management solutions.
- The **" ψ "** parameter, on which determination of the component intended to pre-finance the cost of new investment (FNI), may be selected within a range of **0.4-0.8**.
- **The distinction between upgradeable opex and endogenous opex has been retained**. Costs linked to the expansion of operations and/or significant improvements in service quality are also allowed for.
- Based on the parameters established (*) in the resolution, the sum of the assessed **cost of debt and tax expense in the water sector amounts to 5.4% for the years 2016 and 2017** (compared with 6.1% for the regulatory period 2014-2015 and 6.4% for the period 2012-2013).
- The **1% time-lag for the cost of debt** has been confirmed, offsetting the cost resulting from the time lag between the year in which capex takes place and the year in which the related tariff increase is granted.

*
▪ The **ERP** (Equity Risk Premium) is **4%** (compared with 5.5% for the electricity sector).
▪ The real **RF** (Risk Free) rate is **0.5%**, determined on the basis of yields on 10-year euro area government bonds with ratings of at least "AA" (in line with the electricity sector).
▪ The **WRP** (Water Risk Premium) is **1.5%** (compared with a CRP – Country Risk Premium – of 1% used in the electricity sector).

TARIFF REGIME FOR SECOND REGULATORY PERIOD 2016-2019

ARERA Resolution 918/2017 – Biennial revision of tariff arrangements for integrated water services (2018-2019)

Determination 918/2017, approved at the end of December, sets out not only the rules and procedures for the biennial revision provided for in Resolution 664/2015, but also the amendments and additions made necessary by determinations that during 2017 have served to complete the regulatory framework for water systems (the regulation of **technical quality**, approval of the **integrated text on charges**, regulation of the **social bonus for water**).

Without modifying the WTR-2 tariff regime introduced by Resolution 664/2015, which remains in force, the principal provisions of the latest Resolution with an impact on the period 2018-2019 are detailed below:

- **Accounting and monetary adjustment of recognised costs:** tariff determinations are to be updated on the basis of the 2016 accounts (for the 2018 tariff) and 2017 accounts (for the 2019 tariff); the inflation adjustment for opex in 2017 and 2018 has also been set (inflation rate for 2017 = -0.10% and for 2018 = 0.70%), as have the cost of fixed investment (deflator 2017=1.003 - deflator 2018=0.998 - deflator 2019= 1).
- **Cost of electricity:** the sector's average cost of electricity supplies has been revised down to €0.1585 per kWh (a reduction from the amount used in tariff determinations for 2016-2017), included in the calculation of the recognised cost for the years 2018-2019 and in determining adjustments for the previous two years.
- **Wholesale cost of water:** extension of the method of computation applied to the previous two years to the years 2018 and 2019, overriding the rolling cap regulation provided for in WTR-2 from 2018. As regards the adjustments for 2016-2017, the failure of the WTR-2 regime to recognise the increased costs incurred for the wholesale supply of water in concessions hit by **water emergency** has also been overridden.
- **Opex_{OC} adjustments:** recovery (only if to the end user's advantage) of the gap between quantification of the component included in tariff determinations for 2016 and 2017 and the costs effectively incurred by the operator;
- **ERC (Environmental and Resource Costs):** the range of costs to be classed as ERC has been expended, taking into account additional opex that may result from the need to comply with the new technical quality targets.
- The component intended to **pre-finance the cost of new investment (FNI):** the obligation to use the related provisions solely to finance new investment has been introduced.

TARIFF REGIME FOR SECOND REGULATORY PERIOD 2016-2019


ARERA Resolution 918/2017 – Biennial revision of tariff arrangements for integrated water services(2018-2019)

➤ **Technical quality:**

- Review of **scheduled works** based on the operator's starting point for technical quality (taking 2016 as the base year) and the achievement of the targets set by the new technical quality regime introduced by Resolution 917/2017)
- Introduction of **rewards/penalties** linked to the technical quality of the integrated water service. Rewards and penalties will be quantified in 2020 based on performances in 2018 (base year 2016) and 2019 (base year 2018). The reward component is excluded from any tariff caps. Provisions must be made in 2020 for any penalties imposed;
- The possibility of recognising **additional costs for Opex QT** linked to improvements in technical quality (which, unlike contractually required quality standards, do not affect application of the incentive mechanism based on rewards and penalties).

➤ **Universal access to water:** in keeping with the provisions of Resolution 897/2017, the resolution includes a specific cost component dubbed OP_{social} should the Concession Authority decide to introduce or continue with an **additional bonus** compared with the one applied nationally (social bonus), which is instead covered by a specific tariff component (UI3) introduced from 1 January 2018.

➤ **Change in the parameters for the cost of debt and tax expense:** the real RF rate (0.5%) and Kd (2.8%) have been confirmed, whilst the WRP has been revised (1.7%); the tax rate (tc) used in calculating the tax shield for the cost of debt has also been revised (down from 27.5% to 24%) and, as a result, parameter T representing the total tax rate has been revised (down from 34.2 to 31.9%).



Based on the changes introduced to the parameters included in Resolution 918/2017, the sum of the assessed **cost of debt and tax expense in the water sector amounts to 5.3% for the years 2018 and 2019** (2016-2017 5.4%).

Details are provided in the following slide, which also provides a comparison with the Electricity sector).

SECTOR REGULATION WITH AN IMPACT ON TARIFFS IN THE FOUR-YEAR PERIOD 2016-2019

INTRODUCTION OF THE COMPONENT LINKED TO CONTRACTUALLY REQUIRED QUALITY

AEEGSI Resolution **655/2015** established contractually required specific and overall quality standards for the water service, setting maximum response times and minimum quality standards for the services to be provided to end users. These are the same throughout the country.

Compensation was automatically due to end users in the event of failure to meet the specific quality standards. Failure to meet overall standards for two years running could result in the imposition of a fine. The determination, fully effective from 1 January 2017, also established the procedures for recording, reporting and checking the data relating to services provided by the operator at end users' request.

REWARDS AND ADDITIONAL COSTS

1. Art. 2 of Resolution 655/2015 grants concession authorities the option of encouraging the achievement of quality standards higher than the minimum standards applied nationally. This may be done at the proposal of the Operator. In recognising such outperformance, the authority also quantifies the bonus, which in any event may not exceed a certain cap linked to the operator's operational efficiency versus the national average. In fact the bonus is higher, the more the operator is efficient compared with the national average operating cost per customer served, set by the Authority at €109 per customer. **The reward is not subject to any tariff cap.**

2. If the standards set out in the operator's Service Charter are less demanding than the minimum standards required by the regulator, the Concession Authority may submit a reasoned proposal to recognise an **additional tariff component** ($Opex_{OC}$) to adjust for the minimum standards. For the related standards, recognition of this component precludes the award of any bonus.

PREREQUISITES

Conditions to be met to qualify for INCENTIVE MECHANISMS

Indicators associated with incentive mechanism involving rewards and penalties

Availability and reliability of meter readings

Compliance with quality standards for water distributed to end users

Compliance with standards governing management of urban waste water

Availability and reliability of technical quality data

SPECIFIC STANDARDS

(minimum conditions required by regulatory standards for end user to qualify for compensation for non-compliance)

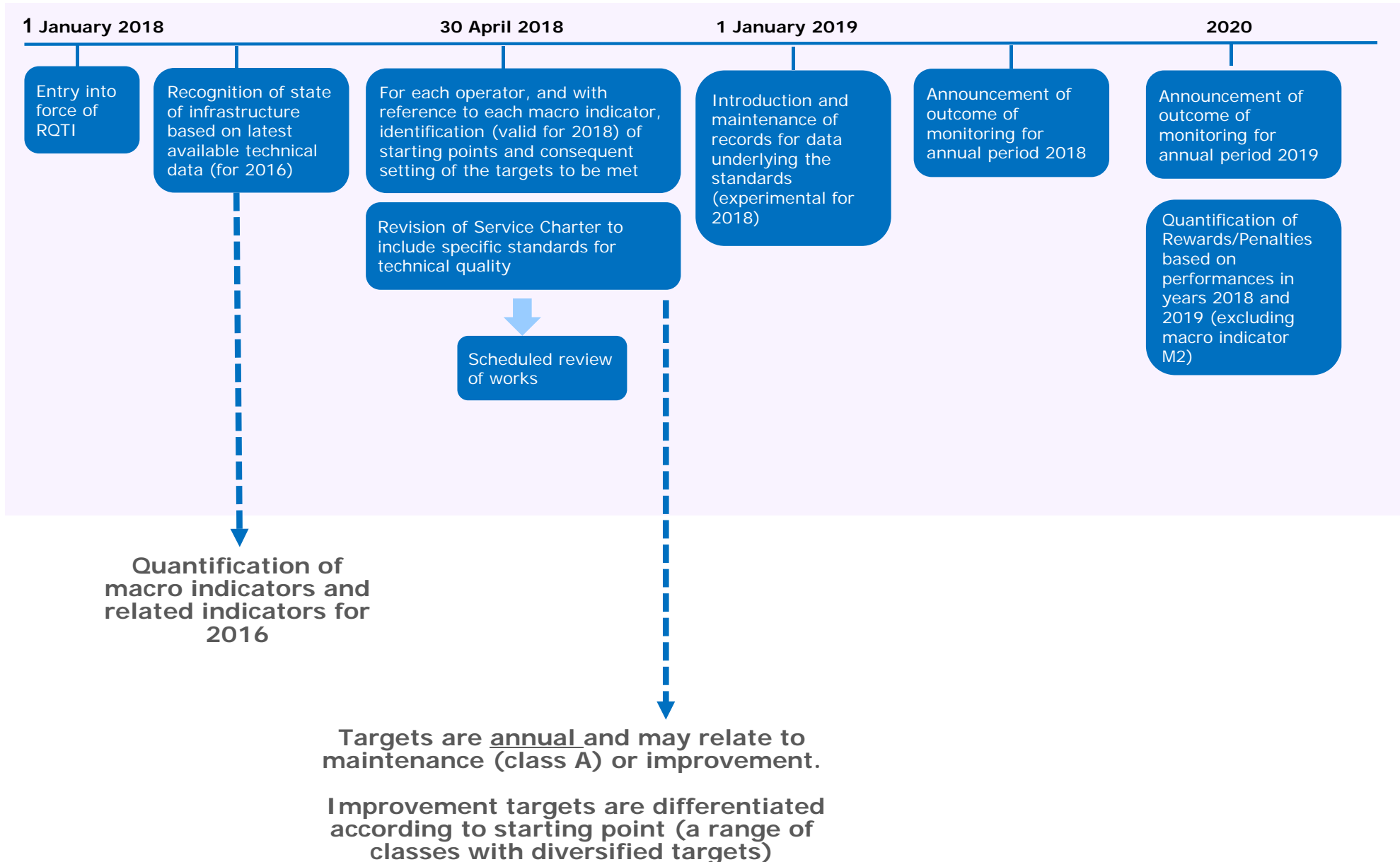
No	Indicator	Specific standard
51	Maximum duration of one-off scheduled outage	24 hours
52	Maximum time-lag before activation of emergency replacement service in the event of a drinking water outage	48 hours
53	Minimum notice period for scheduled work involving interruption to supply	48 hours

GENERAL STANDARDS

	MACRO INDICATOR	Additional related indicators (levels of "advanced" and "excellent" are awarded on the basis of scores and rankings)
FRESH WATER SUPPLY	M1 Water leaks	G1.1 Share of measured volumes (measured volumes as proportion of total)
	M2 Outages	G2.1 Availability of water resources
	M3 Quality of water supply	G3.1 Number of samples analysed G3.2 Application of Water Safety Plan (WSP) model
SEWERAGE	M4 Adequacy of sewerage system	G.4.1 Annual breakages in sewerage network in terms of kilometres inspected
TREATMENT	M5 Disposal of sludge	G5.1 Absence of deposits covered by infringement procedure 2014/2059 G5.2 Coverage provided by treatment service versus population covered by fresh water provision G5.3 Carbon footprint of treatment service
	M6 Quality of treated water	G6.1 Quality of treated water – extended G6.2 Number of samples analysed G6.3 Proportion of measurements breaching limits

Resolution 917/2017 – Technical quality

(2/2)



CONSULTATION DOCUMENT: 683/2017

With regard to the second sub-period of the regulatory period 2020-2023, the regulator intends to adopt a **Totex**-based approach, introducing innovative elements into price regulation with respect to the past. The initial approach was described in Consultation Document 683/2017, as follows:

- Focus on **total expenditure**, represented by the sum of opex and capex;
- A **forward-looking** approach with **ex ante** approval, by the regulator, of the entity's expected objectives and outputs and presented in Business Plans. In this way, the regulator, after conducting a process of cost assessment and benchmarking, identifies the «baseline totex» and the performance of the «glide path»;
- Application of menu regulation with the introduction of incentive schemes, involving use of an IQI (Information Quality Incentives) matrix, encouraging operators to include expenditure forecasts when presenting their business plans that (i) as realistic as possible and (ii) as close as possible to the «baseline totex» arrived at by the regulator.

To allow for gradual implementation, the regulator has applied certain elements of continuity:

- capital at the time of transferring to the totex approach is managed using the same criteria;
- opex do not change substantially as they are already subject to an *ex ante* regime.

Under the totex approach, total expenditure is divided into two parts based on a percentage allocation established *ex ante* by the regulator on the basis of the optimal level of capitalisation for the entity and proposals from operators, in addition to historical trends; the two parts are defined as follows:

- «fast money», the part funded through revenue in the year;
- «slow money» which will increase invested capital for regulatory purposes and on the basis of which, as under the current tariff regime, the return on capital and depreciation are calculated (the latter applied to a group of assets with a single useful life);

Key points covered by the consultation document and thus that remain open regard:

- **Business plans** that form the basis for the totex process over a time horizon of 5/10 years; the plans should contain two sections: i) a section about the entity, describing its business objectives with earnings and financial indicators; ii) and one dealing with stakeholders, describing stakeholder engagement, their vision, points of view and expected objectives;
- **Baseline Totex and the glide path for total expenditure**: the regulator's ability to correctly assess the future recognition of costs is key to the effectiveness of the entire «totex» approach, without which the process could result in situations of overspending or underspending;
- The **mechanism for managing uncertainties** which, using a suitable system of controls and checks, enables, for example, changes to be made to the entity's revenue streams in the reference period through re-opening mechanisms; on the other hand, a number of initiatives, given their particular or exceptional nature, may be excluded from application of the approach based on *ex ante* cost recognition and, once identified, will continue to generate a return on the basis of *ex post* models of recognition;
- **Incentive schemes**, divided into two types: i) incentives that result from the adoption of menu regulation and from the application of the IQI – Information Quality Incentives matrix; ii) incentives devised specifically to achieve predetermined output/performance targets.

The regulator has given each operator an estimated period of time to complete the necessary activities and for the rollout of the regime, equal to approximately 30 months. At the moment, the Consultation Document provides for application in the sub-period 2020-2023, «*in relation to electricity distribution, whilst guaranteeing adequate coverage throughout the country, and providing for application to the national grid*». In relation to the sixth regulatory period, application «*also to distributors serving over 300,000 offtake points*».

REGULATORY PERIOD: 2016-2023 (8 YEARS)

ARERA Resolutions: 654/2015 Tariff general framework

583/2015 WACC

646/2015 Quality of electricity distribution and metering service and output based regulation

The Regulator has extended the **duration of the regulatory period to eight years**, dividing it into two sub-periods, each lasting four years. In the second sub-period (2020-2023), a **Totex**-based approach will be introduced.

Key points in the Resolutions are set out below:

- **No exposure to energy volumes:** tariff not linked to changes in consumption
- **Opex** calculated on **2014 costs**.
- **Progressive approach to the extension of asset lives:** life for MV and LV lines and offtake points built after 2007 extended from 30 to 35 years; the life of HV lines has been increased from 40 to 45 years.
- **Price cap: 1.9% (distribution), 1% (metering).** The potential achieved extra-efficiencies in the 3rd and 4th regulatory periods are to be shared 50-50 with the consumer by 2019.
- **Greater selectivity applied to capex**, with particular attention paid to **service quality**.
- Year t-1 capex included in year t RAB (**time-lag reduction** from 2 to **1 year**).
- Confirmation of the determination of **net working capital** with reference to parameters based on net fixed assets, applying a **lower percentage (0.1%)** than the one applied in previous regulatory periods (1%).
- **Quality of service:** stable incentive mechanisms on frequency and duration of outages.

ELECTRICITY DISTRIBUTION

WACC Electricity distribution: 5.6% (compared with the previous 6.4%)

WACC regulatory period: 6 years (2016-2021). The WACC is fixed for **three years (2016-2018)**, in 2019 WACC mid term review already defined for all main parameters

ELECTRICITY TRANSMISSION

WACC Electricity transmission: 5.3% (compared with the previous 6.3%)

GAS GRIDS

WACC Gas transmission: 5.4% (compared with the previous 6.3%);

WACC Gas distribution: 6.1% (compared with the previous 6.9%);

WACC Storage: 6.5% (compared with the previous 6.0%).

The WACC is fixed for two years (2016-2017) for the transmission service.

Disclaimer

THIS PRESENTATION CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT REFLECT THE COMPANY'S MANAGEMENT'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND FINANCIAL AND OPERATIONAL PERFORMANCE OF THE COMPANY AND ITS SUBSIDIARIES.

THESE FORWARD-LOOKING STATEMENTS ARE BASED ON ACEA S.P.A.'S CURRENT EXPECTATIONS AND PROJECTIONS ABOUT FUTURE EVENTS. BECAUSE THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES, ACTUAL FUTURE RESULTS OR PERFORMANCE MAY MATERIALLY DIFFER FROM THOSE EXPRESSED THEREIN OR IMPLIED THEREBY DUE TO ANY NUMBER OF DIFFERENT FACTORS, MANY OF WHICH ARE BEYOND THE ABILITY OF ACEA S.P.A. TO CONTROL OR ESTIMATE PRECISELY, INCLUDING CHANGES IN THE REGULATORY FRAMEWORK, FUTURE MARKET DEVELOPMENTS, FLUCTUATIONS IN THE PRICE AND AVAILABILITY OF FUEL AND OTHER RISKS.

YOU ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN, WHICH ARE MADE ONLY AS OF THE DATE OF THIS PRESENTATION. ACEA S.P.A. DOES NOT UNDERTAKE ANY OBLIGATION TO PUBLICLY RELEASE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT EVENTS OR CIRCUMSTANCES AFTER THE DATE OF THIS PRESENTATION.

THIS PRESENTATION DOES NOT CONSTITUTE A RECOMMENDATION REGARDING THE SECURITIES OF THE COMPANY.

* * *

PURSUANT TO ART. 154-BIS, PAR. 2, OF THE LEGISLATIVE DECREE N. 58 OF FEBRUARY 24, 1998, THE EXECUTIVE IN CHARGE OF PREPARING THE CORPORATE ACCOUNTING DOCUMENTS AT ACEA, GIUSEPPE GOLA - CFO OF THE COMPANY - DECLARES THAT THE ACCOUNTING INFORMATION CONTAINED HEREIN CORRESPOND TO DOCUMENT RESULTS, BOOKS AND ACCOUNTING RECORDS.