“Mediobanca's 4th Italian CEO Conference”

Milan, 27 June 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

APPENDIX

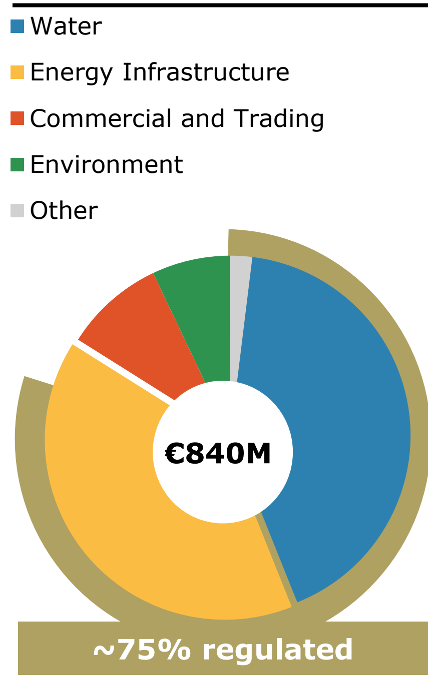
THE ACEA GROUP TODAY

A market LEADING multiutility

FOOTPRINT

LATAM

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**
- **> 224k** 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 June 2018

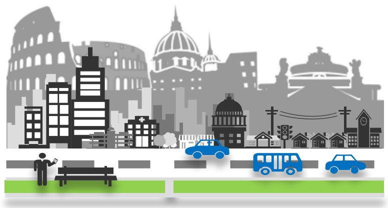
SEGMENT TRENDS expected in the coming years in the Group's core businesses

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

acea
Business Plan 2018-2022

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

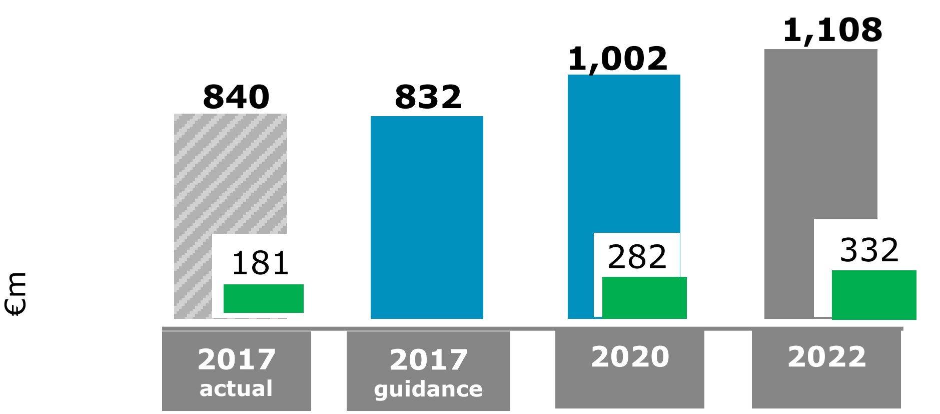
Generational turnover for 300+ FTEs

Strong and sustainable GROWTH

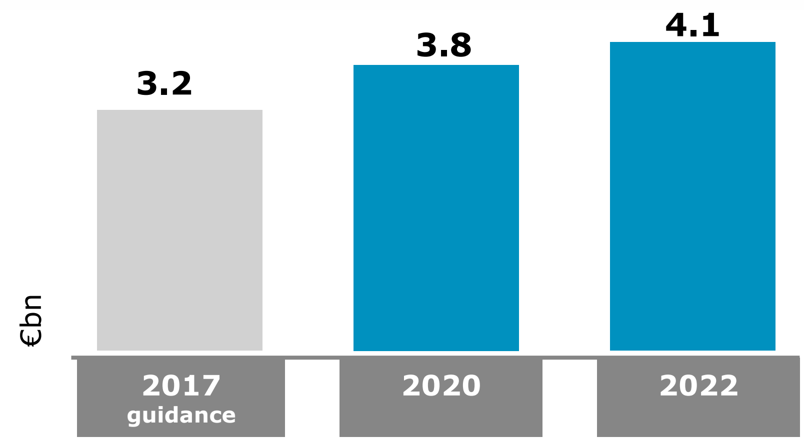
Pre-tax ROIC	2020	2022
	>10%	>10%

EBITDA growth with CAGR +5.9%

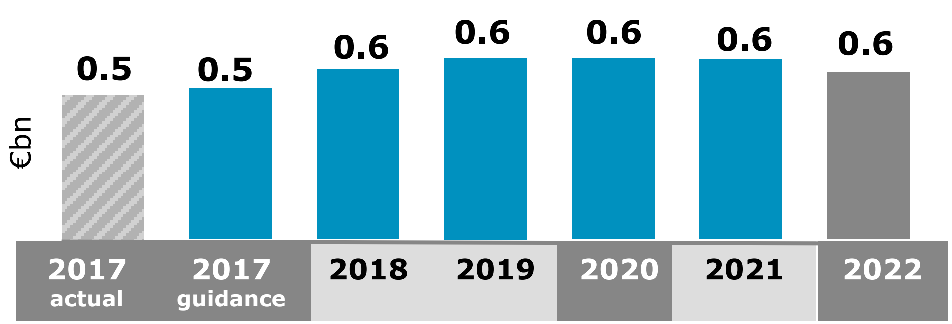
Growth in Net Profit*



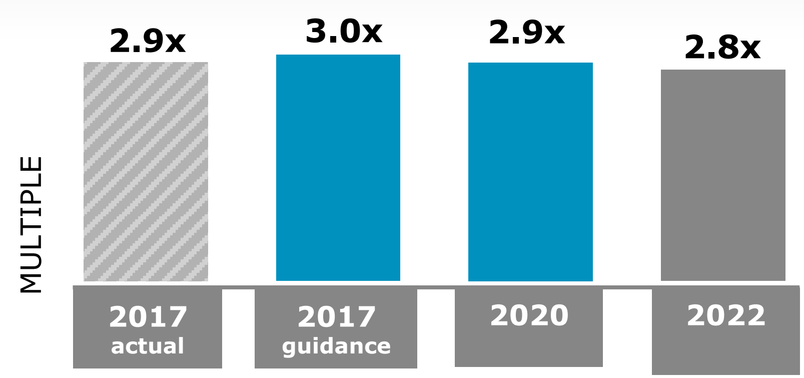
RAB up 25% by 2022



CAPEX of €3.1bn

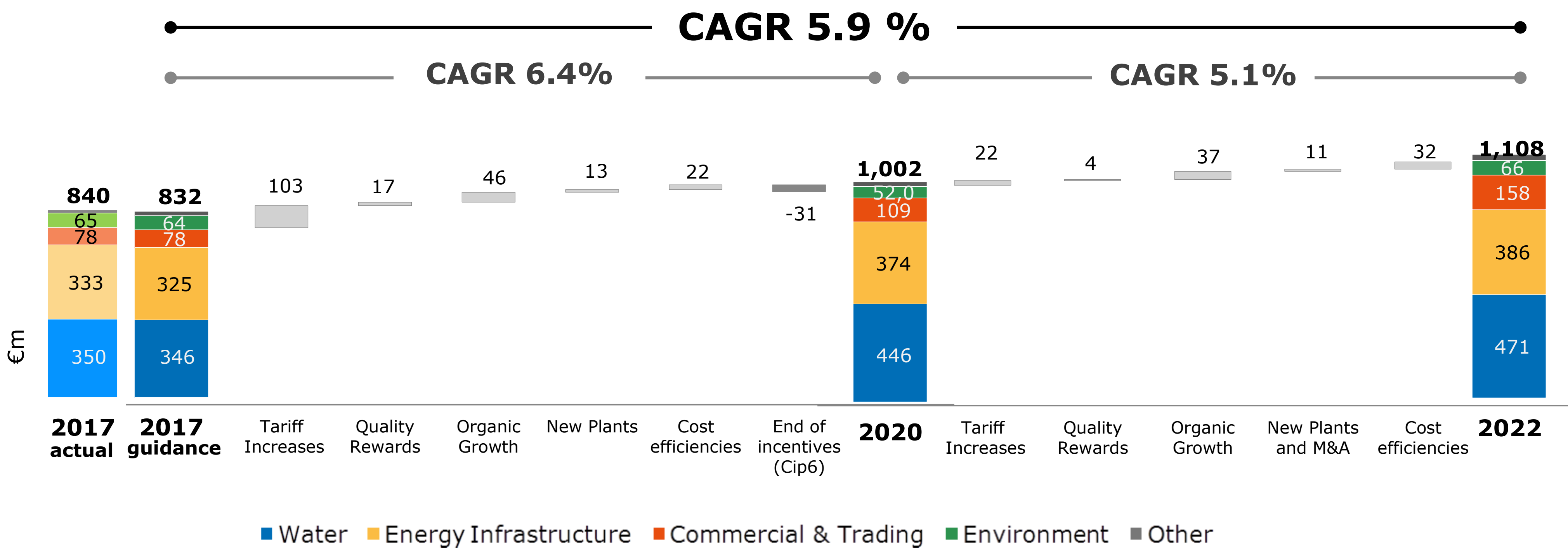


NET DEBT/EBITDA down to 2.8X



* Net profit after non-controlling interests (minorities)

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

More than €3bn of INVESTMENT

STRATEGIC LEVERS

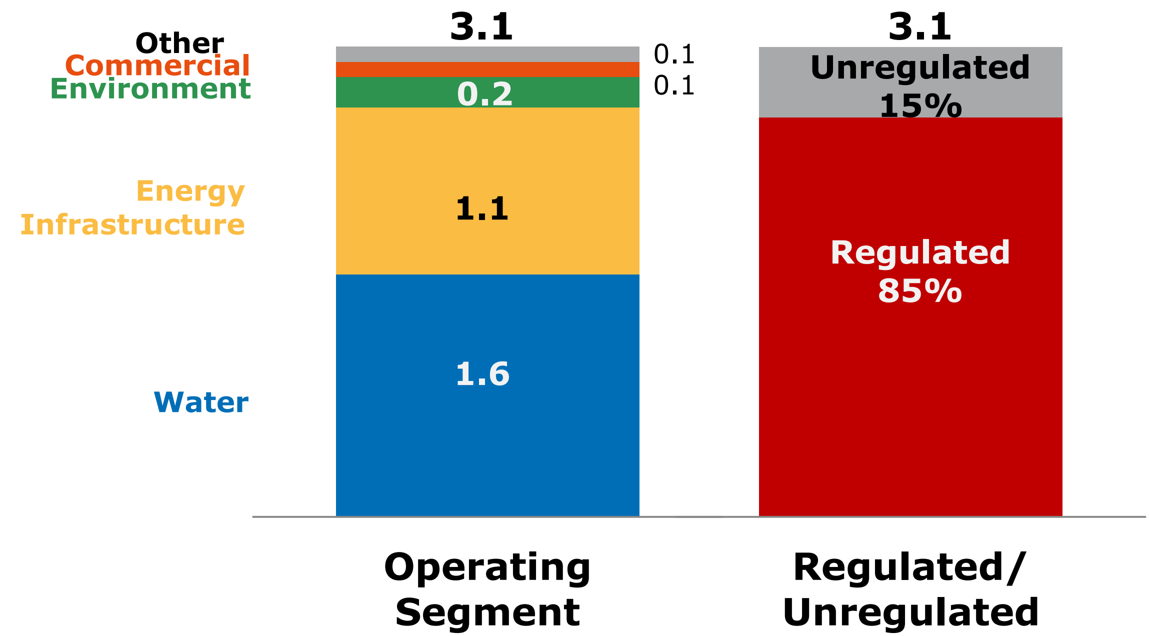
Capex Remix

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)

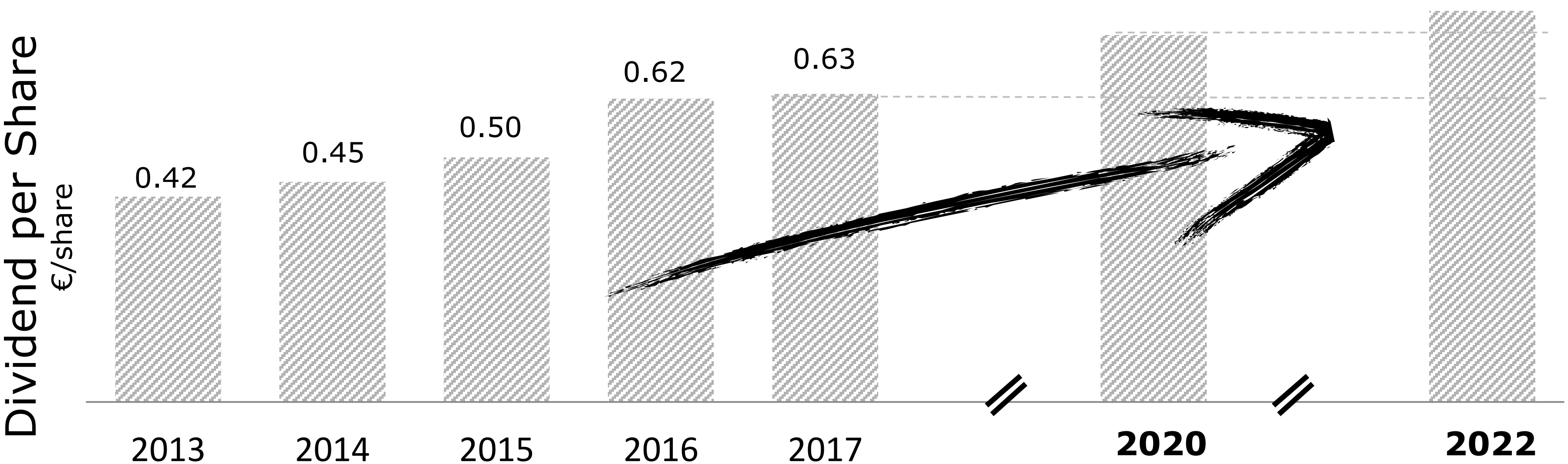
Cuts in CO_2 *(Reduced losses, Purchase of Green Energy, Recovery of Biogas)*	>200 ktons
Reduction in **Water Leaks**	>15 pp
Green Energy for internal use within the Group	500 GWh
Reduction in Risk Rating for electricity grid to boost resilience	-10%
Waste treated according to Circular Economy concept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

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

Situation at 31 Dec. 2017

- Average Maturity **~5.3 yrs**
- Average cost of debt **~2.6%**

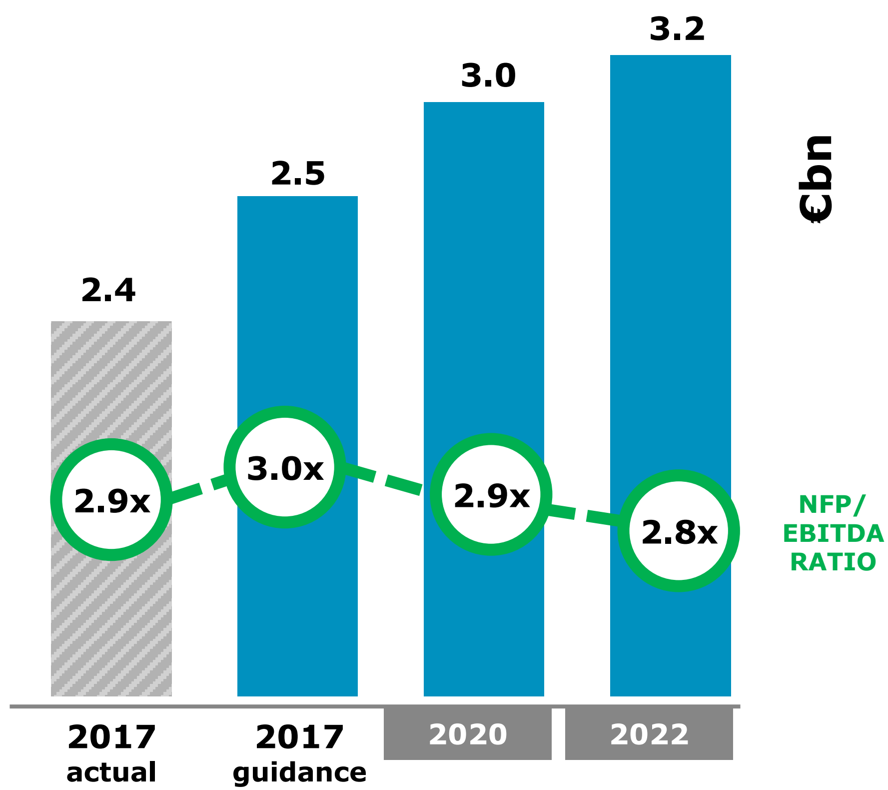
February 2018 – **successful placing** of Euro 1 billion **bonds** overall under the EMTN Programme in two tranches:

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

The "all-in" average cost of debt at 31 March 2018 is 2.27% with an average term to maturity of 5.9 years

Net Debt (NFP)

NFP/EBITDA Ratio



WATER

Key Targets for the Segment

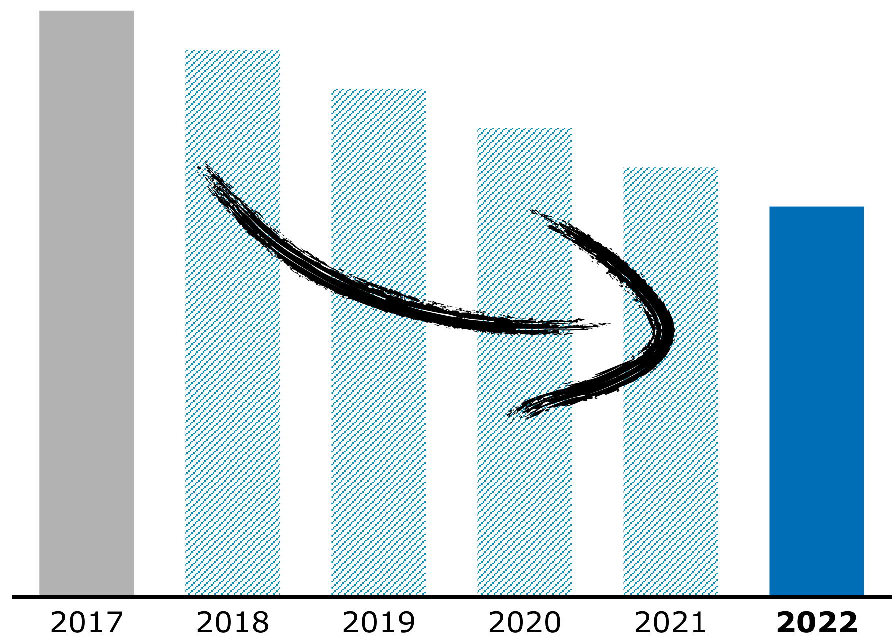
WATER

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**

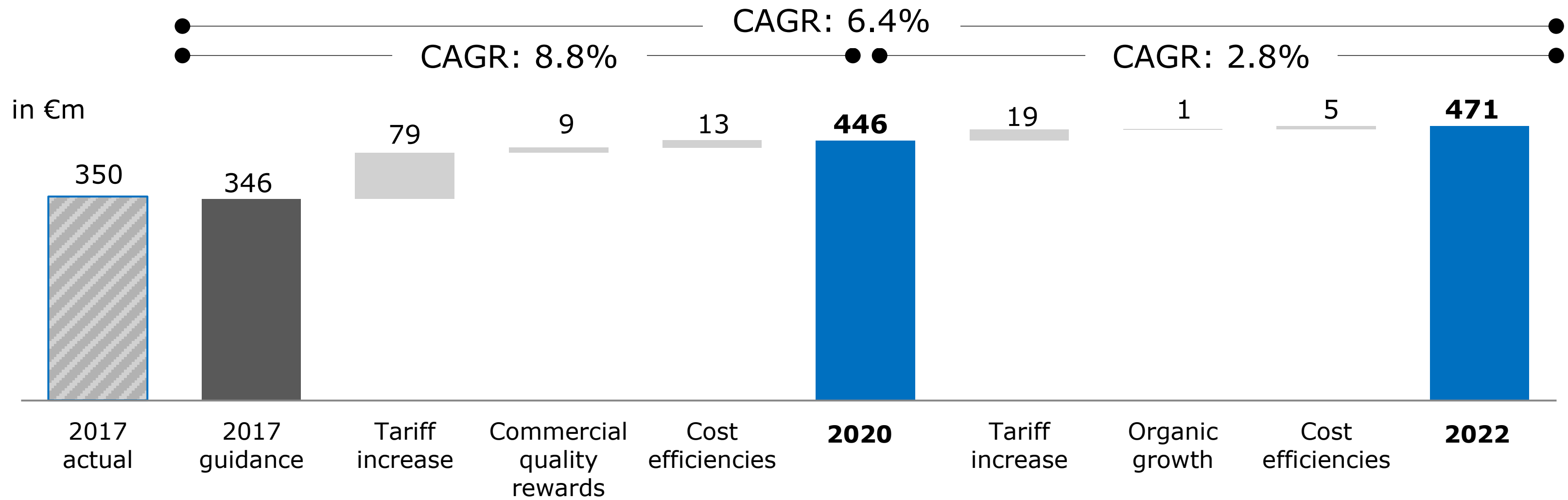
15 pp cut in **Water loss**



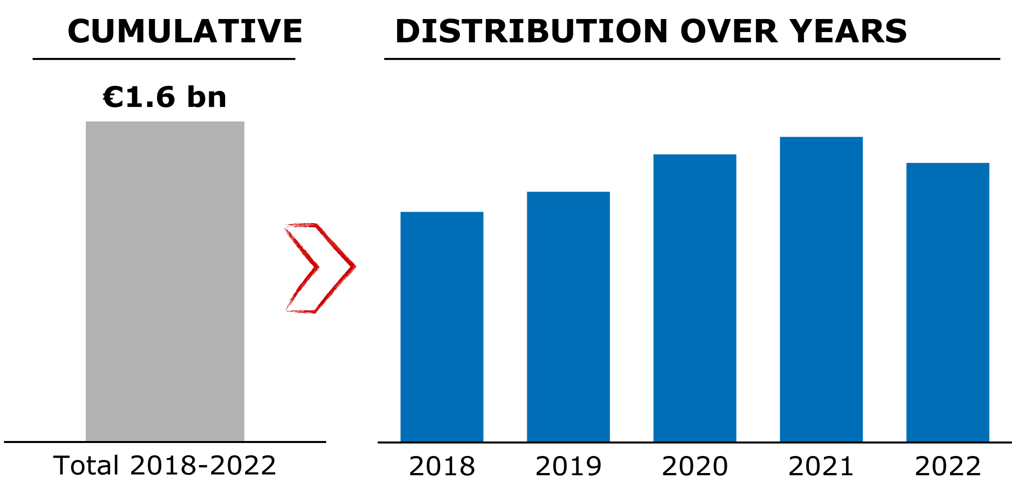
WATER

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

ENERGY INFRASTRUCTURE

Key Targets for the Segment

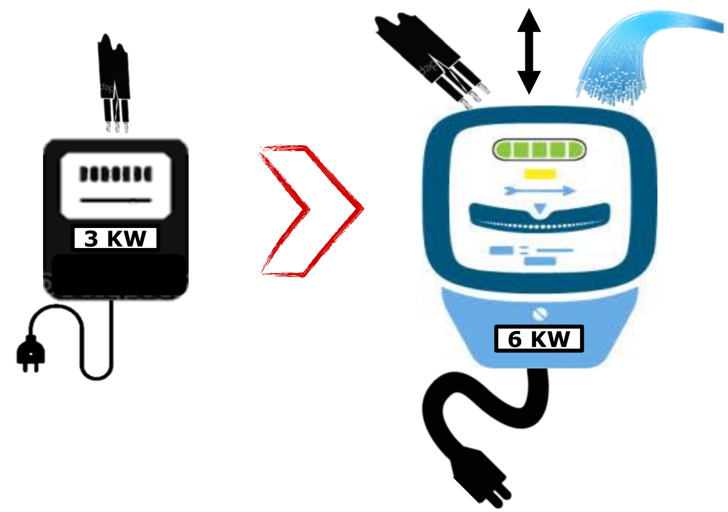
Becoming an advanced DSO to increase network resilience and enable new services

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**

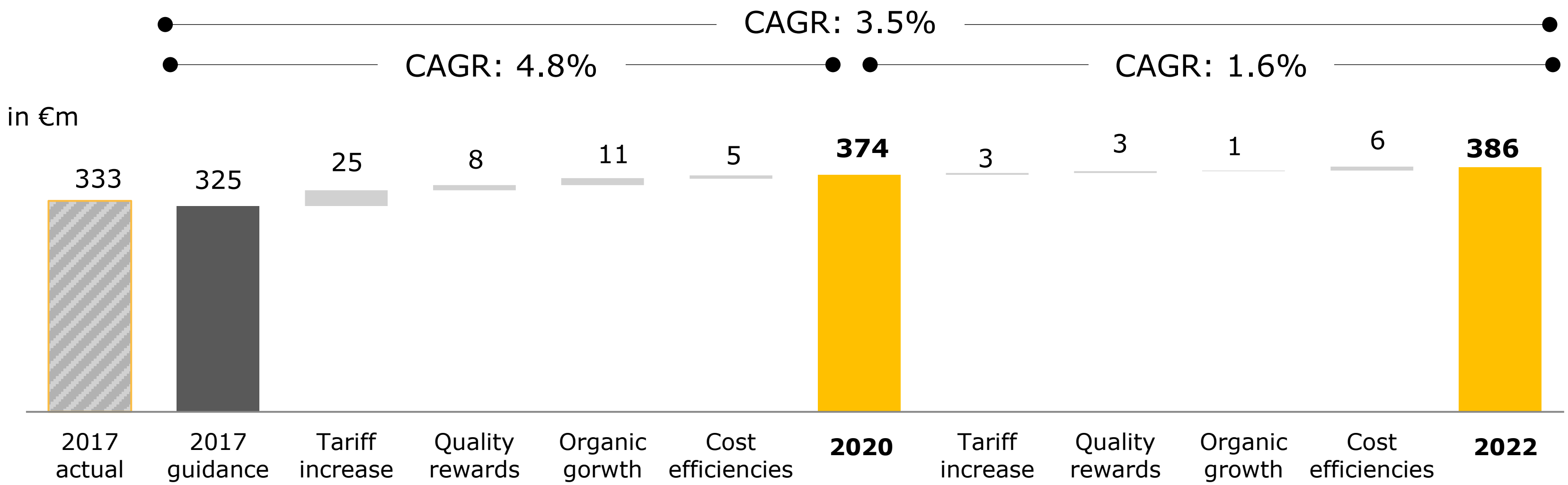
1m 2G Smart Meters



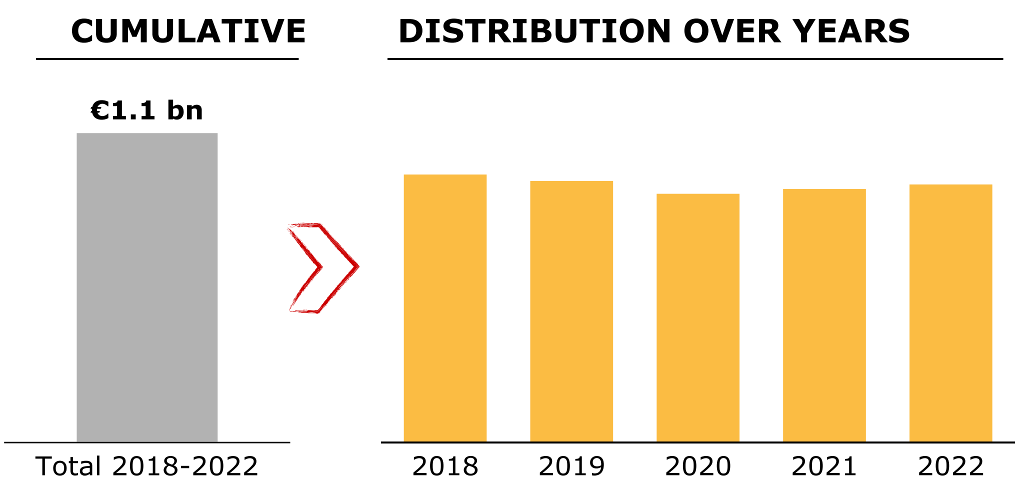
ENERGY INFRASTRUCTURE

EBITDA UP 20% AND INVESTMENT OF €1.1BN

EBITDA



INVESTMENT 2018-2022

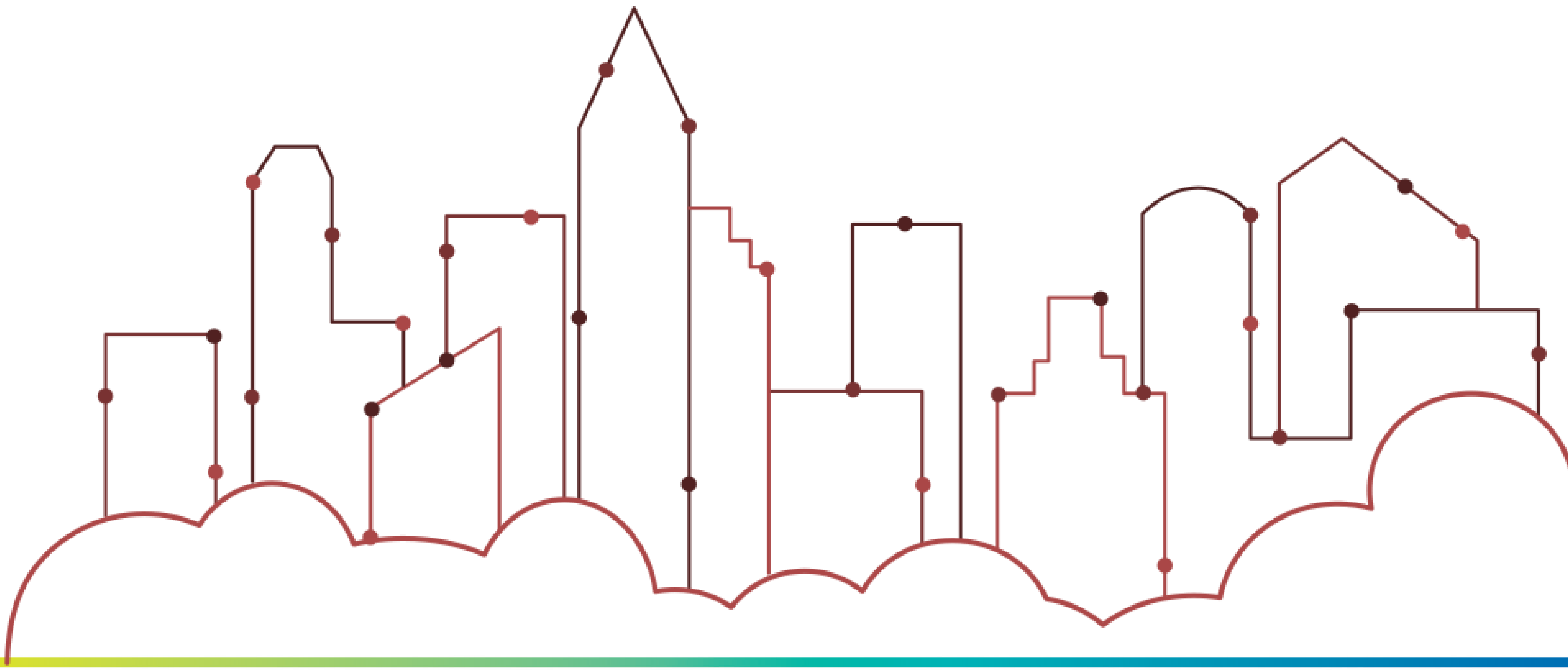


Key numbers

- 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,...

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

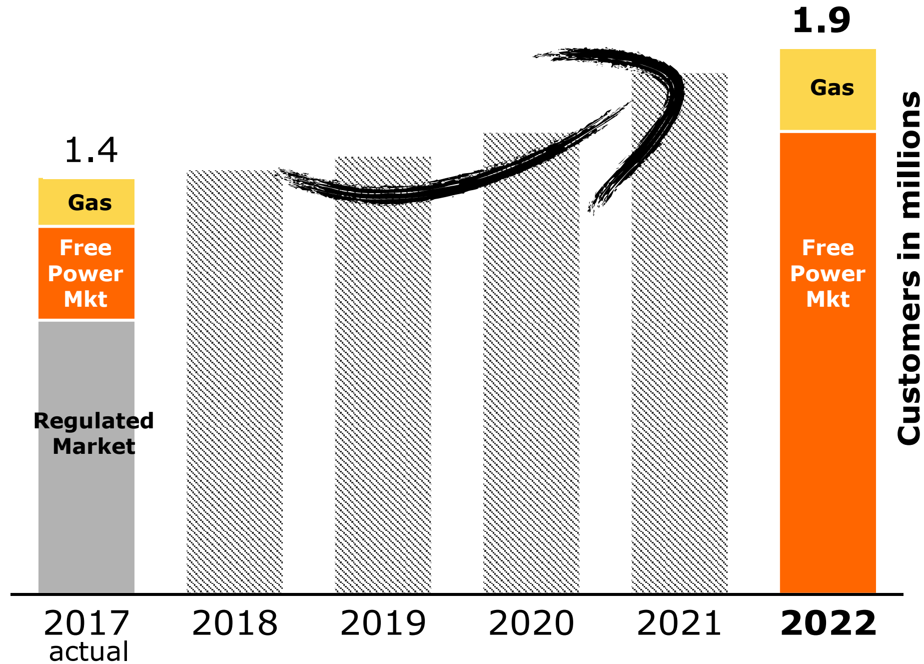
- **Marketing drive** through Digital and Cross Selling channels to play a **leading role in consolidation** (following the phase-out of the enhanced protection market)

- **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

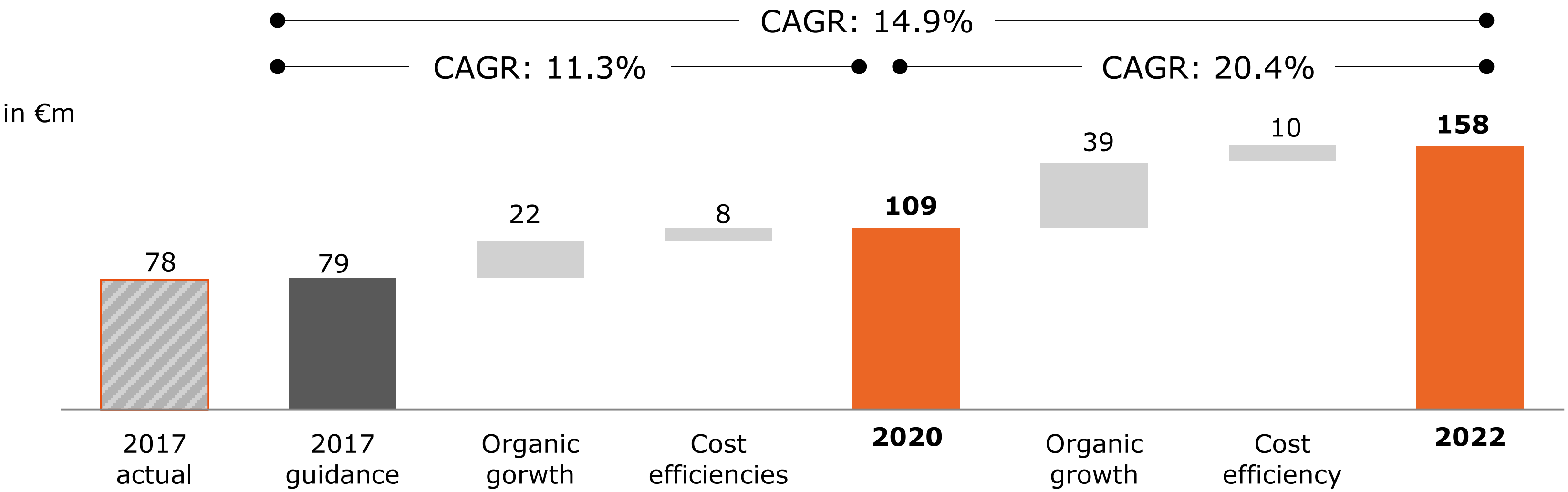
33% growth in

Number of Customers

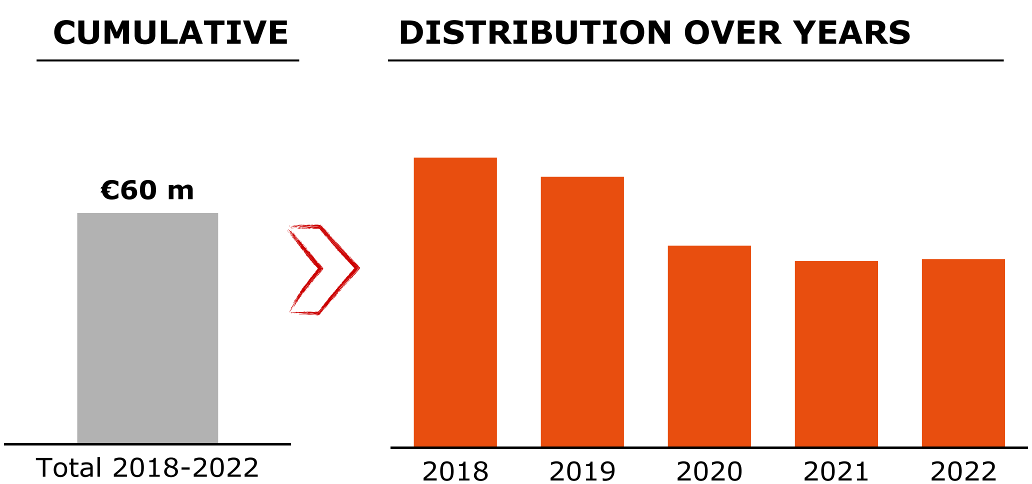


EBITDA to double by 2022 through increase in customer base and performance improvements

EBITDA



INVESTMENT 2018-2022



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

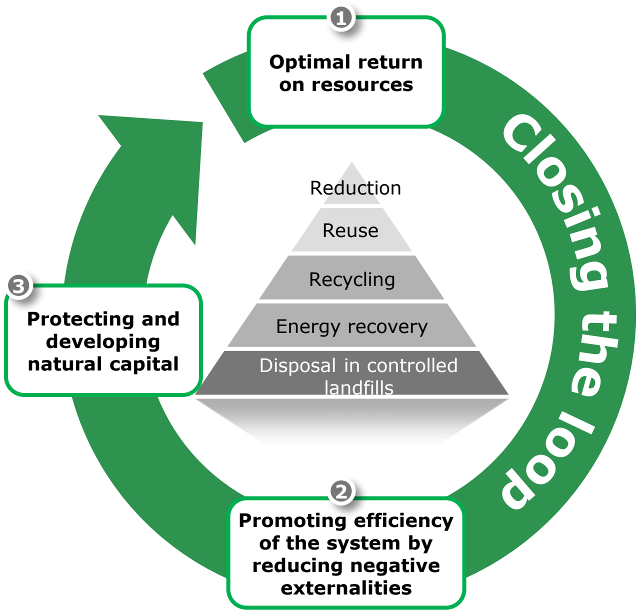
ENVIRONMENT

Key Targets for the Segment

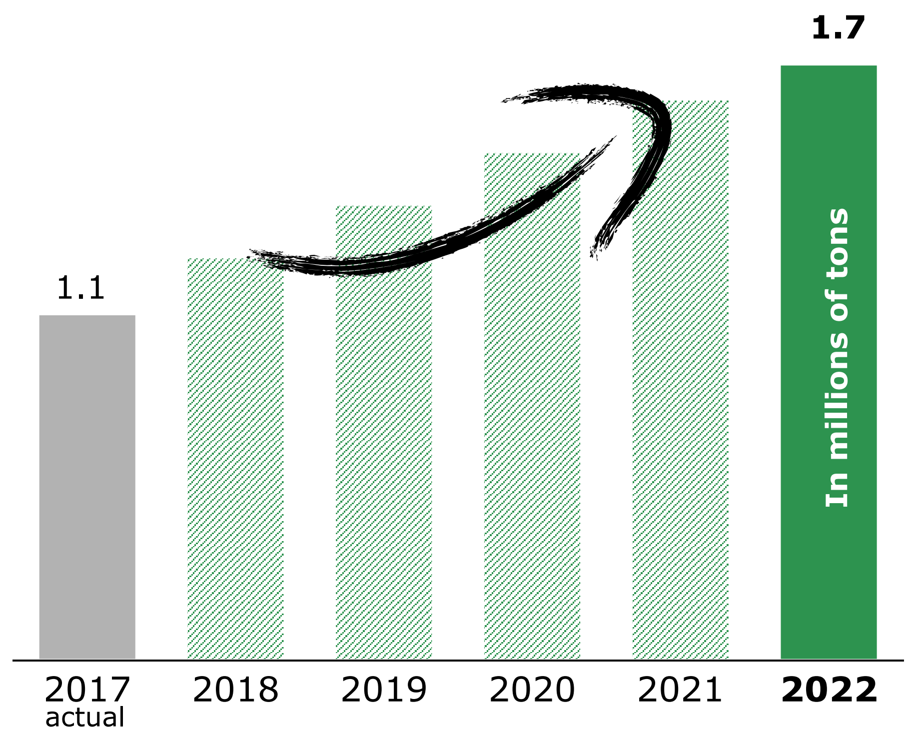
70% growth in waste treated by end of Plan

Key initiatives included in Plan

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



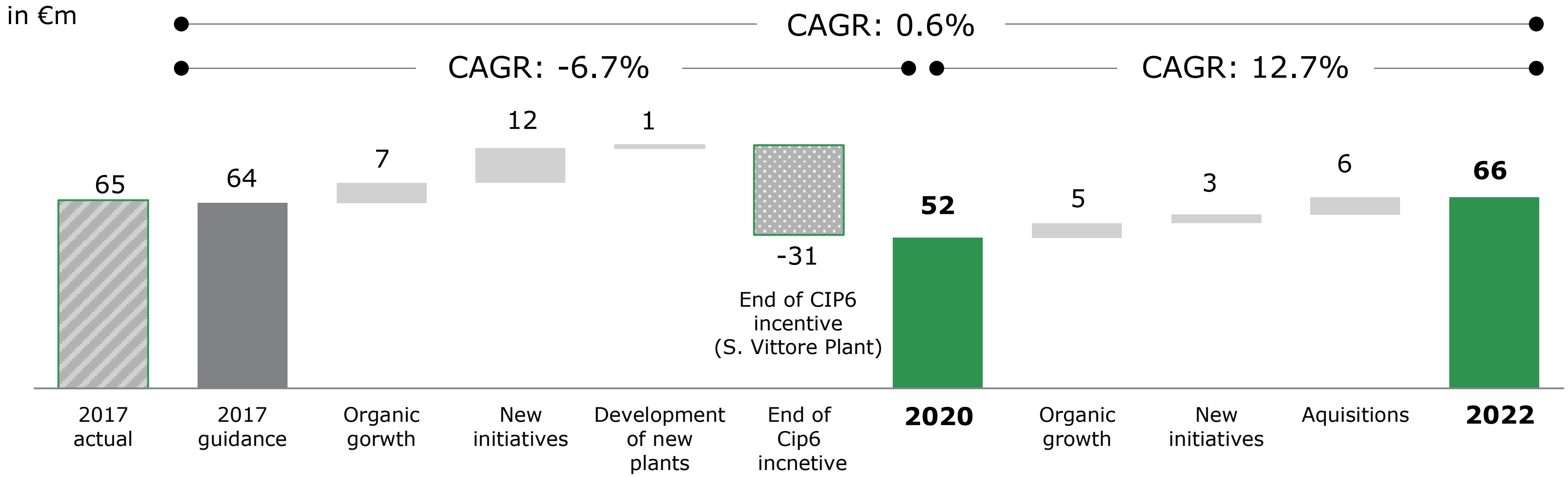
70% growth in waste treated



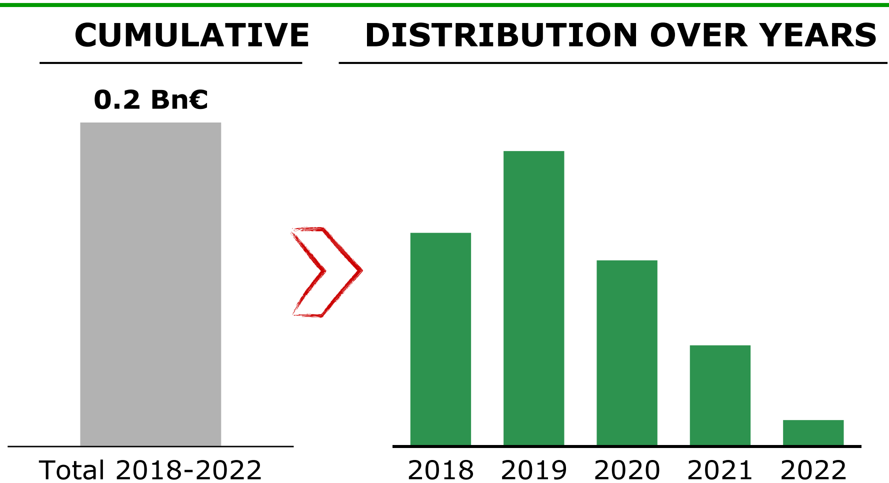
Note: goals proposed by the European Commission, revised upwards by the Europoean Parliament (15 Mar 2017)

Expiry of CIP6 offset by new initiatives and selective acquisitions

EBITDA



INVESTMENT 2018-2022



- **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

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	POTENTIAL UPSIDE FOR EBITDA IN 2020

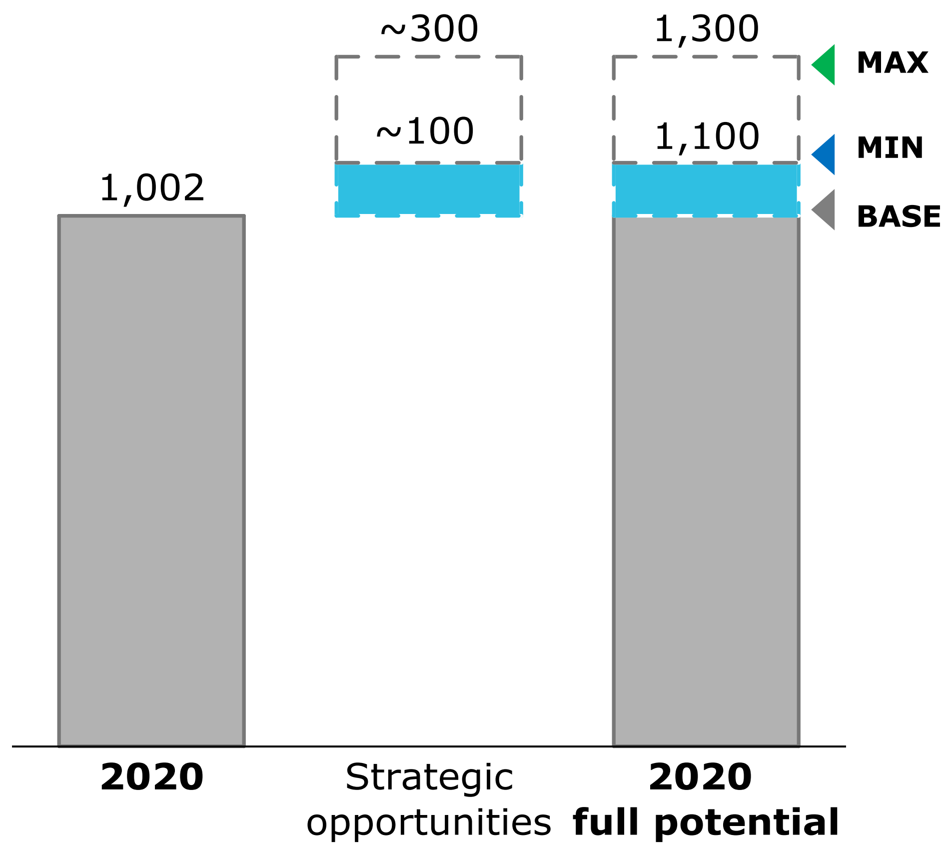
CONSOLIDATION OF WATER SERVICE in areas in which already present (Tuscany, Campania, Lazio)

Entry into **GAS DISTRIBUTION** business

Development of **SMART ENERGY SERVICES**

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

in €m



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			

1Q 2018 Results

acea

Q1 2018 financial highlights

(€m)	Q1 2018 (a)	Q1 2017 (b)	% change (a/b)
Consolidated revenue	745.5	725.6	+2.7%
EBITDA	229.2	214.4	+6.9%
EBIT	127.4	117.2	+8.7%
Group net profit/(loss)	77.4	65.7	+17.8%
Capex	133.0	126.4	+5.2%

EBITDA guidance 2018:
+3%/+5% on 2017 (€840m)

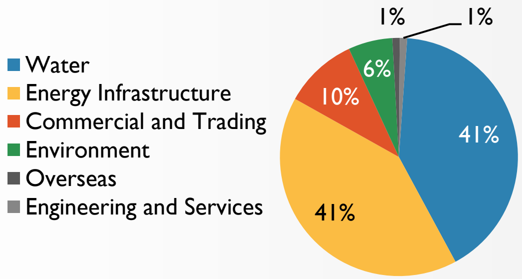
Capex guidance 2018:
up on 2017

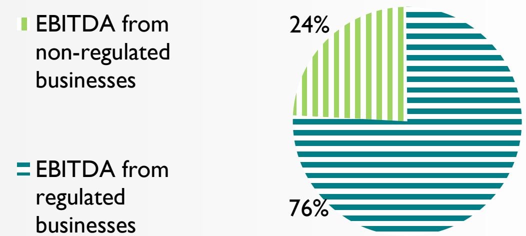
(€m)	31 March 2018 (a)	31 Dec 2017 (b)	31 March 2017 (c)	% Change (a/b)	% Change (a/c)
Net Debt	2,482.1	2,421.5	2,234.8	+2.5%	+11.1%
Invested Capital	4,197.0	4,232.7	4,073.0	-0.8%	+3.0%

Net Debt guidance 2018:
€2.6-2.7bn

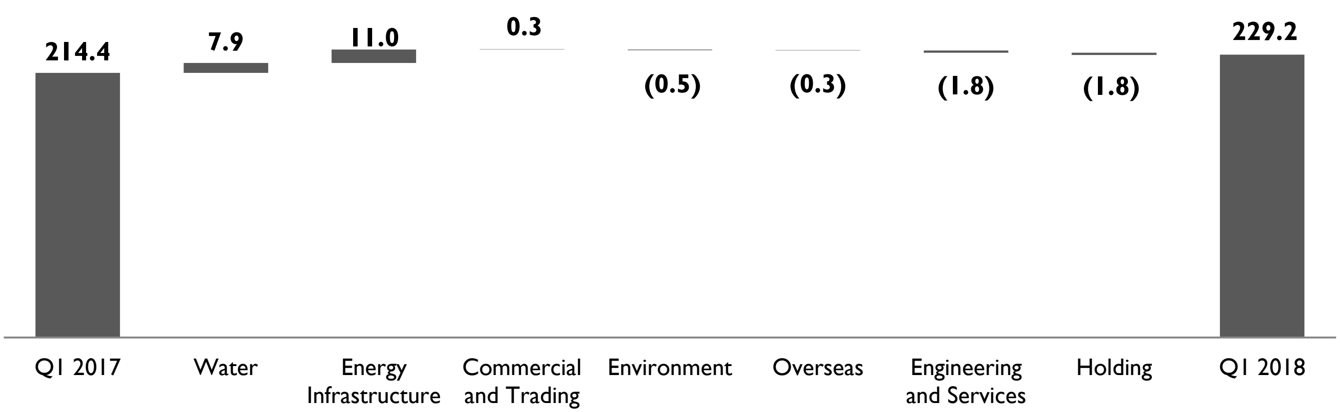
EBITDA

Q1 2018 EBITDA





EBITDA (€m)



Average Group workforce

Q1 2018	Q1 2017	Change
5,535	5,498	+37

EBITDA and Key quantitative data

Q1 2018 financial highlights

Water

EBITDA main drivers

EBITDA GROWTH

- Acea ATO2: +€3.8m
- Companies consolidated using equity method +€3.0m

(€m)	Q1 2018 (a)	Q1 2017 (b)	% change (a/b)
EBITDA	**96.4**	**88.5**	***+8.9%***
of which: Profit/(Loss) from companies consolidated using equity method	*7.9*	*4.9*	*+61.2%*
Capex	**67.3**	**56.7**	***+18.7%***

Key quantitative data	Q1 2018	Q1 2017
Total volume of water sold (Mm^3)	**105**	**103**

	Q1 2018 (a)	Q1 2017 (b)	Change (a-b)
Average workforce	**1,789**	**1,838**	**-49**

EBITDA and Key quantitative data

Q1 2018 financial highlights

Energy Infrastructure

EBITDA main drivers

EBITDA GROWTH

- Distribution +€ 9.0m
- Generation +€1.2m – increased hydroelectric and thermoelectric production (completion of Tor di Valle plant)
- Public Lighting: LED plan launched in June 2016 (+€0.9m)

(€m)	Q1 2018 (a)	Q1 2017 (b)	*% change (a/b)*
EBITDA	**94.4**	**83.4**	***+13.2%***
- Distribution	80.7	71.7	*+12.6%*
- Generation	14.0	12.8	*+9.4%*
- Public Lighting	(0.2)	(1.1)	*n.s.*
Capex	**54.4**	**57.2**	***-4.9%***

Key quantitative data	Q1 2018	Q1 2017
Total electricity distributed (GWh)	**2,469**	**2,509**
Number of end users ('000s)	**1,626**	**1,627**
Total electricity produced (GWh)	**155**	**132**

	Q1 2018 (a)	Q1 2017 (b)	*Change (a-b)*
Average workforce	**1,380**	**1,359**	***+21***

EBITDA and Key quantitative data

Q1 2018 financial highlights

Commercial and *Trading* **EBITDA STABLE**

EBITDA main drivers

(€m)	Q1 2018 (a)	Q1 2017 (b)	% change (a/b)
EBITDA	**23.4**	**23.1**	***+1.3%***
Capex	**4.1**	**2.5**	***+64.0%***

	Q1 2018 (a)	Q1 2017 (b)	Change (a-b)
Average workforce	**467**	**476**	**-9**

Key quantitative data	Q1 2018	Q1 2017
Total electricity sold (GWh)	**1,593**	**1,813**
Enhanced Protection Market	663	*730*
Free Market	930	*1,083*
PODs for electricity ('000s)	**1,204**	***1,232***
Enhanced Protection Market	880	*929*
Free Market	324	*303*
Total gas sold (Mm^3)	**56**	**51**
Number of gas customers ('000s)	**140**	**129**

EBITDA and Key quantitative data

Q1 2018 financial highlights

Environment

EBITDA main drivers

EBITDA STABLE

- Iseco: +€0.3m
- Aquaser (sludge recovery operations): -€0.7m

(€m)	Q1 2018 (a)	Q1 2017 (b)	%change (a/b)
EBITDA	14.1	14.6	-3.4%
Capex	4.6	5.5	-16.4%

Key quantitative data	Q1 2018	Q1 2017
Treatment and disposal* ('000s of tonnes)	254	274
WTE electricity produced (GWh)	89	87

	Q1 2018 (a)	Q1 2017 (b)	Change (a-b)
Average workforce	361	347	+14

** Includes ash disposed of*

EBITDA and Key quantitative data

Q1 2018 financial highlights

Overseas

(€m)	Q1 2018 (a)	Q1 2017 (b)
EBITDA	3.0	3.3
Capex	0.8	0.9

	Q1 2018 (a)	Q1 2017 (b)	*Change (a-b)*
Average workforce	604	588	+16

Engineering and Services

(€m)	Q1 2018 (a)	Q1 2017 (b)
EBITDA	2.2	4.0
Capex	0.3	0.2

	Q1 2018 (a)	Q1 2017 (b)	*Change (a-b)*
Average workforce	270	311	-41

Holding

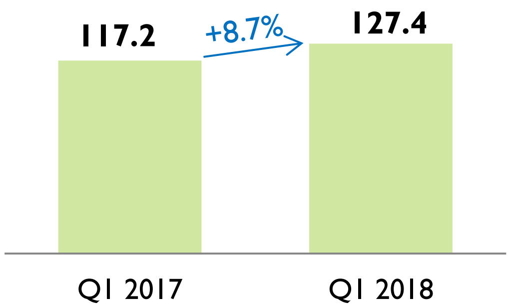
(€m)	Q1 2018 (a)	Q1 2017 (b)
EBITDA	(4.2)	(2.4)
Capex	1.5	3.4

	Q1 2018 (a)	Q1 2017 (b)	*Change (a-b)*
Average workforce	664	579	+85

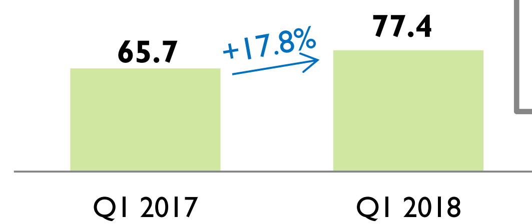
Primarily due to transfer of Facility Management from Engineering and Services unit.

EBIT and Net Profit

EBIT (€m)



NET PROFIT (€m)



Net results up in line with EBITDA, after related taxation

TAX RATE	**30.4%**	**30.4%**

(€m)	**Q1 2018**	**Q1 2017**	***% change***
Depreciation	77.5	68.8	*+12.6%*
Write-downs	21.1	18.7	*+12.8%*
Provisions	3.3	9.8	*-66.3%*
Total	**101.9**	**97.3**	***+4.7%***

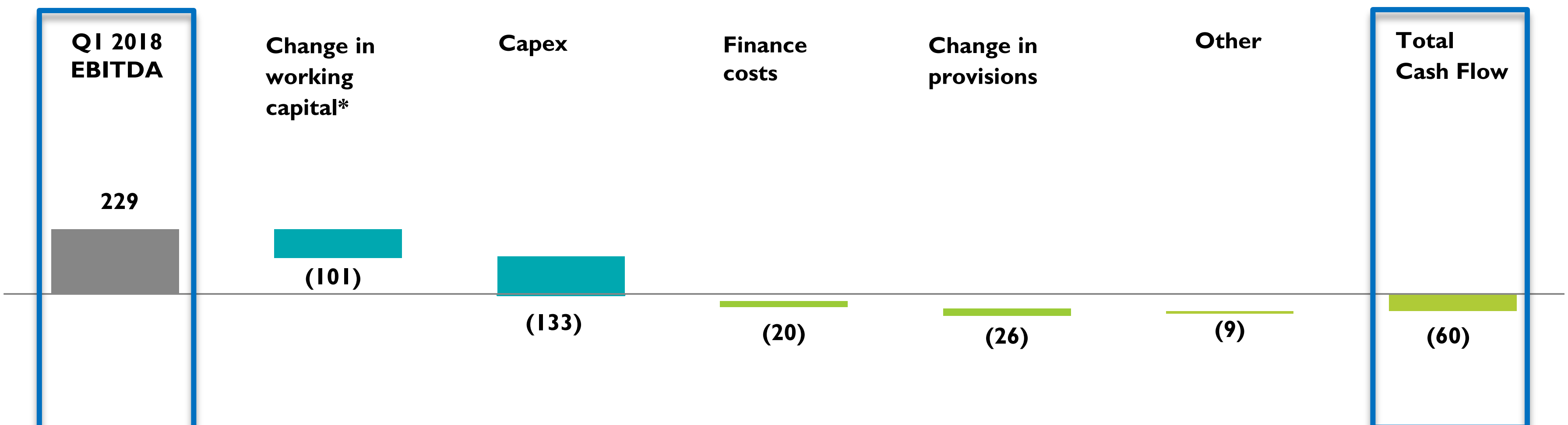
Increased depreciation, partly due to increased investment in IT assets with shorter useful lives.

Increased provisions due to first-time adoption of IFRS9

Lower provisions for early retirement and redundancy scheme present in Q1 2017.

Cash flow

(€m)	Q1 2018	Q1 2017
EBITDA	229	214
Change in working capital	(101)	(153)
CAPEX	(133)	(126)
FREE CASH FLOW	**(5)**	**(65)**
Net finance income/(costs)	(20)	(19)
Change in provisions	(26)	(17)
Income tax expense	0	0
Dividends	0	0
Other	(9)	(7)
TOTAL CASH FLOW	**(60)**	**(108)**



* *Before provisions for bad debts*

Net Debt

(€m)	31 March 2018 (a)	31 Dec 2017 (b)	31 March 2017 (c)	*Change (a-b)*	*Change (a-c)*
NET DEBT	**2,482.1**	**2,421.5**	**2,234.8**	***60.6***	***247.3***
Medium/Long-term	3,540.2	2,706.6	2,726.8	*833.6*	*813.4*
Short-term	(1,058.1)	(285.1)	(492.0)	*(773.0)*	*(566.1)*

NET DEBT / EQUITY 31 March 2018	NET DEBT 31 March 2018 / LTM EBITDA
1.4x	2.9x

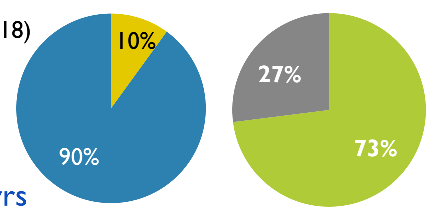
February 2018 – **successful placing** of Euro 1 billion **bonds** overall under the EMTN Programme in two tranches:

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

Debt structure

(maturity and interest rates at 31 March 2018)

- > Fixed rate 73%
- > Average overall cost 2.27%
- > Average term to maturity 5.9 yrs



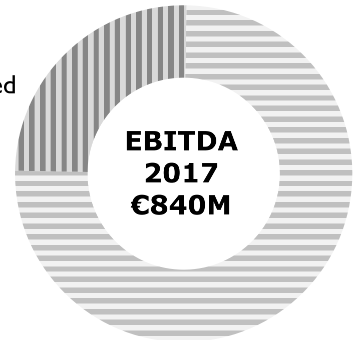
Ratings

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

2017 Results

acea

Low risk profile



Water	Energy Infrastruc.	Comm. & Trading	Environment	Overseas
42% of Group EBITDA	40% of Group EBITDA	9% of Group EBITDA	7% of Group EBITDA	2% of Group EBITDA
Leading operator in Italy Lazio, Tuscany, Umbria and Campania ➢ Water sold: 421m cubic metres ➢ Customers: nearly 9m	**No. two operator in Italy in electricity distribution** ➢ Electricity distributed: ~ 10TWh in the city of Rome ➢ Public lighting and floodlighting managed: over 224,000 lighting points ➢ Energy efficiency projects ➢ Hydroelectric power plants (122 MW) ➢ Thermo/cogen plants/PV (98MW)	**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	**No. 6 Italian operator** Umbria, Lazio and Tuscany ➢ Waste treated: over 1m tons ➢ Electricity produced (WTE): 354 GWh	➢ Presence in Latin America

ACEA'S OWNERSHIP

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

Source: CONSOB, April 2018

2017 financial highlights

(€m)	2017 a	2016 b	% Change a/b	2017* adjusted c	2016* adjusted d	% Change 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*

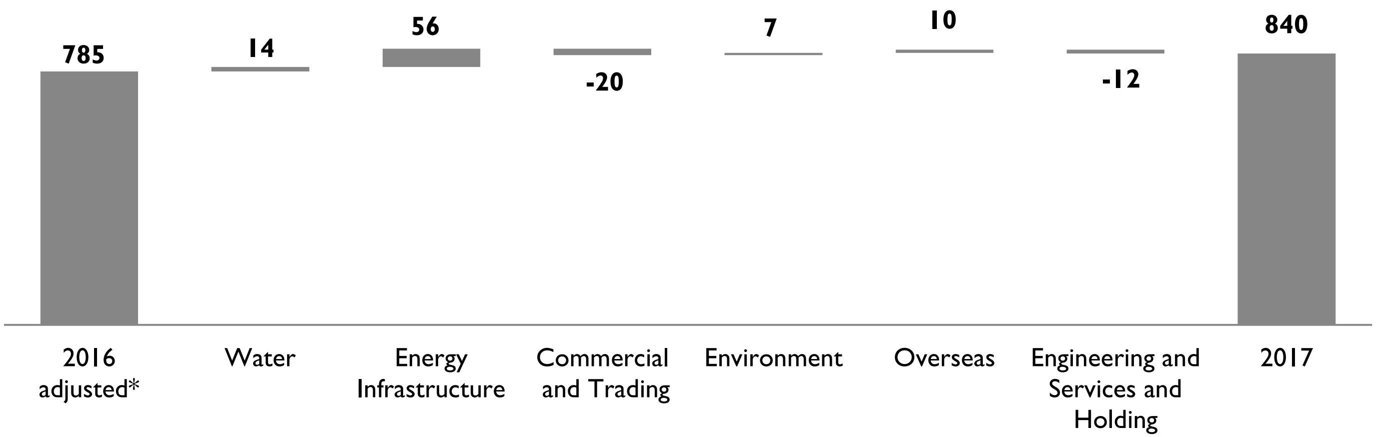
(€m)	31 Dec 2017 (a)	30 Sep 2017 (b)	31 Dec 2016 (c)	%Change (a/b)	% Change (a/c)
Net Debt	2,421.5	2,487.3	2,126.9	-2.6%	+13.9%
*Adjusted Net Debt***	*2,325.1*	*2,428.3*	*2,126.9*	*-4.2%*	*+9.3%*
Invested Capital	4,244.9	4,279.9	3,884.9	-0.8%	+9.3%

*** 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)
EBITDA	**349.6**	**336.0**	***+4.0%***
of which: Profit/(Loss) from companies consolidated using equity method	*24.1*	*26.5*	*-9.1%*
Capex	**271.4**	**227.1**	***+19.5%***

Key quantitative data	2017	2016
Total volume of water sold (Mm^3)	**421**	**421**

	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)
EBITDA	**332.6**	**388.3**	**276.8**	***-14.3%***	***+20.2%***
- Distribution	287.3	353.3	241.8	*-18.7%*	*+18.8%*
- Generation	40.8	32.0	32.0	*+27.5%*	*+27.5%*
- Public Lighting	4.4	3.0	3.0	*+46.7%*	*+46.7%*
Capex	**209.4**	**225.8**		***-7.3%***	

Key quantitative data	2017	2016
Total electricity distributed (GWh)	**10,040**	**10,009**
Number of end users ('000s)	**1,626**	**1,629**
Total electricity produced (GWh)	**426**	**405**

	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)
EBITDA	**78.1**	**98.0***	**-20.3%**
Capex	**19.4**	**27.4**	**-29.2%**

	2017 (a)	2016 (b)	% Change (a-b)
Average workforce	**474**	**473**	**+1**

Key quantitative data	2017	2016
Total Electricity sold (GWh)	**6,843**	**8,316**
Enhanced Protection Market	*2,652*	*2,757*
Free Market	*4,191*	*5,559*
Number of electricity customers ('000s)	**1,213**	**1,254**
Enhanced Protection Market	*893*	*959*
Free Market	*320*	*295*
Total Gas sold (Mm^3)	**103**	**107**
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)
EBITDA	64.5	57.2	+12.8%
Capex	15.4	34.0	-54.7%

Key quantitative data	2017	2016
Treatment and disposal* ('000s of tonnes)	1,077	822
WTE electricity produced (GWh)	354	302

	2017 (a)	2016 (b)	change (a-b)
Average workforce	355	238	+117

* Includes ash disposed of

Overseas

EBITDA main drivers

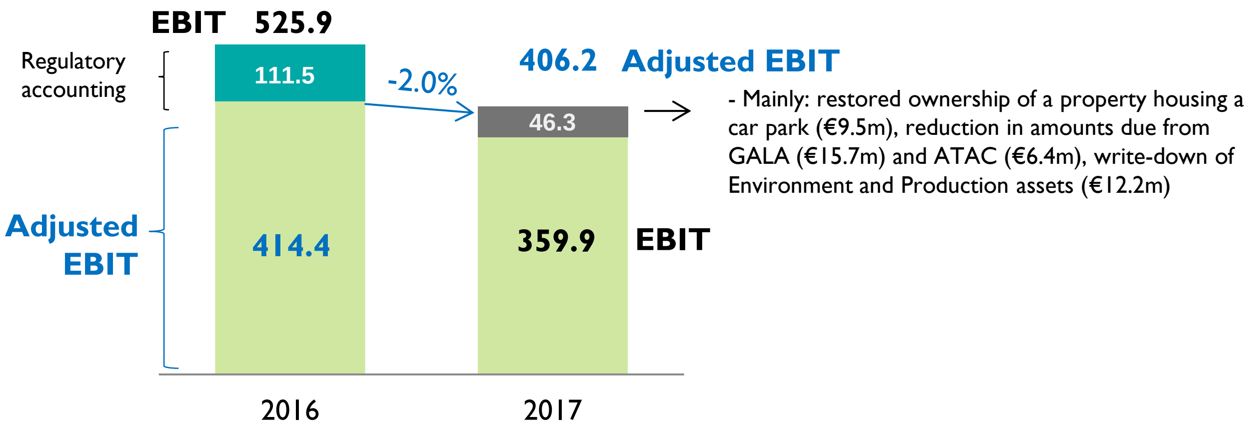
- ⬆ Line-by-line consolidation Aguas de San Pedro: +€10.1m

(€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

EBIT (€m)

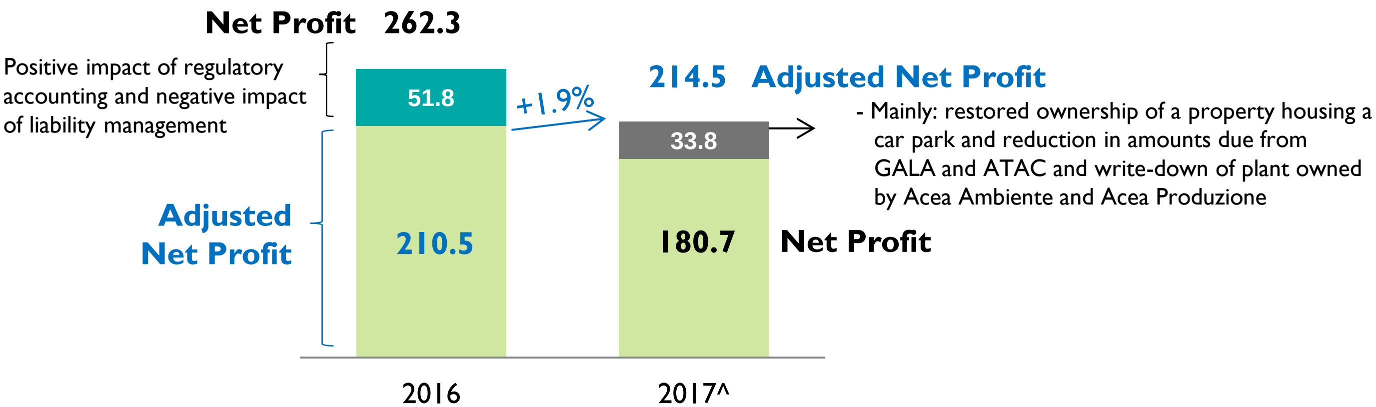


(€m)	2017	2016	% change
Depreciation	328.9	254.2	+29.4%
Write-offs	90.4	64.7	+39.7%
Provisions	60.8	51.5	+18.1%
Total	**480.1**	**370.4**	**+29.6%**

- ✓ 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

NET PROFIT (€m)



TAX RATE	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

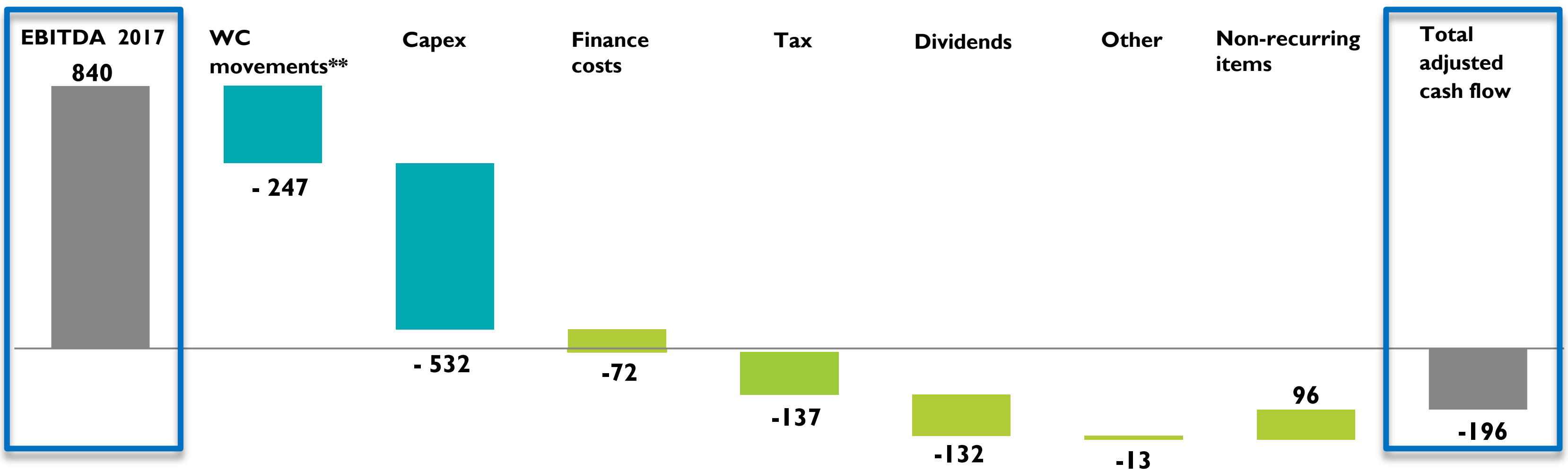
	2014	2015	2016	2017
DPS (€)	0.45	0.50	0.62	0.63
Total Dividend (€m)	95.8	106.5	132.0	134.2
Dividend yield*	4.6%	4.2%	5.2%	4.7%
Payout**	59%	61%	50%	74%

** Based on average price for the year*
*** Based on consolidated net profit after non-controlling interests*

Cash flow

	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

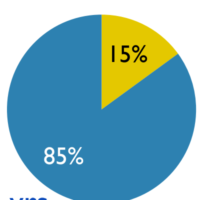
(€m)	31 Dec 2017 (a)	30 Sep 2017 (b)	31 Dec 2016 (c)	*Change (a-b)*	*Change (a-c)*
NET DEBT	**2,421.5**	**2,487.3**	**2,126.9**	***(65.8)***	***294.6***
Medium/Long-term	2,706.6	2,475.9	2,743.1	*230.7*	*(36.5)*
Short-term	(285.1)	11.4	(616.2)	*(296.5)*	*331.1*
Adjusted NET DEBT*	***2,325.1***	***2,428.3***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

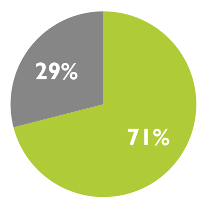
NET DEBT/EQUITY 31 Dec. 2017	NET DEBT/EQUITY 31 Dec. 2016
1.3x	1.2x

Net Debt/EBITDA 31 Dec. 2017	Net Debt/EBITDA 31 Dec. 2016
2.9x	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**
Stable Outlook	*Stable Outlook*

* *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.*

Regulatory framework

- Water

- Electricity distribution

Water: regulation

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).

Water: regulation

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$_{QC}$ 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.

Water: regulation

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%** **<u>for the years 2018 and 2019</u>** (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** ($Opex_{QC}$) to adjust for the minimum standards. For the related standards, recognition of this component precludes the award of any bonus.

Water: regulation

Resolution 917/2017 – Technical quality (1/2)

Conditions to be met to qualify for INCENTIVE MECHANISMS

PREREQUISITES

- 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

Indicators associated with incentive mechanism involving rewards and penalties

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)
FRESH WATER SUPPLY	M2	Outages	G2.1 Availability of water resources
FRESH WATER SUPPLY	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
TREATMENT	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

Water: regulation

Resolution 917/2017 – Technical quality (2/2)

1 January 2018

- Entry into force of RQTI
- Recognition of state of infrastructure based on latest available technical data (for 2016)
  - **Quantification of macro indicators and related indicators for 2016**

30 April 2018

- For each operator, and with reference to each macro indicator, identification (valid for 2018) of starting points and consequent setting of the targets to be met
- Revision of Service Charter to include specific standards for technical quality
  - Scheduled review of works

Targets are annual and may relate to maintenance (class A) or improvement.

Improvement targets are differentiated according to starting point (a range of classes with diversified targets)

1 January 2019

- Introduction and maintenance of records for data underlying the standards (experimental for 2018)
- Announcement of outcome of monitoring for annual period 2018

2020

- Announcement of outcome of monitoring for annual period 2019
- Quantification of Rewards/Penalties based on performances in years 2018 and 2019 (excluding macro indicator M2)

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*».

Energy Infrastructure: electricity distribution regulation

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.

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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.