



MEDIOBANCA
SECURITIES

The Italian Utilities Conference 2005
Italian Local Utilities Round Table



31st March-1st April 2005
Hotel Principe di Savoia
Milan, Italy

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Round of mergers and consolidation between local utilities: acceptable terms and key objectives

Local utilities have a series of real options they should be able to play over the next few years to:

- /// improve the effectiveness and efficiency of their business model
- /// focus on the core business thus increasing cost savings and capex rationalisation
- /// leverage on their brand names and customer bases

The ability to cover the cost of capital and optimise the EVA spread could be enhanced if supply is completely liberalised, economies of scales pursued and capital allocation procedures improved

As long as the problem of achieving sufficient economies is coupled with the efficiency of the governance framework (i.e. decision making process), the upside potential delivered by both entrenched territorial position and cost cutting/cross-selling opportunities will be maximised.

Medium operators' fear of being diluted might lead to a wave of M&A's among peers. This would reduce the perceived risk of "losing control" when contracting with larger players. On the other hand, occasional announcements from municipal authorities about their intention to sell further tranches in local utilities might occur as a result of market opportunities and budget constraints.

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Growth and role of local utilities in a competitive market: prospects and scope

Enabling competition

- /// New infrastructure is essential to meet Italian market's future energy needs
- /// New sources of gas are essential to make a competitive, deregulated market work
- /// New and diversified supplies must overcome demand to boost competition and set market price

Fair and equitable rules

- /// The regulatory framework must be stabilised thus allowing an efficient and effective investment planning process
- /// The lack of symmetric liberalisation across Europe is limiting market potential
- /// UE should be more effective in promoting and supporting a fair competition among operators (i.e. TPA procedures, entry-exist vs point-to-point, competitive tenders, etc..)

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The Regulated market: prospects over the medium term, a possible "safety harbour"?

- /// Given their cash generation capacity, the Italian utilities will be reducing their gearing and building up enough balance sheet strength to promote acquisitions in the gas distribution sector
- /// The consolidation of nearby small-sized players should help revenue growth, improve economies of scale and eliminate duplication thus delivering shareholders added value

However

- /// Return on invested capital will become the main issue. AEEG is expected to introduce a better regulation
- /// Any comparison with other EU countries in setting up ROIC must take into account the opening up of their local markets (how many competitive tenders took place in France last year?)
- /// Utilities management will increasingly be expected to promote considerable cost-cutting and effectiveness in the investment planning thus optimising value generation

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Key Data and Main Strategic Objectives

Key Market data		Main Strategic Objectives
Market Cap (€ m)	90	<p>Increase stock liquidity. We believe that room is still available for a stand-alone expansion strategy. The consolidation of nearby small-sized players should improve economies of scale and promote cost-cutting</p> <p>Focus on Acsm's core business with a view to improving revenues growth (even acquiring new concessions to be bid for) , cost savings and capex rationalisation thus increasing the company's EVA spread</p> <p>As a consequence, Acsm's Net Debt/Ebitda ratio will be narrowing over the next few years</p>
Shares Out. (m)	37.5	
Main Shareholder (%) Municipality of Como	50.6%	
Free Float (%)	49.4%	
52 week range (€)	2.95-1.79	
Rel Perf vs Mibtel (%)		
-1m	-10.1%	
-3m	-8.8%	
-12m	8.6%	
21dd Avg. Vol. ('000)	55	
Reuters/Bloomberg	ACSM.MI / ACS IM	
Key Financial data (2004)		
Turnover	105	
EBITDA	23	
EBIT	12.4	
Net Profit	3.6	
Shareholders' Funds	67	
Net Debt (-) Cash (+)	- 43,8	
Gearing %	39.5%	

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SWOT Analysis

Strengths

Brand name, reliability and high retention rate
 Aggregator of smaller utilities
 Main player in Como province, partnerships and local networks
 Integrated offering focused on core business
 Flexible and dynamic organization featuring high service level
 Healthy margins from WTE plant
 Good cash generation

Weaknesses

Small size and limited stock liquidity
 Economies of scale
 Still no signs of the awaited turnaround in the water business
 Regulatory framework: unstable and unclear guidelines
 Unsatisfactory returns from water sector

Opportunities

Industrial
 Strategic position in Italian utilities market
 Water cycle, energy co-generation and heat district revamping
 New tenders in gas distribution sector

Contractual
 Gas import
 Partnerships and talks under way with water treatment operators

Organizational
 Extension of "real" competition across Europe
 Business model scalability and organizational model designed to allow plug-ins
 CRM improvements

Financial
 Attractive place to work for professional talents
 Achieved debt restructuring and funding conditions
 Excellent Net debt/Ebitda ratio

Threats

Free market bottlenecks and lack of symmetric liberalization across Europe
 Storming pricing and first switch effect
 Newcomers
 High pressure on margins from either Regulator and Government
 Growing information system investments

