Acea Business Plan 2018-2022

Borsa Italiana

Milan, 28 November 2017

Agenda

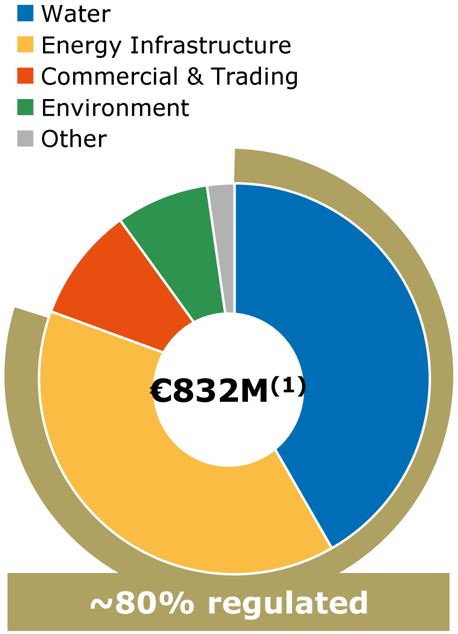
- THE ACEA GROUP TODAY
- MARKET SCENARIO AND TRENDS
- NEW BUSINESS PLAN 2018-2022
  - STRATEGY AND CONSOLIDATED TARGETS
  - MAIN OPERATING SEGMENTS
  - STRATEGIC OPPORTUNITIES
- CLOSING REMARKS
- Q&A
- ANNEX

THE ACEA GROUP TODAY

A market LEADING multiutility

FOOTPRINT

EBITDA 2017



SHAREHOLDERS (2)

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
- **7.2 TWh** of electricity sold

No. 6 — **ENVIRONMENT**
- **1m tons** of waste treated
- **360 GWh** of electricity produced

(1) Guidance 2017
(2) CONSOB data at 17 November 2017

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

SEN 2017

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)

The Group's new strategic PILLARS

Industrial growth

Capex of €3bn

RAB €4bn
(+€0.8bn vs. actual)

1.9m Customers
Power & Gas

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

Local focus and Sustainability

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)

Technology, Innovation and Quality

€400m+ in investment linked to **innovative projects**

Smart Grid and Smart City

Improvements to the **Customer Journey**

Operational Efficiency

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

20% reduction in cost to serve

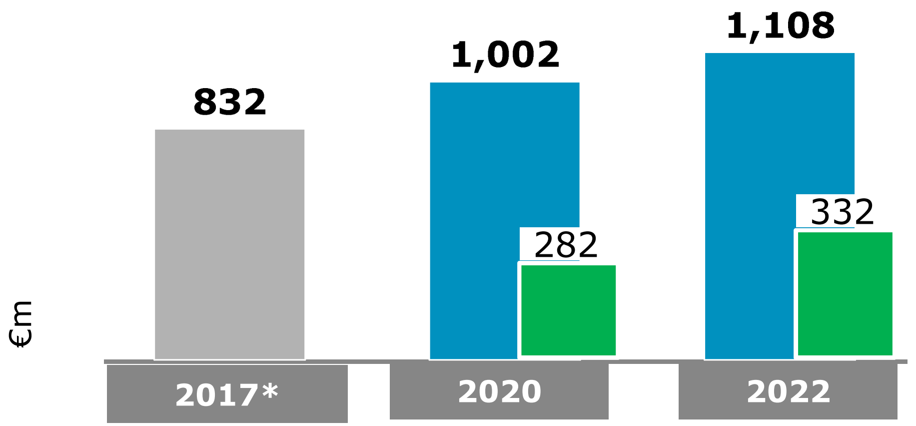
Generational turnover for 300+ FTEs

Strong and sustainable GROWTH

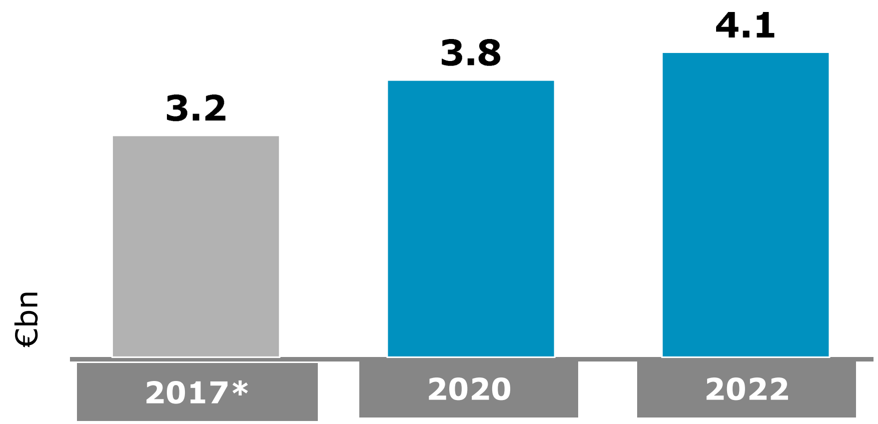
Pre-tax ROIC	2017	2020	2022
	9.5%	>10%	>10%

EBITDA growth with CAGR +5.9%

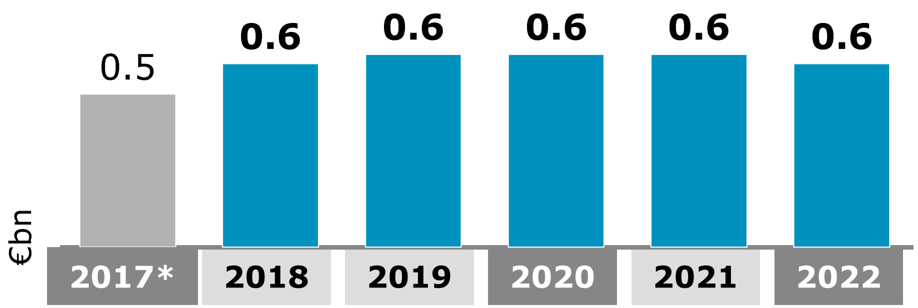
Growth in **Net Profit****



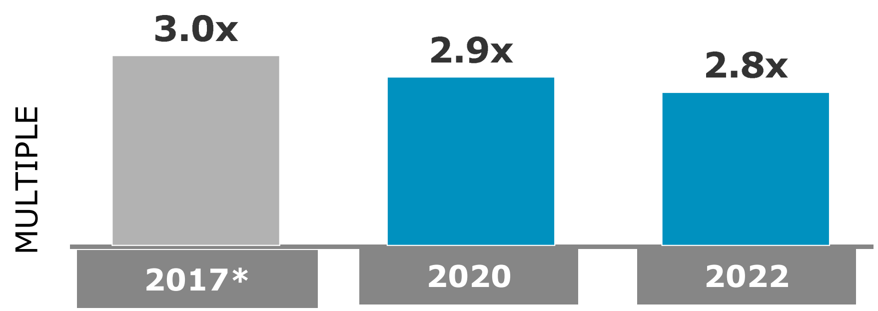
RAB up 25% by 2022



CAPEX of €3.1bn



NET DEBT/EBITDA down to 2.8X

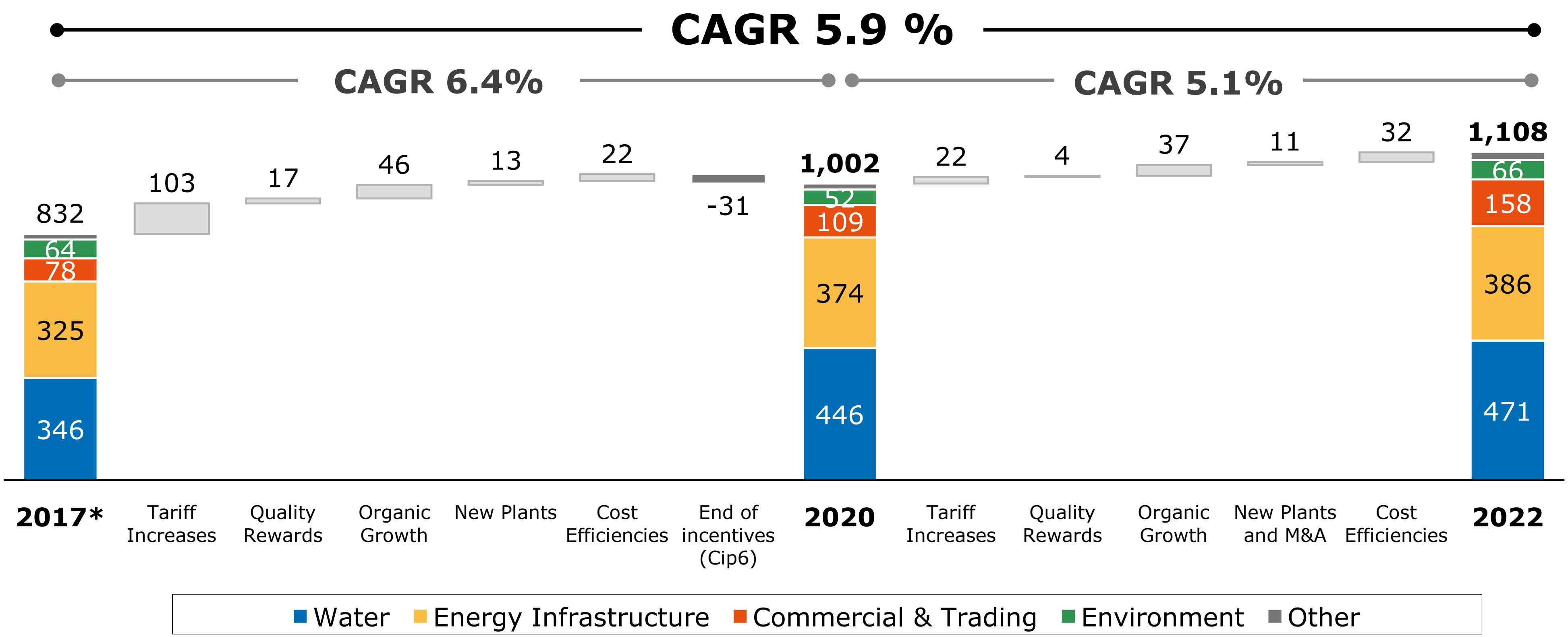


*Guidance 2017

Net profit after non-controlling interests (minorities)

STRATEGY AND CONSOLIDATED TARGETS

EBITDA growth based on solid business rationale



Cross-segment initiatives

Performance improvements and cost efficiencies + Generational turnover + Tightening up of operations

Water
- Tariff increases linked to investment (including impact of investment incentives)
- Rewards for Commercial Quality

Energy Infrastructure
- Tariff increases linked to investment
- Reduction in penalties for network losses

Comm. and Trading
- Growth of Power and Gas customer base
- Reduction in cost to serve

Environment
- End of CIP6 incentives
- Expansion of existing plants
- Development of new plants and M&A

Other
- Development of overseas services

*Guidance 2017

More than €3bn of INVESTMENT

STRATEGIC LEVERS

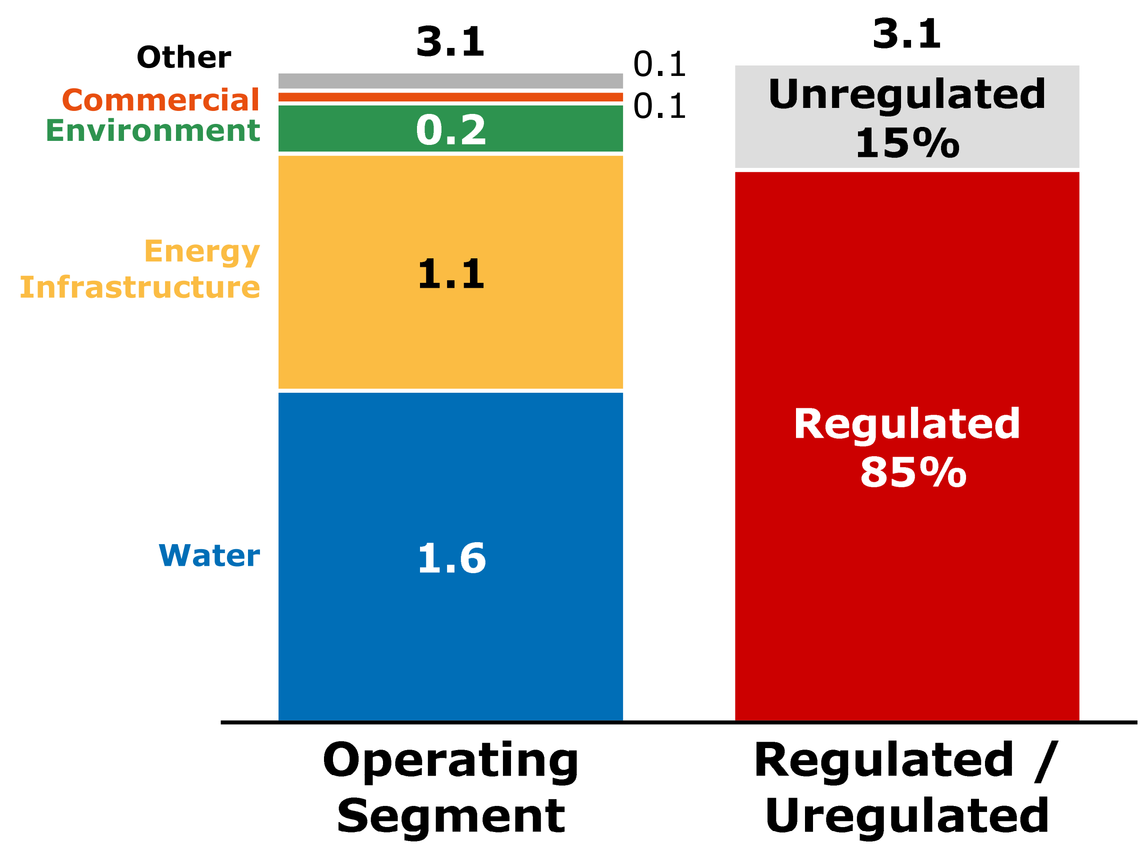
Capex Remix

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

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)

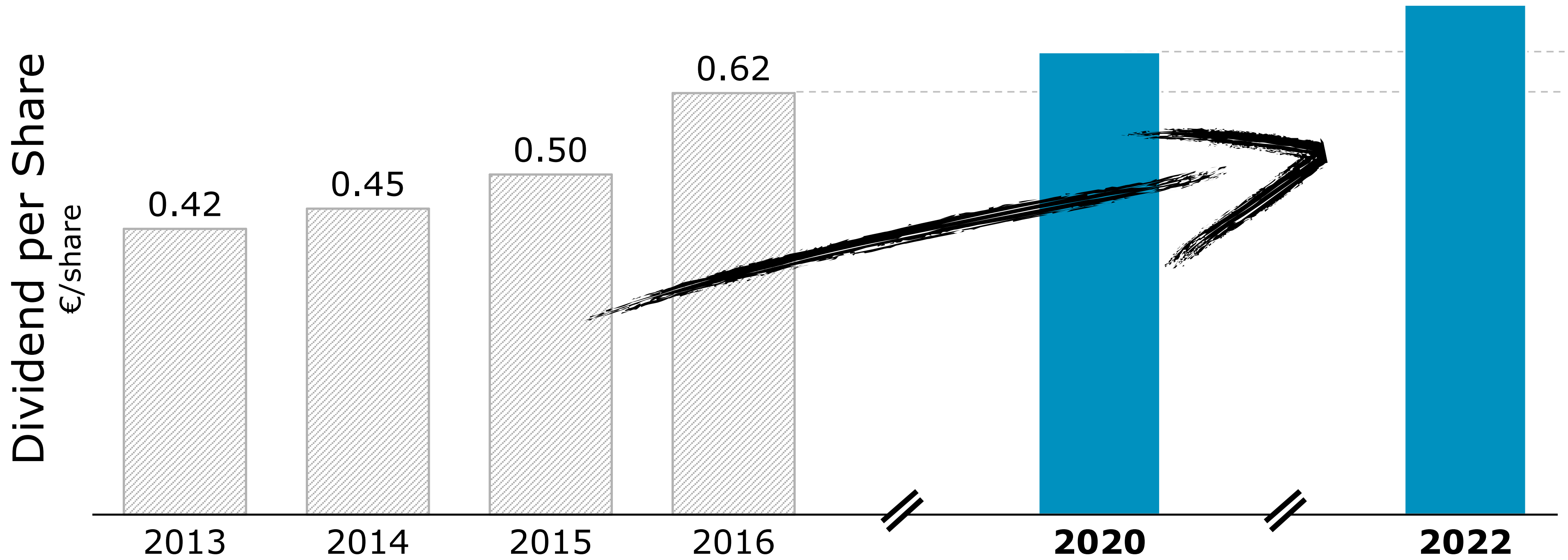
Cuts in CO_2 *(Reduced losses, Purchase of Green Energy, Recovery of Biogas)*	**>200 ktons**
Reduction in **Water Leaks**	**>15 pp**
Green Energy for internal use within the Group	**500 GWh**
Reduction in Risk Rating for electricity grid to boost resilience	**-10%**
Waste treated according to Circular Economy concept	**+70%**
Safety inspections of maintenance contractors	**+50%**

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

Growing Dividends

Pay-out above 50%

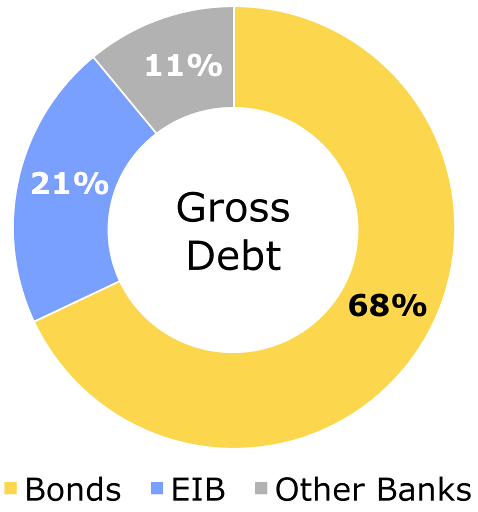
€0.7bn payable over the plan



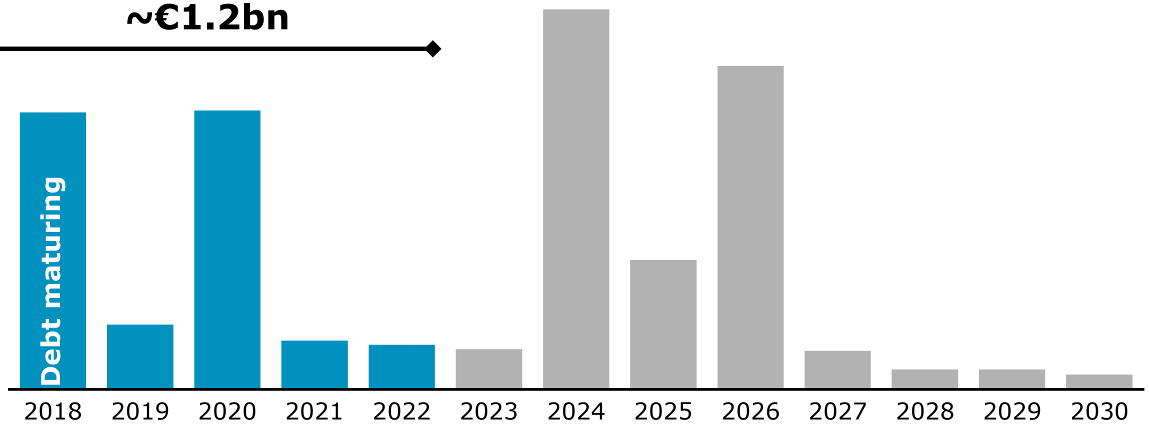
Financial strategy aims to cut cost of debt and increase Maturity terms

FitchRatings	Moody's
BBB+	Baa2
Stable outlook	*Stable outlook*

- **Average Maturity ~6.3 yrs**
- **Average cost of debt ~2.6%**

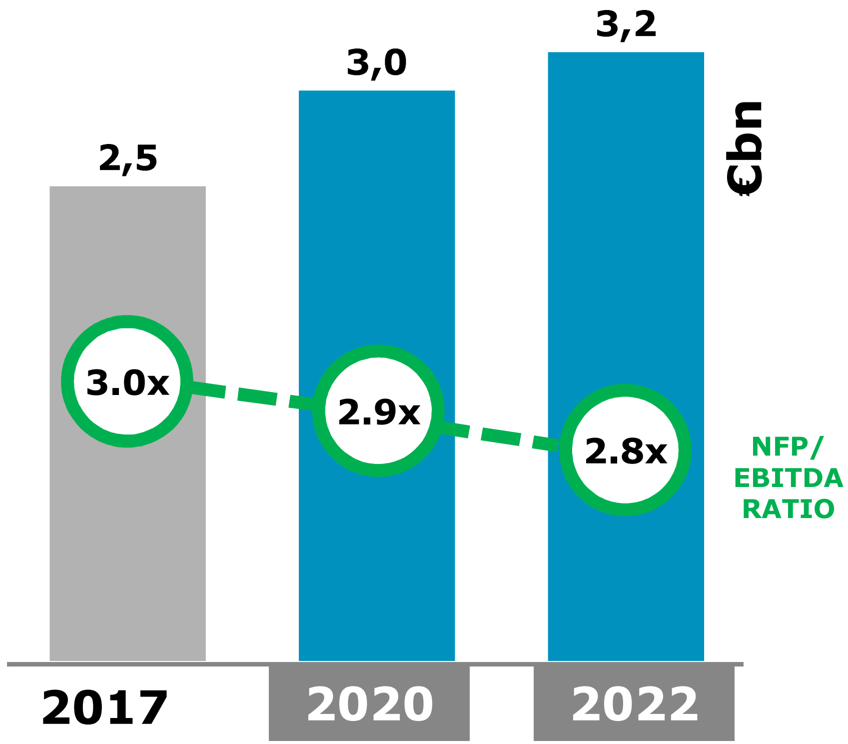


Debt maturing over life of Plan 2018-2022 ~€1.2bn



Net Debt (NFP)

NFP/EBITDA Ratio



WATER

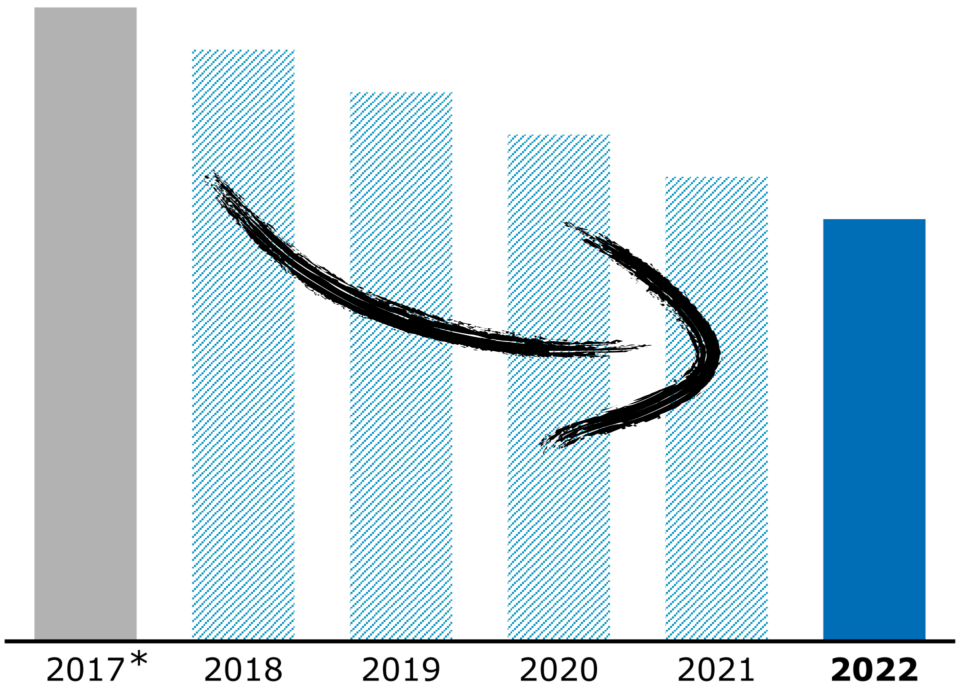
Key Targets for the Segment

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**

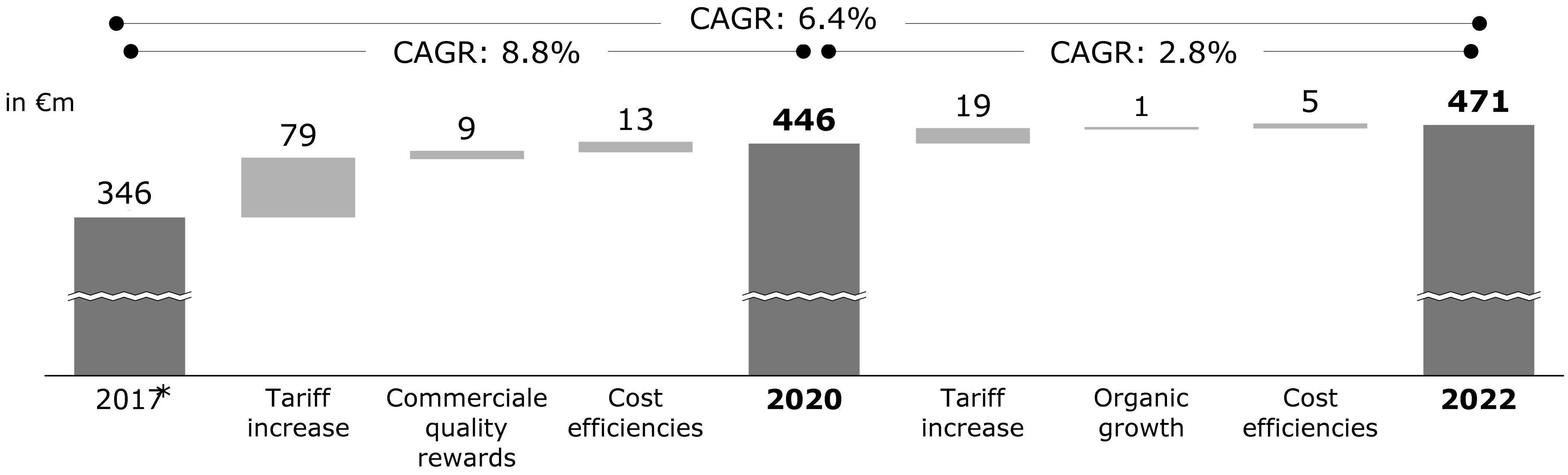


*Guidance 2017

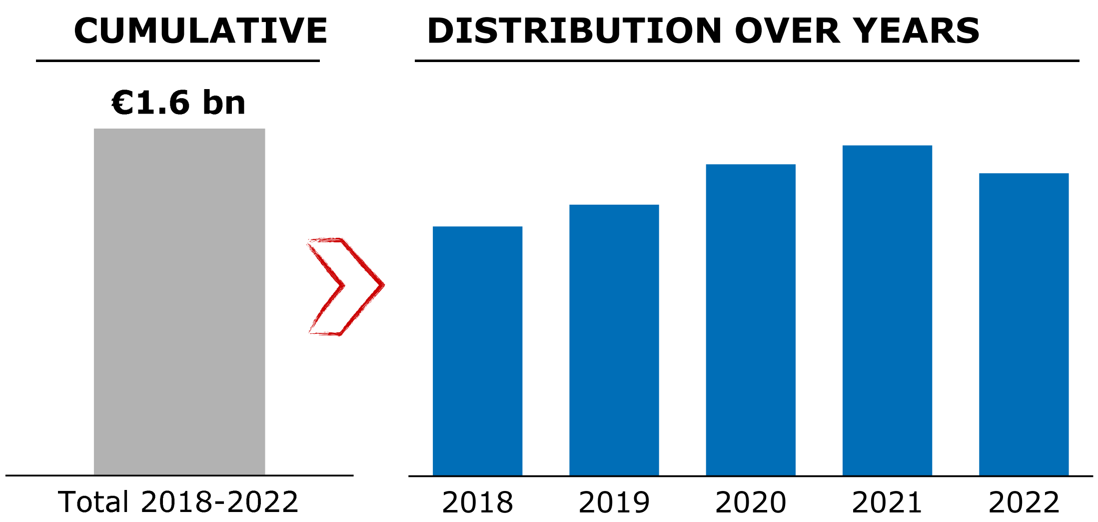
WATER

EBITDA UP 36% and INVESTMENT of €1.6bn

EBITDA



INVESTMENT 2018-2022



Key numbers

- Over **500k Smart Meters** installed
- **Remediation of 800+ km of** water and sewerage **network**
- Expansion of **large Treatment Plants** and retirement of 40+ small plants
- Design for **development of Peschiera source**
- Over 50 water supply projects

*Guidance 2017

ENERGY INFRASTRUCTURE

Key Targets for the Segment

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

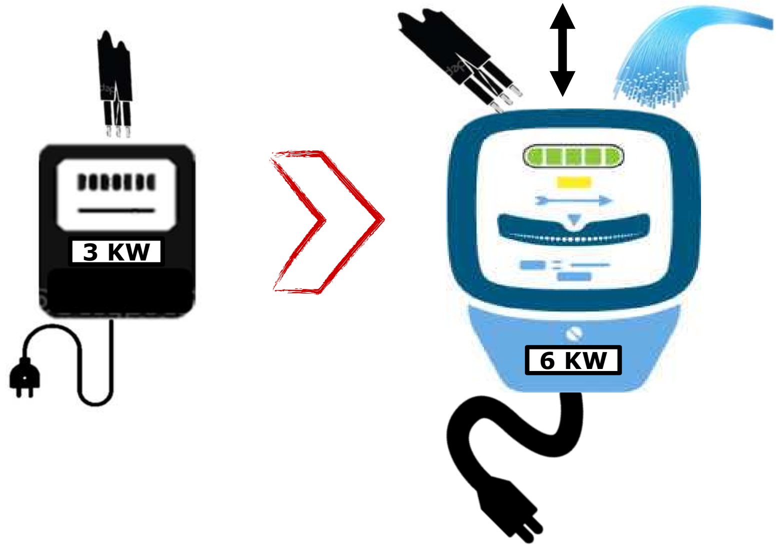
Key initiatives included in Plan

- **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**

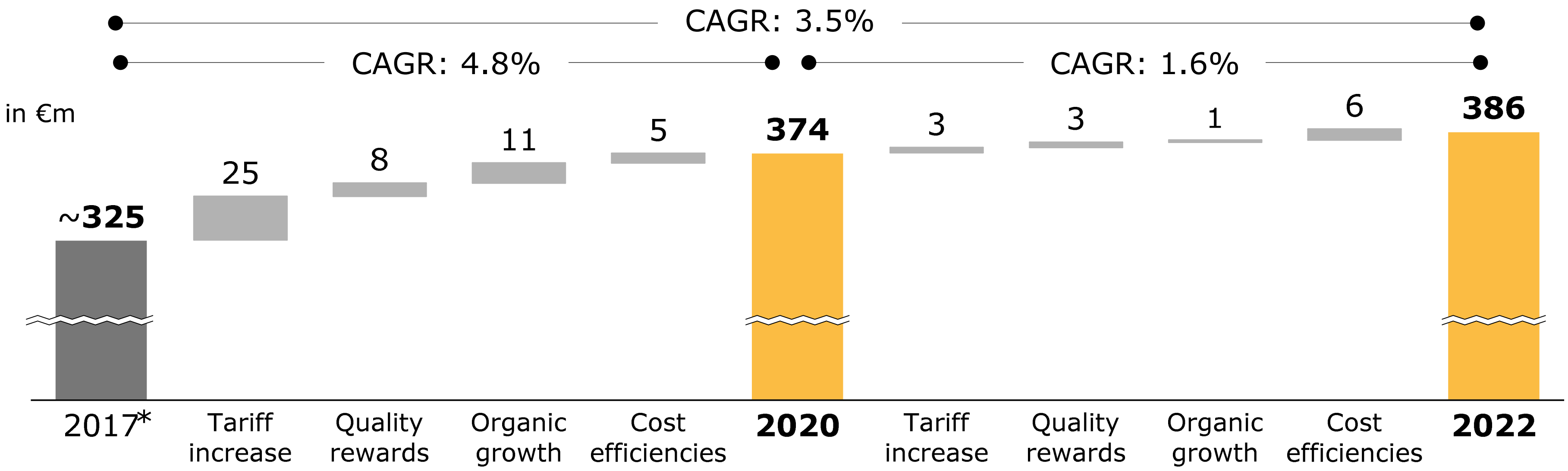
1m 2G Smart Meters



ENERGY INFRASTRUCTURE

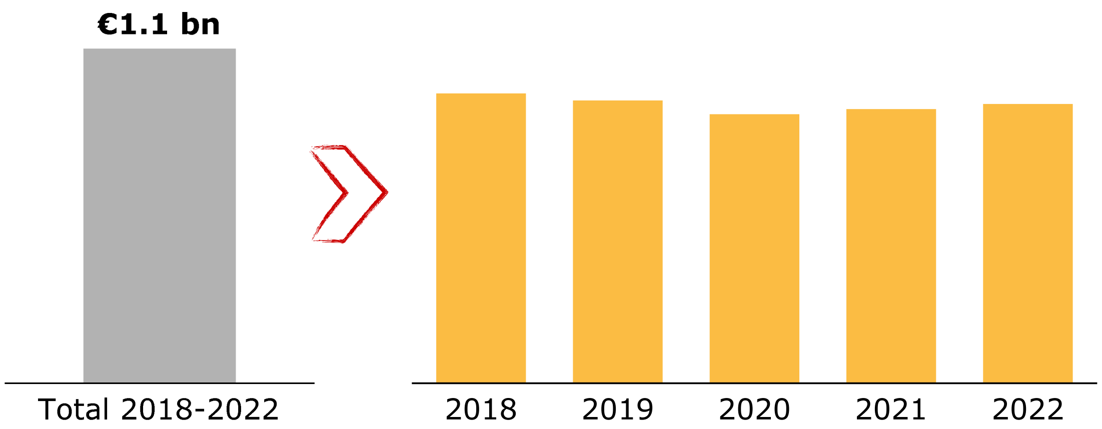
EBITDA UP 20% AND INVESTMENT OF €1.1BN

EBITDA



INVESTMENT 2018-2022

CUMULATIVE | **DISTRIBUTION OVER YEARS**



Key numbers

- 1m Smart Meters
- 1,500 km of fibre
- 2,500 km of upgraded LV/MV
- Automation and remote control systems for Secondary Sub-stations, Public Lighting,...

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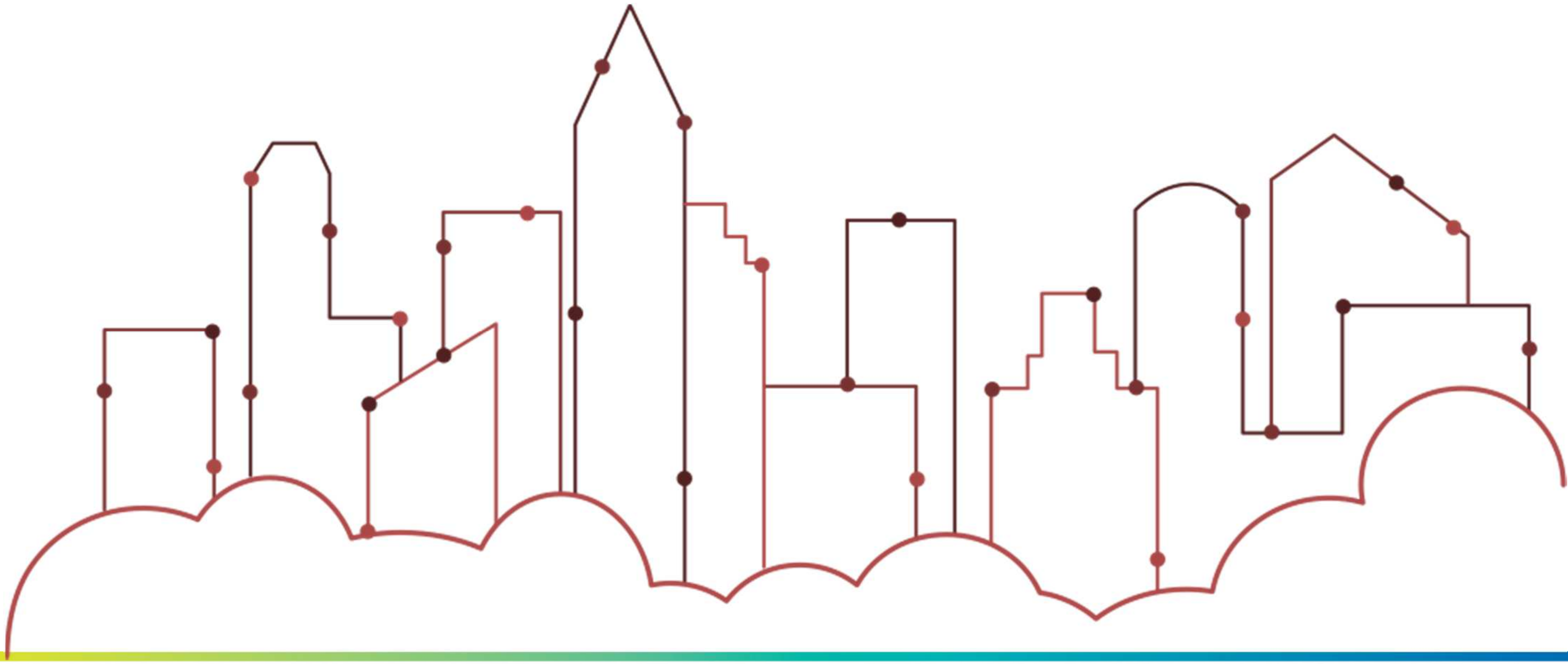
COMMERCIAL AND TRADING

Key Targets for the Segment



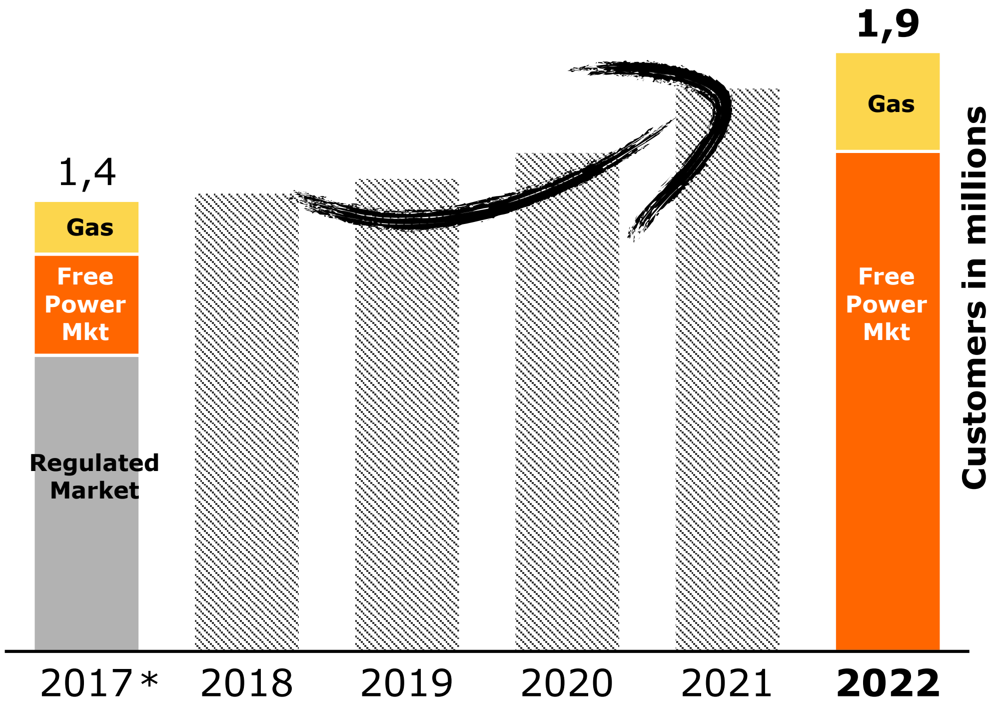
COMMERCIAL AND TRADING

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**



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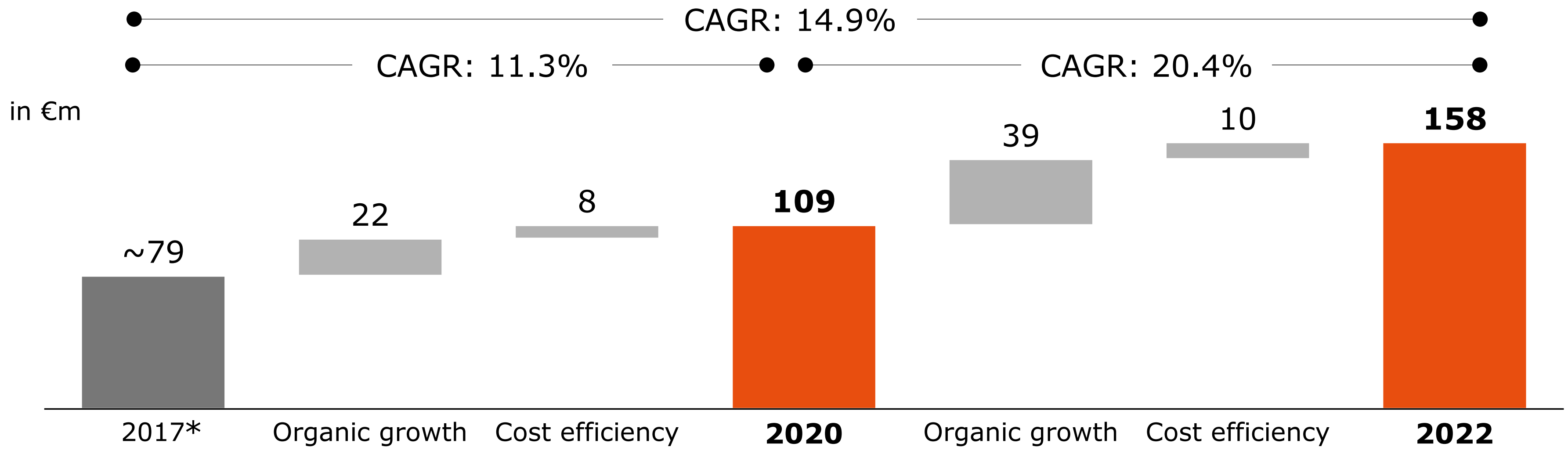
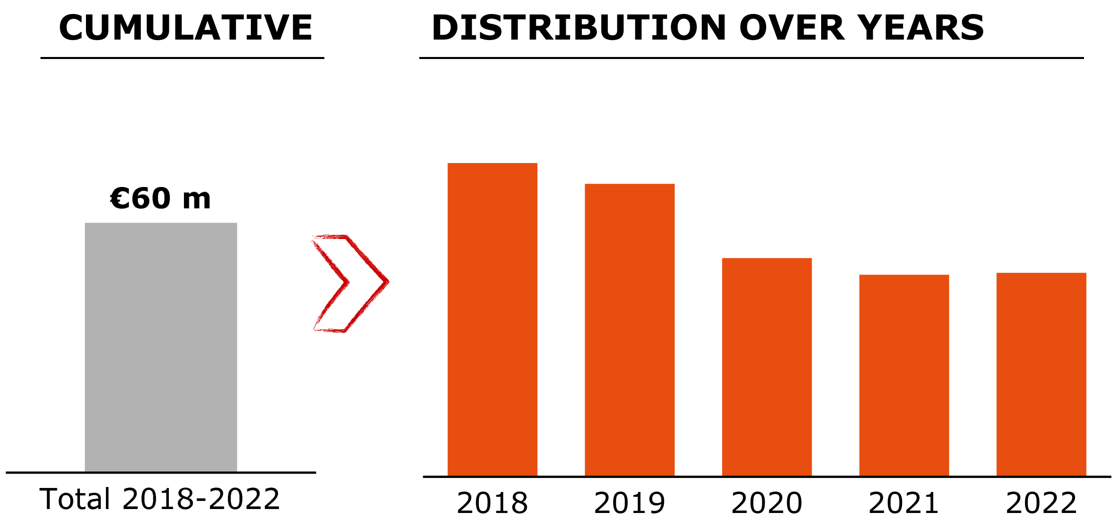
COMMERCIAL AND TRADING

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

EBITDA



INVESTMENT 2018-2022



- **Digital transformation of "end-to-end" processes**
  - Activation
  - Customer Care
  - ...
- Completion of development of **Free Market Systems**

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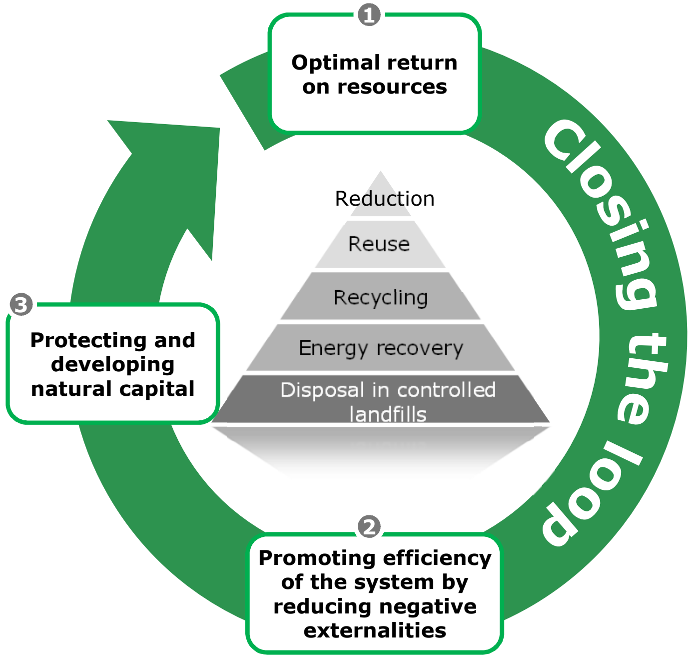
ENVIRONMENT

Key Targets for the Segment

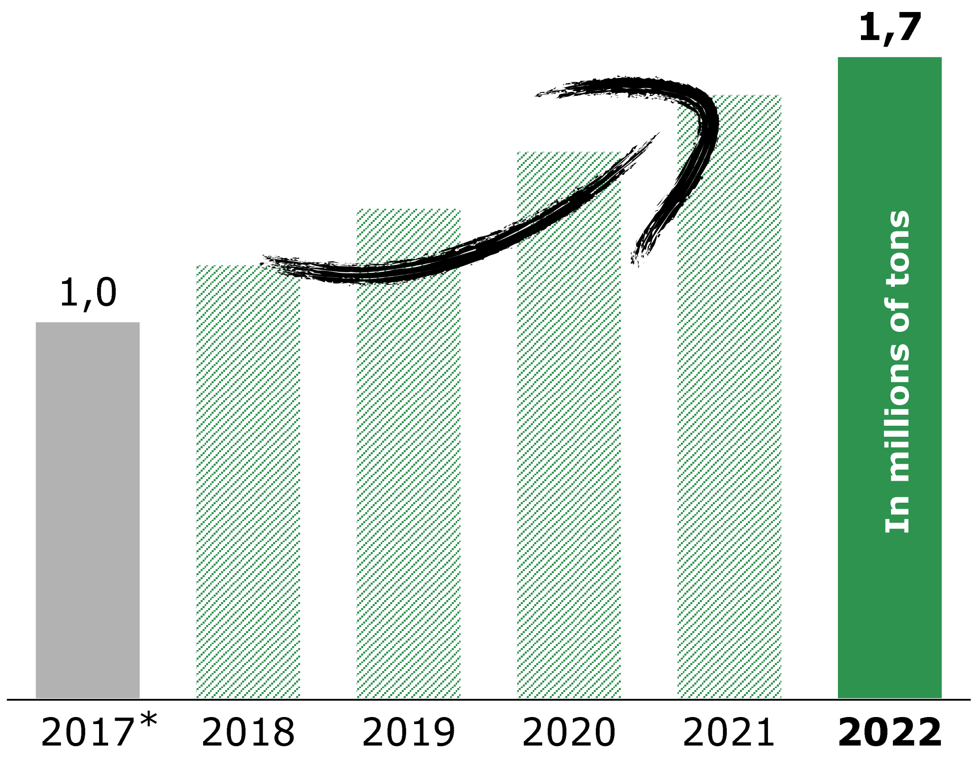
70% growth in waste treated by end of Plan

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 Europoean Parliament (15 Mar 2017)

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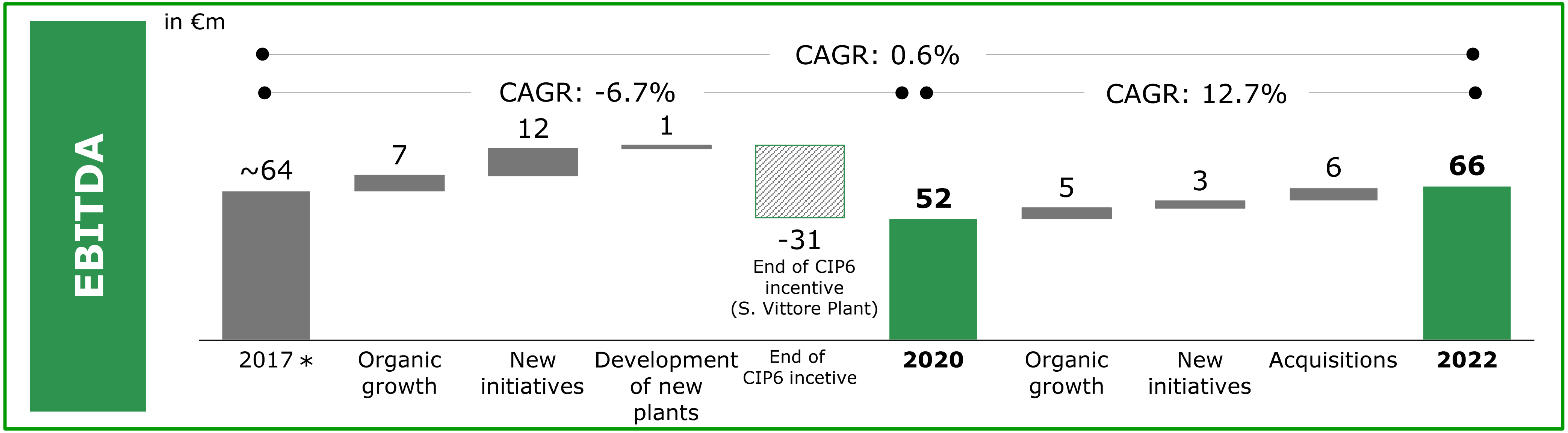
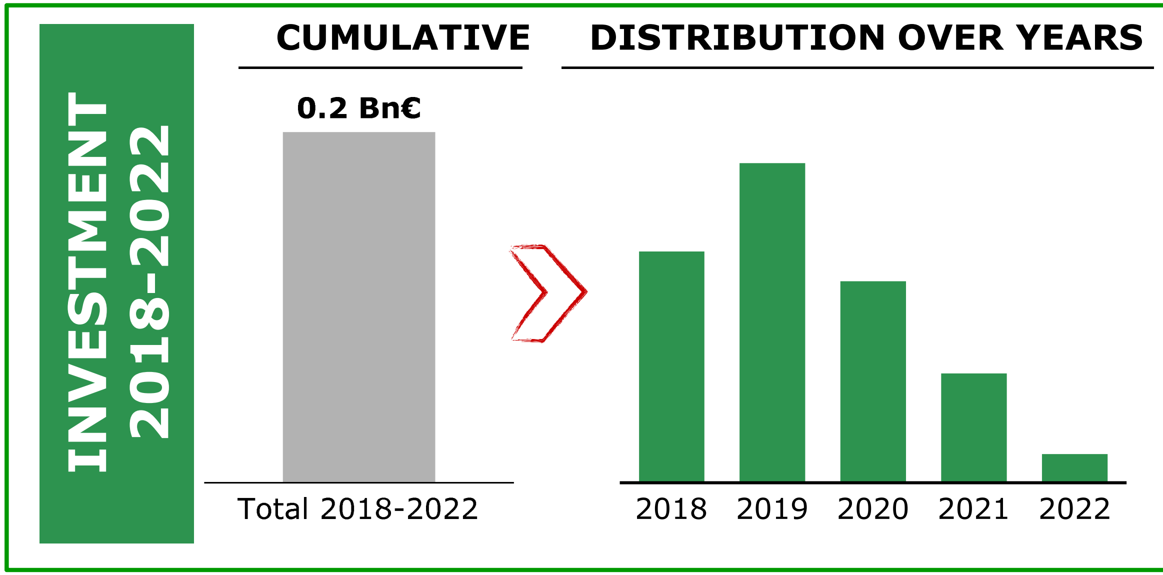
Expiry of CIP6 offset by new initiatives and selective acquisitions





- **200 ktons** of additional capacity for existing composting plants
- **250 ktons on developing** new initiatives in composting and materials sorting
- **220 ktons linked to acquisition of plants** with impact on earnings post-2020

*Guidance 2017

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)	*Not calculated*	**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**	

Potential UPSIDE in 2020 of between €100m and €300m

OPPORTUNITY

WATER

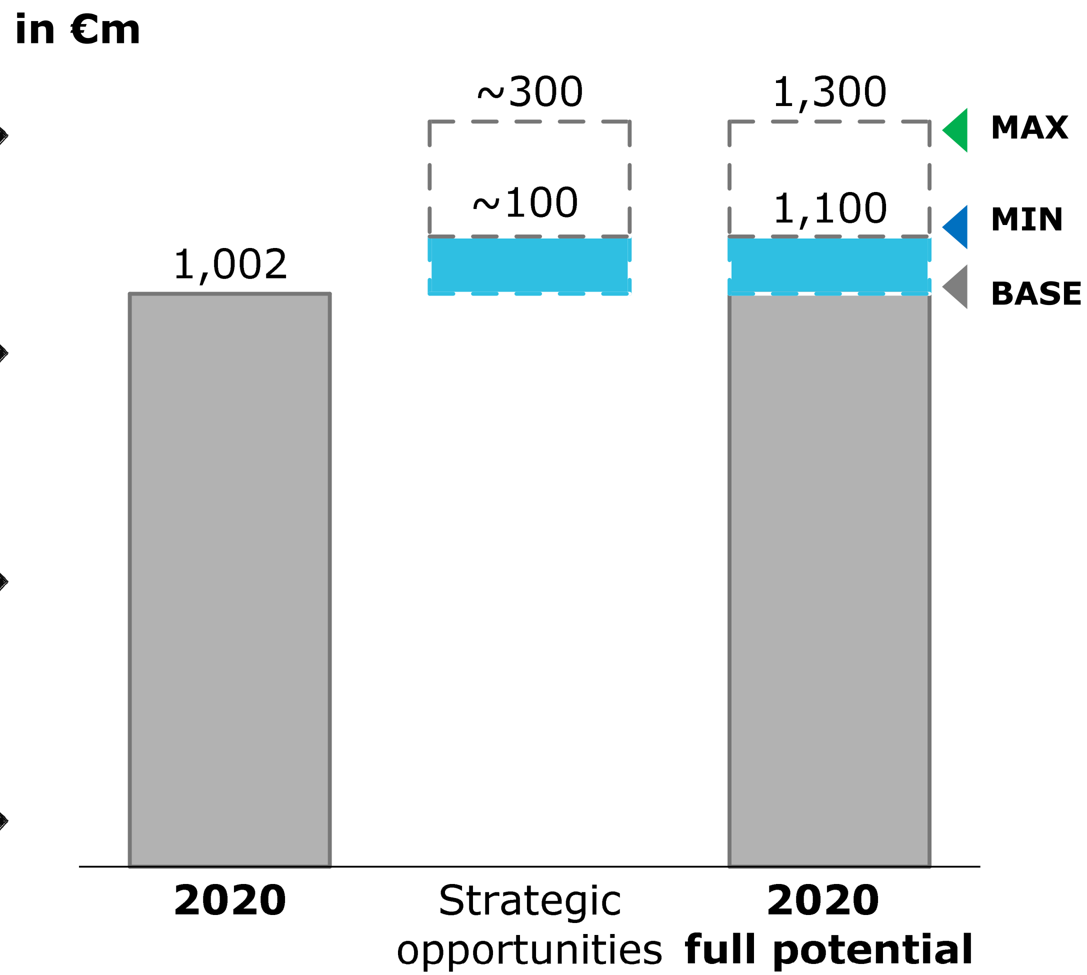
CONSOLIDATION OF WATER SERVICE in areas in which already present (Tuscany, Campania, Lazio)

Entry into **GAS DISTRIBUTION** business

Development of **SMART ENERGY SERVICES**

Consolidation of position in **WASTE TREATMENT** (Composting)

POTENTIAL UPSIDE FOR EBITDA IN 2020



Acea Group
Business Plan 2018-2022

Q&A Session

Borsa Italiana
Milan, 28 November 2017

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	*$/€*	1,14	1,18	1,20	1,10	1,00
Brent	*$/Bbl*	50,00	52,00	53,00	51,64	52,59
PUN	*€/MWh*	48,79	51,42	52,63	55,19	56,72
EU-ETS	*€/tons CO2*	8,19	10,81	13,43	16,05	18,67
CIP6	*€/MWh*	218,63	218,64			

9M 2017 Results

acea

9M 2017 financial highlights

(€m)	9M 2017 a	9M 2016 b	% change a/b	9M 2017 adjusted* c	9M 2016 adjusted* d	% change 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).*

EBITDA and key quantitative data

9M 2017 financial highlights

Water

EBITDA main drivers

- ↑ Acea ATO2: +€18.8m
- ↑ Acea ATO5: +€0.8m
- ↑ Change in scope of consolidation
- ↓ Companies consolidated using equity method -€3.1m

(€m)	9M 17	9M 16 pro-forma	% change
EBITDA	**264.0**	**248.9**	***+6.1%***
of which: Profit/(Loss) on investments consolidated under IFRS 11	*16.0*	*19.1*	*-16.2%*
Capex*	**183.7**	**149.2**	***+23.1%***

Key quantitative data	9M 17	9M 16 pro-forma
Total volume of water sold (Mm^3)	**316**	**316**
Sludge disposed of (Ktons)	**107**	**129**

	9M 17	9M 16 pro-forma	Change
Average number of employees	**1,785**	**1,818**	**-33**

** This is primarily a question of non-routine maintenance and the upgrade, modernisation and expansion of the water and sewerage network and treatment plants, including initiatives designed to ease water supply pressures*

EBITDA and Key quantitative data

9M 2017 financial highlights

Energy Infrastructure

EBITDA main drivers

- Distribution +€35.5m (adjusted)
- Generation +€4.4m (mainly to increase hydroelectric production)
- Public Lighting – LED plan launched in June 2016 (+€1.9 m)

(€m)	9M 17 (a)	9M 16 pro-forma (b)	9M 16 adjusted* (c)	% change (a/b)	% change (a/c)
EBITDA	**239.0**	**273.7**	**197.2**	***-12.7%***	***+21.2%***
- Distribution	207.8	248.8	172.3	*-16.5%*	*+20.6%*
- Generation	28.5	24.1	24.1	*+18.3%*	*+18.3%*
- Public Lighting	2.7	0.8	0.8	*n/s*	*n/s*
Capex	**148.5**	**142.2**		***+4.4%***	

Key quantitative data	9M 17	9M 16 pro-forma
Total electricity distributed (GWh)	**7,604**	**7,594**
Number of end users ('000s)	**1,629**	**1,621**
Total electricity produced (GWh)	**324**	**308**

	9M 17	9M 16 pro-forma	*Change*
Average number of employees	**1,365**	**1,395**	***-30***

**After adjusting for the positive impact of elimination of the regulatory lag (€76.5m)*

EBITDA and Key quantitative data
9M 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: margin decrease

(€m)	9M 17	9M 16 pro-forma	*% change*
EBITDA	**57.6**	**71.0**	***-18.9%****
Capex	**11.2**	**17.1**	***-34.5%***

	9M 17	9M 16 pro-forma	*Change*
Average number of employees	**474**	**474**	**-**

Key quantitative data	9M 17	9M 16 pro-forma
Total Electricity sold (GWh)	**5,179**	**6,271**
Enhanced Protection Market	1,984	*2,036*
Free Market	3,195	*4,235*
Number of electricity customers (‘000s)	**1,221**	***1,238***
Enhanced Protection Market	904	*946*
Free Market	317	*292*
Total Gas sold (Mm^3)	**65**	**77**
Number of gas customers (‘000s)	**167**	**148**

** EBITDA for 9M 2017 is down by approx. 6% compared with 9M 2016 which does not include revenue linked to impact of contract for the commercialisation of smart meters*

EBITDA and Key quantitative data

9M 2017 financial highlights

Environment

EBITDA main drivers

- Greater quantity of electricity sold by the San Vittore plant
- Aprilia composting plant fully operational.
- Change in scope of consolidation (Acque Industriali and Iseco)

(€m)	9M 17	9M 16	% change
EBITDA	**46.8**	**42.0**	***+11.4%***
Capex	**11.9**	**30.3**	***-60.7%***

Key quantitative data	9M 17	9M 16
Treatment and disposal* (‘000s of tonnes)	**819**	**607**
WTE electricity produced (GWh)	**264**	**208**

	9M 17	9M 16	*Change*
Average number of employees	**353**	**236**	**+117**

*Includes ash disposed of

EBITDA and Key quantitative data

9M 2017 financial highlights

Overseas

EBITDA main drivers

- Line-by-line consolidation Aguas de San Pedro: +€9.2m

(€m)	9M 17	9M 16	% change
EBITDA	11.1	0.8	*n/s*
Capex	3.5	0.4	*n/s*

	9M 17	9M 16	Change
Average number of employees	593	252	*+341*

Engineering and Services

EBITDA main drivers

- Revenue growth due to increased turnover
- Transfer of Facility Management services from Acea
- Line-by-line consolidation of TWS

(€m)	9M 17	9M 16	% change
EBITDA	14.6	7.7	*+89.6%*
Capex	0.5	0.8	*-37.5%*

	9M 17	9M 16	% change
Average number of employees	317	171	*+146*

Holding

EBITDA main drivers

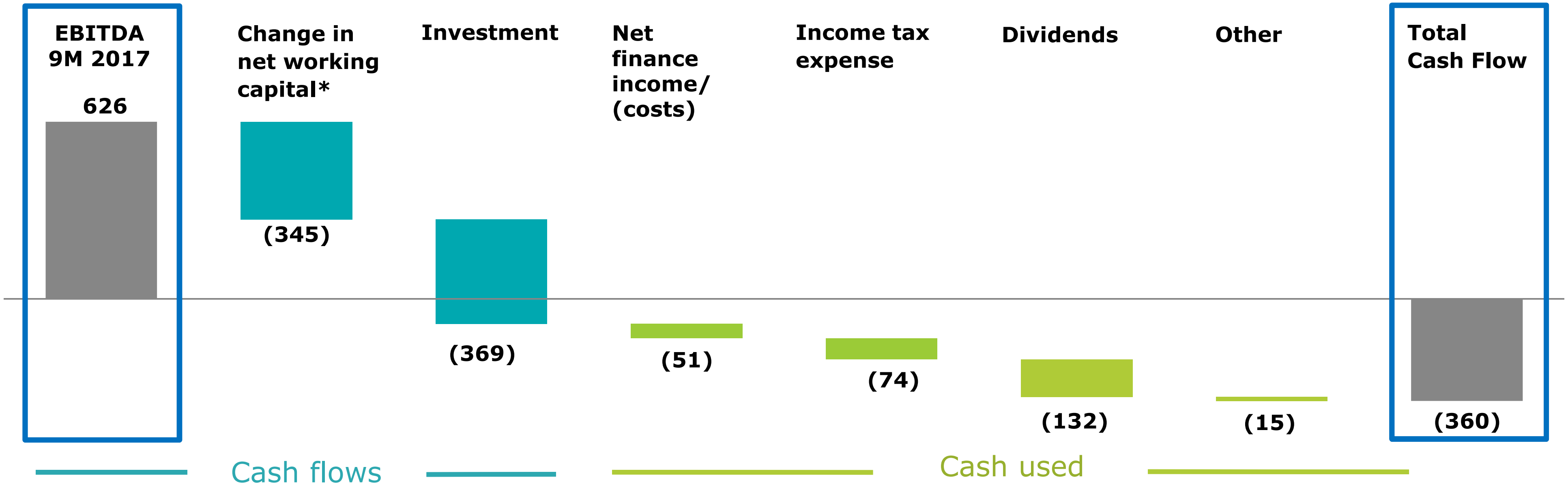
- Transfer of Facility Management services to Engineering and Services segment

(€m)		9M 16	% change
EBITDA	-7.3	2.0	*n/s*
Capex	9.6	6.9	*+39.1%*

	9M 17	9M 16	% change
Average number of employees		625	*-38*

Cash flow

CASH FLOW ANALYSIS (€m)	9M 17	9M 16
EBITDA	626	**646**
Change in net working capital	(345)	(182)
Investment	(369)	(349)
Free Cash Flow	**(88)**	**115**
Net finance income/(costs)	(51)	(61)
Income tax expense	(74)	(51)
Dividends	(132)	(107)
Other	(15)	(25)
Total Cash Flow	**(360)**	**(129)**
Net Debt at beginning of period	**2,127**	**2,010**
Net Debt at end of period	**2,487**	**2,139**



** Before impairment losses on receivables*

Net Debt

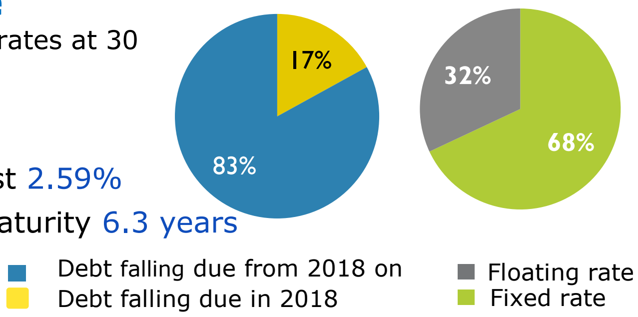
(€m)	30 Sept. 2017 (a)	31 Dec. 2016 (b)	30 Sept. 2016 (c)	*Change (a-b)*	*Change (a-c)*
NET DEBT	**2,487.3**	**2,126.9**	**2,138.7**	***360.4***	***348.6***
Medium/Long-term	2,475.9	2,743.1	2,609.6	*(267.2)*	*(133.7)*
Short-term	11.4	(616.2)	(470.9)	*627.6*	*482.3*
Adjusted NET DEBT*	**2,428.3**	**2,126.9**	**2,138.7**	***301.4***	***289.6***

NET DEBT/ EQUITY 30 Sept 2017	NET DEBT/ EQUITY 31 Dec 2016
1.4x	1.2x

Debt structure

(maturity and interest rates at 30 Sept 2017)

- Fixed rate 68%
- Average overall cost 2.59%
- Average term to maturity 6.3 years



Rating

FitchRatings	MOODY'S
BBB+	**Baa2**
Stable Outlook	*Stable Outlook*

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

1H 2017 Results

H1 2017 financial highlights

(€m)	H1 2016 a	H1 2017 b	% change b/a	H1 2016 adjusted* c	H1 2017 adjusted* d	% change 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 H1 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 H1 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.*

2016 Results

2016 financial highlights

(€m)	2015	2016*	Change %
Consolidated revenue	**2,917.3**	**2,832.4**	***-2.9%***
EBITDA	**732.0**	**896.3****	***+22.4%***
EBIT	**386.5**	**525.9**	***+36.1%***
Net profit/(loss)	**181.5**	**272.5**	***+50.1%***
Non-controlling interests	6.6	10.2	*+54.5%*
Group net profit/(loss)	**175.0**	**262.3**	***+49.9%***
Dividend per share (€)	**0.50**	**0.62**	***+24.0%***
Capex	**428.9**	**530.7**	***+23.7%***

**Positive impact for accounting for Resolution 654/2015 and negative impact of repurchase of portion of bonds in issue*

***€785m adjusted for accounting for Resolution 654/2015*

(€m)	31 Dec 2015 (a)	30 Sept 2016 (b)	31 Dec 2016 (c)	Change (c-a)	Change (c-b)
NET DEBT	**2,010.1**	**2,138.7**	**2,126.9**	***116.8***	***(11.8)***
Equity	**1,596.1**	**1,682.1**	**1,757.9**	***161.8***	***75.8***
Invested Capital	**3,606.2**	**3,820.8**	**3,884.8**	***278.6***	***64.0***

Regulatory framework

- Water

- Electricity distribution

Water regulatory framework

REGULATORY PERIOD: 2016-2019 (4 YEARS)

AEEGSI Resolution: 664/2015 Water Tariff Regime for the second regulatory period (2016-2019).

The applicable regulations are broadly based on a matrix chart with 6 different quadrants relating to: 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); 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** of the RAB and of **endogenous opex***. The cost of debt and tax expense may be reviewed every two years in the event of "significant changes".
- Allowed revenues are based on **full cost recovery** subject to efficiency and capped in terms of tariff growth.
- **Fixed annual maximum tariff increases**, ranging from 5.5% to 9%, different for each of the 6 quadrants assigned at Local Authority Level (the *EGA* or Concession Authority).
- **Application of a tariff multiplier has been confirmed.**
- A **system of quality performance rewards and penalties has been introduced**. The **reward component is excluded from any tariff caps**.
- The **"sharing" mechanism has been confirmed**, based on a matrix that penalises the least efficient operators.
- The mechanism for allowing for a portion of **late payment costs** has been defined (80% of the costs effectively incurred by operators), taking into account the varying impact of this problem throughout the country (**North: 2.1% of turnover; Central: 3.8% of turnover; South: 7.1% of turnover**) 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 integration of operations and/or significant improvements in service quality are also allowed for**.
- The **cost of debt** has been set at **2.8%** (compared with 2% for the electricity sector).
- 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).
- The **1% time-lag for capex** has been confirmed.

Based on the provisions in the Resolution, the overall return for the Water sector is equal to 5.34% (compared with 6.1% for the regulatory period 2014-2015 and 6.4% for the period 2012-2013), with an additional 1% extra return for investments made from 2014.

* *Endogenous opex, set equal to the corresponding tariff component for the year 2014 (eligible under the MTI) properly inflated annually*

** *Upgradeable opex, related to specific exogenous costs updated every year*

Water regulatory framework

INTRODUCTION OF A COMPONENT LINKED TO QUALITY FACTOR

AEEGSI **Resolution 655/2015** deals with the **regulation of the contractual quality of integrated water services**: the minimum quality standards established by the regulator came into effect from 1 July 2016, becoming fully effective from 1 January 2017.
Resolution 655/2015 has established country-wide minimum contractual quality standards. In the case of standards defined as specific, the operator is required to pay automatic compensation to end users should the standards not be met.
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.
Art. 32 of Annex A to Resolution 664/2015 grants concession authorities the option, should the operator achieve higher quality standards than those set by Resolution 655/2015, of awarding the operator a bonus with regard to contractual quality (for which a cap has been established).

The **incentive mechanisms, for the improvement of the contractual and technical quality of the service, introduce two different mechanisms of rewards/penalties**.

1. The first one involves a reward for performance improvements compared to the minimum standards defined by the national Authority.
   This mechanism is defined with the local Authority and the maximum amount of the bonus is a function of the operator's efficiency in comparison to 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 national Authority at €109 per customer. **The reward is not subject to the tariff increase cap.**
2. The second mechanism, which is valid throughout the entire Country, is supplied by a specific tariff component, mandatory for all operators, to be allocated to a specific fund for quality. On first being introduced, this mechanism promotes and rewards best practices and improved contractual quality levels with respect to the standards defined in the resolution on contractual quality (655/2015/R/idr).
   Not included in Business Plan targets

Electricity distribution regulatory framework

REGULATION PERIOD: 2016-2023 (8 YEARS)

AEEGSI Resolutions: 654/2015 Tariff general frawork
583/2015 WACC
646/2015 Quality of 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 change in unit volumes consumption
- **Allowed opex** calculated on **2014 costs**.
- **Gradual approach to the extension of asset life**: life for MV and LV lines built after 2007 extended from 30 to 35 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** than the one applied in previous regulatory periods.
- **Quality of service**: stable incentive mechanisms on frequency and duration of interruptions.

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 and for three years (2016-2018) for gas distribution and storage

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.

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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.