

LETTER TO SHAREHOLDERS

Dear Shareholders,

the financial year ended 31 December 2017 was characterised by a high rate of discontinuity compared with the recent past. Indeed, the guidelines that accompanied the appointment of the current company management draw a strategy aimed at returning, to your Company, its typical mission: that of a multiutility with a strong business vocation.

The priority must be the creation of value and values, the first among these being the pursuit of the highest qualitative level of services provided to customers and citizens, keeping in mind the path to be taken to achieve this goal. Infrastructure investments are by far the most significant element. Profitability, rationalisation of management costs and ever-increasing efficiency in the provision of the service to users are also the expected short-term effects.

The way forwards was clear from the start. On 28 July 2017, only two months after the establishment of the Board of Directors, the 2018-2022 Strategic Guidelines were presented to the markets and, at the end of November, these guidelines were expressed, structured and incorporated into the new 2018-2022 Business Plan. This is a key point, worth going into in further detail, in order to be able to focus now on the results achieved by your Company in 2017.

Firstly, it should be noted that all the main economic and financial figures are substantially in line, if not higher – as in the case of EBITDA – than those periodically reported to the markets during the year.

In general, the entire financial statements are heavily influenced by both previous decisions made and by extraordinary items, so much so that, on an adjusted basis, consolidated revenues, the aforementioned EBITDA and the net profit of the Group are higher than those of 2016, except for EBIT, which is slightly lower (-2%).

Therefore, if the net profit amounts to approximately €181 million, by not taking into account the non-recurring items, said net profit amounts to over €214 million, thus 2% higher than the same item relating to financial year 2016.

In this specific case, the impact of these non-recurring items accounts for €46 million, with an impact of €33 million on the net profit. Added to these are €52 million of higher amortisation and depreciation, as the main result of investments in information technology, which have, as is well known, a significantly shorter useful life.

It should be noted that, in 2017, the amount of investments increased, albeit only slightly, from €531 million to €532 million, with a further improvement compared with the record result of the previous year, favouring, especially in the second half of the year, those of an infrastructural nature.

Amongst them all, we hereby highlight those carried out in the Water Sector for over €271 million, finalised, for a significant portion, to mitigate, through extraordinary maintenance interventions on the water distribution network, the effects of an entire year, 2017, characterised by very high peaks of drought that drastically reduced the available resources.

A crisis that lifted the veil over the real situation regarding water stress and the effects of now full-blown climate change on both a national and global level, which forces us to abandon an although effective emergency-based management approach, to direct ourselves towards a broader and longer-term vision, that enables us to put in place every possible solution to deal with the serious status of water resources.

In fact the new Business Plan already responds, through a complex and bold planning of investments and actions, to many of the needs dictated by the new context that has been outlined, also favouring a greater reactivity by the company towards not entirely foreseeable changes.

The current and future scenario is undoubtedly difficult, but also constitutes a source of opportunity for a company whose ambition is to grow, by both acquiring market shares and territory in its own country and by promoting its excellence across the borders via different initiatives, but with the common objective of presenting Acea as a benchmark technological partner for parties called to deal with problems relating, in particular, to the water sector.

Technology, innovation and quality are among the four pillars of this Business Plan and shall be for subsequent Business Plans, along with the speed factor, which is common to all strategies and activities, but essentially compared with the ability to read and oversee the technological or climatic transformation in progress.

In terms of innovation, the impetus given to the integration of sustainability in the Group's business strategies is of major importance amongst the elements introduced in this Company following the establishment of the current Board of Directors.

The concurrence between the times and similarities between the im-



plementation methods of the 2018–2022 Sustainability Plan with the preparation of the new Business Plan, which evolves over the same period of time, represent the almost tangible testimony of two processes, which currently follow a univocal path and logic in pursuit of the same final result.

This is so true that, during the presentation of the Business Plan to the markets, our intention was to also dedicate space to describing the major objectives set out in the Sustainability Plan and we were able to report that, out of the €3 billion plus worth of investments expected by the former, as much as €1.3 billion pursue - through operations - the sustainable objectives outlined by the latter.

It is of equal importance to highlight how the operational objectives are accompanied by governance objectives, also aimed at promoting the progressive integration of sustainability, acting on the governance of your Company, so that it implements conduct that is consistent with the most widespread best practices and with the principles and guidelines expressed by the Self-Discipline Code established by Borsa Italiana.

An immediate reflection of the importance of these issues is represented, in terms of the adjustment of the Holding's organisational structure, by the creation ex novo of the Risk & Compliance Department, whilst, in terms of governance, the Ethics Committee was converted into the Ethics and Sustainability Committee, which has exclusively internal members, with the participation of only non-executive and mostly independent Board Directors.

As of this year, the approval of the first Non-Financial Statement relating to 2017 - which, for your Company is consolidated by the major listed companies - has also become mandatory. The Acea Board of Directors took this step at its meeting of 14 March 2018.

Within the Acea Group, this document is identified substantially with the Sustainability Report, which, this year, is in its 20th edition. This is a tool, to which reference is evidently made, aimed at providing, according to a highly transparent approach, an extraordinary amount of information, ordered by following the most widespread reporting Standard - the GRI - so as to ensure a full understanding of the activities carried out by the Group Companies and the impacts produced by such activities.

The Company Management as set high and challenging objectives. The reference shareholders and markets, as the testified by the share, have been shown to appreciate the decisions made.

The Group is now called to an extraordinary operational, focussed and, at the same time, long-term effort and, to achieve it, the contribution and passion of all is therefore required, of men and women who are hopefully associated with it not only by a simple employment contract, but also by a strong sense of pride and belonging. The Board of Directors sincerely thanks all those people and urges them to always do their best, even better.

The Chief Executive Officer
Stefano Antonio Donnarumma

The Chairman
Luca Alfredo Lanzalone