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Directors' Report

984,6

million
Ebitda

266,8

million
Net profit

396,2

million
Investments

ROE 9,9 %

Return
on Equity

ROI 9,2 %

Return
on Investment

2,56 x

Net debt/Ebitda
ratio

1.01.02

Analysis of the Group's financial structure and investments

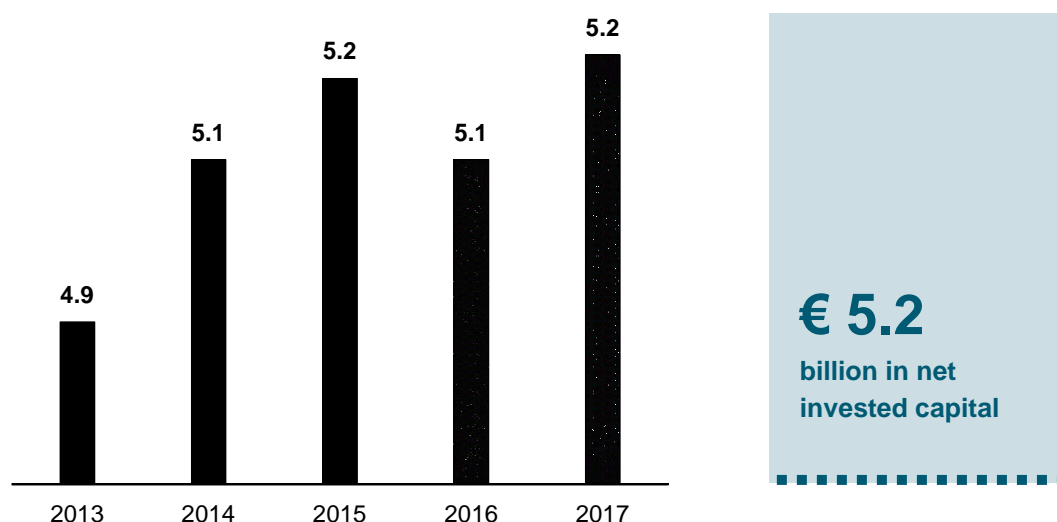
What follows in an analysis of trends in the Group's net invested capital and sources of financing for the year ended 31 December 2017.

The Group's
solidity increases

Invested capital and sources of financing (mn€)	Dec 17	% Inc.	Dec 16	% Inc.	Abs. change	% Change
Net non-current assets	5,780.6	110.5%	5,564.5	108.7%	+216.1	+3.9%
Net working capital	23.2	0.4%	99.9	2.0%	-76.7	-76.8%
(Provisions)	(574.8)	-11.0%	(543.4)	-10.6%	-31.4	-5.8%
Net invested capital	5,229.0	100.0%	5,121.0	100.0%	+108.0	+2.1%
Equity	(2,706.0)	51.7%	(2,562.1)	50.0%	-143.9	-5.6%
Long-term borrowings	(2,735.4)	52.3%	(2,757.5)	53.8%	+22.1	+0.8%
Net current financial debt	212.4	-4.1%	198.6	-3.9%	+13.8	+6.9%
Net debt	(2,523.0)	48.3%	(2,558.9)	50.0%	+35.9	+1.4%
Total sources of financing	(5,229.0)	-100.0%	(5,121.0)	100.0%	-108.0	-2.1%

In 2017, net invested capital amounted to € 5,229.0 million, with a 2.1% change compared to the € 5,121.0 million seen in 2016. This increase is entirely due to the acquisition of shareholding in the Aliplast Group by the company Herambiente. Efficiency in managing net working capital was also confirmed, as it fell by an additional € 76.7 million.

Net invested capital (bn€)

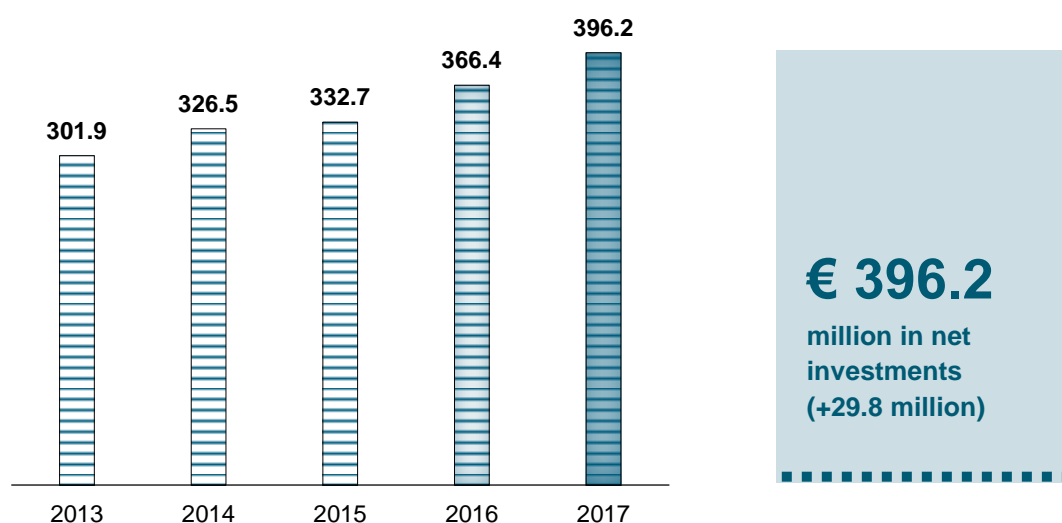


In 2017, Group investments amounted to € 396.2 million, benefitting from € 44.3 million in capital grants, of which € 8.2 million for FNi investments, as provided for by the tariff method for the integrated water service.

Including capital grants, the Group's overall investments came to € 440.5 million. Net investments grew by € 29.8 million, going from € 366.4 million in 2015 to € 396.2 million in 2017.

Net investments
rise to € 396.2
million, up
€ 29.8 million

Total net investments (mn€)



The following table shows a subdivision by sector, with separate mention of capital grants:

Total investments (mn€)	Dec 17	Dec 16	Abs. change	% Change
Gas area	101.5	94.8	+6.7	+7.1%
Electricity area	23.6	25.2	-1.6	-6.3%
Water cycle area	156.6	131.8	+24.8	+18.8%
Waste management area	67.2	50.7	+16.5	+32.5%
Other services area	18.7	15.9	+2.8	+17.6%
Headquarters	72.4	67.6	+4.8	+7.1%
Total operating investments	440.0	386.1	+53.9	+14.0%
Total financial investments	0.5	0.6	-0.1	-16.7%
Total gross investments	440.5	386.7	+53.8	+13.9%
Capital contributions	44.3	20.3	+24.0	+118.2%
of which FoNI (New Investment Fund)	8.2	7.3	+0.9	+12.3%
Total net investments	396.2	366.4	+29.8	+8.1%

Strong commitment continues to be seen in operating investments in plants and infrastructures

Operating investments, coming to € 440.0 million, were up by 14.0% compared to the previous year and mainly involved interventions on plants, networks and infrastructures, in addition to regulatory upgrading involving above all gas distribution, with a large-scale substitution of metres, and the depuration and sewerage areas.

Remarks on investments in each single area are included in the analysis by business area.

At Group headquarters, investments concerned interventions on corporate buildings, IT systems and the vehicle fleet, as well as laboratories and remote control structures. Overall, investments in structures increased by € 4.8 million compared to the previous year.

In Group headquarters, investments on corporate buildings, IT systems and the vehicle fleet

The 2017 financial year came to a close with net working capital amounting to € 23.2 million, with a sharp drop compared to the € 99.9 million seen at the end of 2016. This result is due to the positive management and control of performance in credits and the increase in debits that offset the rise in credits from safeguarded electricity customers. In particular, note that credits from safeguarded customers that cannot be disconnected, in case of non-payment, are reimbursed by the Fund for energy and environmental services (Csea), as provided for by the Authority's resolution 370/12. On this point, note that the total amount of credits towards customers includes € 221.3 million (€ 146.3 million in December 2016 – see note 29) in credits towards safeguarded customers (for whom the Csea payment has already been made, because it is recorded among other current liabilities).

€ 23.2 million net working capital

In 2017, provisions amounted to € 574.8 million, up compared to the results recorded at the end of the previous year. This result is mainly due to period-specific provisions, which offset the outflows for usage as well as an adjustment to the fund for severance pay, calculated on an actuarial basis. Contributions to the increase also came from adjusting post-mortem landfill provisions and reinstating third party goods due to the application of accounting principle Ias 37. For details on the transfer of funds, see the explanatory notes.

€ 574.8 million in provisions

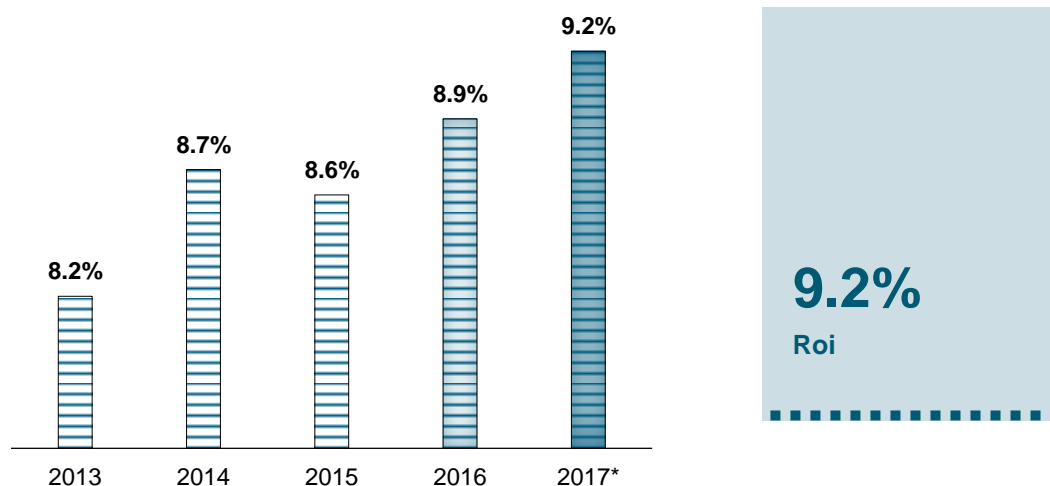
Equity rose from the € 2,562.1 million seen in 2016 to € 2,706.0 million in 2017, going to the benefit of the Group's financial structure. This equity reinforces the Group's solidity, thanks to the good net result of management in 2017, coming to € 266.8 million, which not including the dividends paid during the year, amounting to € 140.4 million, guarantees € 126.5 million in self-financing.

€ 2.7billion in equity

Return on invested capital (Roi) settled at 9.2% in 2017. This result, superior to the one seen in 2016, ensues from the good yield management achieved during the year, as it is more than proportional to the increase in net invested capital caused by the entrance of the Aliplast Group in the scope of operations and numerous investments.

Roi at 9.2%

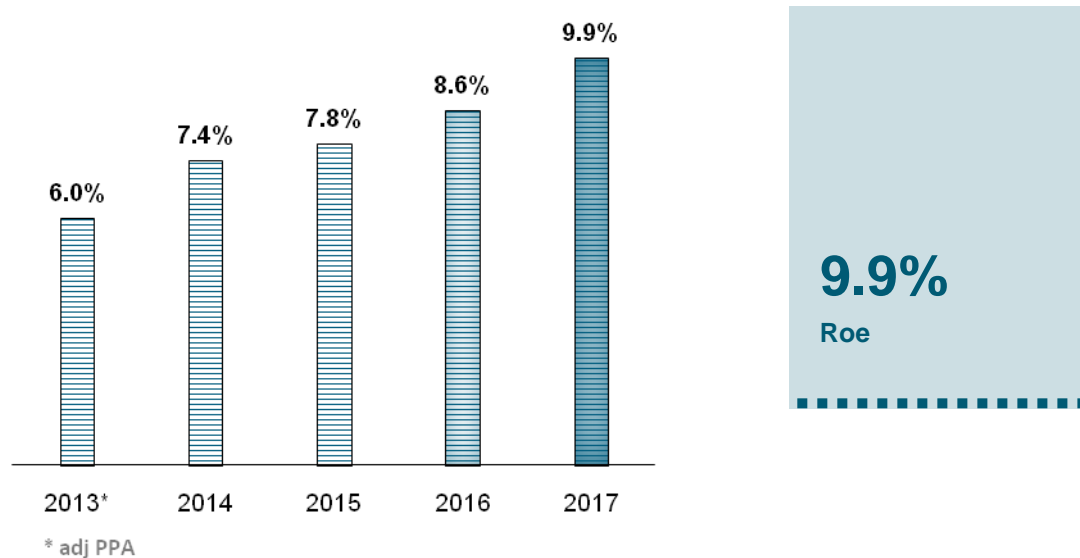
Roi (%)



*adj for non-recurring items

Return on equity (Roe) went from 8.6% in 2016 to 9.9% in 2017. This increase is due to the good operating and extra-operating economic results of 2017.

Roe (%)



Reconciliation between separate and consolidated financial statements

	Net profit	Equity
Balances as per Parent's Company's separate financial statements	170.4	2,313.3
Excess of equity over the carrying amounts of Investments in consolidated companies	86.3	67.4
Consolidation adjustments:		
- Measurement with the equity method of investments reported at cost in the separate financial	3.2	49.1
- Difference between purchase price and book value of corresponding portion of equity	(7.6)	135.7
- Elimination of intercompany transactions	(0.9)	(20.3)
Total	251.4	2,545.2
Restoration of third-party assets	15.4	160.8
Balances as per consolidated financial statements	266.8	2,706.0