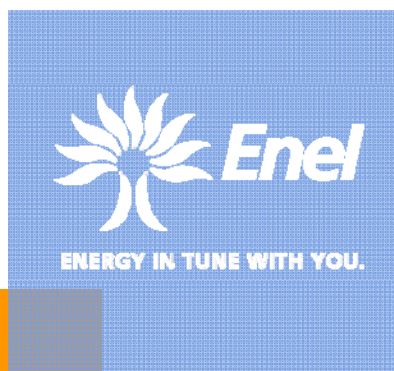




2012-2015: new regulatory period for electricity distribution and metering

January 16, 2012

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The new regulatory framework Overview

Resolution 199/11

- WACC increase at 7.6% vs. 7.0%⁽¹⁾
- RAB defined according to company-specific values, in line with previous regulatory period
- Higher remuneration for new investments
- Profit sharing balanced by other regulatory items

A rewarding regulatory framework to foster service quality and customer satisfaction

1. Old regulatory framework 2008-2011

The new regulatory framework

Main features

Impact on regulated revenues

- Slight increase (2012 vs 2011)
- Final figure, still to be defined¹

Profit sharing

- Effects balanced by other regulatory items
 - WACC increase
 - Price cap on depreciation removal
 - Deflator effect on RAB & depreciation

X-factor

- In line with mechanism already established in the previous regulatory framework

1. By April the 30th, 2012

The new regulatory framework

Tariff definition for distribution activities

	2012-2015 New	2008-2011 Old
RAB & depreciation	• Defined according to company-specific values ○ Parametric RAB ante 2007⁽¹⁾ ○ RAB post 2007 based on specific company's investments²	• Defined according to sector-wide values
Opex ³	• Defined according to sector-wide values	• Defined according to sector-wide values

**Higher transparency and predictability
of company's revenues**

1. Based on previous period companies' revenues; parametrical depreciation path published by AEEG

2. Including MV/LV substations RAB ante 2007

3. Including equalization mechanism effects

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Key metrics Overview

**2012-2015
New**

**2008-2011
Old**

Starting RAB

~ 21.5 €bn¹

~ 20.6 €bn^{1,2}

Base WACC^{3,4}

7.60%

7.03%

X-factor⁴

2.9%

2.2%

- 1. RAB for distribution and metering, excluding commercial activities (~0.4 €bn)
- 2. Pro-forma net of HV grid RAB
- 3. Real pre-tax
- 4. Weighted average of distribution and metering

Key metrics Base WACC components

	2012-2015 New	2008-2011 Old
D/E	80%	80%
Risk-free rate	5.24%	4.45%
Equity risk premium	4.00%	4.00%
β levered	0.61	0.60 – 0.67 ⁽¹⁾
Debt spread	0.45%	0.45%
Tax shield	27.5%	33.0%
Tax rate	35.7%	40.0%
Inflation	1.8%	1.7%
WACC	7.60%	7.03%⁽²⁾

Mid-term WACC revision in November 2013⁽³⁾

1. Beta levered 0.60 for distribution and 0.67 for metering
2. Weighted average of distribution (7%) and metering (7.2%)
3. Risk-free rate will be updated according to the usual methodology (previous 12 months 10yrs. BTP average gross yields)

Key metrics New investments

2012-2015 New

2008-2011 Old

Regulatory lag compensation

- +1% WACC for new investments

- No compensation

Return on new investments

- Based on RAB gross of depreciation¹

- Based on RAB net of depreciation

1. RAB of year "n" calculated gross of the allowed depreciation of year "n"

Key metrics Incentivated WACC

	Base WACC	Δ WACC (regulatory lag)	Δ WACC (specific investments)	Total WACC new	Total WACC old
Smart grid pilot projects	7.6%	+1.0%	+2.0% For 12 years	10.6%	9 %
Energy storage systems pilot projects	7.6%	+1.0%	+2.0% For 12 years	10.6%	-
Replacement of MV/LV transformers with low losses ones	7.6%	+1.0%	+1.5% For 8 years	10.1%	9 %
Reinforcement of MV grids in cities historical centres	7.6%	+1.0%	+1.5% For 12 years	10.1%	7 %
Reinforcement of transformation stations in critical areas ¹	7.6%	+1.0%	+1.5% For 12 years	10.1%	7 %
All other investments	7.6%	+1.0%	-	8.6%	7 %

Distribution network confirmed as a strategic pillar for the system

1. Critical areas: areas with high concentration of generation connected at MV/LV level (14 provinces and over 600 municipalities in other provinces in Italy)

Key metrics X-factor and profit sharing¹

Distribution

**Confirmed old X-factor:
1.9% lasting 4 yrs**

Distribution

**New X-factor:
0.9% lasting 8 yrs**



Cumulated X - factor

New

2.8%⁽²⁾

Old

1.9%

Metering

**Confirmed old X-factor:
5.0% lasting 4 yrs**

Metering

**New X-factor:
2.1% lasting 8 yrs**



Cumulated X - factor

New

7.1%

Old

5.0%

Weighted average X-factor of 2.9% for the period 2012-15

1. Breakdown of new cumulated X-factor calculated on a pro-forma basis
2. Applied to distribution-opex net of distribution commercial activities-opex

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Closing remarks

Fostering regulated cash flow as a protection vis a vis market volatility and sovereign risks

Enhancing the strategic role of investments in infrastructures and networks activities

Long-term visibility on RAB evolution

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