



# **Acea**

## **Business Plan**

### **2018-2022**

*November 2018*

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# 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

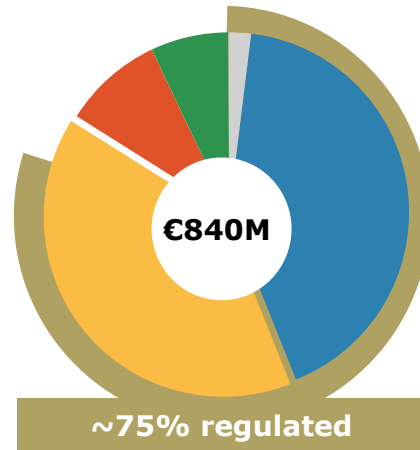


### LATAM



## EBITDA 2017






- Water
- Energy Infrastructure
- Commercial and Trading
- Environment
- Other



## 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 November 2018

## MARKET SCENARIO AND TRENDS

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

## WATER



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

## ENERGY



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

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

## ENVIRONMENT



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

# The Group's new strategic PILLARS



Business Plan 2018-2022

## Industrial growth

## Local focus and Sustainability

## Technology, Innovation and Quality

## Operational Efficiency

**Capex of €3bn**

**RAB €4bn**  
(+€0.8bn vs. actual)

**1.9m Customers**  
Power & Gas

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

**15 pp reduction in water leaks**

**Decarbonisation with drive for "electrification"**

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

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

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

**Smart Grid and Smart City**

Improvements to the **Customer Journey**

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

**20% reduction in cost to serve**

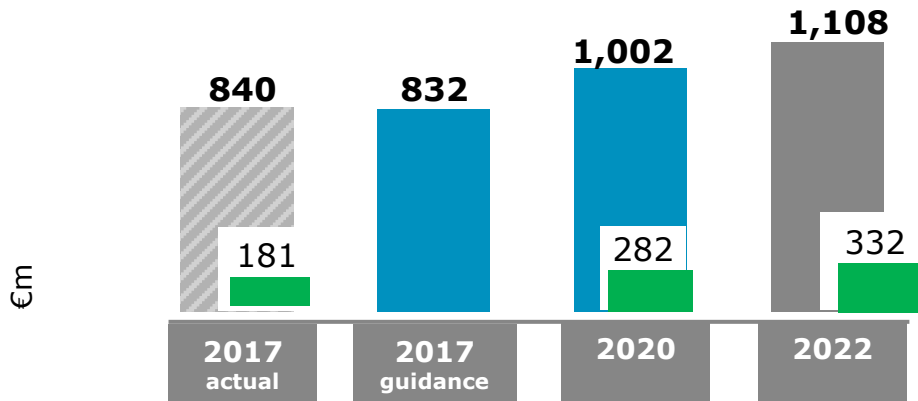
**Generational turnover for 300+ FTEs**

# Strong and sustainable GROWTH

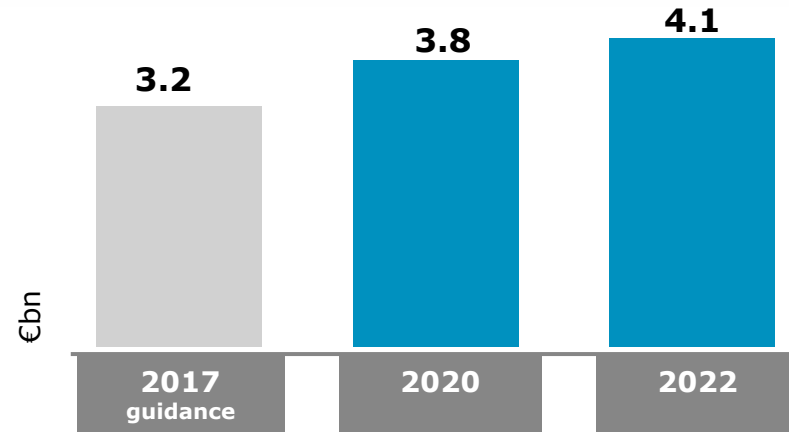
Pre-tax ROIC	2020	2022
	>10%	>10%

## EBITDA growth with CAGR +5.9%

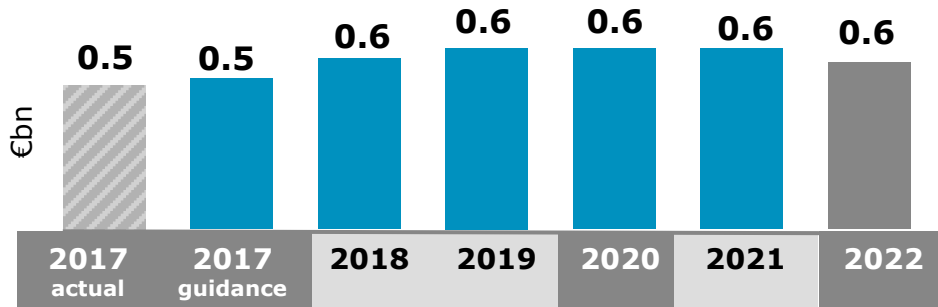
Growth in **Net Profit\***



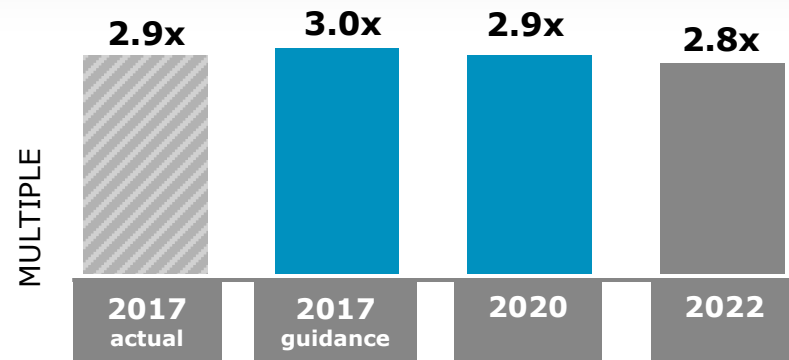
## RAB up 25% by 2022



## CAPEX of €3.1bn

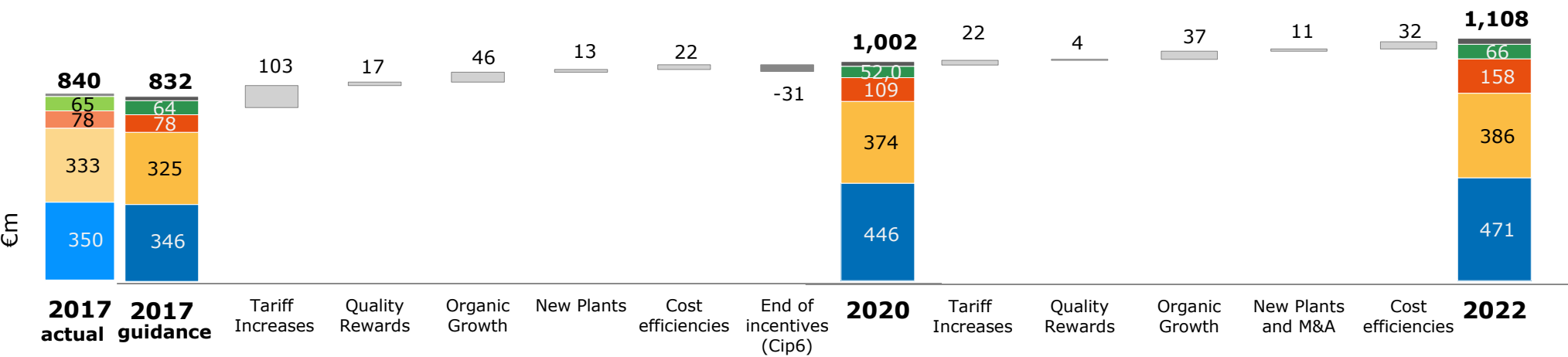
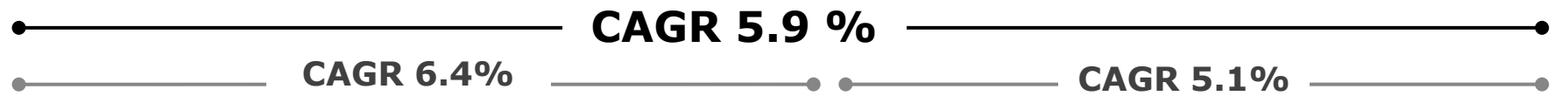


## NET DEBT/EBITDA down to 2.8X



STRATEGY AND CONSOLIDATED TARGETS

# EBITDA growth based on solid business rationale



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

**Cross-segment initiatives**  
 Performance improvements and cost efficiencies + Generational turnover + Tightening up of operations

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

# More than €3bn of INVESTMENT

## STRATEGIC LEVERS



**Capex Remix**



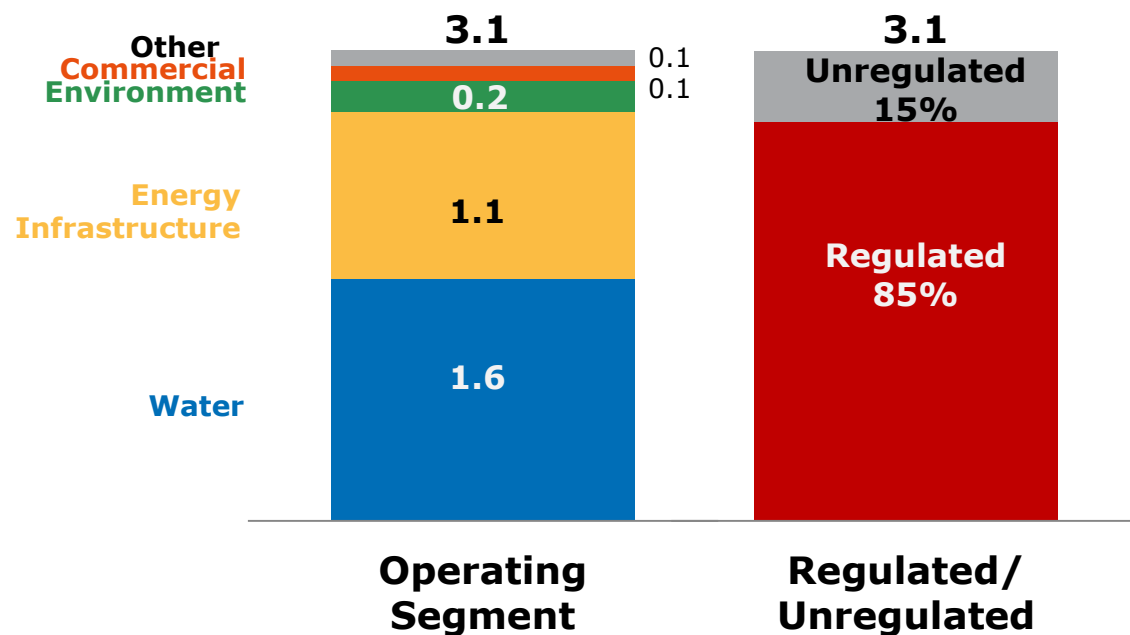
**Focus on Infrastructure**



**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

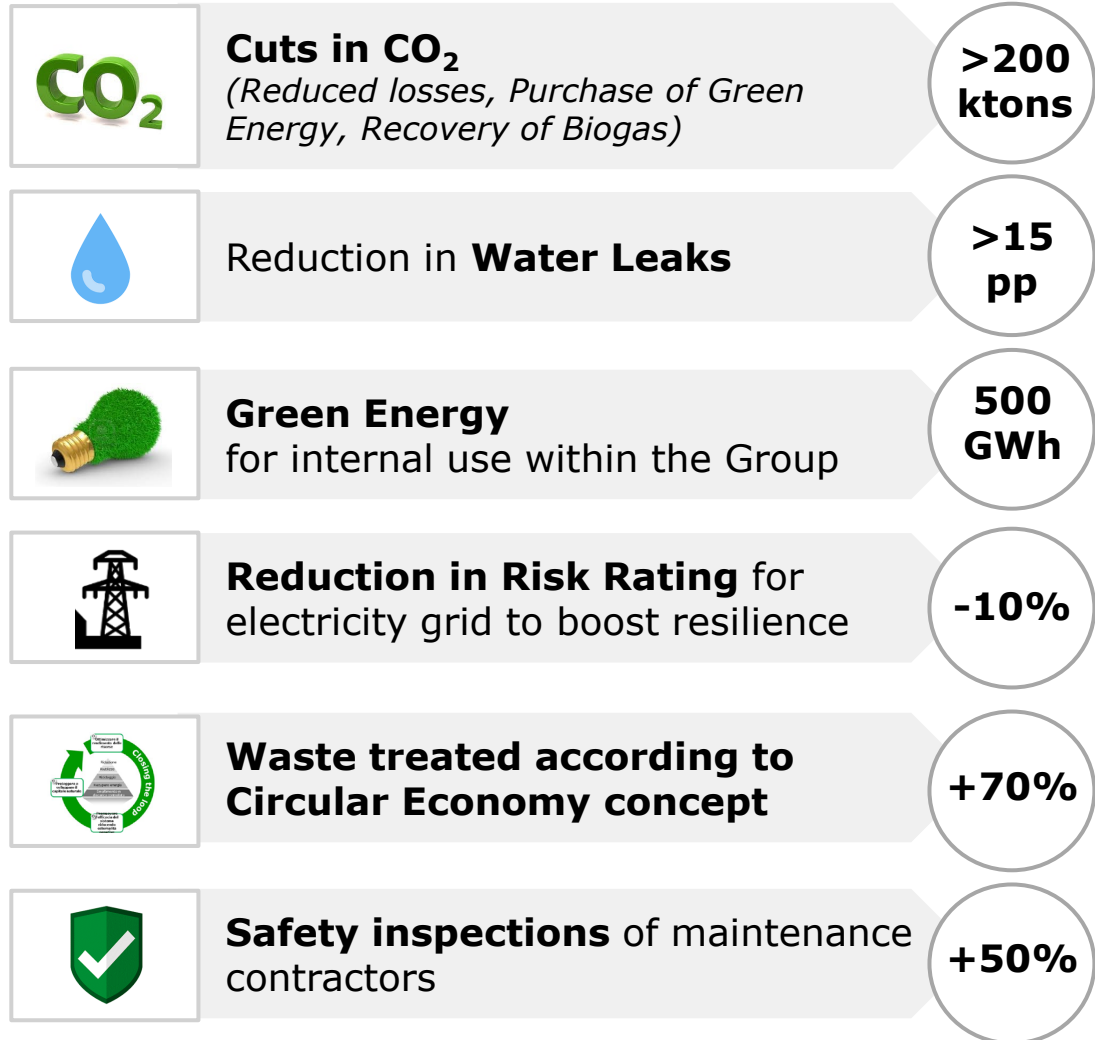


Physical security and  
Cyber-security

# 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)

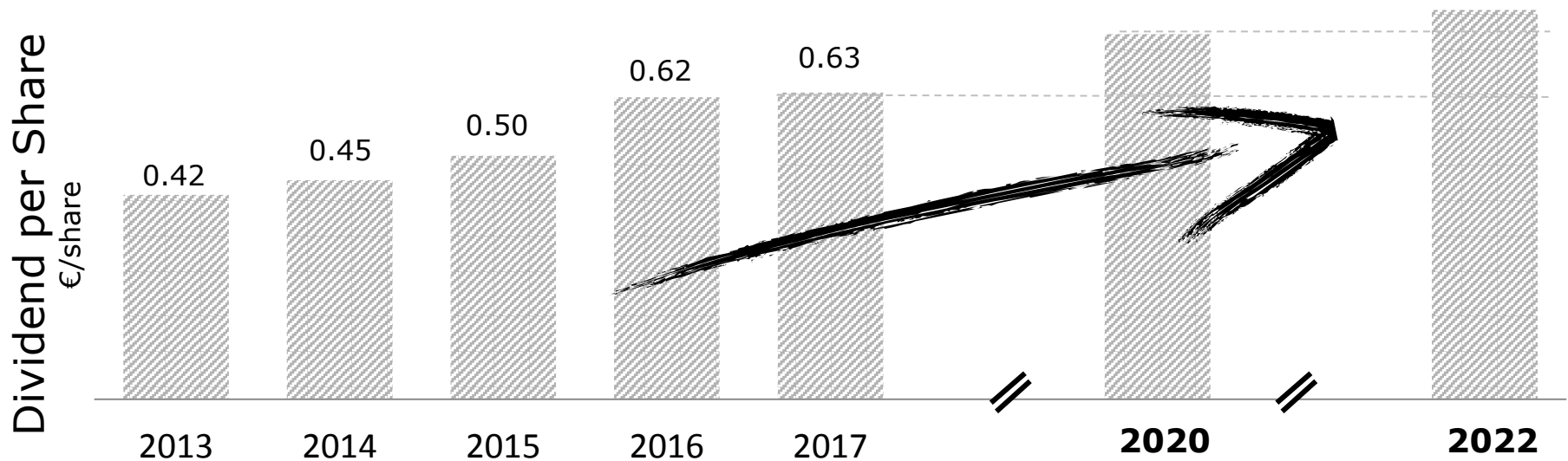


# Growing DIVIDENDS, Pay-out above 50%, €0.7bn payable over the plan

Growing Dividends

Pay-out above 50%

€0.7bn payable over the plan



# Financial strategy aims to cut cost of debt

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

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

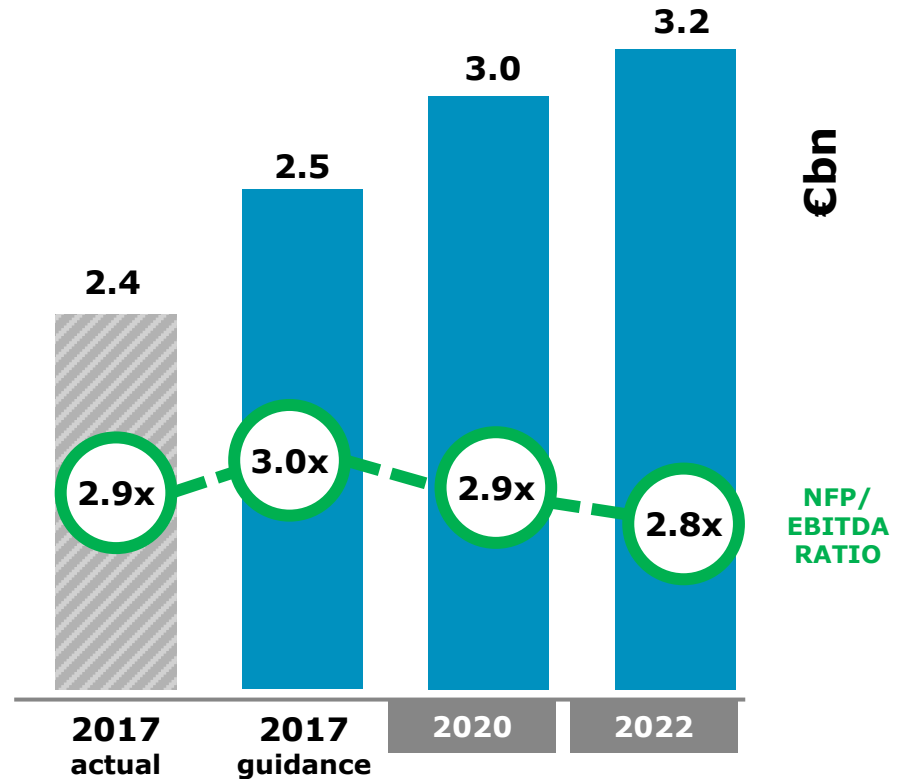
February 2018 – **successful placing** of Euro 1 billion **bonds** overall under the EMTN Programme in two tranches:

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



The “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**



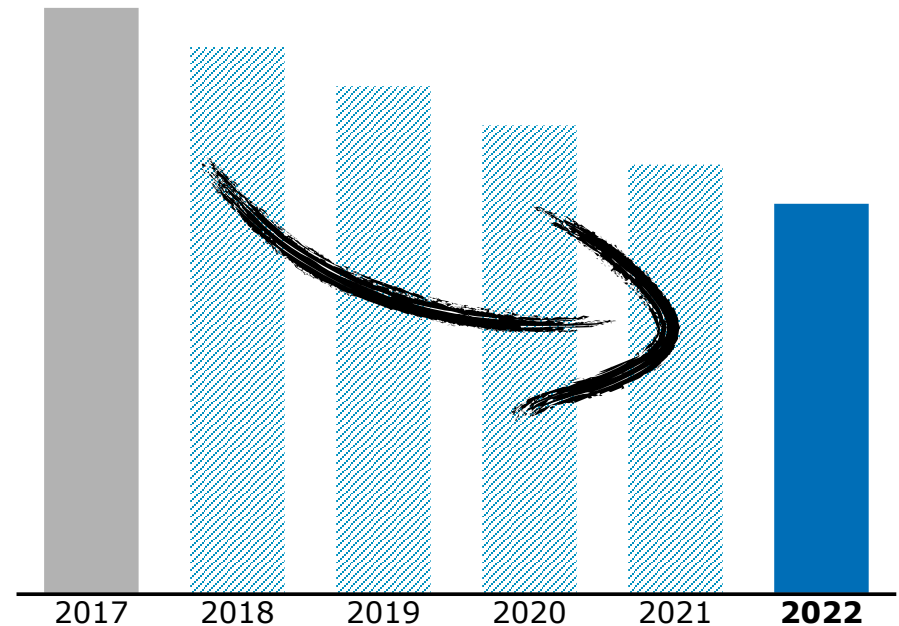


# INFRASTRUCTURE DRIVE and efficiency improvements

## Key initiatives included in Plan

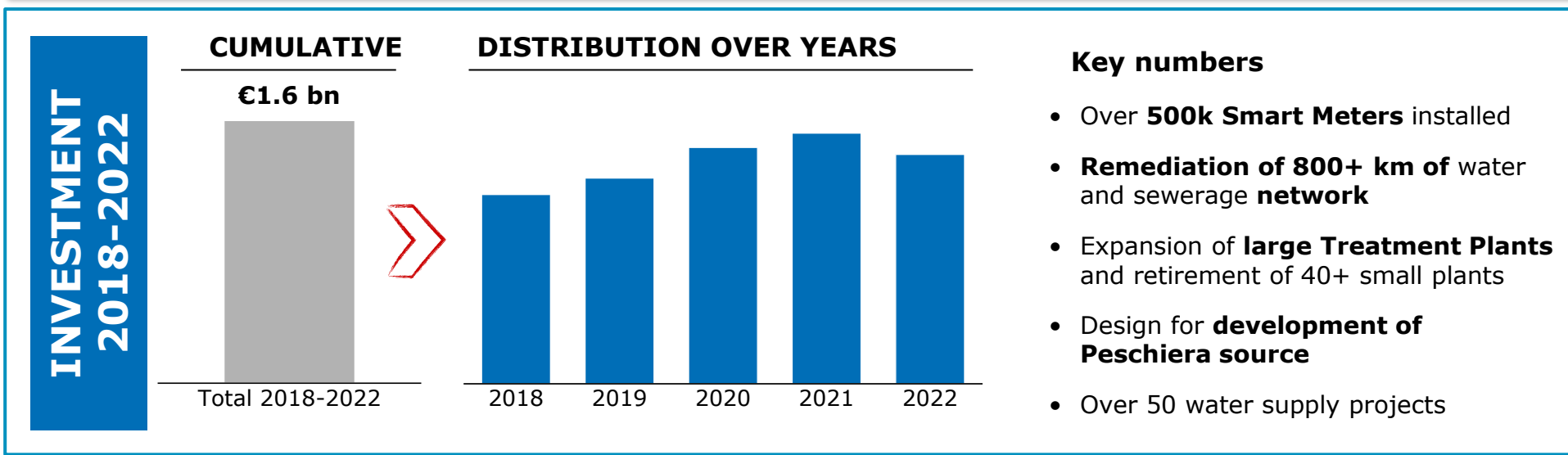
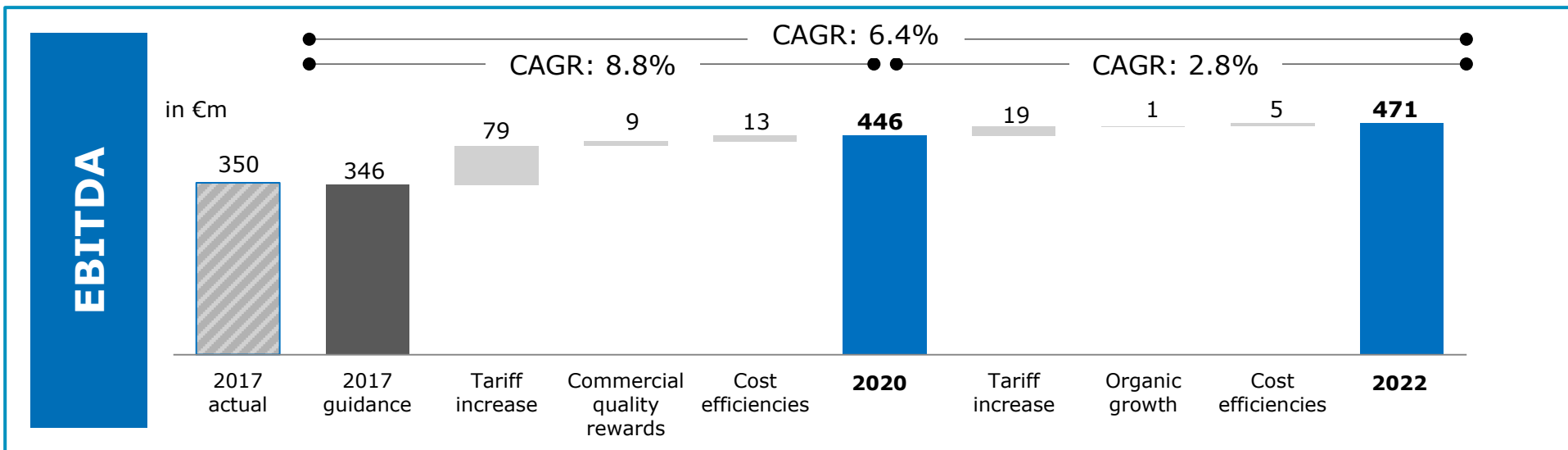
- Extraordinary plan to **upgrade network, reduce leaks and manage water emergency**
- **Rationalisation of small treatment plants** and development/expansion of large plants
- Rollout of **smart meters**

**15 pp** cut in **Water loss**





# EBITDA UP 36% and INVESTMENT of €1.6bn





# ENERGY INFRASTRUCTURE

**Key Targets for the Segment**







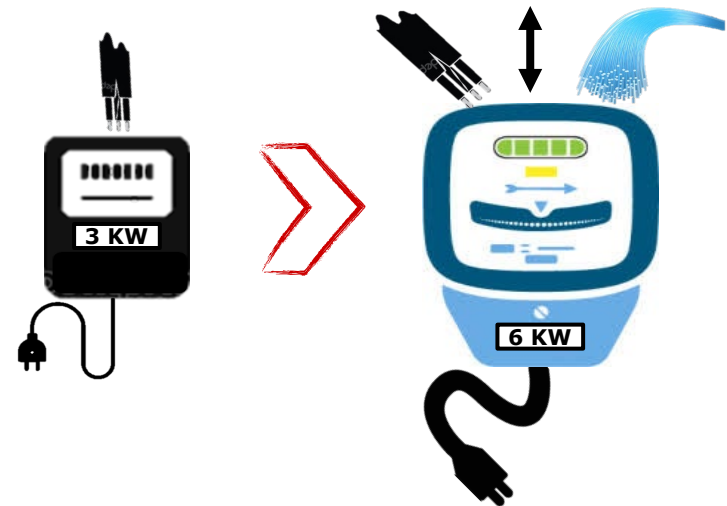
# Becoming an advanced DSO to increase network resilience and enable new services

## 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

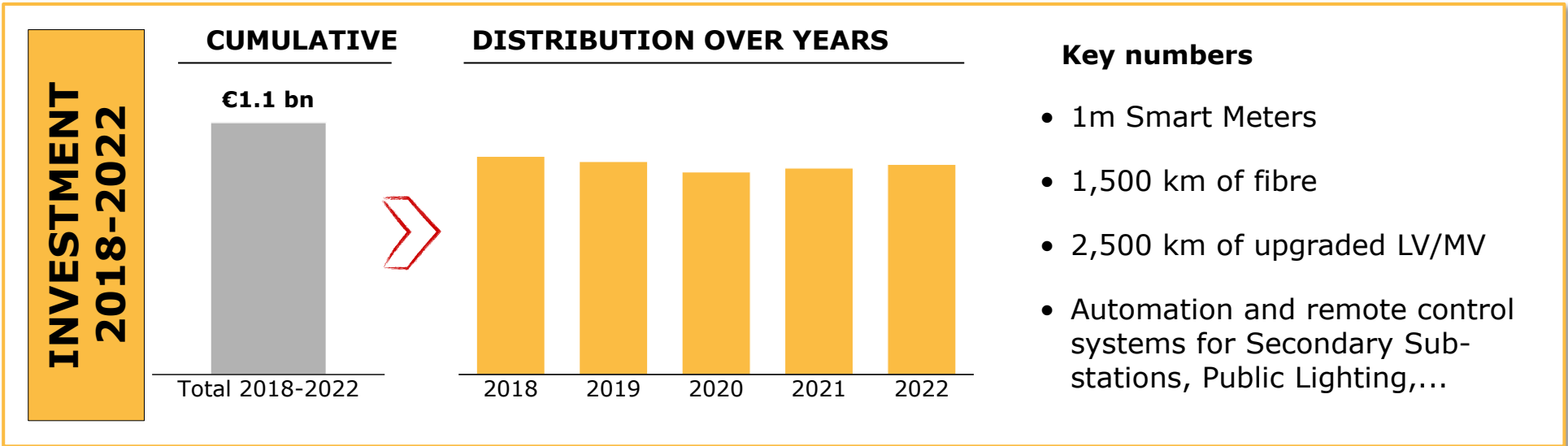
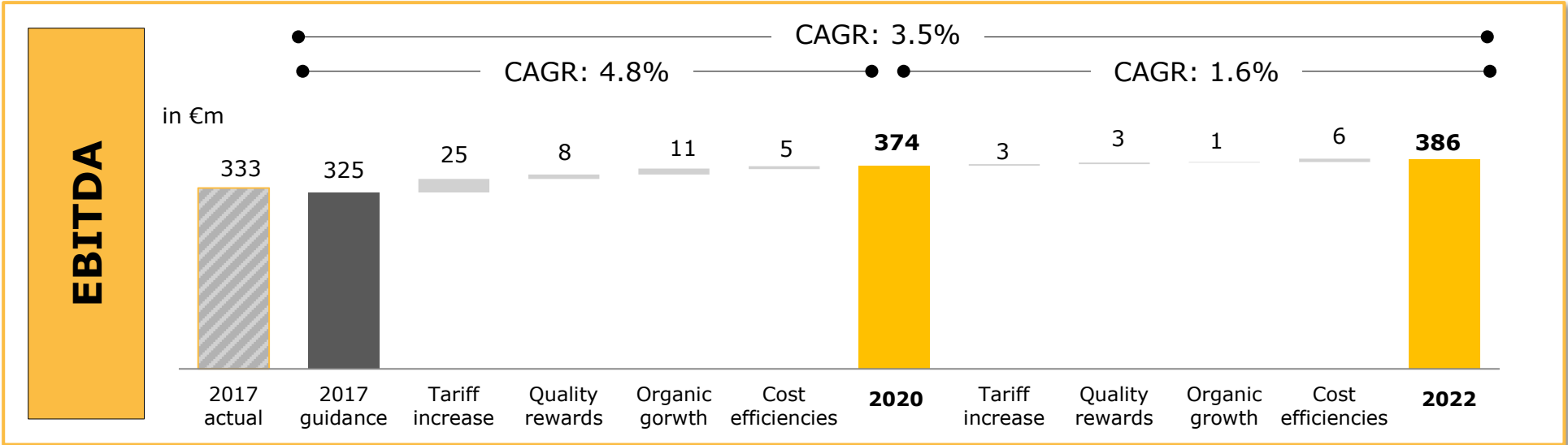
**1m 2G  
Smart Meters**





# ENERGY INFRASTRUCTURE

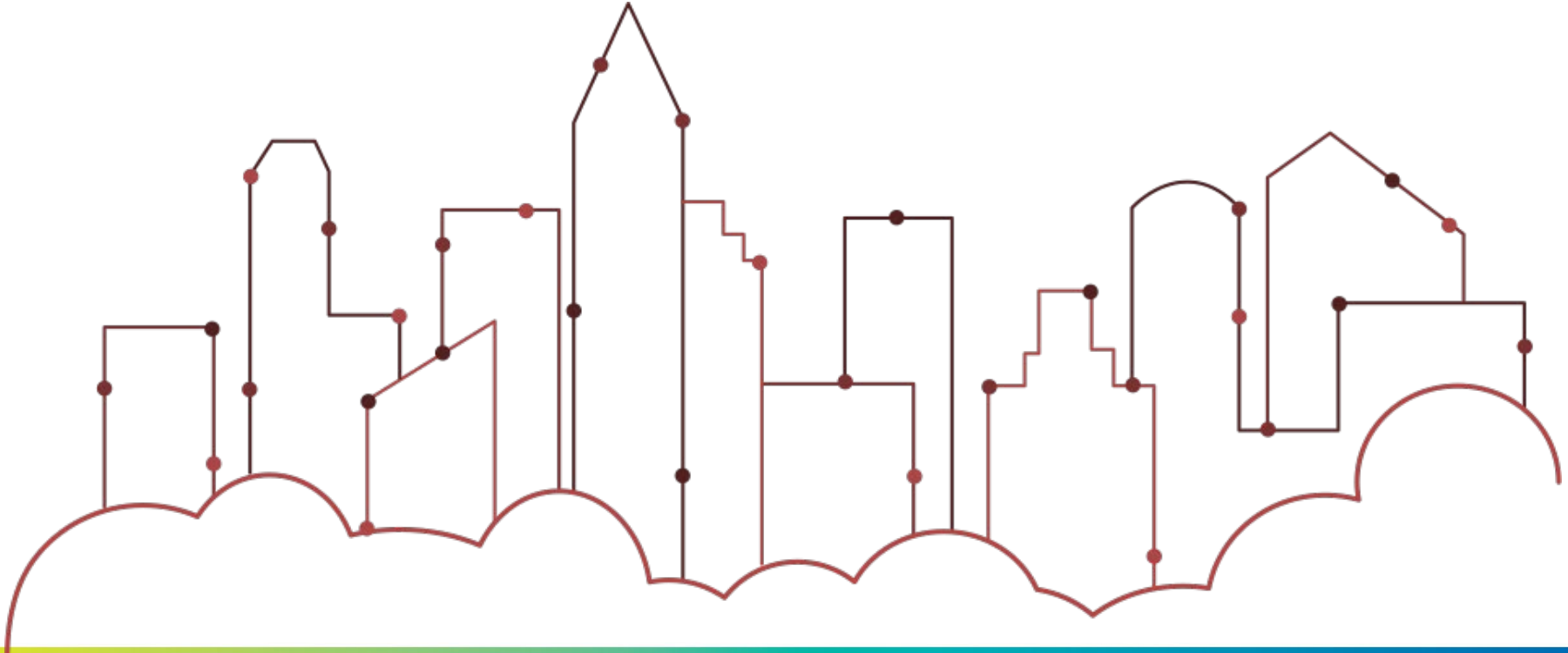
## EBITDA UP 20% AND INVESTMENT OF €1.1BN





# COMMERCIAL AND TRADING

**Key Targets for the Segment**





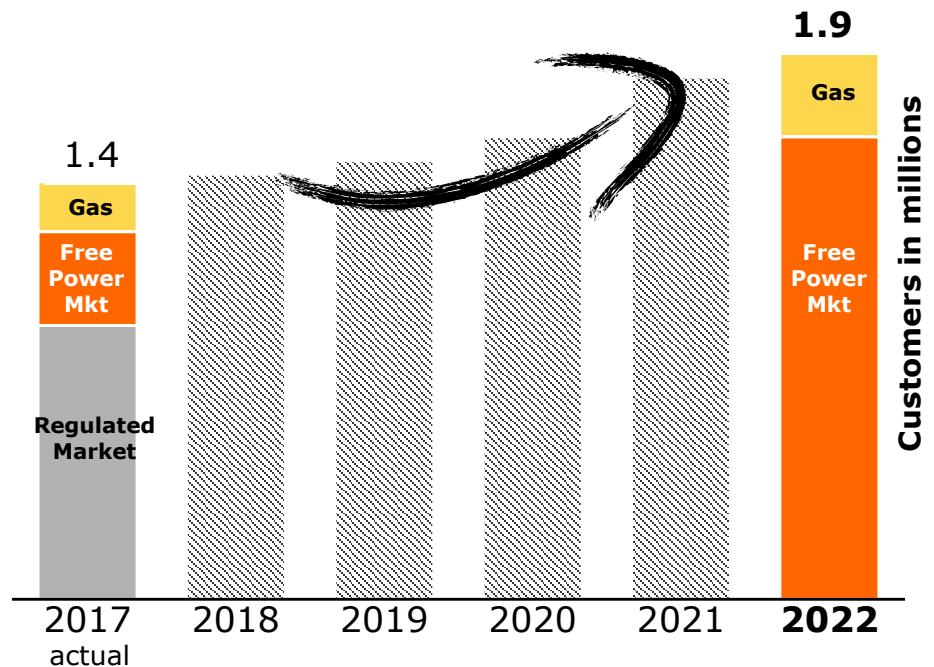
COMMERCIAL AND TRADING

# MARKETING DRIVE and leading role in CONSOLIDATION within the sector

## Key initiatives included in Plan

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

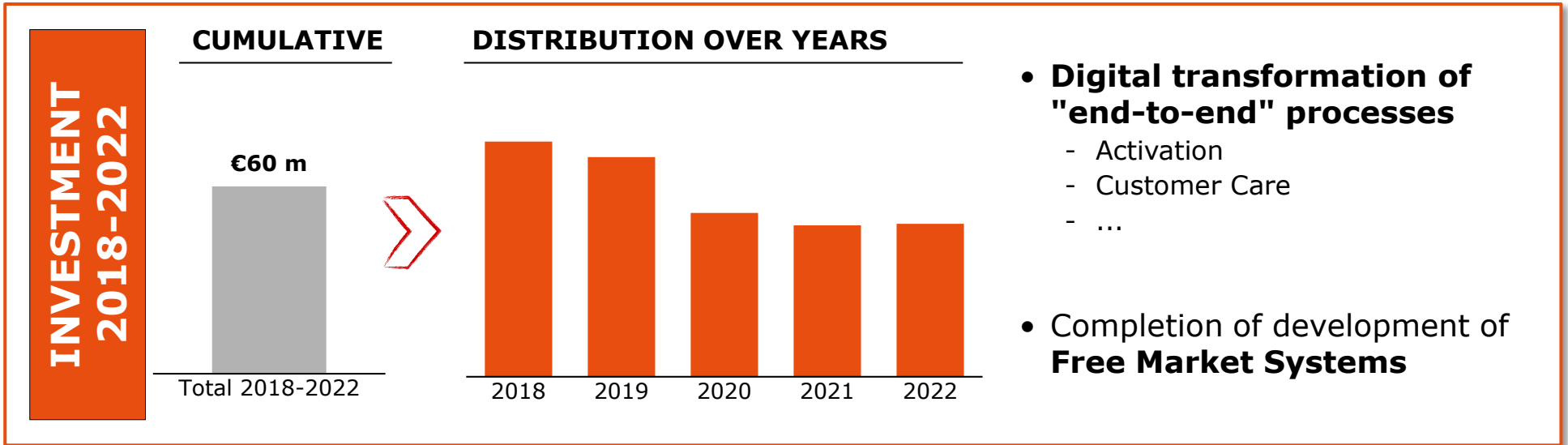
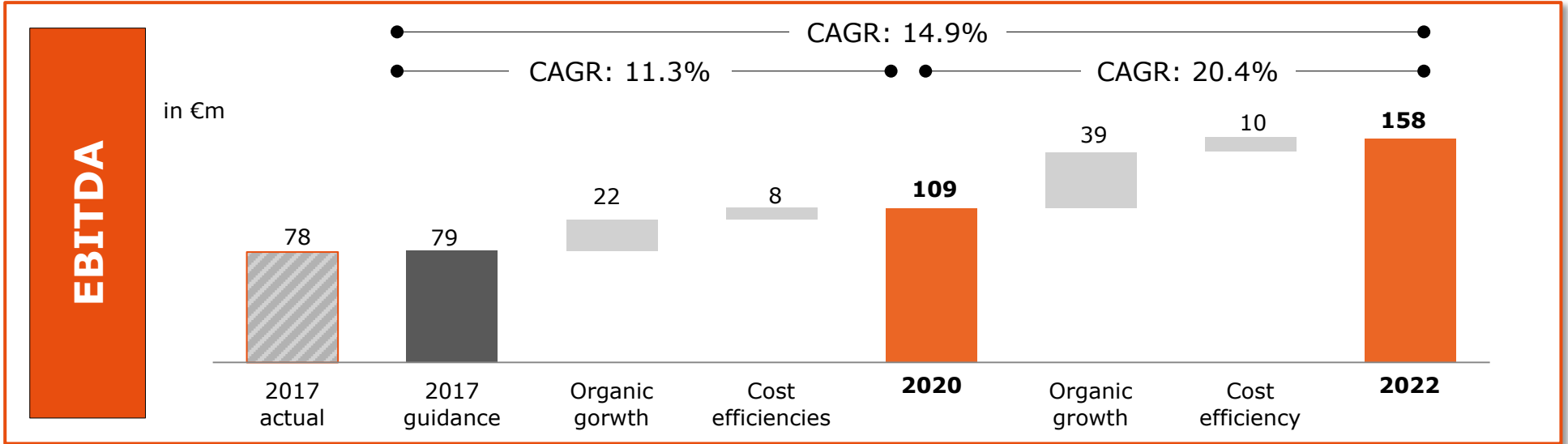
## 33% growth in Number of Customers

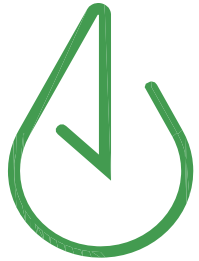




COMMERCIAL AND TRADING

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





# ENVIRONMENT

**Key Targets for the Segment**



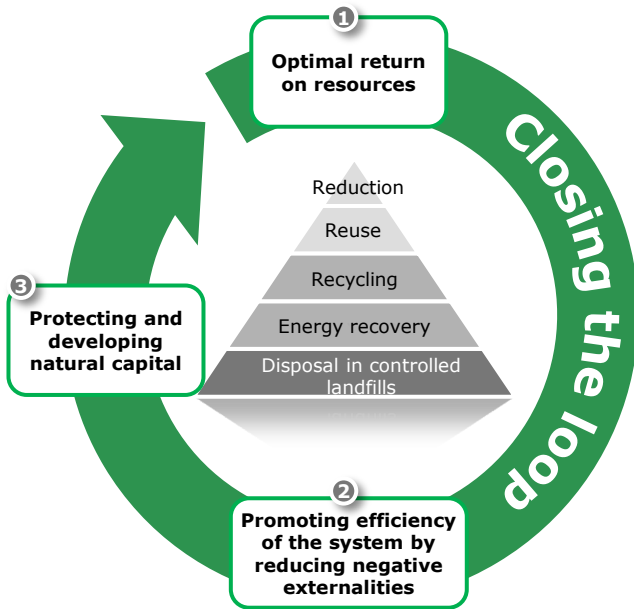
ENVIRONMENT



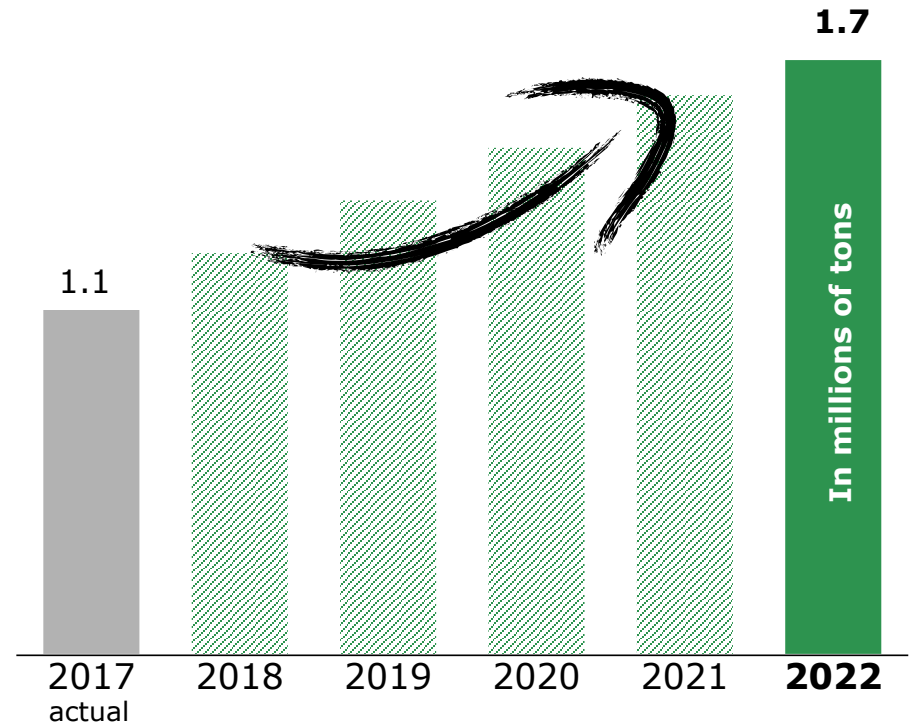
# 70% growth in waste treated by end of Plan

## Key initiatives included in Plan

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



## 70% growth in waste treated

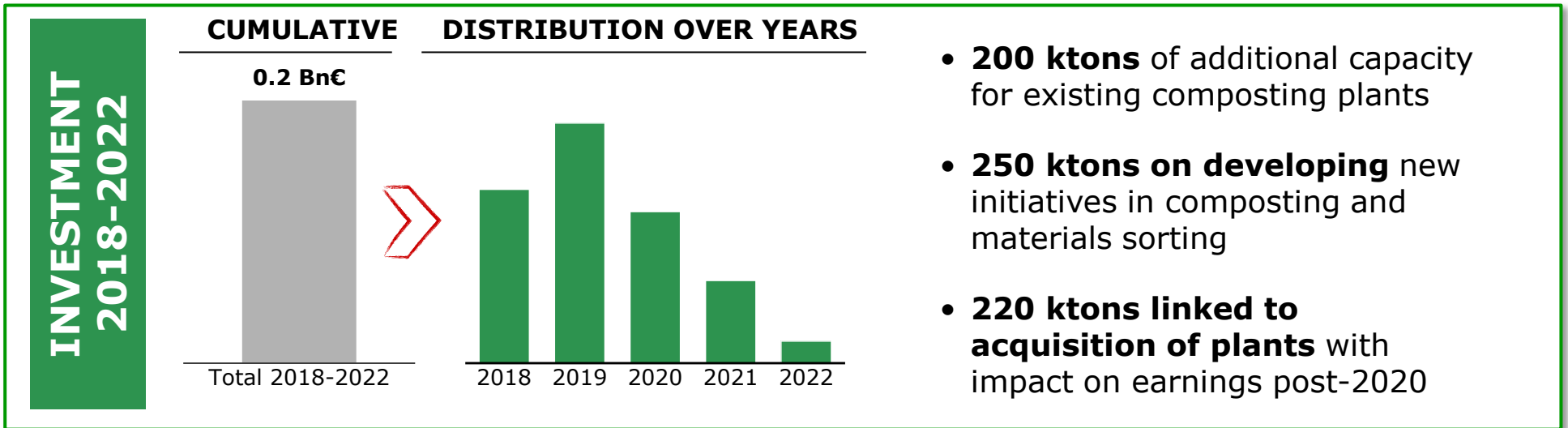
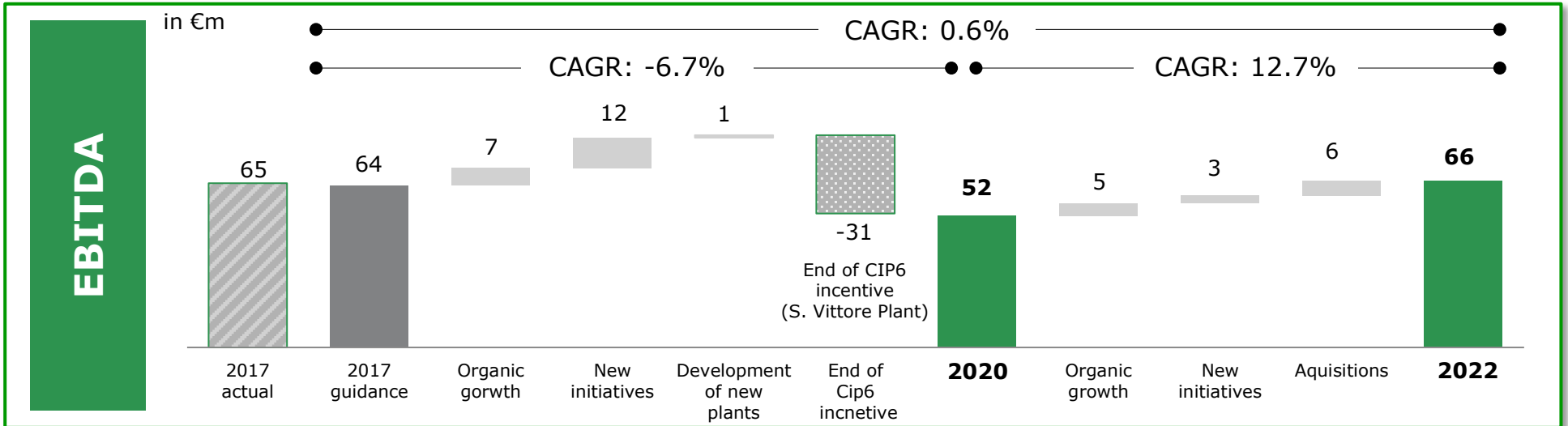


Note: goals proposed by the European Commission, revised upwards by the European Parliament (15 Mar 2017)

ENVIRONMENT



# Expiry of CIP6 offset by new initiatives and selective acquisitions












# STRATEGIC OPPORTUNITIES

**Potential UPSIDE to Business Plan**

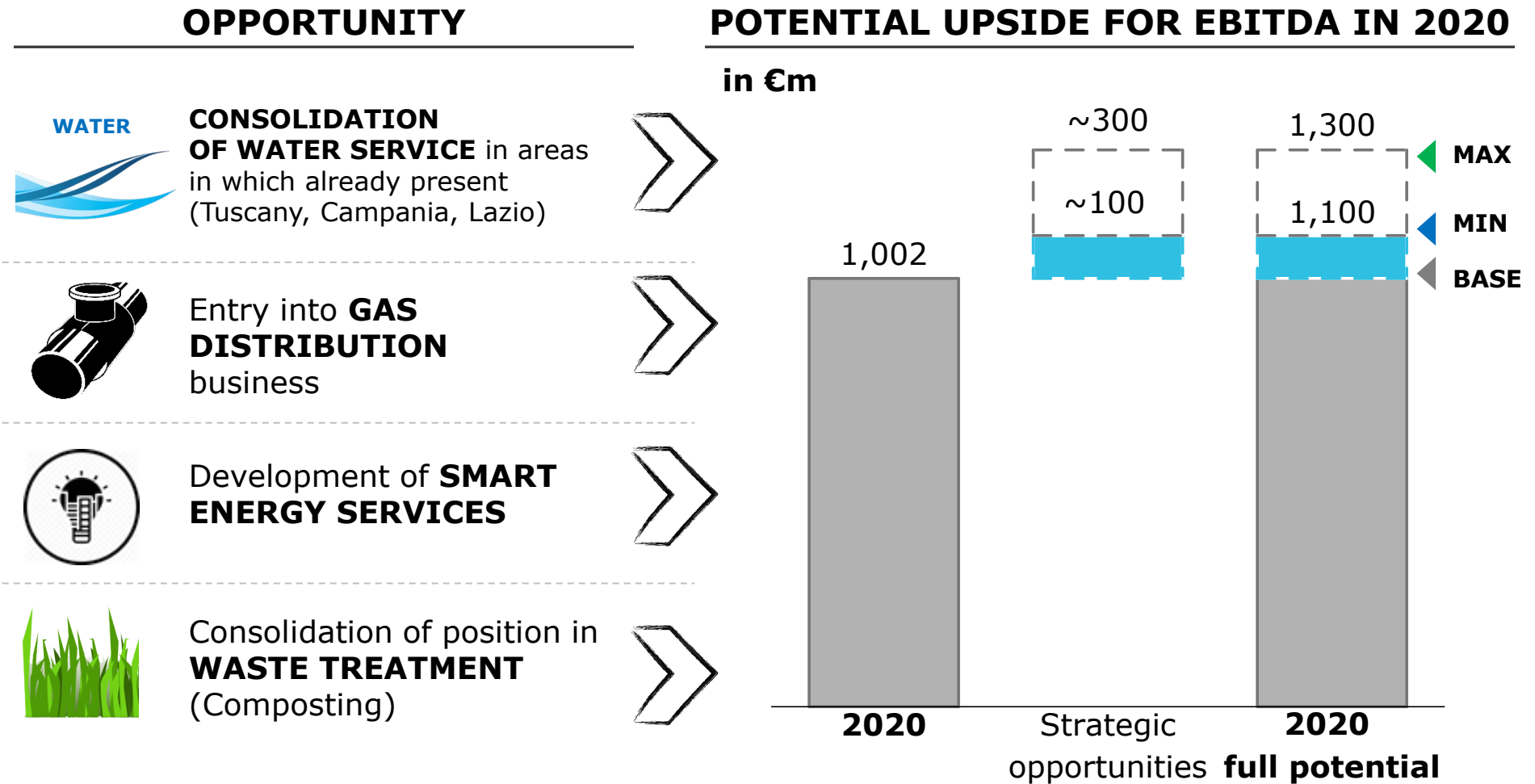


# Potential STRATEGIC INITIATIVES that could be implemented in the FIRST THREE YEARS OF PLAN

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

STRATEGIC OPPORTUNITIES

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



# 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**

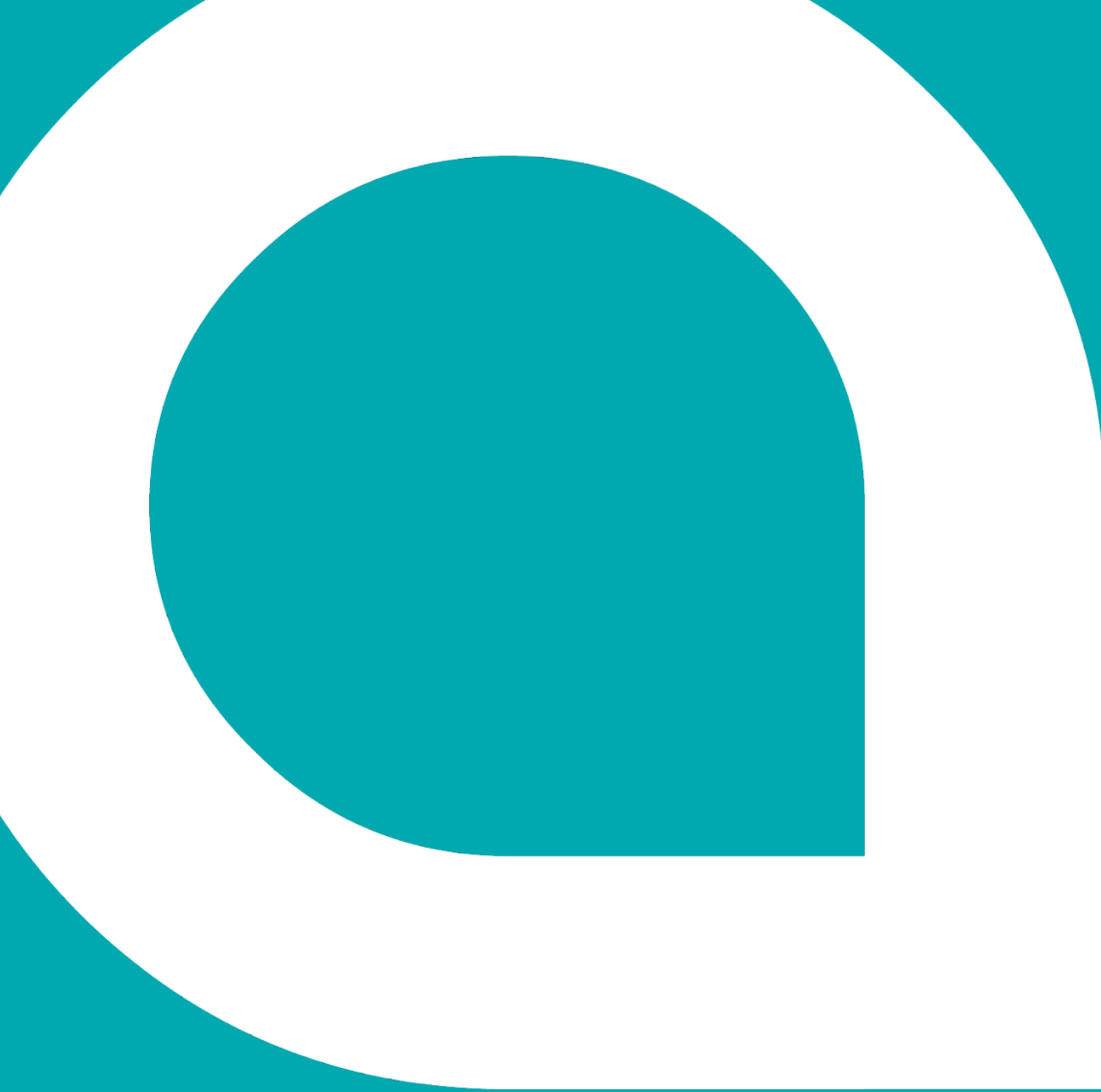


**UPSIDE of up to 30%** for EBITDA linked to initiatives already included among **Strategic Opportunities**

# APPENDIX

# Main assumptions

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



# 9M 2018 Results

# Executive Summary



## IMPROVED RESULTS THANKS TO CONTRIBUTION FROM ALL BUSINESS AREAS

- **EBITDA** €685m + 9%
- **EBIT** €381m +31%
- **Net profit** €215m +41%



## RAISED EBITDA GUIDANCE FOR 2018 THANKS TO STRONG IMPROVEMENT IN OPERATIONAL PROCESSES INVOLVED IN MANAGEMENT OF INFRASTRUCTURE



## SUBSTANTIAL CAPEX INCREASE, ESPECIALLY IN REGULATED BUSINESSES

- **Capex** €413m +12% (~90% relates to regulated activities)



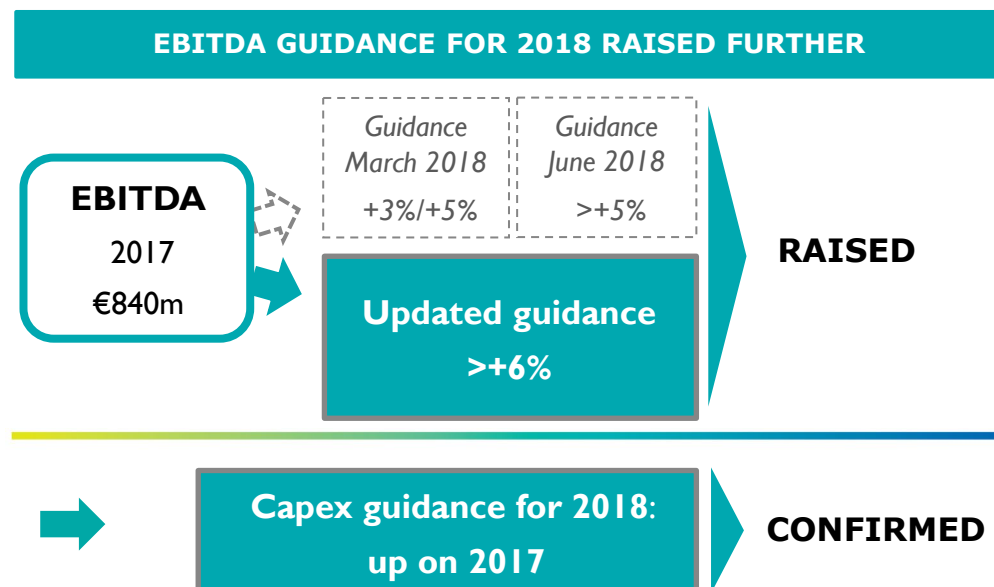
## NET DEBT UNDER CONTROL, 2018 GUIDANCE OF APPROXIMATELY €2.6BN CONFIRMED



## ENTRY INTO GAS DISTRIBUTION THROUGH ACQUISITION OF 51% OF “PESCARA DISTRIBUZIONE GAS”: FIRST STEP IN ACHIEVING STRATEGIC INITIATIVES INCLUDED IN BUSINESS PLAN.

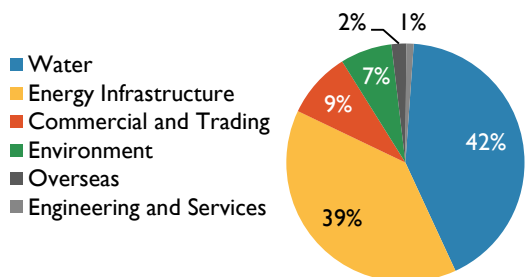


(€m)	9M 2018	9M 2017	% change (alb)
	(a)	(b)	
<b>Consolidated revenue</b>	<b>2,173.9</b>	<b>2,037.9</b>	<b>+6.7%</b>
<b>EBITDA</b>	<b>685.2</b>	<b>625.8</b>	<b>+9.5%</b>
<b>EBIT</b>	<b>381.0</b>	<b>291.3</b>	<b>+30.8%</b>
<b>Group net profit/(loss)</b>	<b>214.8</b>	<b>152.6</b>	<b>+40.8%</b>
<hr/>			
<b>Capex</b>	<b>413.2</b>	<b>368.9</b>	<b>+12.0%</b>



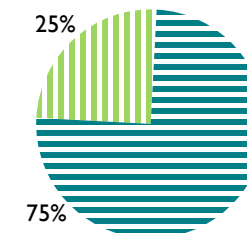
(€m)	30 Sep 2018	31 Dec 2017	30 Sep 2017	% change (alb)	% change (alc)
	(a)	(b)	(c)		
<b>Net debt</b>	<b>2,631.1</b>	<b>2,421.5</b>	<b>2,487.3</b>	<b>+8.7%</b>	<b>+5.8%</b>
<b>Invested capital</b>	<b>4,387.7</b>	<b>4,232.7</b>	<b>4,279.9</b>	<b>+3.7%</b>	<b>+2.5%</b>



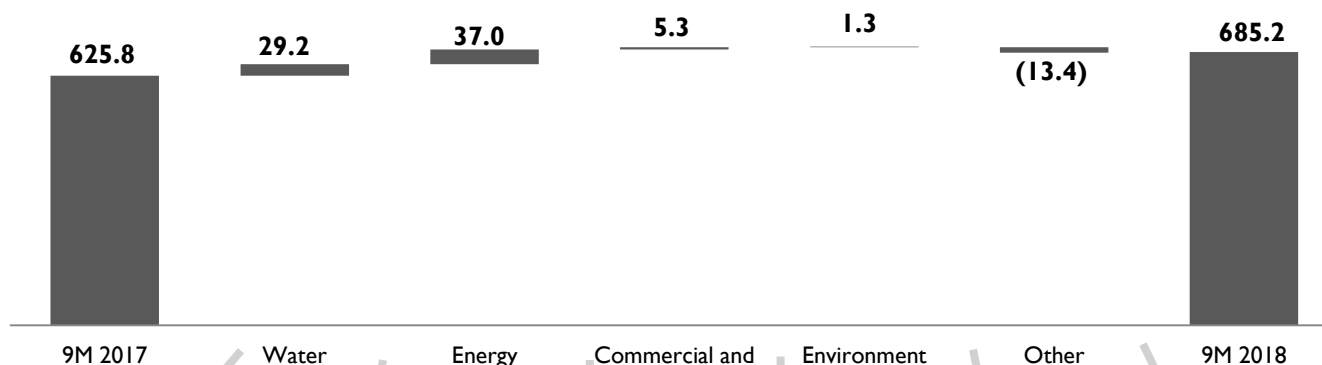


EBITDA 9M 2018

■ EBITDA from non-regulated businesses  
 ■ EBITDA from regulated businesses



## EBITDA (€m)



## Average Group workforce

9M 2018	9M 2017	Change
5,545	5,474	+71

EBITDA	293	276	63	48	5
	270 companies consolidated line-by-line 23 companies consolidated using equity method	238 Distribution 40 Generation (2) Public lighting			

# EBITDA and quantitative data

## 9M 2018 financial highlights



### Water

EBITDA main drivers

#### EBITDA GROWTH

- ▲ Acea ATO2: +€14.3m (quality bonus €24.2m)
- ▲ Acea ATO5: +€5.4m
- ▲ Companies consolidated using equity method +€7.5m



#### KEY HIGHLIGHTS

- ✓ Significant increase in collections at ATO2 and ATO5 due to optimisation of credit collection strategy

(€m)	9M 2018 (a)	9M 2017 (b)	% change (a/b)	Quantitative data	9M 2018	9M 2017
<b>EBITDA</b>	<b>293.2</b>	<b>264.0</b>	<b>+11.1%</b>	<b>Total volume of water sold (Mm<sup>3</sup>)</b>	<b>313</b>	<b>316</b>
<i>of which:</i>						
<i>Profit/(Loss) from companies consolidated under IFRS 11</i>	23.5	16.0	+46.9%			
<b>Capex (*)</b>	<b>224.6</b>	<b>183.7</b>	<b>+22.3%</b>			
	<b>9M 2018 (a)</b>	<b>9M 2017 (b)</b>	<b>Change (a-b)</b>			
<b>Average workforce</b>	<b>1,801</b>	<b>1,785</b>	<b>+16</b>			

\* Includes non-routine maintenance activities, rebuilding, upgrading and expansion of water network, sewer system and treatment plants.

# EBITDA and quantitative data

## 9M 2018 financial highlights



### Energy infrastructure

EBITDA main drivers

#### EBITDA GROWTH

- ▲ Distribution up €30.7m
- ▲ Generation up €11.4m: increased hydroelectric and thermoelectric production (completion of Tor di Valle plant); extraordinary item €5m\*
- ▼ Public Lighting (LED Plan effect in 2017)



#### KEY HIGHLIGHTS

- ✓ Over 167 km of fibre infrastructure installed

(€m)	9M 2018 (a)	9M 2017 (b)	% change (a/b)	Quantitative data	9M 2018	9M 2017
<b>EBITDA</b>	<b>276.3</b>	<b>239.3</b>	<b>+15.5%</b>	<b>Total electricity distributed (GWh)</b>	<b>7,449</b>	<b>7,604</b>
- Distribution	238.5	207.8	+14.8%	<b>Number of customers ('000s)</b>	<b>1,628</b>	<b>1,629</b>
- Generation	40.2	28.8	+39.6%	<b>Total electricity produced (GWh)</b>	<b>410</b>	<b>324</b>
- Public Lighting	(2.4)	2.7	n/s			
<b>Capex</b>	<b>156.2</b>	<b>148.5</b>	<b>+5.2%</b>			
	<b>9M 2018 (a)</b>	<b>9M 2017 (b)</b>	<b>Change (a-b)</b>			
<b>Average workforce</b>	<b>1,387</b>	<b>1,365</b>	<b>+22</b>			

\* Result of claim for damages from SASI (water service operator in the Province of Chieti) due to unlawful withdrawal of water from River Verde.

# EBITDA and quantitative data

## 9M 2018 financial highlights



### Commercial and Trading

EBITDA main drivers

### EBITDA GROWTH



### KEY HIGHLIGHTS

- ✓ Reduced inbound calls (-39%) reflecting improved customer experience

(€m)	9M 2018 (a)	9M 2017 (b)	%change (alb)	Quantitative data	9M 2018	9M 2017
<b>EBITDA</b>	<b>62.6</b>	<b>57.3</b>	<b>+9.2%</b>	<b>Total electricity sold (GWh)</b>	<b>4,563</b>	<b>5,179</b>
				<i>Enhanced Protection market</i>	1,781	1,984
				<i>Free market</i>	2,782	3,195
<b>Capex</b>	<b>9.5</b>	<b>11.2</b>	<b>-15.2%</b>	<b>No. of PODs for electricity ('000s)</b>	<b>1,175</b>	<b>1,224</b>
				<i>Enhanced Protection market</i>	845	907
				<i>Free market</i>	330	317
<b>Average workforce</b>	<b>465</b>	<b>474</b>	<b>-9</b>	<b>Total gas sold (Mm<sup>3</sup>)</b>	<b>88</b>	<b>65</b>
				<b>No. of gas customers ('000s)</b>	<b>172</b>	<b>167</b>

# EBITDA and quantitative data

## 9M 2018 financial highlights



### Environment

EBITDA main drivers

#### EBITDA SLIGHTLY UP

- ▲ Acea Ambiente: +€1.6m
- ▲ Iseco: +€0.3m
- ▼ Acque Industriali: - €1.0m
- ▲ Aquaser: +€0.4m



#### KEY HIGHLIGHTS

- ✓ Re-start of Aprilia and Sabaudia plants
- ✓ Consents obtained for Orvieto landfill and Sabaudia composting plant

(€m)	9M 2018 (a)	9M 2017 (b)	% change (a/b)	Quantitative data	9M 2018	9M 2017
<b>EBITDA</b>	<b>48.1</b>	<b>46.8</b>	<b>+2.8%</b>	<b>Treatment and disposal* (Ktonnes)</b>	<b>812</b>	<b>819</b>
<b>Capex</b>	<b>13.1</b>	<b>11.9</b>	<b>+10.1%</b>	<b>WTE electricity produced (GWh)</b>	<b>264</b>	<b>264</b>

	9M 2018 (a)	9M 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>360</b>	<b>353</b>	<b>+7</b>

\*Includes ash disposed of

# EBITDA and quantitative data

## 9M 2018 financial highlights



### Overseas

(€m)	9M 2018	9M 2017	
<b>EBITDA</b>	<b>11.1</b>	<b>11.1</b>	
<b>Capex</b>	<b>4.0</b>	<b>3.5</b>	
	9M 2018 (a)	9M 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>608</b>	<b>593</b>	<b>+15</b>



### Engineering and Services

(€m)	9M 2018	9M 2017	
<b>EBITDA</b>	<b>10.9</b>	<b>14.6</b>	
<b>Capex</b>	<b>0.8</b>	<b>0.5</b>	
	9M 2018 (a)	9M 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>262</b>	<b>317</b>	<b>-55</b>

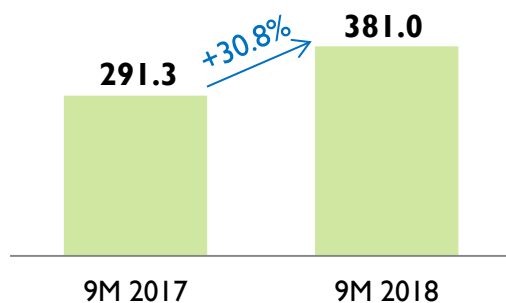


### Holding

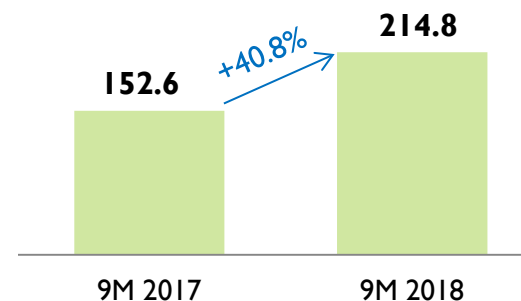
(€m)	9M 2018	9M 2017	
<b>EBITDA</b>	<b>-17.0</b>	<b>-7.3</b>	
<b>Capex</b>	<b>5.2</b>	<b>9.6</b>	
	9M 2018 (a)	9M 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>662</b>	<b>587</b>	<b>+75</b>

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

## EBIT (€m)



## NET PROFIT (€m)



TAX RATE	9M 2017	9M 2018
	32.7%	30.4%

(€m)	9M 2018	9M 2017	% change
Depreciation	251.8	228.3	+10.3%
Write-downs	44.9	78.8	-43.0%
Provisions	7.5	27.5	-72.7%
<b>Total</b>	<b>304.2</b>	<b>334.6</b>	<b>-9.1%</b>



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



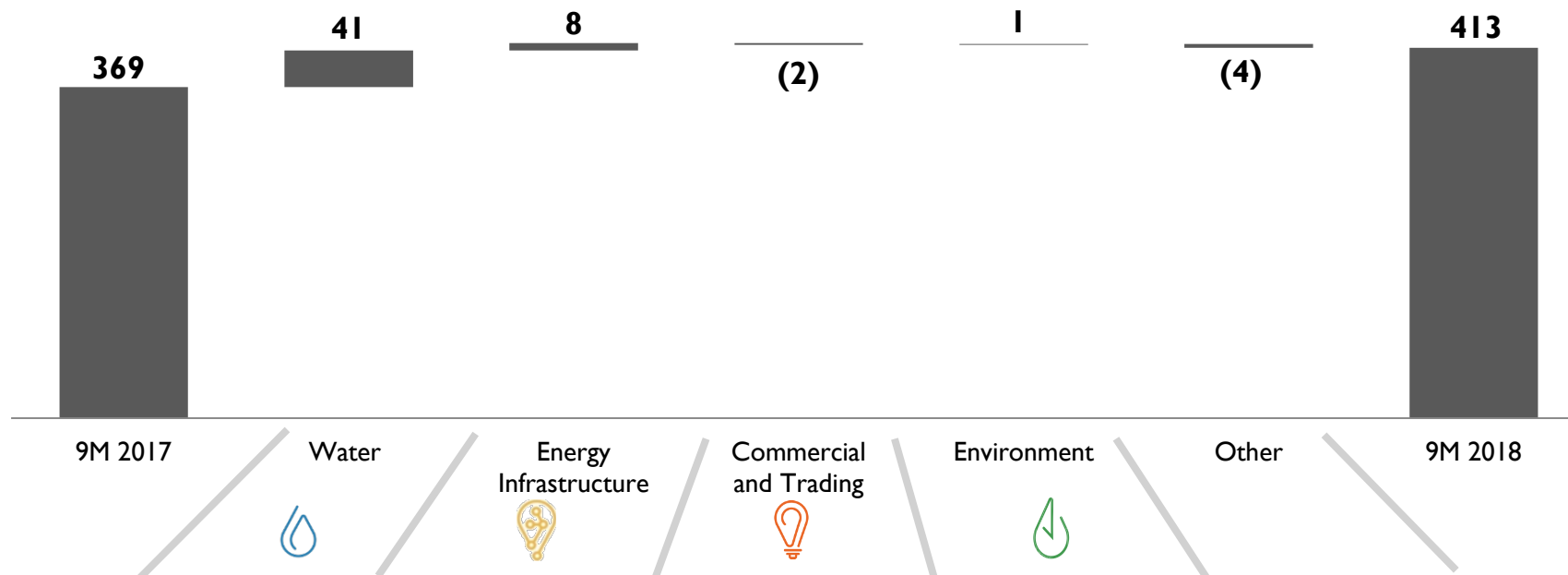
Reduced credit losses due to improved collections and write-downs of amounts due from Gala in 9M 2017.



Lower provisions for early retirement and redundancy scheme compared with 9M 2017.



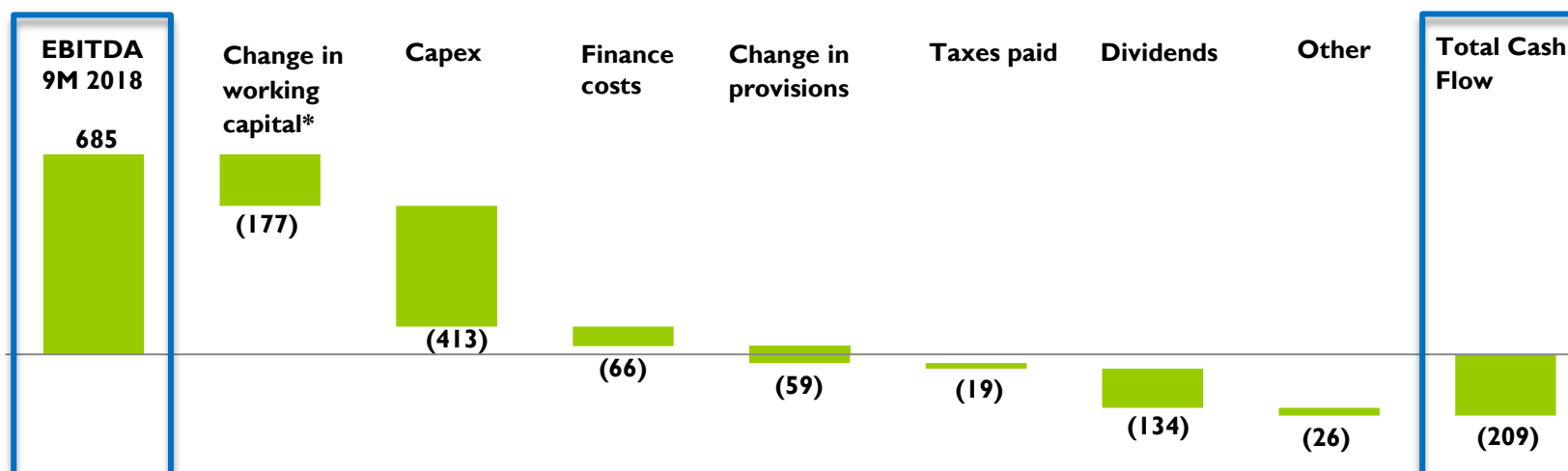
## CAPEX (€m)



CAPEX	225	156	9	13	10
	<ul style="list-style-type: none"> <li>• Repair and widening of water and sewage pipes</li> <li>• Extraordinary maintenance of water centres</li> <li>• Work on treatment plants</li> </ul>	<ul style="list-style-type: none"> <li>• Upgrade and expansion of grid</li> <li>• Revamping of Mandela power plant</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced investment in ICT</li> </ul>	<ul style="list-style-type: none"> <li>• Work on Terni and San Vittore WTE plants</li> <li>• Work on waste treatment and biogas production plants at Orvieto landfill</li> </ul>	

(€m)	9M 2018 A	9M 2017 B	Diff. A-B
EBITDA	685	626	59
Change in working capital	(177)	(243)	66
CAPEX	(413)	(369)	(44)
<b>FREE CASH FLOW</b>	<b>95</b>	<b>14</b>	<b>81</b>
Net finance income/(costs)	(66)	(57)	(9)
Change in provisions	(59)	(92)	33
Taxes paid	(19)	(74)	55
Dividends	(134)	(132)	(2)
Other	(26)	(18)	(8)
<b>TOTAL CASH FLOW</b>	<b>(209)</b>	<b>(360)</b>	<b>151</b>

Compared to the same period of 2017, in the **first 9 months, WC improved** by approximately **€66m**, thanks mainly to the improved collections at ATO2 (+€73m compared with 9M 2017). **WC needs in LTM** total approximately **€50m**.



\* Before provisions for bad debts

# Net debt

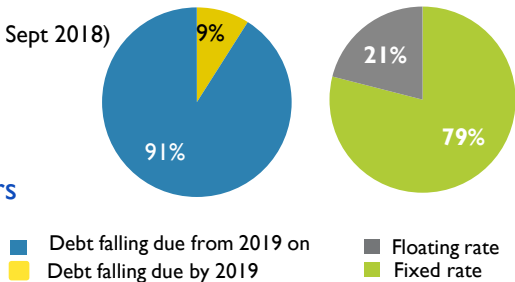
(€m)	30 Sept 2018 (a)	31 Dec 2017 (b)	30 Sept 2017 (c)	Change (a-b)	Change (a-c)
<b>Net debt</b>	<b>2,631.1</b>	<b>2,421.5</b>	<b>2,487.3</b>	<b>209.6</b>	<b>143.8</b>
Medium/Long-term	3,359.9	2,706.6	2,475.9	653.3	884.0
Short-term	(728.8)	(285.1)	11.4	(443.7)	(740.2)

NET DEBT / EQUITY 30 SEPT. 2018	NET DEBT 30 SEPT. 2018 / EBITDA LTM
<b>1.5x</b>	<b>2.9x</b>

## Debt structure

(maturity and interest rates at 30 Sept 2018)

- > Fixed rate 79%
- > Average cost 2.21%
- > Average term 6.0 years



## Rating

FitchRatings

MOODY'S\*

**BBB+**

**Baa2**

Stable Outlook

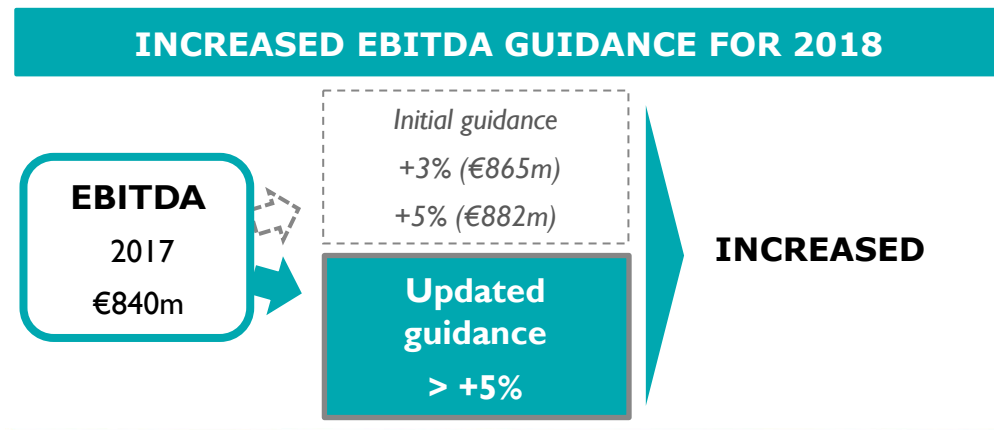
Stable Outlook

\* Confirmed as of 11 October 2018



# H1 2018 Results

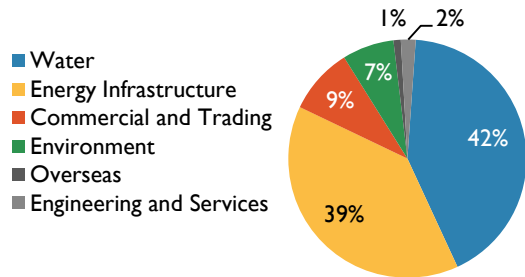
(€m)	HI 2018 (a)	HI 2017 (b)	% change (a/b)
<b>Consolidated revenue</b>	<b>1,454.3</b>	<b>1,372.5</b>	<b>+6.0%</b>
<b>EBITDA</b>	<b>449.9</b>	<b>414.1</b>	<b>+8.6%</b>
<b>EBIT</b>	<b>250.7</b>	<b>194.9</b>	<b>+28.6%*</b>
<b>Group net profit/(loss)</b>	<b>142.7</b>	<b>103.5</b>	<b>+37.9%*</b>



\* EBIT and net profit to rise 17% and 21%, respectively, compared with the adjusted results for 2017 (after stripping out the negative impact – totalling €19m before tax – of the restored ownership of a property housing a car park and a reduction in the amounts due to Areti from GALA).

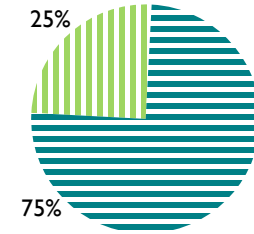
(€m)	30 June 2018 (a)	31 Dec 2017 (b)	30 June 2017 (c)	% change (a/b)	% change (a/c)
<b>Net debt</b>	<b>2,570.3</b>	<b>2,421.5</b>	<b>2,401.4</b>	<b>+6.1%</b>	<b>+7.0%</b>
<b>Invested capital</b>	<b>4,236.6</b>	<b>4,232.7</b>	<b>4,145.5</b>	<b>+0.1%</b>	<b>+2.2%</b>



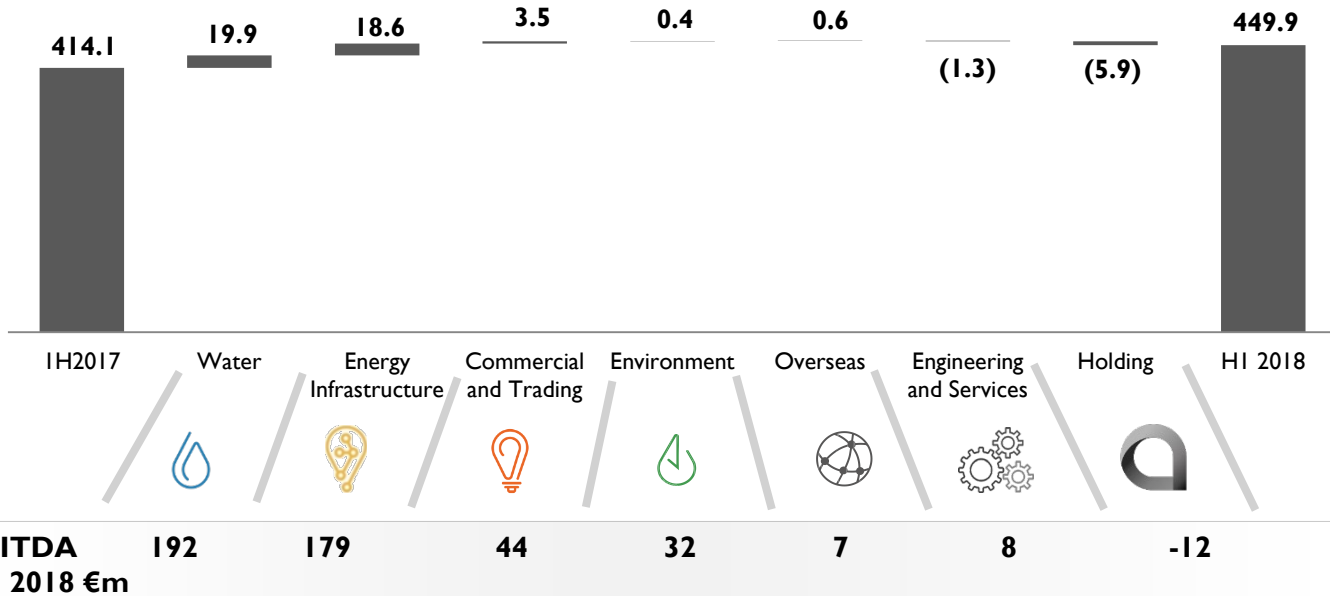


## EBITDA HI 2018

■ EBITDA from non-regulated businesses  
 ■ EBITDA from regulated businesses



## EBITDA (€m)



## Average Group workforce

HI 2018	HI 2017	Change
5,545	5,449	+96

# EBITDA and quantitative data

## HI 2018 financial highlights



### Water

EBITDA main drivers

#### EBITDA GROWTH

- ▲ Acea ATO2: +€6.7m (quality bonus €15.7m)
- ▲ Acea ATO5: +€4.0m
- ▲ Companies consolidated using equity method +€7.2m



#### KEY HIGHLIGHTS

- ✓ Increased collections at ATO2 and ATO5 due to improved collection strategy
- ✓ Extension of Acque's concession term to 2031

(€m)	HI 2018 (a)	HI 2017 (b)	% change (a/b)	Quantitative data	HI 2018	HI 2017
<b>EBITDA</b>	<b>192.3</b>	<b>172.4</b>	<b>+11.5%</b>	<b>Total volume of water sold (Mm<sup>3</sup>)</b>	<b>210</b>	<b>208</b>
<i>of which:</i>						
<i>Profit/(Loss) from companies consolidated under IFRS 11</i>	<i>17.2</i>	<i>10.0</i>	<i>+72.0%</i>			
<b>Capex</b>	<b>156.4</b>	<b>121.9</b>	<b>+28.3%</b>			

	HI 2018 (a)	HI 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>1,794</b>	<b>1,774</b>	<b>+20</b>

# EBITDA and quantitative data

## HI 2018 financial highlights



### Energy Infrastructure

EBITDA main drivers

#### EBITDA GROWTH

- ⬆️ Distribution up €19.3m
- ⬆️ Generation +€3.3m - increased hydroelectric and thermoelectric production (completion of Tor di Valle plant)
- ⬇️ Public Lighting (in 2017 LED plan effect)



#### KEY HIGHLIGHTS

- ✓ Over 120 km of fibre infrastructure installed

(€m)	HI 2018 (a)	HI 2017 (b)	% change (a/b)	Quantitative data	HI 2018	HI 2017
<b>EBITDA</b>	<b>178.6</b>	<b>160.0</b>	<b>+11.6%</b>	<b>Total electricity distributed (GWh)</b>	<b>4,845</b>	<b>4,842</b>
- Distribution	155.1	135.8	+14.2%	<b>Number of customers ('000s)</b>	<b>1,627</b>	<b>1,628</b>
- Generation	25.2	21.9	+15.1%	<b>Total electricity produced (GWh)</b>	<b>298</b>	<b>234</b>
- Public Lighting	-1.7	2.2	n/s			
<b>Capex</b>	<b>105.5</b>	<b>105.2</b>	<b>+0.3%</b>			
	<b>HI 2018 (a)</b>	<b>HI 2017 (b)</b>	<b>Change (a-b)</b>			
<b>Average workforce</b>	<b>1,386</b>	<b>1,362</b>	<b>+24</b>			



# EBITDA and quantitative data

## HI 2018 financial highlights



### Commercial and Trading EBITDA GROWTH

EBITDA main drivers



### KEY HIGHLIGHTS

- ✓ Decline in enhanced protection market customer base partially offset by growth in free market
- ✓ Reduced inbound calls (-37%) reflecting improved customer experience

(€m)	HI 2018 (a)	HI 2017 (b)	%change (a/b)	Quantitative data	HI 2018	HI 2017
<b>EBITDA</b>	<b>44.1</b>	<b>40.6</b>	<b>+8.6%</b>	<b>Total electricity sold (GWh)</b>	<b>3,086</b>	<b>3,408</b>
				<i>Enhanced Protection Market</i>	1,234	1,316
				<i>Free Market</i>	1,852	2,092
<b>Capex</b>	<b>5.5</b>	<b>7.9</b>	<b>-30.4%</b>	<b>No. of PODs for electricity ('000s)</b>	<b>1,190</b>	<b>1,229</b>
				<i>Enhanced Protection Market</i>	865	914
				<i>Free Market</i>	325	315
<b>Average workforce</b>	<b>465</b>	<b>476</b>	<b>-11</b>	<b>Total gas sold (Mm<sup>3</sup>)</b>	<b>73</b>	<b>57</b>
				<b>No. of gas customers ('000s)</b>	<b>169</b>	<b>166</b>

# EBITDA and quantitative data

## HI 2018 financial highlights



### Environment

EBITDA main drivers

#### EBITDA SLIGHTLY UP

- ↑ WTE growth due to increase in inputs, gate fees and energy price
- ↑ Acea Ambiente: +€1.5m
- ↑ Iseco: +€0.2m
- ↑ Acque Industriali: +€0.2m
- ↓ Aquaser (sludge recovery): -€1.5m



#### KEY HIGHLIGHTS

- ✓ Re-start of Aprilia and Sabaudia plants
- ✓ Consents obtained for Orvieto landfill and Sabaudia composting plant

(€m)	HI 2018 (a)	HI 2017 (b)	% change (a/b)	Quantitative data	HI 2018	HI 2017
<b>EBITDA</b>	<b>31.8</b>	<b>31.3</b>	<b>+1.6%</b>	<b>Treatment and disposal* (Ktonnes)</b>	<b>552</b>	<b>549</b>
<b>Capex</b>	<b>8.6</b>	<b>8.5</b>	<b>+1.2%</b>	<b>WTE electricity produced (GWh)</b>	<b>178</b>	<b>175</b>

	HI 2018 (a)	HI 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>360</b>	<b>350</b>	<b>+10</b>

\* Includes ash disposed of

# EBITDA and quantitative data

## HI 2018 financial highlights



### Overseas

(€m)	HI 2018	HI 2017	
<b>EBITDA</b>	<b>7.3</b>	<b>6.7</b>	
<b>Capex</b>	<b>2.2</b>	<b>2.5</b>	
	HI 2018 (a)	HI 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>606</b>	<b>590</b>	<b>+16</b>



### Engineering and Services

(€m)	HI 2018	HI 2017	
<b>EBITDA</b>	<b>7.5</b>	<b>8.8</b>	
<b>Capex</b>	<b>0.5</b>	<b>0.4</b>	
	HI 2018 (a)	HI 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>272</b>	<b>314</b>	<b>-42</b>

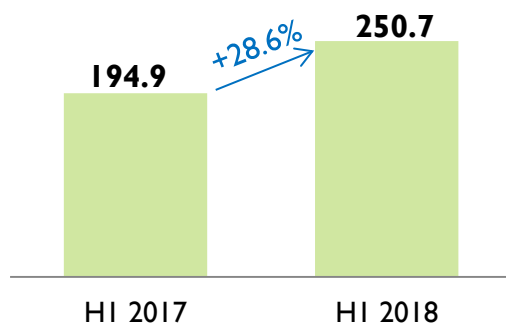


### Holding

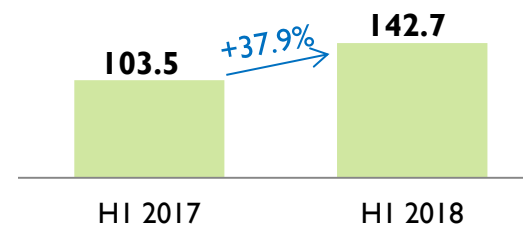
(€m)	HI 2018	HI 2017	
<b>EBITDA</b>	<b>(11.7)</b>	<b>(5.8)</b>	
<b>Capex</b>	<b>3.1</b>	<b>5.9</b>	
	HI 2018 (a)	HI 2017 (b)	Change (a-b)
<b>Average workforce</b>	<b>662</b>	<b>583</b>	<b>+79</b>

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

## EBIT (€m)



## NET PROFIT (€m)



TAX RATE	HI 2017	HI 2018
	32.9%	30.8%

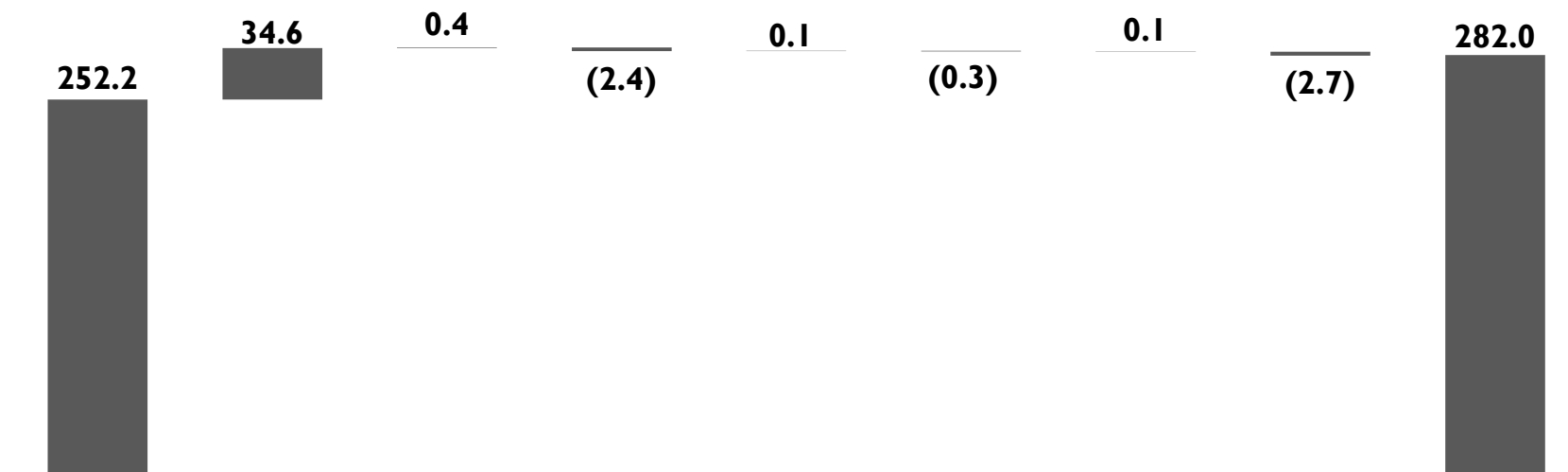
(€m)	HI 2018	HI 2017	% change
Depreciation	161.8	152.5	+6.1%
Write-downs	31.9	46.3	-31.1%
Provisions	5.5	20.4	-73.0%
<b>Total</b>	<b>199.2</b>	<b>219.2</b>	<b>-9.1%</b>

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

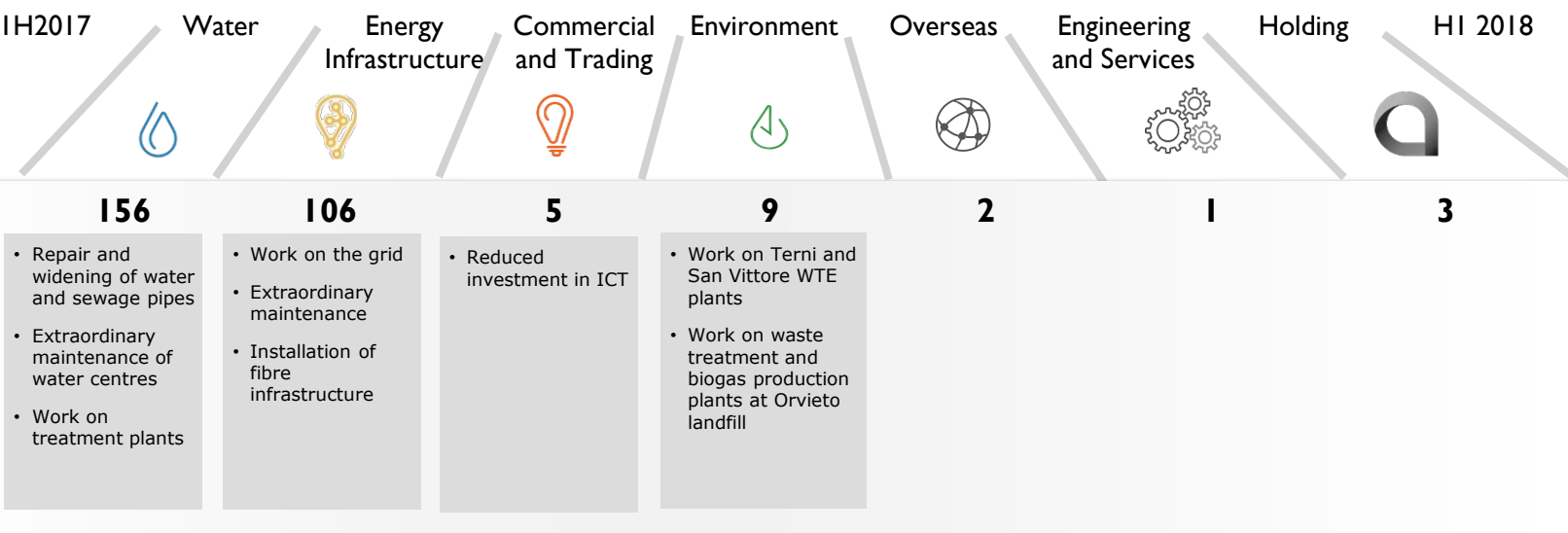
Reduced credit losses due to improved collections and transition to IFRS9.

Lower provisions for early retirement and redundancy scheme compared with HI 2017.

## CAPEX (€m)

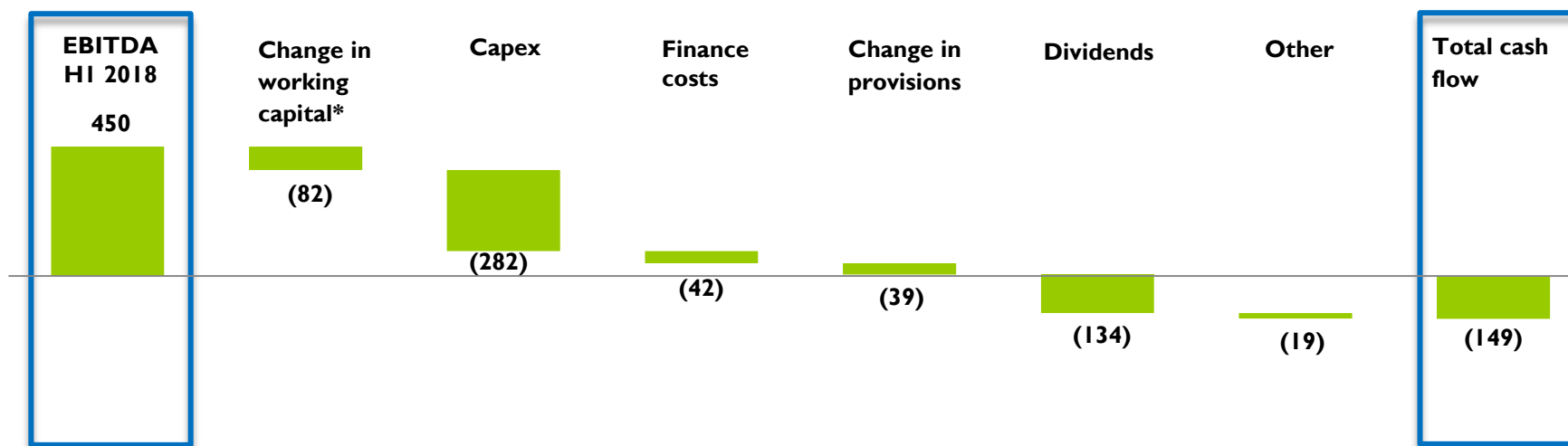


### Capex HI 2018 €m



# Focus on cash flow (1/2)

(€m)	HI 2018 A	HI 2017 B	Diff. A-B
EBITDA	450	414	36
Change in working capital	(82)	(209)	127
CAPEX	(282)	(252)	(31)
<b>FREE CASH FLOW</b>	<b>85</b>	<b>(47)</b>	<b>132</b>
Net finance income/(costs)	(42)	(31)	(12)
Change in provisions	(39)	(54)	15
Dividends	(134)	(132)	(2)
Other	(19)	(11)	(8)
<b>TOTAL CASH FLOW</b>	<b>(149)</b>	<b>(274)</b>	<b>126</b>



\* Before provisions for bad debts

- ❖ **Q2 2018 CASH GENERATED: €20M INFLOW FROM WORKING CAPITAL**
- ❖ **HI 2018 LTM CASH GENERATED: €11M CASH INFLOW FROM WORKING CAPITAL**

Increase in working capital needs in HI 2018 entirely due to trade payables as a result of seasonal factors

Change in working capital in HI 2018 due to receivables practically zero thanks to improvement in collections

## **OPTIMISATION OF COLLECTION STRATEGY** IN WATER, RETAIL ENERGY AND ELECTRICITY DISTRIBUTION BUSINESSES:

- **WATER (ATO2+ATO5):** €60m increase in collections versus HI 2017, partly thanks to agreements with major debtors. ATO2's DSO cut by 3 days.
- **RETAIL ENERGY:** 5-day improvement in DSO.
- **ELECTRICITY DISTRIBUTION:** €50m increase in collections versus HI 2017.

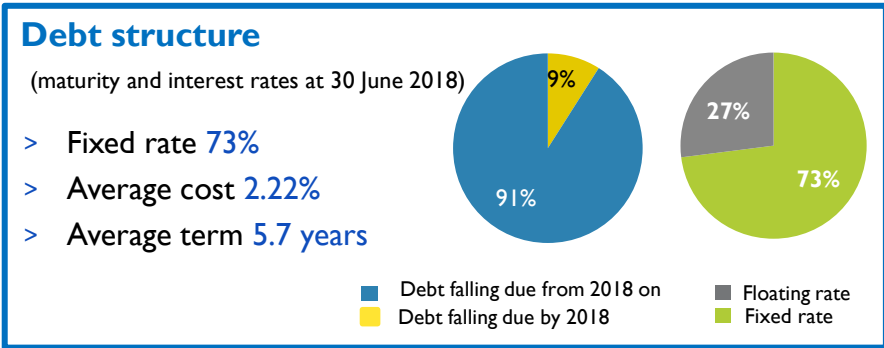
# Net debt

(€m)	30 June 2018 (a)	31 Dec 2017 (b)	30 June 2017 (c)	Change (a-b)	Change (a-c)
<b>Net debt</b>	<b>2,570.3</b>	<b>2,421.5</b>	<b>2,401.4</b>	<b>148.8</b>	<b>168.9</b>
Medium/Long-term	3,359.7	2,706.6	2,804.3	653.1	555.4
Short-term	(789.4)	(285.1)	(402.9)	(504.3)	(386.5)

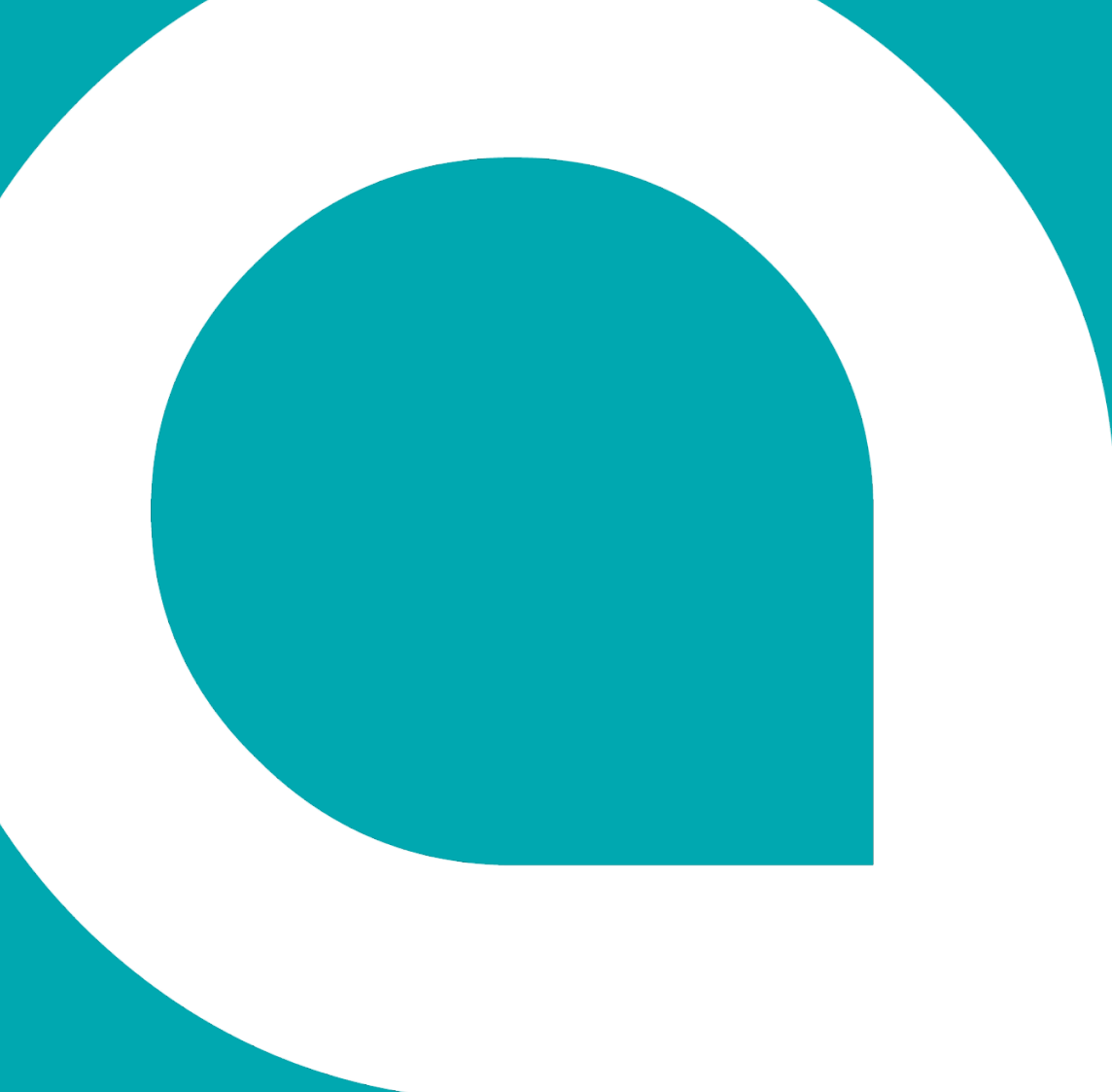
NET DEBT / EQUITY 30 JUNE 2018	NET DEBT 30 JUNE 2018 / EBITDA LTM
<b>1.5x</b>	<b>2.9x</b>

February 2018 – **successful issue of bonds** as part of the €1bn EMTN programme, divided into two tranches:

- **€300m, 5 years, coupon 3-m Euribor +0.37%**
- **€700m, 9.4 years, fixed rate of 1.5%**







# Q1 2018 Results

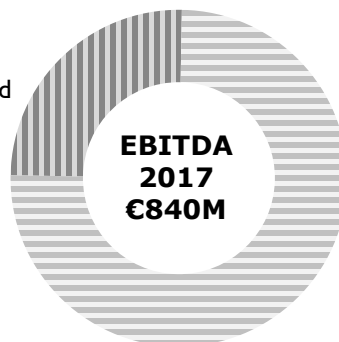
(€m)	Q1 2018 (a)	Q1 2017 (b)	% change (a/b)
<b>Consolidated revenue</b>	<b>745.5</b>	<b>725.6</b>	<b>+2.7%</b>
<b>EBITDA</b>	<b>229.2</b>	<b>214.4</b>	<b>+6.9%</b>
<b>EBIT</b>	<b>127.4</b>	<b>117.2</b>	<b>+8.7%</b>
<b>Group net profit/(loss)</b>	<b>77.4</b>	<b>65.7</b>	<b>+17.8%</b>
<b>Capex</b>	<b>133.0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

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



# 2017 Results

From non-regulated  
businesses  
25%



From regulated  
businesses  
75%



42%  
of Group  
EBITDA



40%  
of Group  
EBITDA



9%  
of Group  
EBITDA



7%  
of Group  
EBITDA



2%  
of Group  
EBITDA

## Water

### Leading operator in Italy

Lazio, Tuscany, Umbria and Campania

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

## Energy Infrastruc.

### No. two operator in Italy in electricity distribution

- Electricity distributed: ~ 10TWh in the city of Rome
- Public lighting and floodlighting managed: over 224,000 lighting points
- Energy efficiency projects
- Hydroelectric power plants (122 MW)
- Thermo/cogen plants/PV (98MW)

## Comm. & Trading

### One of the main Italian energy player

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

## Environment

### No. 6 Italian operator

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

## Overseas

- Presence in Latin America

## ACEA'S OWNERSHIP

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

Source: CONSOB, April 2018

# 2017 financial highlights

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

\* 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

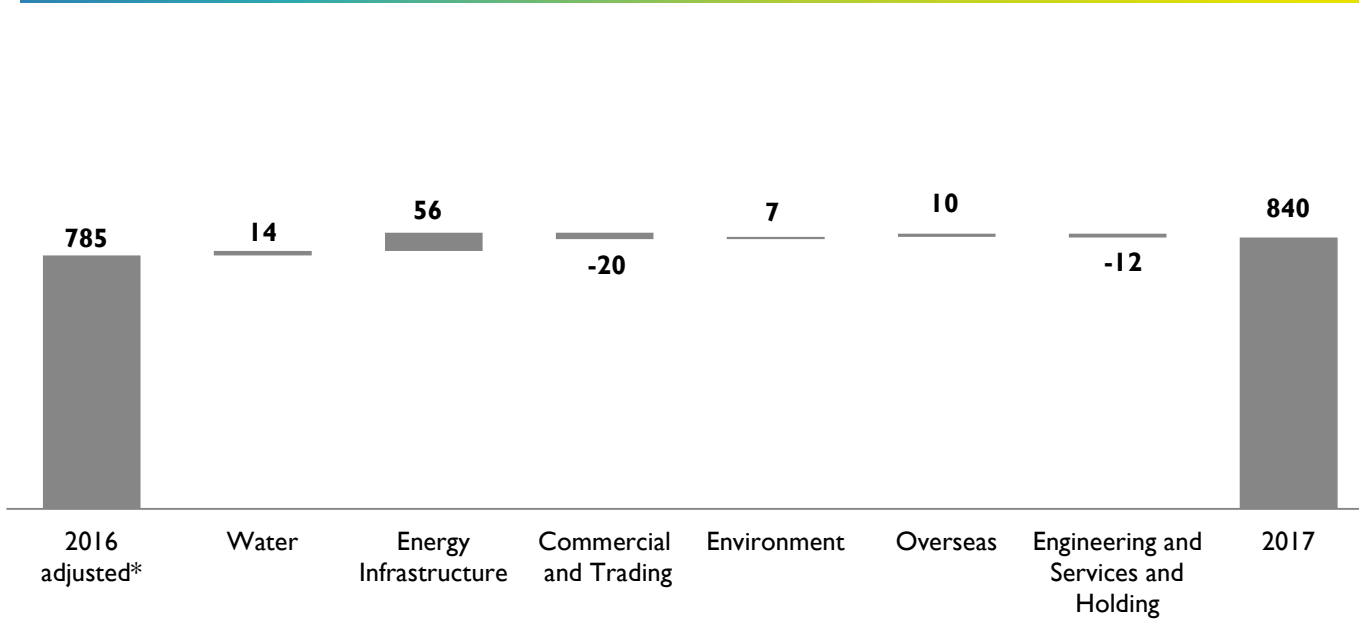
(€m)	31 Dec 2017 (a)	30 Sep 2017 (b)	31 Dec 2016 (c)	%Change (a/b)	% Change (a/c)
<b>Net Debt</b>	<b>2,421.5</b>	<b>2,487.3</b>	<b>2,126.9</b>	<b>-2.6%</b>	<b>+13.9%</b>
<b>Adjusted Net Debt**</b>	<b>2,325.1</b>	<b>2,428.3</b>	<b>2,126.9</b>	<b>-4.2%</b>	<b>+9.3%</b>
<b>Invested Capital</b>	<b>4,244.9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

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

# EBITDA

## Ahead of guidance and the Business Plan forecast

### EBITDA (€m)



### Change in scope of consolidation versus 2016

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

Net Debt	
31 Dec 2017 (€m)	2.1

### Average Group workforce

2017	2016
5,494**	5,048

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

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

# EBITDA and Key quantitative data

## 2017 financial highlights



### Water

EBITDA main drivers

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

(€m)	2017 (a)	2016 (b)	%Change (a/b)	Key quantitative data	2017	2016
<b>EBITDA</b>	<b>349.6</b>	<b>336.0</b>	<b>+4.0%</b>			
<i>of which: Profit/(Loss) from companies consolidated using equity method</i>	<i>24.1</i>	<i>26.5</i>	<i>-9.1%</i>	<b>Total volume of water sold (Mm<sup>3</sup>)</b>	<b>421</b>	<b>421</b>
<b>Capex</b>	<b>271.4</b>	<b>227.1</b>	<b>+19.5%</b>			
	<b>2017 (a)</b>	<b>2016 (b)</b>	<b>Change (a-b)</b>			
<b>Average workforce</b>	<b>1,796</b>	<b>1,818</b>	<b>-22</b>			

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

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

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



# EBITDA and Key quantitative data

## 2017 financial highlights



### Commercial and Trading

EBITDA main drivers



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



Sales activity: lower margins in free market

(€m)	2017 (a)	2016 (b)	%Change (a/b)	Key quantitative data	2017	2016
<b>EBITDA</b>	<b>78.1</b>	<b>98.0*</b>	<b>-20.3%</b>	<b>Total Electricity sold (GWh)</b>	<b>6,843</b>	<b>8,316</b>
				<i>Enhanced Protection Market</i>	2,652	2,757
				<i>Free Market</i>	4,191	5,559
<b>Capex</b>	<b>19.4</b>	<b>27.4</b>	<b>-29.2%</b>	<b>Number of electricity customers ('000s)</b>	<b>1,213</b>	<b>1,254</b>
				<i>Enhanced Protection Market</i>	893	959
				<i>Free Market</i>	320	295
	<b>2017 (a)</b>	<b>2016 (b)</b>	<b>%Change (a-b)</b>	<b>Total Gas sold (Mm<sup>3</sup>)</b>	<b>103</b>	<b>107</b>
<b>Average workforce</b>	<b>474</b>	<b>473</b>	<b>+1</b>	<b>Number of gas customers ('000s)</b>	<b>167</b>	<b>149</b>

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

# EBITDA and Key quantitative data

## 2017 financial highlights



### Environment

EBITDA main drivers



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



Aprilia composting plant fully operational



Change in scope of consolidation (Acque Industriali and Iseco)

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

	2017 (a)	2016 (b)	change (a/b)
<b>Average workforce</b>	<b>355</b>	<b>238</b>	<b>+117</b>

\* Includes ash disposed of



### Overseas



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

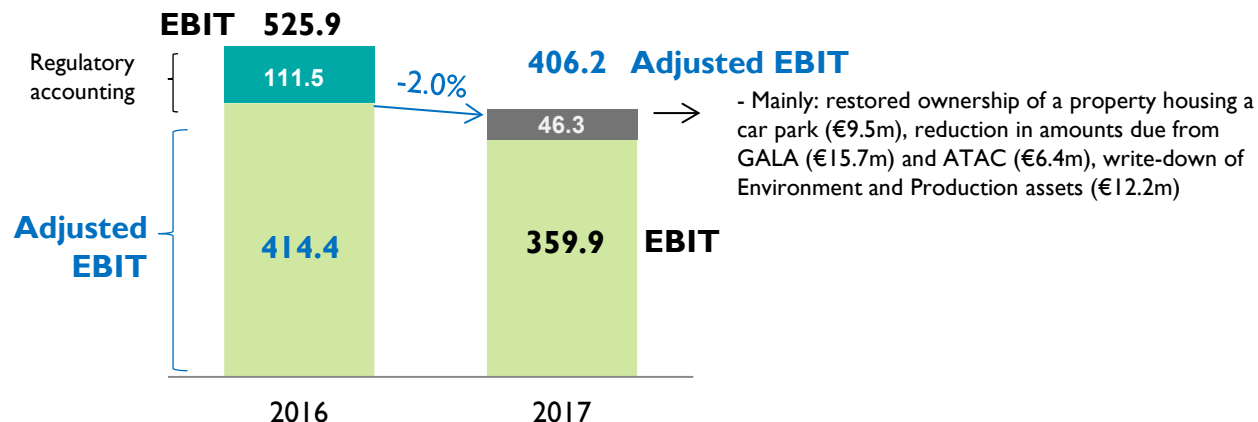
EBITDA main drivers

(€m)	2017	2016	%change
<b>EBITDA</b>	<b>14.4</b>	<b>4.4</b>	<b>n/s</b>
<b>Capex</b>	<b>5.2</b>	<b>1.5</b>	<b>n/s</b>

	2017	2016	change
<b>Average workforce</b>	<b>595</b>	<b>336</b>	<b>+259</b>

## EBIT (€m)

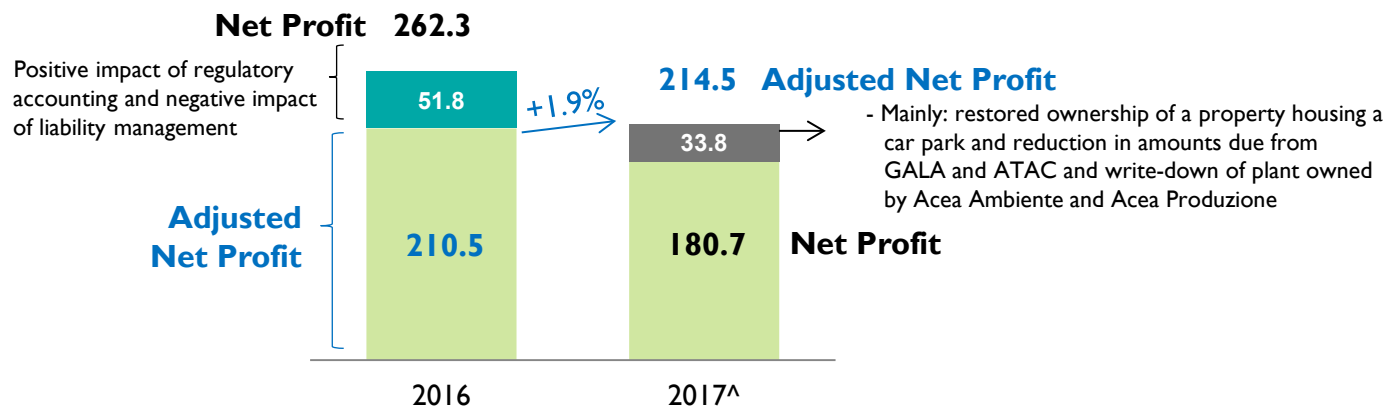


(€m)	2017	2016	% change
Depreciation	328.9	254.2	+29.4%
Write-offs	90.4	64.7	+39.7%
Provisions	60.8	51.5	+18.1%
<b>Total</b>	<b>480.1</b>	<b>370.4</b>	<b>+29.6%</b>

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

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

## NET PROFIT (€m)



TAX RATE	2016	2017^
	34.5%	33.3%

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

## DIVIDEND HISTORY

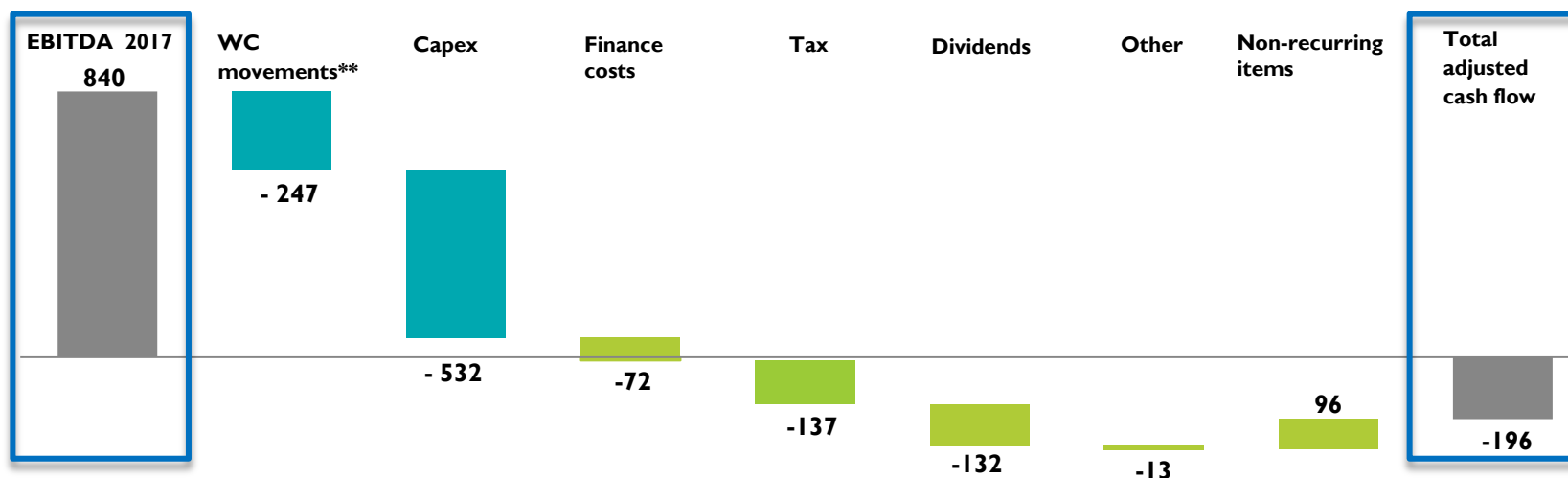
	2014	2015	2016	2017
DPS (€)	0.45	0.50	0.62	0.63
Total Dividend (€m)	95.8	106.5	132.0	134.2
Dividend yield*	4.6%	4.2%	5.2%	4.7%
Payout**	59%	61%	50%	74%

\* Based on average price for the year

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

	2017	2016
EBITDA	840	896
Delta WC	(247)	(85)
CAPEX	(532)	(531)
<b>FREE CASH FLOW</b>	<b>61</b>	<b>281</b>
Net finance income/(costs)	(72)	(110)
Income tax expense	(137)	(110)
Dividends	(132)	(107)
Other	(13)	(72)
<b>TOTAL CASH FLOW</b>	<b>(292)</b>	<b>(117)</b>
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)
<b>NET DEBT</b>	<b>2,421.5</b>	<b>2,487.3</b>	<b>2,126.9</b>	<b>(65.8)</b>	<b>294.6</b>
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
<b>Adjusted NET DEBT*</b>	<b>2,325.1</b>	<b>2,428.3</b>	<b>2,126.9</b>	<b>(103.2)</b>	<b>198.2</b>

NET DEBT/EQUITY  
31 Dec. 2017

1.3x

NET DEBT/EQUITY  
31 Dec. 2016

1.2x

Net Debt/EBITDA  
31 Dec. 2017

2.9x

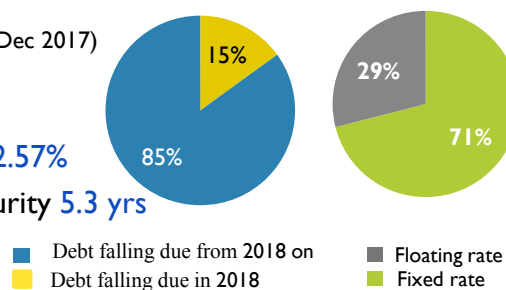
Net Debt/EBITDA  
31 Dec. 2016

2.4x

### Debt structure

(maturity and interest rates at 31 Dec 2017)

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



### Rating

FitchRatings

BBB+

Stable Outlook

MOODY'S

Baa2

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*

## 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<sub>QC</sub>)**, if not already included in the existing Service Charter (recognition does not permit the recognition of rewards at local level).
- The mechanism for recognising a portion of **late payment costs** has been defined, taking into account the varying impact of this problem throughout the country (the maximum recognised cost, calculated on the basis of annual turnover, has been set at **2.1% in the North, 3.8% in Central Italy and 7.1% in the South** and providing incentives for the adoption of efficient credit management solutions.
- The "**ψ**" parameter, on which determination of the component intended to pre-finance the cost of new investment (FNI), may be selected within a range of **0.4-0.8**.
- **The distinction between upgradeable opex and endogenous opex has been retained**. Costs linked to the expansion of operations and/or significant improvements in service quality are also allowed for.
- Based on the parameters established (\*) in the resolution, the sum of the assessed **cost of debt and tax expense in the water sector amounts to 5.4% for the years 2016 and 2017** (compared with 6.1% for the regulatory period 2014-2015 and 6.4% for the period 2012-2013).
- The **1% time-lag for the cost of debt** has been confirmed, offsetting the cost resulting from the time lag between the year in which capex takes place and the year in which the related tariff increase is granted.

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



## TARIFF REGIME FOR SECOND REGULATORY PERIOD 2016-2019

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

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

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

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

## TARIFF REGIME FOR SECOND REGULATORY PERIOD 2016-2019

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

#### ➤ **Technical quality:**

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

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

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

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

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

In Determination DSID 1/2018 of 29 March 2018, the regulator has established the procedures for collecting technical and tariff data and the standard forms to be used for the report accompanying the plan of scheduled works and the revised tariff arrangements for the period 2018-2019.

## 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.

## Resolution 917/2017 – Technical quality

(1/3)

AEEGSI **Resolution 917/2017** has supplemented the mechanism introduced at the end of 2015 designed to promote contractually required quality with new regulations governing the **technical quality** of the integrated water service. In the latter case, the regulator has adopted a graduated approach **from 1 January 2018** and selective application of the regulations through mechanisms providing *ex ante* and *ex post* flexibility.

The new regulations set minimum technical quality standards and targets for the integrated water service through the introduction of **specific standards** designed to guarantee the services provided to each end user, and granting the right to compensation if the standards or targets are not met. The regulations have also introduced **overall standards** describing the technical conditions under which the service must be provided and that are linked to an incentive mechanism based on rewards and penalties. The resolution also provides for specific **requirements** as a necessary condition of qualifying for the incentives associated with the overall standards.

Application of the system of indicators forming the basis of technical quality – and the start of monitoring of the underlying data – is scheduled to begin from 1 January 2018. From 1 January 2019, obligations governing the recording and storage of data, according to the procedures provided for in the Resolution, will come into effect from 1 January 2019, whilst initial quantification of the rewards/penalties will take place in 2020 based on the results reported for 2018 (compared with 2016) and 2019 (compared with 2018).

The **rewards are not subject to any cap on tariff increases**. Provisions must be made in 2020 for any **penalties** imposed with regard to the first two years of application (2018-2019).

**The cost of the incentives will be covered** from 2018 by an equalisation component at national level (UI2), which will primarily aim to promote technical quality. This will be in addition to, from 2020 alone, a further method of allocating the cost based on a percentage of opex to be made available by all operators.

The Concession Authority may submit a reasoned proposal to recognise an **additional tariff component**, within the limits established in the resolution, for the years 2018 and 2019 (**Opex<sub>QT</sub>**).

Unlike the similar component relating to contractually required quality (Opex<sub>QC</sub>), recognition does not entail exclusion from the above incentive mechanism.

## PREREQUISITES

Conditions to be met to qualify for INCENTIVE MECHANISMS

Indicators associated with incentive mechanism involving rewards and penalties

Availability and reliability of meter readings

Compliance with quality standards for water distributed to end users

Compliance with standards governing management of urban waste water

Availability and reliability of technical quality data

## SPECIFIC STANDARDS

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

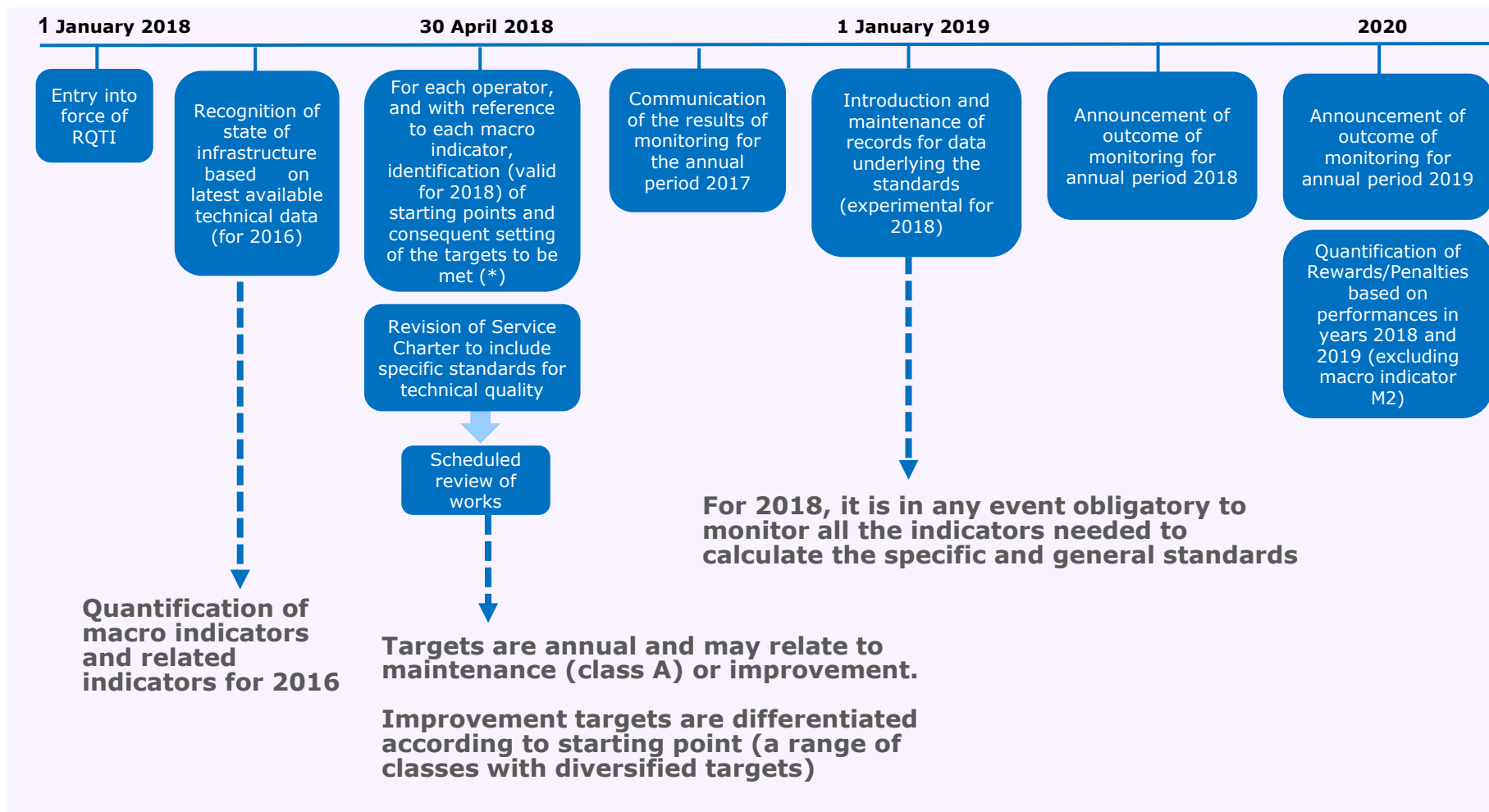
No	Indicator	Specific standard
51	Maximum duration of one-off scheduled outage	24 hours
52	Maximum time-lag before activation of emergency replacement service in the event of a drinking water outage	48 hours
53	Minimum notice period for scheduled work involving interruption to supply	48 hours

## GENERAL STANDARDS

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

## Resolution 917/2017 – Technical quality

(3/3)



(\*) Under the provisions of Determination DSID no. 1/2018, the tariff data for 2016-2017, to be collected for the purposes of revising tariffs for the period 2018-2019, must include the TQ data for both 2016 and 2017 (the latter even if not final).

## CONSULTATION DOCUMENT: 683/2017

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

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

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

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

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

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

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

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

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

## REGULATORY PERIOD: 2016-2023 (8 YEARS)

### **ARERA Resolutions: 654/2015 Tariff general framework; 583/2015 WACC; 646/2015 Quality of electricity distribution and metering service and output based regulation**

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

**Key points** in the Resolutions are set out below:

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

### **ELECTRICITY DISTRIBUTION**

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

WACC regulatory period: 6 years (2016-2021). The WACC is fixed for **three years (2016-2018)**, in 2019 WACC mid term review already defined for all main parameters. **ARERA with Consultation Paper 557/2018 proposes the following parameters: Risk Free Rate 0.5% (flat); Country Risk Premium 1.39% (previous 1.00%); Inflation 1.7% (previous 1.5%); Tax rate 24.0% (previous 27.5%); T parameter 31% (previous 34.4%); Gearing 0.50 (previous 0.44). These parameters lead to a WACC equal to ~ 5.9%.**

### **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.



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