

LETTER TO SHAREHOLDERS



DEAR SHAREHOLDERS,

The fiscal year that ended 31 December 2018 consisted of a series of events that make it possible to see 2018 as a tangible turning point. First of all at an industrial level thanks to the impetus given by the operating areas and based on values like innovation, technological development and sustainability, which have long since become essential, cutting across all processes at a Group level. A plan that is in line with the multi-utility model with a strong industrial orientation that the Acea Group intended to relaunch starting from the elaboration of the new and demanding 2018-2022 Business Plan in the second half of 2017.

The plan turned out not only to be possible but even revised upwards in terms of its objectives, as demonstrated both by the repeated revisions in the guidance given during 2018 and the need to present the financial community with a substantial update of this plan well ahead of schedule, with goals that are even more challenging.

This result was made possible by the expertise and commitment of management and each employee, together with the Chairwoman Michaela Castelli and the Board of Directors, with the support of Shareholders and Stakeholders.

Building on this foundation the economic and financial side of the business saw extraordinarily positive financial statements with a Group net profit that is 50% higher than 2017 and distribution of a € 0.71 dividend, and the crucial customer service side saw considerable improvement even in historically critical areas.

2018 also stood out for the acceleration of the construction of the Peschiera Aqueduct's second line in order to meet Rome's water needs, pursued by Acea with determination and attention to maintain a harmonious relationship with local communities.

Focusing on the results achieved by the Group in 2018, the figure for consolidated net revenues is detailed, which, amounting to € 3,028 million, shows an increase of € 231 million (+ 8%) compared to 2017, and particularly worthy of note is the growth of consolidated EBITDA which amounted to € 933 million (+ 11%), mainly due to the contribution of the water and electricity distribution and generation sectors and, to a lesser extent, by the Environment, Engineering and Services and Overseas segments. More in detail, the performance of the Water segment was influenced by the results of Acea Ato 2 and Acea Ato 5, which recorded increases of € 50 million and € 4 million respectively, in addition to the greater contribution of the consolidated water companies to shareholders' equity for € 16 million, specifying that Gori was fully consolidated on 8 November 2018 and contributed € 12 million to EBITDA.

The Group's net result amounted to € 271 million (+ 50% compared

to 2017). Investments recorded a significant increase (+ 19%) compared to 2017 of € 631 million (€ 532 million in 2017), of which approximately 88% focused on regulated activities. The breakdown shows the Water sector with € 330 million and the Energy Infrastructures segment with € 238 million. The other segments and the Parent Company followed with substantially lower numbers.

The Group's net financial debt recorded an overall increase mainly due to investments of € 147 million, the overall total going from € 2,421 million at the end of 2017 to € 2,568 million at 31 December 2018, and was reduced by € 63 million compared to 30 September 2018 due to an increase in working capital. The ratio between net financial debt and EBITDA is 2.8x, an improvement compared to 2.9x in 2017.

To verify continuity and consistency in the management of your Company in the early months of 2019, we note that 2019 guidance forecasts further growth compared to 2018, indicating that with the same range of activities EBITDA will increase between 5% and 6%, investments more than 10% and net financial debt at the end of the year will be between € 2.85 billion and € 2.95 billion.

As mentioned, 2018 was the year we launched a particularly challenging Business Plan that generated an acceleration in Acea Group's most strategic projects and processes, in constant alignment with both the more general scenario of reference and with more specific scenarios linked to the core business. But it was also a year of consolidation and building on what was started in the second half of 2017 in order to pursue levels of excellence both in terms of overall compliance to ensure the engagement of all employees, and with respect to the main issues that a multi-utility like Acea is called to manage, like innovation, sustainability, the market, the public and the local community – and of course its own people. It is important to underline the impetus given to the two pillars of Innovation and Sustainability referenced in the 2018-2022 Business Plan, both critical for all of the Group's industrial and non-industrial activities.

With regard to Sustainability, we remind you that from 2018 it is mandatory for major listed companies to produce a Non-Financial Statement relating to the previous year, which for the Acea Group is essentially the Sustainability Report, this year in its 21st edition. So once again in 2018 a tool has been made available to provide a significant amount of information relating to the activities carried out by the Group's Companies and their impacts, classified according to GRI (the most common reporting standard) to ensure understanding.



Some significant events took place in 2018 that are worth noting here. These include the agreement stipulated by Acea and Open Fiber for the development of a broadband communications network and the implementation of innovative services for the city of Rome; the placement of bond issues for € 1 billion exclusively for institutional investors of the Euromarket, which received requests equal to more than 2.5 times the amount of the Bonds offered (Fitch Ratings and Moody's assigned a rating BBB+ and Baa2 respectively, in line with Acea); the Memorandum of Understanding (MoU) signed by Acea and Huawei Italia for the definition of high value technological projects; the 100% acquisition of Bioecologia S.r.l. involved in the purification, treatment and intermediation of liquid waste, with treatment plants located in the municipalities of Chiusi, Buonconvento and Colle Val d'Elsa; Acea's entry into the gas distribution sector through the stipulation of an agreement for the acquisition of 51% of the capital of the company Pescara Distribuzione Gas S.r.l., involved in the distribution of methane gas in the Municipality of Pescara; Moody's confirmation of Acea's Baa2 rating and stable outlook; establishment of a long-term industrial agreement between Gori (manager of the IWS in the Sarnese-Vesuvian District of the Campania Region, 37% owned by Acea through its subsidiary Sarnese Vesuviano), the Campania Region and the Campania Water Authority to complete the takeover of the plants and the management of the IWS in that area.

With regard to events after the close of 2018, we note the notification of an order served to the Acea Group by the Italian Antitrust Authority bearing a pecuniary administrative fine of € 16,199,879.09

levied jointly and severally against Acea, Acea Energia and areti for abuse of a dominant position in the electricity market, which the Acea Group will challenge with all legal remedies available to it.

Considering that in 2018 the Acea Group beat all forecasts as presented here, one can envisage a continuation of this same success in 2019.

The Group will continue to make major investments in infrastructure, generating an immediate positive impact on performance, EBITDA and invoicing and collection processes without affecting the soundness of the financial structure.

Indeed, the Group's financial structure will remain solid for many years to come. In fact, at 31 December 2018 79% of debt had fixed interest rates in order to ensure protection against any increases in interest rates as well as any financial or credit volatility. Furthermore, at the end of 2018 the average duration of medium-long term debt stood at 5.8 years, and the average cost dropped from 2.6% at 31 December 2017 to 2.2% at 31 December 2018.

All the elements illustrated above allow us to define the current year as highly challenging yet with ample guarantees of solidity. The update of the 2018-2022 Business Plan clearly defines the new objectives to be achieved, thus requiring management and each member of the Acea Group to continue to work together with that same diligence that allowed the Group to achieve these results.

Once again, the Board of Directors is grateful to everybody for their efforts and encourages them to always do their best, as the results are visible and rewarding, further boosting the pride of being part of an increasingly strong and cohesive Group.

The Chief Executive Officer
Stefano Antonio Donnarumma

The Chairman
Michaela Castelli