

Consolidated financial statements of the CAP Group as at 31 December 2020

for Shareholders' meeting 25 May 2021

(Translation from the Italian original which remains the definitive version)

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Dear Shareholders,

This report, drawn up in accordance with Article 40 of Italian Legislative Decree No. 127/1991, refers to the CAP Group, whose consolidating company is CAP Holding S.p.A. with registered offices in Via del Mulino 2, Building U10, Assago (MI), Italy.

On a consistent basis with the strategic and binding guidelines decided by the Shareholders' meeting held on 18 May 2018 – this report deals with the activities of the CAP Group carried out in 2020 for the three areas of intervention identified, in compliance with the VISION indicated by the common shareholders during the meeting held on 26 June 2015, and in particular:

- 1) Environment;
- 2) Customers;
- 3) Network.

At the same time, it integrates the objectives of the Sustainability Plan that has become the reference point for the Group's strategies with its three pillars:

- Sensitive to people's needs, to increase the well-being and trust of increasingly aware and demanding communities;
- Resilient in assets, governance and management to protect an essential asset for life;
- Innovators in the market, anticipating the rules and enhancing our ability to network.

The Plan is a real guide in dealing effectively with the social, economic and environmental challenges of the coming years. In defining itself as a "Sensitive", "Resilient" and "Innovative" company, CAP has placed at the heart of its business plan a true green deal based on dialogue and stakeholder participation, digitalisation and the circular economy.

After the outbreak of the Coronavirus pandemic, sustainability, in the form of massive green investments, is seen by many as the way to overcome the huge negative economic impacts triggered by the spread of the virus. For a company like CAP, which is strongly related to its local area, talking about recovery means restarting construction sites, investing in technology and plants, and pushing for research and innovation. Doing all this means working on the conditions of possibility and sustainability of the water industry in the coming decades.

It is with this approach that the company already activated income support measures at the onset of the pandemic in order to guarantee the work and employment stability of all workers. It also intervened in favour of the people working in the group through a strong increase in smart working. After implementing all the safety provisions from the start of the emergency according to a strict protocol designed to guarantee their health, the operating personnel was immediately reduced to a minimum thanks to the application of a sophisticated 4.0 technology system, which allows the automation of industrial activities and the remote control of the plants. To support all the managed Municipalities and the Aziende Socio-Sanitarie (ASST) of the Metropolitan City of Milan, CAP allocated substantial resources to relieve the health structures and member administrations in order to contribute to the efficiency of assistance to citizens affected by the pandemic.

It has also taken strong measures in favour of suppliers by advancing payments, providing free insurance for advance payments and authorising work progress even as an exception to contracts. It supported citizens and businesses by postponing bills. Tender procedures were also simplified to facilitate access, through a series of bureaucratic reliefs and the use of the Skype platform, drones and 3D technology.

This approach was made possible by the strong strategic investment made in past years, which also for 2020 confirmed the objective of guaranteeing value for shareholders through a series of actions based on:

o containment of tariffs;

- o improving service performance and improving technical quality parameters;
- o increase in planned investments in the coming years to support economic recovery;
- o dialogue and proactive listening to citizens and stakeholders in general;
- o reducing emissions and impacts and strengthening circular economy projects;
- o making the plants smart and service digitalisation.

Group presentation

The CAP Group is one of the leading Italian operators (in terms of inhabitants served and cubic meters raised) among the "mono-utility" operators (i.e. operators which do not carry out other significant industrial activities) operating in the Integrated Water Service, with a customer base as at 31 December 2020 of around 2.2 million resident inhabitants served in addition to the individuals who normally work in one of the most industrialised and productive areas in Italy.

The Parent Company is today the leader in Italy among the in-house providing companies in terms of capitalisation.

The Group therefore sits among the most important Italian players, as can be seen from the table below:



(Source: Utilitatis Foundation - Blue Book November 2019) (2019) Market share out of Italian population

The CAP Group includes the Parent Company, CAP Holding S.p.A., and the following companies:

Company, Headquarters, Share Capital

- AMIACQUE S.r.l., Milan, total share capital of € 23,667,606.16 owned for € 23,667,606.16, equal to 100.00% as at 31 December 2020 (unchanged compared to 31 December 2019), subject to management and co-ordination activities;
- Rocca Brivio Sforza S.r.l., San Giuliano Milanese, in liquidation as from 21 April 2015, total share capital € 53,100.00, owned for € 27,100.12, as at 31 December 2020 (shares equal to 51.04%, equal to the equity investment held as at 31 December 2019 and unchanged to date).

With regard to the scope of consolidation, only AMIACQUE S.r.l. is consolidated with CAP Holding S.p.A., considering that, with regard to Rocca Brivio S.r.l. in liquidation (whose corporate purpose involves the *"safeguarding and enhancement of the historic monumental complex of Rocca Brivio"*), in accordance with IFRS 10, there is no effective control by Cap Holding S.p.A. due to the lack of material rights that assign the power to manage the significant activities of the investee company in such a way as to influence its returns. With regard to the presentation of the Statement of financial position and Income Statement figures of the subsidiary company, please see the Explanatory notes included in the financial statements.

CAP Holding S.p.A. also holds equity investments in the following company:

- PAVIA Acque S.c.a.r.l. with headquarters in Pavia, total share capital € 15,048,128, owned for € 1,519,861, equal to 10.1%, as at 31 December 2020 (equal to the equity investment held as at 31 December 2019).

CAP Holding S.p.A. also participates in the network agreement "Water Alliance – Acque di Lombardia", with legal subjectivity pursuant to and for the purposes of Article 3, sections 4-ter et seq. of Italian Decree Law No. 5 dated 10 February 2009, converted into Italian Law No. 33 dated 9 April 2009 as amended and supplemented, enrolled in the Milan Companies' Register under No. 2115513 on 24 February 2017, VAT no. 11150310966, Tax Code 97773550153, with headquarters in Assago (MI), total share capital of \notin 689,742 fully paid up, owned for \notin 149,258.72, equal to 21.6% as at 31 December 2020. Some information on the Water Alliance is presented further on.

The diagram shows the current "corporate" equity investments of the Group in companies as at 31 December 2020:



Cap Holding S.p.A. is also the sole member of the CAP Foundation (previously Lida Foundation), with headquarters in Assago (Milan) established on 31 July 2007, pursuant to Article 14 et seq. of the Italian Civil Code (payment by way of endowment fund of € 1,000,000 by the founder former T.A.S.M. S.p.A., merged in 2013 by CAP Holding S.p.A.). In the summer of 2018, the Foundation took on its current name and received € 263,300 from CAP Holding S.p.A., mainly in support of the project "Blu Lab, Blu Factory e Blue Studies"; this project is funded by the Cariplo Foundation with a non-repayable grant of € 100,000.

The Foundation has a temporary sole director without any financial remuneration. The Foundation's balance sheet as at 31 December 2020 shows residual cash and cash equivalents of approximately € 91 thousand.

After MM spa had expressed its willingness to become a founding partner of the Foundation, the process started was temporarily suspended due to the need of the respective companies to cope with the urgency

of the pandemic. In the meantime, the Foundation continued, albeit in different ways, the training activities within the Blue Lab at the seadrome, also extending them to employees with the organisation of Summer Camps. In addition to the project financed by Fondazione Cariplo, a two-year collaboration with Triulza's Innovation Campus was set up, which led to the organisation of the first Hackathon.

On 5 February 2021, 1,584,000 shares of CORE - Consorzio Recuperi Energetici - S.p.A. were acquired by Cap Holding S.p.A. Share capital, divided into shares of € 1 each, of € 2,000,000.00 fully paid up. Companies' Register and Tax Code 85004470150 - VAT No. 02733400960, owned by the municipalities of Sesto San Giovanni, Cologno Monzese, Cormano, Pioltello and Segrate, equal to 79.2%.

On 22 March 2021, CAP Holding acquired a further 16,000 shares in the company CORE, owned by the Municipality of Cologno Monzese, equal to 0.80% of the company's capital. Therefore, CAP Holding's stake in CORE totals 80% of the share capital.

The acquisition of the CORE shares is part of the project to build the Bioplatform in Sesto San Giovanni for the purpose of the circular economy.

On 12 June 2020 (Volume no. 18396 File no. 10835 Notary Enrico Maria Sironi), a network contract was signed between CAP and Alfa, the operator of the Integrated Water Service in the Province of Varese, which, starting from the assumption of the significant interrelationships between the respective territories managed in terms of sewerage/cleaning and aqueducts, has as its strategic objective the synergic integration of their organisational systems in order to make the management of the water service in their areas more efficient, including through economies of scale or the sharing of certain structures or resources.

Role of the Operator

The CAP Group proposed itself as the promoter of collaboration with various in house companies in Lombardy, creating a network of companies (called "Water Alliance - Acque di Lombardia") which aims to improve the performance and the services provided to the user and to defend the role of the public management of water resource.

The companies involved (by means of deed dated 4 November 2015) are BrianzAcque S.r.l., Lario Reti Holding S.p.A., Padania Acque S.p.A. of Cremona, Pavia Acque s.c.a.r.l., S.Ec.Am S.p.A. of Sondrio, Società Acqua Lodigiana (SAL) S.r.l. of Lodi, Uniacque S.p.A.



of Bergamo, companies that, together with the CAP Group, guarantee the water services for around 5.5 million inhabitants, equal to over 50% of the population resident in Lombardy, each year disbursing more than 500 million cubic metres of water, with over 27 thousand km of water mains and 2,758 wells.

In order to give greater operating autonomy to the network agreement, by means of deed dated 20 January 2017, volume no. 22.444, file no. 6.780 of the Notary Public Ninci of Milan, the CAP Group entered into, together with the afore-mentioned other 7 Lombard public companies of the IWS, the "Representation pact for the promotion and development of the public management of the Water Alliance - acque di Lombardia integrated water service", creating a network-party. Contributions of endowment capital to the "Network" were made during 2017 and continued in 2018, 2019 and 2020. Similarly to that which has happened in Piedmont, the network agreement has become an instrument for stimulating economic efficiency (e.g., calls for tenders for the purchase of energy and consumables), creating organised synergies (inter-company network offices), aligning operating instruments (Aqueduct Infrastructural Plan), etc.

At the beginning of 2020, 5 new companies joined the Network: Acque Bresciane S.r.l., Alfa S.r.l., Como Acqua S.r.l., MM S.p.A., Tea S.p.A.

In the last two years, the Network has been involved in a number of projects aimed at strengthening the quality of the integrated water service of the companies involved. The main ones include the laboratory network, which aims to progressively specialise each laboratory in the analysis of emerging micropollutants; the single office for geology (GSSWA), created to deepen geological knowledge of the subsoil and develop an



innovative water management system; and finally the Webgis - Acque di Lombardia, a digital system created by combining GIS (Geographic Information System) and the possibilities offered by the web to map the structures of the integrated water service in real time.

In 2016, downstream of the aforesaid network agreement, the CAP Group entered into individual "memoranda of understandings" with the companies BrianzAcque S.r.l., Metropolitana Milanese S.p.A. and Lario Reti Holding S.p.A. (on 22 January 2016, 5 February 2016 and 4 May 2016, respectively) for handling and sharing data relating to the underground water resource (known as PIA project).

The following deeds were also entered into with BrianzAcque S.r.l.:

- Network agreement entered into on 8 July 2016 for Information Technology services until 30 June 2021; this agreement, in alignment with the agreement for the use and utilisation of the GIS water system in Lombardy, was renewed in 2019, in advance of its natural expiry date, defining the new expiry date on 1 November 2024;
- Network agreement entered into on 8 July 2016 for Industrial Users Management services until 30 June 2021. This agreement was updated by a deed signed on 13 February 2019 effective as from 8 January 2019 and expiring on 30 June 2021.
- On 20 September 2020, a network contract on Information Technology was signed between CAP Holding Spa, Alfa S.r.l., Lario Reti Holding Spa and Brianzacque S.r.l., in addition to the above-mentioned contract on relations between CAP and Brianzacque S.r.l.

In conclusion, the CAP Group participates in the Italian sector association Utilitalia with headquarters in Rome, as well as the international association Aqua Publica Europea (APE) with headquarters in Brussels (Belgium).

The purpose of the latter includes that of bringing the voice of the public water operators within the decisionmaking policy of the EU and furthering their interests and prospects.

In December 2020, the CAP Group also joined Assolombarda (an association of companies operating in the Metropolitan City of Milan and the provinces of Lodi, Monza and Brianza, Pavia).

Sustainability and ESG policy

Sensitive, resilient and innovative, the pillars of the CAP Group's sustainability strategy, are the values that have inspired the company to act in 2020. The CAP Group, as an operator of essential public services, has never ceased its activities but has redesigned them by introducing a series of measures to deal with the pandemic.

A considerable effort that also required an overall change in the organisation of services, working methods and the active cycle, in order to face and mitigate the risks that could potentially impact on the company's continuity.

All this at a time when the Group was about to start the new year on the strength of the previous year's results. Indeed, 2019 was the year of arrival of the rethinking of the Group's entire sustainability strategy, which culminated in the Sustainability Plan.

In this regard, the process of reporting and monitoring the sustainability objectives and the 100 KPIs (Key Performance Indicators) contained in the Plan was implemented in 2020, through the use of dedicated software. First the health crisis, and then the economic crisis created by the Coronavirus, highlighted how strategic risk management can make a difference even in times of emergency. The medium- to long-term existence and resilience of an organisation depends on its ability to anticipate and respond to a complex web of interconnected risks, including ESG issues, that threaten strategies and the achievement of objectives. In 2020, the CAP Group implemented the integrated Enterprise Risk Management (ERM) model, which guarantees effective monitoring of the risks to which the Group, due to the nature of its business and the strategies adopted, is potentially exposed. The CAP Group's ERM allows the management of overall exposure in line with the objectives of the Business Plan and the Sustainability Plan.

From a risk management perspective, the pandemic prompted the Group to reflect on how to adapt its methodology to intercept material issues. The issue was therefore to understand the impacts of the pandemic and the reflections of the pandemic on existing issues in the matrix.

This internal update not only confirmed the material topics already present, but also led to the inclusion of two important new elements:

- care for the people of the CAP Group and the community following the Covid-19 health emergency;
- cyber attacks, digital fraud and privacy violations.

The Covid-19 and the start of the pandemic in March 2020 resulted in a considerable acceleration in the use of smart working at the CAP Group as well. The Group has been working on a remote organisation of office work, necessitating investment in the technological infrastructure, a review of process organisation, collaboration practices and management approaches. The smart working system involved a much wider range of workers than in the pre-pandemic situation and has become the default working configuration for office personnel.

Operating Performance in 2020

Coronavirus event.

This pandemic event was declared by the World Health Organisation on 11 March 2020 and was the subject matter of several emergency decrees issued by the Prime Minister's Office of the Italian Government (Prime Ministerial Decree of 8 March 2020 et sequitur).

Among these, Italian Decree Law 18/2020 ("Cura Italia" decree) is particularly important, as the first organic intervention to counter the effects of the coronavirus emergency on the social and productive fabric of the Country. Italian Decree Law no. 18/2020 introduces, among other things, some social safety valves and provides for some interventions in favour of companies, especially small and medium-sized ones.

Following the pandemic event, the CAP Group adopted and in part is still adopting in 2021 measures strongly oriented towards ensuring business continuity and the availability of essential services in safe conditions, strengthening their measures for the prevention and containment of the epidemic, in line with the indications and regulations adopted by the competent authorities.

It should be emphasised that the activity of the CAP Group, operator of the integrated water service, i.e. an essential public service, could not and cannot be interrupted. It should be noted that despite a partial reduction, especially in the first months of the first pandemic wave (roughly spring 2020), in the CAP Group's activities in order to comply with the above-mentioned restrictive measures, there have been no interruptions to essential activities.

Among the emergency measures taken, both guaranteeing company activity and mitigation on stakeholders closer to the company:

- 1) The CAP Group immediately adopted measures to mitigate risks relating to safety at work including: the securing of construction sites and the closing of non-essential ones; to the reorganisation of the company's spaces to ensure safety distances and intensive measures to sanitise the premises; to the activation of the emergency health procedure and minimum services; to the establishment and activation of the Trade Union-Company Health and Safety Committee; to maximising the use of smart working (up to 87% of the workforce that can perform their duties in smart working mode, compared to a pre-crisis percentage of 33%); to the immediate strengthening of IT support services remotely; to the establishment and activation of the Committee for the implementation of the Protocol, which was agreed on 24 April 2020:
 - Organisational measures (smart working, on-line meetings, travel restrictions, curtaining common areas, staggering entry and exit, spacing out workstations);
 - Technical measures (intensified cleaning, sanitisation, room ventilation, supplementary notes for specific activities, vehicle guidelines);
 - Prevention and protection measures (hand sanitisation, use of the mask, interpersonal distancing, entry temperature measurement, serological screening campaign, management of symptoms and suspected cases, management of close contacts in both family and work environments);
 - Contact tracing measures (use of molecular swabs in case of suspected potential concentration of cases and/or for individuals not covered by ATS, use of Immuni App on company mobile phones);
 - Remodelling Supplier Activity (minimising contacts, defining rules of engagement).
- 2) The CAP Group also implemented measures to ensure continuity in the provision of essential services, including through: reprogramming maintenance and user interventions; the reorganisation of operations and minimum services; team restrictions; analysis and monitoring of critical and essential processes; strategic supply chain planning; monitoring and redefinition of technical/commercial quality indicators; ensuring that timely payments are made to suppliers, also in order to guarantee regular injection of liquidity in the CAP Group's supply chain;
- 3) The CAP Group submitted an application for accessing the measures that Italian Decree Law 18/2020 provides for employers who suspend or reduce their work due to the Coronavirus for the granting of ordinary redundancy payments, although in 2020 the working days with this reason have been quite limited for the CAP Group;
- 4) the CAP GROUP decided to postpone from 1 March 2020 until 31 May 2020 all payment deadlines for bills sent to customers and not to issue new bills for non-domestic users for the same period, taking into account the restrictive measures and closure of many businesses adopted by the Government; at the

moment, the analysis of the trend of the collections of the bills issued with expiry date in 2020 shows a change in the cash flows of the operating management that were reduced in the period from March to May and recovered in the following period and, compared to the bills issued with expiry date in 2019, there is a reduction of 0.9% of the collections found within 90 days after the payment deadline.

5) In 2020, in accordance with the provisions of Article 66 of Italian Decree Law 18/2020, converted into Italian Law 27/2020, the CAP Group also made a series of cash donations in support of measures to combat the Covid-19 epidemic emergency in favour of local authorities and Aziende Socio-Sanitarie Territoriali (ASSTs) in the area of reference, for a total commitment of approximately € 10 million.

Notwithstanding the above, both operational and investment activity, as detailed below, was still high and relatively unaffected by the epidemic.

We also anticipate an argument that will be explained in more detail below, namely that the sector in which the CAP Group operates is one with regulated revenues and less exposed than others to the "economic" risk of possible fluctuations in demand.

The operating performance is illustrated in relation to the scenario of the activity sector, i.e., the integrated water service, in which the CAP Group has operated Therefore, the following sections provide a number of comments on the sector and in particular on the related innovations.

Overall scenario of the Water Sector.

The integrated water service is a typical case of natural monopoly. The physical infrastructure of the service, the points of raw material withdrawal (springs, wells, etc.) and the points of their final release (discharge of treated water in watercourses, etc.) are closely and strongly linked to the territory, its urban planning, the environment and local communities. This leads to the conviction that the service infrastructure is not "duplicable" except at costs that would be perceived as socially unacceptable (for the use of land and environment as well as for economic aspects).

Consequently, this natural monopoly is also "legally" recognised. Through the laws, rules and regulations and the contract of assignment, which - in substance - give - for a defined space and time - the exclusivity of the service to a single operator (the "sole" Operator).

Another characteristic of this sector is that it is typically capital intensive: the size and long duration of the infrastructure necessary to ensure the service on an "optimal" scale (generally coinciding, as required by Italian law, with the administrative territory of the Italian provinces) requires a high concentration of Capex in the asset structure of the Operator (in the form of own assets and/or improvements to third party assets) and their permanence in that asset structure for a long period of time.

General overview - the Consolidation Act on publicly owned companies

The water service, like the other public services, was affected in 2016 by the enforcement of Italian Legislative Decree No. 175 dated 19 August 2016 "Consolidation Act on publicly owned companies" (TUSP - published in the Italian Official Gazette No. 210 dated 8 September 2016). By means of Italian Legislative Decree no. 100 dated 26 June 2017, and with Italian Law no. 145¹ dated 30 December 2018, the TUSP then underwent an initial series of amendments.

¹ State Budget for the financial year 2019, paragraphs 721 to 724 of Article 1.

Italian Legislative Decree No. 175/2016 introduced in the legal system limitations on the use, by the local bodies, of the instrument of the investee company, especially when the latter is the beneficiary of exclusive rights (so-called in-house assignments), including the water service, with the exception of "listed" companies and companies which issue financial instruments on regulated markets.

The logic according to which companies subject to supervision from the Authorities that regulate trading and exchanges "on the market", are by their very nature subjected to more restraints than other companies (and therefore less obliged to observe the more typical legislative restrictions of the "public circle"), is a principle which has underlaid numerous rules and regulations over the years.

In this regard, it is recalled that – as per the resolution of the Strategic Policy Committee dated 10 June 2016, the Company undertook action in 2016² so as to acquire, also with a view to diversification, financial instruments on regulated markets in order to meet its financial needs for supporting the consistent amount of investments envisaged in the Business Plan of the CAP Group, while maintaining the entirely public nature of the company.

The Strategic Policy Committee, in the meeting held on 7 October 2016, consequently resolved do authorise the Board of Directors to inform the Court of Auditors of the adoption by the Company of acts aimed at the issue of financial instruments, other than shares, listed on organised markets, as per Article 26.5 of Italian Legislative Decree No. 175/2016. The afore-mentioned communication was sent to the Court of Auditors with a notice dated 21 November 2016.

Further following up the above, the resolution of the extraordinary shareholders' meeting of the Parent Company held on 1 June 2017, authorised the issue of a non-convertible Bond to be issued by the Company by 31 December 2017, for a maximum principal of € 40,000,000.00 with the possibility of admission to trading on the regulated market of an EU country.

The loan (ISIN: XS1656754873), to be used to fund investments of the integrated water service, was issued, subscribed and admitted to listing on 2 August 2017 at the Main Securities Market of the Irish Stock Exchange (ISE Dublin). Please note that the said transaction was completed within 12 months of the entry into force of Italian Legislative Decree 175/2016 (see paragraph 5, article 26, of the aforementioned decree).

Following the said issue, since 2 August 2017 CAP Holding S.p.A. has been qualified as a public interest entity, pursuant to Article 16 of Italian Legislative Decree no. 39 of 27 January 2010³ and has been therefore subject, inter alia, to specific supervisory obligations regarding the financial reporting process, the effectiveness of the internal control and auditing systems and risk management. Since the bonds are not convertible, their issue does not in any way alter the nature of public owned company of the Group.

Pursuant to Article 19 of Italian Legislative Decree No. 39/2010, the functions of the internal control and audit committee for CAP Holding S.p.A., which adopts the traditional administration system, are carried out by the Board of Statutory Auditors.

Italian Legislative Decree No. 175/2016 also requires, in Article 24, that by 30 September 2017 each General Government Body must carry out, by means of a justified measure, the recognition of all the equity investments held at the date of enforcement of said decree, identifying those to be disposed of. This also applies to the General Government Bodies that are shareholders of CAP Holding S.p.A

² Among which the publication in the Official Journal of the European Communities no. 102/S notice 183292 of 28 May 2016 of a public procedure for the choice of a financial advisor

³ On this point, we observe that according to the guidelines of the Ministry of Economy and Finance, Rome, 22 June 2018 TREASURY DEPARTMENT VIII MONITORING STRUCTURE AND CONTROL OF PUBLIC INVESTMENTS: "*the notion of regulated market accepted in the TUSP, in Article 2, letter p) is to be considered coincident with that defined by the TUF*" (Italian Legislative Decree No. 58 of February 24, 1998, Article 1, letter w-ter).

No General Government Body that is a shareholder of CAP Holding S.p.A. decided for "disposal", with the exception of the municipal authorities of Nova Milanese (MB) and Vedano al Lambro (MB), which hold 1,763,547 and 256,279 shares, respectively, and the only municipal authorities in the Monza area to be affected by Minor interconnections.

The two shareholders of CAP Holding S.p.A. resolved to "*proceed with the disposal of the equity investment in CAP Holding S.p.A.*" since, in their opinion, it is a company with the same or similar corporate purpose to other bodies invested in by the Body (the reference is to the company Brianzacque S.r.l.).

With regard to the role played by the CAP Group in favour of the Monza-based complex, please see the following section.

Deeming the decision of the two municipal authorities not to be consistent with the inter-area management model, CAP Holding S.p.A. appealed, with deed dated 30 November 2017, to the Lombardy Administrative Court requiring said decision to be cancelled. The equity investments of the two municipal authorities have not yet been disposed of and therefore, as per Article 24 of Italian Legislative Decree No. 175/2016, the two municipalities are still shareholders of CAP at the time we draft this report.

Both the EGA (Ente di Governo d'Ambito) of the Metropolitan City of Milan and that of Monza and Brianza decided to appeal against the decision of the two municipal authorities.

On 29 January 2019, CAP Holding S.p.A. notified the Municipality of Vedano al Lambro and the Municipality of Nova Milanese of an appeal on additional grounds challenging the resolutions of the City Council (number 47 of 29 November 2018 and number 73 of 21 December 2018, respectively) of the aforementioned Municipalities, which upon the periodic review of shareholdings, confirmed the decisions taken in the extraordinary review.

By deed served on 24 February 2020, CAP Holding filed an appeal before the Lombardy Administrative Court to challenge resolution no. 39 of the City Council of Cabiate on 22 November 2019, published on 13 December 2019 and communicated to CAP Holding S.p.A. on 23 January 2020 in the part in which the disposal of the equity investment in the company CAP Holding S.p.A. is arranged through the sale of the shares for a consideration since it is a company the purpose of which is the same or similar to that of other bodies in which the Entity has an interest.

A subsequent appeal on additional grounds was also filed against resolution no. 21 of 19 June 2020 concerning the start of the procedure for the sale of the shareholding and the related call for tenders published on 19 June 2020. The hearing was held on 13 January 2021.

In a letter dated 19 October 2020, the municipality informed CAP Holding S.p.A. that it had "withdrawn" and consequently requested the liquidation/payment of its shareholding (1,554,528 shares). CAP Holding S.p.A. contested and rejected to all legal effects this declaration of withdrawal in a note dated 6 November 2020. The Municipality of Cabiate is also a shareholder of CAP Holding S.p.A. at the time we draft this report.

It should also be noted that paragraph 5-bis (introduced by Italian Law No. 145 of 30 December 2018) of the aforementioned Article 24 of Italian Legislative Decree 175/2016, provides that paragraphs 4 and 5 of the same article (which deal, inter alia, with disposal/liquidation of shareholdings), do not apply to the investee companies that in the three-year period before the recognition achieved profit on average - which is verifiable with reference to the CAP Group.

Italian legislation

The water service is a sector in which assets and relations of strategic importance for the national interest are relevant⁴.

The water service is organised on a territorial basis. Paragraph 1 of article. 147 of Italian Legislative Decree 152/06 requires that the ATOs (Ambito Territoriale Ottimale) are defined by the regional authorities. All regions, including Lombardy, have delimited their ATO⁵. Each ATO is managed by an EGA, which is also the body granting the service. Further on, comments are provided on the reference territory of CAP Holding S.p.A.

Incidentally, given the possible relevance in terms of "regulatory risk", it should be added that the rules on spatial planning and organisation of the integrated water service, as in the past, may be subject to specific regulatory changes. Specifically, this refers to the fact that two different bills are being examined (A.C.52, first signatory the MP F. Daga, and A.C. 773, first signatory the MP F. Braga). The two bills are currently being examined by the Environment Committee of the Chamber and are aimed at intervening, in different ways, on the governance and public management of the integral water cycle.

The CAP Group closely monitors regulatory developments and participates in association meetings to discuss with the relevant bodies in the interests of the company.

The water sector is highly regulated, especially by the measures of the sector Authority, the ARERA (Italian Regulatory Authority for Energy, Networks and Environment) by virtue of the powers granted by means of Italian Decree Law No. 201/11, converted into Italian Law No. 214/11, also with regard to water services.

The year 2020 was characterised by the application of different ARERA provisions in different fields of action, mainly related to the Covid-19 emergency.

With resolution 235/2020/R/idr, a set of urgent measures was adopted in order to mitigate, with the introduction of some elements of flexibility, the effects of the COVID-19 emergency. In particular, the following was envisaged:

- the postponement of deadlines for tariff and technical quality requirements;
- the recognition in the tariff of compensation for payment delays caused by the restrictions related to the spread of Covid-19 (effects of any payment extensions granted or the failure to immediately start procedures for the recovery of the relevant receivables);
- assessment of quality performance cumulatively over the two-year period 2020-2021;
- adjustment of the criteria for cost recognition (forward looking, with deviations recoverable by adjustment) due to the Covid-19 emergency;
- partial revision of some parameters of remuneration of investment costs on works in progress;
- social sustainability measures of tariffs.

About the technical aspect of the service.

⁴ The Prime Ministerial Decree 179/2020 (in Official Gazette 322 of 30 December 2020) came into force on 14 January 2021. It identifies in detail the economic activities and assets subject to the regulation of special powers under Article 2 of Italian Legislative Decree 21/2012 (known as "golden power decree"). The decree, moving within the sectors referred to in Article 4, paragraph 1, of EU regulation 2019/452 (which identifies the critical assets in relation to which a Member State can evaluate the potential impacts of a foreign investment on national security), has included also the water sector, in the presence of certain conditions, among which: critical infrastructures of the aqueduct, sewerage and wastewater treatment, economic activities of strategic importance carried out in the sector by enterprises that realise an annual net turnover not less than \in 300 million and an annual average number of employees not less than two hundred and fifty units. In particular cases, the special powers referred to in Article 2 of Italian Decree Law 21/2012 may be involved.

⁵ARERA: 12th report pursuant to Article 172, paragraph 3-bis, of Italian Legislative Decree No. 152 of 3 April 2006, containing "environmental regulations", no. 607/2020/I/IDR, 29 December 2020, page 5

ARERA's resolution no. 917/2017/R/idr of 27 December 2017 remains on the technical aspects of reference (minimum levels and technical quality objectives in the integrated water service, through the introduction of: i) specific standards to be guaranteed in the performance provided to the individual user, ii) general standards describing the technical conditions of service provision iii) prerequisites representing the necessary conditions for admission to the incentive mechanism associated with general standards).

By means of Resolution 18 February 2020 - 46/2020/R/idr, a procedure was started for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the integrated water service referred to in title 7 of Annexe A to the resolution of the Authority 917/2017/r/idr (rqti).

About the commercial aspects of the service.

The main reference framework is resolution no. 311/2019/R/IDR of 16 July 2019, later amended by resolution no. 547/2019/R/IDR of 17 December 2019, with which ARERA adopted a regulation of delays in payment in the integrated water service (REMSI).

The resolution regulates the carrying out of the reminder and formal notice procedures for the defaulting user. For example, the measure envisages that the suspension of supply for residential end-users, which takes place in the most serious cases, can only be carried out after:

1) non-payment of invoices that exceed an amount equal to the annual amount (referring to the year prior to the year of formal notice) due by the defaulting user in relation to the preferential rate consumption bracket;

2) the intervention of limitation of the supply, where technically feasible, aimed at ensuring a flow of water supplied such as to guarantee the minimum vital quantity (50 litres per inhabitant per day);

3) the sending by the operator of a communication with the reasons for the possible technical impossibility to limit the supply.

Resolution No. 547/2019/R/idr also establishes a minimum monthly invoicing frequency in order to prevent bills from becoming too short.

Finally, the resolution must also be associated with the application from 1 January 2020 to "water" consumption of the 2-year limitation period (previously, Article 2948, paragraph 1, no. 4 of the Civil Code, with a 5-year limitation period, was applied), introduced by the "Baldelli regulations" in the 2018 Budget Law (Italian Law 205/2017, Article 1, paragraph 4) which, previously, reduced the limitation period for the operators' right to compensation for the electricity (2018) and gas (2019) sectors. This provides that operators must indicate on the invoice whether there are amounts for consumption dating back more than two years, or must invoice them separately. Operators must inform the customer of the possibility of objecting to the amounts that may expire.

By resolution no. 221/2020/R/idr of 16 July 2020 - in the light of the provision introduced by Article 1, paragraph 291, of Italian Law no. 160⁶ of 27 December 2019 - some of the provisions set out in Annexe A (REMSI) to Resolution 311/2019/R/IDR, concerning the regulation of delays in payment in the integrated water service, have been adjusted and supplemented.

For the commercial aspects, the "integrated text on water service charges (TICSI)", containing the tariff breakdown methods applied to users of the water service adopted by ARERA resolution of 28 September 2017 no. 665/2017/R/idr, as well as the "Adjusting the contract quality of the integrated water service i.e. of each service forming it (RQSII)", adopted by resolution of ARERA of 23 December 2015 no. 655/2015/R/idr as amended and supplemented (resolutions 217/2016/R/idr, 897/2017/R/idr, 227/2018/R/idr, 311/2019/R/idr, 547/2019/R/idr and, most recently, 186/2020/R/idr).

⁶ "operators of public utility services and operators of telephony, television networks and electronic communications are obliged to send users notices in which they contest in a clear and detailed manner any payments of invoices and communicate in the suspension of supplies in the event of non-payment with advance notice of not less than forty days by registered letter with acknowledgement of receipt";

About the financing of the works.

With resolution 8/2020/R/idr, ARERA approved the methods for managing the Guarantee fund for water works, which is designed to strengthen water infrastructures and overcome infrastructure deficits through support for investment and which will be fed by a new specific IWS tariff component.

The operator may resort to the Fund to obtain:

- a guarantee of payment of the take-over value in favour of the operator;
- the repayment of the debt owed by the lenders or investors to the operator.

In its brief of 28 September 2020 -348/2020/I/com, ARERA, as part of the cycle of hearings "on the identification of priorities for the use of the Recovery Fund" for the X Commission for Productive Activities, Commerce and Tourism of the Chamber of Deputies on 28 September 2020, provided its contribution regarding the identification of priorities for the use of the Recovery Fund, indicating, among other things, the regulated sectors as priority areas for the allocation of funds.

About the tariff aspect of the service.

The tasks of ARERA also include the approval of the tariff methodology. The Method introduced by ARERA (called Transitory Method for 2012-2013, MTI-1 for 2014-2015 and MTI-2 for 2016-2019, MTI-3 for 2020-2023)⁷ is based on the principle of the Full Cost Recovering and is constructed first and foremost on the determination of two essential parameters: the Restriction Acknowledged to the Revenues of the Operator (VRG) and the invested regulatory capital (RAB).

The Method applied to 2020 (MTI-3) was adopted by the ARERA by means of resolution no. 580/2019/R/IDR of 27 December 2019 and covers the period 2020-2023 (with a two-year tariff review for the years 2022-2023).

Like the previous ones (and the subsequent MTI-3, approved by Resolution no. 580/2019/R/Idr of 27/12/2019) it is based on the principle of the Full Cost Recovering and is constructed first and foremost on the determination of two essential parameters: the Restriction Acknowledged to the Revenues of the Operator (VRG) and the invested regulatory capital (RAB).

Without prejudice to the matters that will be illustrated subsequently, it is possible, via the underlying diagrams, to see the structuring of the tariff for the CAP Group in comparison with the other operators:

⁷ ARERA resolution no. 580/2019/R/IDR of 27 December 2019 concluded the process of defining the new tariff method for the third regulatory period (MTI-3).



* The VRG of the wholesale operators of ATO MB aqueduct and wastewater treatment were also considered in the calculation of the 2020 VRG of CAP Holding. The CAPEX and OPEX components also include the shares of ERC Capex and ERC Opex.

From the comparison, it is easy to highlight a minor impact of the operating costs (OPEX) and a high incidence of the tariff component intended for the investments (Capex).

As a key also for the rest of this report, especially when "revenues" are mentioned, it should be specified that the tariff Methods in question are based on the criteria of the prior allocation to each operator of an overall tariff fee (VRG) calculated on the basis of operating costs (opex) and capital costs (capex) permitted by the Tariff Method, eliminating the (previous) dependence of the revenues of the Operator on the trend of the water volumes (Cm) disbursed. This is technically guaranteed by a <<tariff adjustment>> mechanism that in the VRG of the second subsequent year recovers the differences between the acknowledged fee (VRG) and that invoiced at the time of application of the unit tariffs to the disbursed volumes.

The recognised opex are separated into endogenous (i.e. those that would also depend on entrepreneurial choices made by the Operator, and therefore "possible to make efficient") and exogenous costs that can be up-dated (and in some cases that can be adjusted ex post), mainly relating to the purchase costs of raw materials, electricity and fees.

In addition to opex and capex, there is a further component to cover environmental and resource costs (ERC). This component is in turn broken down into ERC capex and ERC opex. In fact, it is a reclassification of the share of capital and operating costs related to specific environmentally relevant activities, including, for example, wastewater treatment, water supply and drinking water.

The Tariff Method, against which some consumer associations already appealed, was the subject matter of a ruling by the State Council, with judgement No. 2841/2017. That judge, deducing with regard to the compatibility of the tariff components relating to the coverage of the financial charges introduced by the MTT, by means of Article 154 of Italian Legislative Decree No. 152/2006, as emerging from the outcome of the afore-mentioned referendum, clarified that *"the tariff method adopted by the AEEGSI in resolution No. 585/2012 appears to be in line with the referendum and with the principle of the full cost recovery (including the costs of the capital, equity and debt), in itself fully compatible with the outcome of the referendum [...]."*

The appeal filed by CAP Holding S.p.A. to obtain the annulment of ARERA resolution no. 436/2018/R/IDR of 2 August 2018, concerning the "approval of the updating of the tariff arrangements for the integrated water service for the years 2018 and 2019, proposed by the Area Office of the Metropolitan City of Milan", is still pending, appeal due to the incorrect application by ARERA of a tariff component due to the Operator.

By appeal notified on 25 February 2020, the CAP Group challenged resolution no. 480/2019/R/IDR of 27 December 2019 of the Italian Regulatory Authority for Energy, Networks and Environment concerning "approval of the water tariff method for the third regulatory period MTI-3" in the part in which it regulates the New Investment Fund (known as FoNI), considering, in particular, that it is unlawful, in the wording of the method, to reduce, at the tariff level and at the level of the residual value due to the outgoing operator in the event of take-over, the tax burden on that component.

Regional regulations

At regional level, the reference legislation comprises the regional law No. 26 dated 12 December 2003 (Discipline of the local services of general economic interest. Standards regarding the handling of waste, energy, use of the subsoil and water resources).

The Lombardy Region issued Regional Regulation No. 7 dated 23 November 2017, containing "Criteria and methods for the observance of the principle of the hydraulic and hydrologic invariance pursuant to Article 58 bis of Italian Regional Law No. 12 dated 11 March 2005 (Law for the governance of the area)", published in the Supplement of the Official Bulletin of the Lombardy Region No. 48 dated 27 November 2017.

The regulation deals with the handling of uncontaminated rainwater, for the purpose of decreasing the discharge to the urban drainage networks and from these towards the waterways already under critical conditions, thus reducing the effect of the urban sewage on the high-water flows of said waterways and defines:

the territorial areas of application, differentiated in relation to the level of hydraulic criticality of the catchment areas of the receiving waterways;

the admissible flow limits to the discharge in the receiving body;

the flow calculation methods;

the minimum requirements to be adopted in the planning stage for new measures or renovations.

The Regulation was supplemented in 2018, introducing a transitional period of non-application for certain types of interventions, and in April 2019, following technical observations and requests for clarification. The latest amendments are in force since 25 April 2019.

With regard to White Water, it is useful to point out that, with a letter from the ATO of the Metropolitan City dated 10 February 2020, the local authority took note of the infrastructure census that will be completed in 2020 to start full management from 2021 with subsequent recognition of the increased costs incurred.

Organisational performance

In the Metropolitan City of Milan

The year 2020 represented for the CAP Group the seventh year of assignment (from 1 January 2014 to 31 December 2033) of the entire IWS within the former Province of Milan, the result:

- of the profound process of industrial restructuring (through a process of merger between the management companies present in the territory that took place in 2013⁸, which then had another step in 2015⁹);
- of the expansion of the activities in favour of the Municipal Authorities of the Province of Milan, started in 2010 and ended in 2013 (overcoming shoestring operations and acquiring many business units from former operators).

During 2016 and at the beginning of 2017, this process passed through a number of additional transformations represented by the acquisition of business units of other operators (BrianzAcque S.r.l., Acque Potabili S.r.l.) that were still present in the Milan area.

The "de facto" operator of Metropolitana Milanese S.p.A. is still active as at 31 December 2020 in the area of the former Province of Milan, for the aqueduct of the Municipality of Corsico, since the latter is considered by the ATO of the Metropolitan City of Milan not in compliance with the approved management organisational model: ATO envisaged the regularisation through the transfer of the management of the service from MM S.p.A. to the CAP Group.

Furthermore, a number of very modest portions of the territory remain in relation to which the purification service is carried out by non-area plants.

These are "wholesaler" situations recognised by the Conference of Municipalities of the ATO of the Metropolitan City of Milan on 12 September 2016 with resolution No. 3, in which operators of other areas (or portions thereof) carry out:

- purification services for the metropolitan municipalities of Cerro al Lambro and San Zenone al Lambro (carried out by SAL S.r.l.);
- purification services for the metropolitan municipality of Settimo Milanese and part of the municipality of Novate Milanese (carried out by MM S.p.A.).

In the light of ATO Resolution no. 6 of 16 December 2019, the above-mentioned "wholesaler" situations, starting from 2020, will be managed through the application of special exchange tariffs, equal to those applied to its users by the operators providing wholesale services in its area of reference, implemented in the tariff preparation of the ATO of the Metropolitan City of Milan pursuant to MTI-3.

For the Municipality of Castellanza (VA), included in the ATO of the Metropolitan City of Milan (previously it was included in the tariff defined for CAP Holding S.p.A. by the ATO of Varese), this involves management (aqueduct, wastewater treatment and sewerage) from now on considered also metropolitan "tariff" (see resolution of the Board of Directors of the EGA of the Metropolitan City of Milan dated 31 May 2016- Annexe A).

The CAP Group is therefore the sole operator of the Integrated Water Service within the territory of the former Province of Milan, established according to the "in house" management model of the public concern, in compliance with the conditions required by the resolution of the Provincial Council and by the Conference of Mayors of the territorial area of reference on 11 October 2012.

⁸ Tutela Ambientale del Magentino S.p.A. (T.A.M. S.p.A.), Tutela Ambientale Sud Milanese S.p.A. (T.A.S.M. S.p.A.), Infrastrutture Acque Nord Milano S.p.A. (I.A.No.Mi. S.p.A., the latter with a significant presence also in the province of Monza and Brianza), operators within the meaning of Italian Regional Law no. 26/2003, merged into CAP Holding S.p.A. as a result of the merger deed, signed on 22 May 2013 and with effect from 1 June 2013.

⁹ In 2015, Idra Milano S.r.l. (company that owns water infrastructures in the north-east of Milan) was merged with legal effect from 1 May 2015 and accounting effect from 1 January 2015, following its establishment as a result of the total demerger of Idra Patrimonio S.p.A., based in Vimercate (MB).

The chosen management form - that of the "in house providing" model - involves a strict relationship with the shareholder bodies and with the Strategic Policy Committee, a body whose task is precisely that of ensuring the full exercise of similar policy and control powers.

To complete the point on the area of the Metropolitan City of Milan, note that with resolution no. 13/07 of 28 November 2007 of the Board of Directors of the ATO Authority of the City of Milan (later merged into that of the Metropolitan City of Milan in 2016), the management of the Integrated Water Service of the City of Milan was assigned to Metropolitana Milanese S.p.A. in the form of "in house providing".

On 22 January 2021, the strategic policy committee of CAP Holding S.p.A. authorised the company to participate in the drafting of a study assessing the management and economic/financial synergies arising from the unification of the management of the integrated water service within the ATO of the entire Metropolitan City. MM S.p.A. is also involved in the study, which is promoted by the Area Office of the Metropolitan City of Milan.

The study could be the first step on a path towards a joint project for the corporate integration of the business units dedicated to the integrated water service of MM S.p.A. and CAP Holding S.p.A.

In the province of Monza.

As at 31 December 2020, the CAP Group is the operator of the aqueduct service (limited to collection and large-scale transportation), sewerage service (limited to large-scale drainage) and wastewater treatment service in part of the Monza area.

For industrial and hydrogeological reasons, the infrastructures present in the two areas make sure that the management of the integrated water services is highly interconnected

The numerous interconnections present as at 31 December 2020 between the Milan and Brianza territories are shown below:



Another operator is present in the Monza area, appointed by the EGA of the Province of Monza, as operator of the Integrated Water Service (BrianzAcque S.r.l.).

Already on 5 November 2013, an agreement was signed with that entity for an "industrial partnership BrianzAcque - CAP Guidelines on overcoming residual managements", followed by an agreement on 2 April 2015, for a gradual exchange of "activities" between BrianzAcque S.r.l. and CAP Group.

The purpose was, inter alia, to transfer BrianzAcque S.r.l. the service segments carried out by the CAP Group in the Brianza area, but without interconnections with the "metropolitan" territory and, at the same time, to acquire from BrianzAcque S.r.l. service segments carried out through plants located in the metropolitan territory (regardless of their being interconnected or not with the Brianza area). These transactions were carried out in two phases, and became effective as at 1 January 2016 and 1 March 2017, respectively.

However, not all the properties located in the territory of Monza have been transferred to BrianzAcque S.r.l. as part of the above operations. The CAP Group has retained ownership of some large aqueduct backbones and drainage networks.

In fact, the CAP Group carries out activities for the shareholder municipalities of Monza (drainage, wastewater treatment and collection and large-scale transportation) that contribute to the integrated water service as defined by Italian Legislative Decree 152/2006 as amended and supplemented and, consequently, activities of production of a service of general interest, considering that the above mentioned watercourse also includes the construction and management of networks and plants functional to the provision of the services themselves.

This in strict compliance with the planning deeds undertaken by the related EGAs. The Area Office of the Metropolitan City of Milan, in fact, signed on 29 June 2016 the inter-area agreement pursuant to Article 47, paragraph 2 of Italian Regional Law 26/2003, with the corresponding EGA of the Province of Monza and Brianza, followed:

- on 29 June 2016, by the formal agreement between the CAP Group and the ATO Office of the Province
 of Monza and Brianza, which regulates the performance of the activity of the former, with the role of
 "wholesale" operator (according to the acceptation of ARERA).
- on 28 February 2017, by a specific contract between BrianzAcque S.r.l. and CAP Group, with a duration equal to the agreement in place between CAP Holding S.p.A. and the ATO of the Metropolitan City of Milan.

In the province of Pavia

The organisational scheme in the Pavia area is summarised in the resolution dated 7 June 2013 of the Provincial Administration of Pavia which (finalised by means of subsequent resolution dated 20 December 2013 approving the related Service Agreement) took steps to assign the Integrated Water Service to Pavia Acque S.c.a.r.l. for the entire provincial territory for twenty years according to the "in house providing" model, a company which has been responsible as from 1 January 2014 for the joint and co-ordinated management of the Service within the ATO of Pavia.

It should also be noted that on 15 July 2008 the CAP Group carried out the first assignment to the company Pavia Acque S.c.a.r.l. of business units related to the water networks of various municipalities located in the Pavia area, with a second contribution of water properties in 2016 for a net value of € 5,451,715.

A third contribution of € 315,078 relating to receivables of the CAP Group from Pavia Acque S.c.a.r.l., was made with deed dated 1 January 2018, notary public Trotta repertory 140.125/54.195.

The assets of Pavia Acque S.c.a.r.l., in addition to a share capital of € 1,520,000 held by the CAP Group, include a capital reserve "registered" with reference to the same entity, amounting to € 12,872,828.

This "registered" reserve (in accordance with the provisions of the shareholders' meeting of Pavia Acque S.c.a.r.l. of 22 December 2016) will be non-distributable, not available for increases in share capital (with the only and exclusive exception of the case envisaged in Article 11.5 of the current Articles of Association of Pavia Acque S.c.a.r.l.), and may be used to cover any operating losses and/or other management events of the company just before the reduction of the share capital.

If PAVIA ACQUE S.c.a.r.l. is wound up, after honouring all payables, the plan for the distribution of the assets will provide for their return to the shareholders to whom they are attributable, as a matter of priority. Similarly, in the case of withdrawal, only the CAP Group will be entitled to the reserve.

Provisionally, the dealings for reimbursement, by Pavia Acque S.c.ar.l. to the CAP Group remain for the portions of the loans undertaken by the latter, conferred on the former by means of deed of conferral dated 15 July 2008 and 23 December 2016, but which have remained in the name of the CAP Group.

Besides the events in the capacity of "shareholder" of the Pavia-based operator, the CAP Group also carried out industrial activities on its behalf.



Other areas

The CAP Group is present in certain other areas where it acts, via the role of "wholesaler" recognised by the EGA of the Metropolitan City of Milan as from 1 January 2016 by virtue of the resolution of the Board of Directors of above-mentioned EGA No. 1 dated 31 May 2016 - Annexe A. This involves:

- purification service carried out through the CAP Holding S.p.A. purification plant located in the municipality of San Colombano al Lambro (enclave of the Metropolitan City of Milan in the territory of Lodi) for 3 municipalities in the Lodi area (Borghetto Lodigiano, Graffignana, Livraga) in which the main Operator is SAL S.r.l.;

- purification service provided to 2 municipalities of the ATO of Como (Cabiate and Mariano Comense, for the latter case there are very few utilities) through the Pero purification plant located in the Metropolitan area of Milan.

- purification service carried out by the Peschiera Borromeo plant (located in the Metropolitan City of Milan) that also serves the eastern districts of the City of Milan, where the main Operator is MM S.p.A.

As already illustrated with reference to the services managed in the Area of the Metropolitan City of Milan, in the light of ATO resolution no. 6 of 16 December 2019, also the above mentioned "wholesaler" situations, starting from 2020, have been managed through the application of an exchange tariff, equal to the tariff applied to its users by the CAP Group, implemented in the tariff arrangement of the ATO of the Metropolitan City of Milan pursuant to MTI-3.

In July 2019, CAP Holding S.p.A. and Alfa S.r.I. signed a strategic collaboration agreement. The agreement aims to build new synergies in several areas including research and development, technological innovation, sustainability and service quality.

On 11 March 2020, the Strategic Policy Committee authorised the signing of a network contract between the two companies in order to pursue a synergic integration of their respective organisational systems so as to make efficient, also through economies of scale, the sharing of certain structures or resources, the management of the water service also in the perspective of an inter-area cooperation.

On 12 June 2020 (Volume no. 18396 File no. 10835 Notary Enrico Maria Sironi), a network contract was signed between CAP and Alfa, which, starting from the assumption of the significant interrelationships between the respective territories managed in terms of sewerage/cleaning and aqueducts, has as its strategic objective the synergic integration of their organisational systems in order to make the management of the water service in their areas more efficient, including through economies of scale or the sharing of certain structures or resources

With regard to the Municipality of Castellanza (VA), please see the section relating to the Metropolitan City of Milan.

Summary of the macro-organisational plan.

In 2013, through a series of extraordinary transactions, an economic entity (the CAP Group) that previously did not exist (2013 was the first consolidated accounting period) took shape.

In 2014, this new economic entity completed the final exit, in terms of equity, but also in terms of social composition, from the Lodi area and received the formal twenty-year assignment of the integrated water services for the area of the former Province of Milan (provincial capital excluded).

In 2015, it by contrast proceeded with an equity expansion and social enhancement towards the North, by means of the Project for the merger of Idra Milano S.r.l., which had taken root back in 2014.

In 2016 and 2017, an additional important management organisation/rationalisation took place with respect to the Monza area, involving both business unit disposal and purchase transactions, and formal measures (inter-area agreement, agreement with the Monza EGA) which recognise the role of wholesale operator of the CAP Group until the end of the concession that the Group has for the area of the Metropolitan City.

At the same time, the rationalisation process throughout the Pavia territory was completed, with a second and final assignment, after that in 2008, of water infrastructures, and a third one concerning a portion of receivables, at the beginning of 2018, aimed at strengthening the equity of the investee Pavia Acque S.c.a.r.l.

Lastly, in 2018 the "out of scope" management for the municipality of Gorla Minore (VA) was dismissed.

In 2019, the foundations were laid for a solid collaboration with the operator of the Varese province area, which culminated in 2020 with the signing of a network contract with which the parties began working together for the common purpose of improving, in their respective areas, the management of public services for the collection, transportation, distribution, purification for civil uses, sewerage and wastewater treatment, as well as encouraging the implementation of the related organisation policies.

In 2020, the ATO Authority of the Metropolitan City of Milan launched a study involving both CAP Holding S.p.A. and MM S.p.A. aimed at unifying the management of the Integrated Water Service for the entire territory of the Milan Metropolitan City.

Beyond the "extraordinary" aspects of corporate architecture and governance, the CAP Group continued to focus on internal organisational elements at a time of very significant changes induced precisely by the changes already commented on.

We will examine some aspects below, also useful for analysing the CAP Group's policy in risk management.

Measurement of company crisis risk

CAP Holding S.p.A. it is not required to apply the provisions of Article 6, paragraph 2 of Italian Legislative Decree 175/2016 as it falls under the hypothesis referred to in article 26, paragraph 5 of this decree.

However, in order to provide shareholders with information in any case, the appropriate indicators to predict the risk in question will be reported in a specific report, noting that these indicators do not indicate risk situations. The other indications referred to in paragraph 3 of the aforementioned article 6 can be found in this report.

Internal Control and Risk Management System

The Internal Control and Risk Management System of the CAP Group comprises the series of different Business instruments, bodies and units which each Group company has for the purpose of achieving the effectiveness and efficiency of the business processes, ensuring the reliability and integrity of the accounting and operational information, guaranteeing the compliance of the business operations with the provisions and the management of the main company risks.

The overall design of this Internal Control System is made up of:

- provisions that concern each individual Group company in its entirety: Articles of Association, Organisational, Management and Control Model pursuant to Italian Legislative Decree No. 231/2001, Code of Ethics, Anti-corruption Plan, Enterprise Risk Management Policy, etc. For further details on these issues, please refer to the following sections in this report: "Organisational, Management and Control Model pursuant to Italian Legislative Decree No. 231/01"; "Organisational Model consistent with the prevention of corruption Italian Law No. 190/2012"; "Compliance with transparency requirements"; "Internal Audit and checking of the internal control system".
- more strictly operational procedures/instructions that regulate the business processes, the individual activities and the related controls.

The Internal Control System has been defined following a number of fundamental principles:

1) the dissemination of controls at all levels of the organisational structure in line with the operational responsibilities assigned and, where possible, providing for sufficient separation between the operational and control functions, taking care to avoid situations of conflict of interest in the assignment of responsibilities;

2) the sustainability of the controls over time so that their performance is integrated and compatible with the operational requirements.

The structure of the CAP Group's Internal Control System envisages controls at the level of entities that operate transversally with respect to the reference entity (Group/ individual company) and controls at process level.

The Internal Control System is also called upon to:

- adequately identify, gauge and monitor the main risks undertaken in the various operating segments, including those that could generate risks of error, unintentional error or fraud that could have a material impact on the financial statements;
- permit the registration on the operating transactions with a sufficient level of detail and correct allocation with regard to accruals accounting;
- use reliable information systems that can produce reports suitable for the units tasked with the control activities.

With regard to the control functions, the System is divided into several levels. The main ones are:

- **first level controls**: aimed at ensuring the correct performance of the daily operations and the individual activities entrusted to the same production structures (e.g. hierarchical control);
- second level controls: entrusted to structures other than the production ones, which have the aim
 of checking the observance of the limits assigned to the various operating units (e.g. ex ante budget
 control, including therein the subsequent accounting destinations by the non-operative unit Planning
 and Management Control Division) and checking the consistency of the operations of the individual
 production areas (e.g. Quality Management, Environment and Safety Systems unit for the control of

the processes and the results. With regard to this specific point, see the dedicated section "Integrated Quality System" in this report);

 third level controls: this context in particular includes the Internal Audit unit, aimed at identifying anomalous trends, violations of the procedures and the regulations, as well as assessing the functioning of the overall system of internal controls. With regard to this point, see the section "Internal Audit and checking of the internal control system" in this report.

The Internal Control System also involves:

- The Board of Directors which is reserved the powers regarding the policies and the internal control
 of the Company and (with regard to the Board of Directors of the parent company) of the Group (e.g.
 the power to define the policies of the internal control system, as well as periodically check its
 suitability and effective operation, making sure that the main company risks are identified and
 managed adequately and that the controls required for monitoring the performance of the Company
 trend exist);
- the Internal Audit unit whose head reports hierarchically to the Board of Directors, also responsible for the Prevention of Corruption and Transparency;
- the Ethics & Compliance function, whose manager reports hierarchically to the Managing Director and plays a leading role in the implementation of the Enterprise Risk Management Model of CAP Holding and its subsidiaries with the cooperation of the Corporate Social Responsibility (CSR) department in the area of ESG risks;
- the Board of Statutory Auditors that oversees (by means of inspection and control activities) the observance of the law, the articles of association and the principles of correct administration and that, specifically, must assess the adequacy of the organisational, administrative and accounting structure and supervise its effective operation;
- The parent company's Internal Control Committee (coinciding with its Board of Statutory Auditors) that oversees a series of aspects that pertain to the internal and external controls system for bodies of public interest, in particular with regard to: financial disclosure process; efficacy of the internal control, internal audit, if applicable, and risk management systems; external audit of the annual and consolidated accounts; independence of the external auditor or Independent auditors. In order to strengthen the prerogatives of the committee it is also envisaged that the auditor submits a report to this body on key issues emerging during the external audit, especially with regard to the short falls identified in the internal control system, which have an impact on the financial reporting process.

Enterprise Risk Management

The CAP Group, as manager of the integrated water service, pays great attention to the correct management of risks related to the performance of its business activities. To support and complement the existing risk management systems, in 2020 the CAP Group undertook a process aimed at adopting a structured system for analysing, managing and monitoring risks, which led the Group to implement an "Enterprise Risk Management" model.

This model, which is inspired by national and international best practices (e.g. Corporate Governance Code, CoSO ERM Framework) is aimed at identifying and prioritising the main risks that could compromise the achievement of both the Group's business and sustainability objectives, with the ultimate goal of supporting decision-making processes, creating awareness in the organisation and improving the ability to create value for stakeholders.

Therefore, the Enterprise Risk Management model allows an effective monitoring of the main risks to which the CAP Group, due to the nature of its business and strategies adopted, is potentially exposed and ensures that the Group's risk profile is consistent with the objectives of the Business Plan and the Sustainability Plan. On 15 October 2020, the Board of Directors of CAP Holding approved the "Enterprise Risk Management" policy, which defines the ERM Governance model, understood as the roles and responsibilities of the main actors involved in the risk management system, and the Operating Model on an annual basis, taking into account the timing of the main Group Planning and Reporting activities in the ESG area (DNF).

ERM Governance envisages that the ERM function is responsible for supporting corporate structures in identifying and managing company risks through the development of frameworks, methodologies and tools and for ensuring periodic reporting on the development of the risk profile to management, senior management and corporate bodies.

On the other hand, the Management is the primary owner of the identification, assessment and management of risks related to its areas of competence.

The ERM process envisages an annual risk assessment and periodic monitoring involving all corporate structures in order to identify the most relevant risks, related control units and mitigation plans.

The risks with which the CAP Group could potentially be confronted belong to different types: risks deriving from changes in the external, strategic, legal & compliance, financial and operational contexts.

Integrated Quality Management System – Sustainability Report and Environmental Accounts

The CAP Group adopted an Integrated Policy in line with its vision, mission and ethical commitment; this is implemented through an Integrated management System certified by third independent parties, in order to achieve the strategic objectives and implement the Policy itself.

The CAP Group adopted an Integrated Policy, updated in September 2020, in line with its vision, mission and ethical commitment; this is implemented through an Integrated management System certified by an independent third party, in order to achieve the strategic objectives and implement the Policy itself.

In 2020, the CAP Group confirmed its focus on renewing the certifications already achieved in the past, i.e. ISO 9001, ISO 14001 and ISO 45001 and on maintaining the ISO 50001, SA 8000 and ISO 22000 Schemes, as well as the Carbon Footprint for the year 2019 in relation to the emissions of the Group companies.

Work has also begun on obtaining Afnor XPX30-901 certification for the management of circular economy projects in the first half of 2021.

The certifying body checked the voluntary statement concerning the organisation's greenhouse gas inventory by issuing the Group Greenhouse gas emission verification declaration according to ISO 14064-1:2012.

The commitment made by Top Management to improve quality standards to satisfy the expectations of customers and stakeholders in general, with a view to continuous improvement, was strengthened.

The CAP Group's commitment and work continues, therefore, in the adoption and development of an Integrated Management System, which combines the various reference standards.

Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001

Both Group companies have a Code of Ethics and the Organisation, management and control model pursuant to Italian Legislative Decree No. 231/2001, adapted to Italian Law No. 190/2012 "Provisions for the prevention and repression of corruption and illegality within general Government Bodies".

The afore-mentioned documents have been constantly updated to acknowledge the legislative amendments introduced by the legislator (Italian Law No. 68/2015 known as offences against the environment and Italian Law No. 69/2015 known as offences against the Public Administration and false accounting) and reviewed with the aim of harmonising at Group level the processes and procedures, while respecting the autonomy of the two companies.

In 2018, following organisational changes in the company, such as the transfer of the business unit from Amiacque to the parent company, the review of corporate procedures and instructions and the legislative

changes (e.g. Law 179/2017 on Whistleblowing – Italian Legislative Decree 107/2018), Model 231 of the CAP Group companies were updated.

The CAP Group has kept the Catalogue of offences enclosed with the Organisation, Management and Control Model updated to the new types of offences applicable (e.g. xenophobia, influence peddling, tax offences, etc.).

Furthermore, the Code of Ethics supplemented with specific conduct-related duties of the employees was approved for preventing corruption (ANAC decision No. 12/2015).

On 10 July 2017, the Board of Directors of CAP Holding S.p.A. adopted the document "Ethical Commitment of the CAP Group" which has three appendixes: i) Code of Ethics of the CAP Group, ii) Code Of Ethics for works, supplies and service contract, iii) Anti-corruption Policy.

CAP Holding S.p.A. adopted a single document with the aim of structuring an efficient management system designed to prevent, identify and respond to corruption confirming the CAP Group's commitment to act with fairness and integrity in transactions and business relations.

In the first two Appendixes, already adopted by the company, the Anti-corruption policy has been drawn up as new; it defines the values, principles and responsibilities that the CAP Group complies with in the fight against corruption. This Policy was designed in observance of the current applicable provisions including Italian Law No. 190/2012, Italian Legislative Decree No. 231/01 and the UNI ISO 37001:2016 Management system, with the objective of prohibiting any form of corruption, direct or indirect, active or passive, which involves not only public officials but also private parties.

In January 2019, the "CAP Group's Ethical Commitment" was updated following the acquisition by CAP Holding S.p.A., as the first company of the integrated water service, of ISO 37001 certification - relating to the Anti-Corruption Management System.

During 2019, new revisions were made to the Ethical Commitment in particular: on 8 July 2019, the Anti-Corruption Policy was integrated with some principles of good practice in the management of relations with suppliers and on 25 November 2019, the principle of "respect for the individual" was integrated into the appendix of the Code of Ethics; the CAP Group wanted to make more explicit some rules against harassment and discrimination.

In 2019, "The Ethical Commitment in brief" was also drafted, a document used during training events to spread the culture of ethics through basic facts that recall the main contents of the appendixes.

In February 2021, a review of the organisation, management and control models of the Group's companies was launched in order to implement the new regulations introduced by the legislator from 2019, with a special reference to tax and cyber security matters.

Organisational Model consistent with the prevention of corruption (Italian Law No. 190/2012)

On 23 June 2014, each management body of the afore-mentioned companies approved the "Three-year corruption prevention plan", pursuant to Italian Law No. 190/2012, and the "Three-year programme for transparency and integrity", pursuant to Italian Legislative Decree No. 33/2013.

According to the indications formulated by ANAC, the Boards of Directors of both companies, in the sessions held on 18 February 2021 and 26 February 2021, approved the update of the Three-year corruption prevention and transparency plans - years 2023–2021.

On 21 January 2015, the Italian Antitrust Authority (AGCM) assigned the legality rating pursuant to Italian Decree Law No. 1/2012, converted into Italian Law No. 62/2012 to CAP Holding S.p.A., with the acknowledgement of a maximum score of 3 "stars".



On 18 April 2019, the Company obtained from the AGCM the renewal of the legality rating confirming the maximum score of three stars. The rating is a tool that recognises rewards to companies that operate according to the principles of legality, transparency and social responsibility.

In 2019, CAP Holding joined the new WebRating platform activated by AGCM, which is now the only tool to obtain the attribution or renewal of the Rating and to communicate to the Authority any changes in the data reported in its Chamber of commerce certificates and any event that affects the possession of the requirements.

On 16 February 2021, CAP Holding submitted an application for renewal of its legality rating to the AGCM through the aforementioned platform; the application is currently being examined.

Compliance with transparency requirements

The CAP Group considers transparency to be a fundamental instrument for the prevention of corruption and for the efficiency/effectiveness of the administrative action.

In line with the principle of administrative transparency, the CAP Group has equipped itself with an internal policy aimed at characterising each administrative procedure according to transparency and accessibility criteria.

Pursuant to Article 9 of Italian Legislative Decree no. 33/2013, a special section called "Transparent Company" has been set up on CAP Holding's website, in which all data and information concerning the organisation, activities and methods for achieving the aims of the Transparency Plan, as set out in Italian Legislative Decree no. 33/2013, Law no. 190/2012 and the National Anti-Corruption Plan, are published.

The CAP Group is aware that transparency is an essential corruption prevention measure and a strategic objective that must be translated into organisational and individual objectives and, for this reason, it has adopted specific procedural rules based on making offices responsible for active participation under the coordination of the Head of Corruption Prevention and Transparency.

In 2020, the quantity and quality of public data that can be consulted and downloaded from the CAP Group portal were increased.

The above also applies to the implementation of "intelligent" activities, e.g. smart city, which in the case of the CAP Group, in the light of the objectives assigned by the Shareholders, is extended to the concept of "smartland".

The CAP Group developed a functional logic of correlated databases in order to allow an efficient service and a simple publication and/or disclosure of information. This also facilitates the active role of citizens in the production, modification, updating and exchange of information.

Also through the exchange and sharing of data between the CAP Group and the PA (Lombardy Region, Metropolitan City of Milan, Municipalities), information relating to the Group's activities is fully accessible to citizens.

The Three-year corruption prevention and transparency plan of CAP Holding S.p.A. and Amiacque S.r.l. is published in the "Transparent company" section of the corporate website.

Internal Audit and checking of the internal control system

CAP Holding S.p.A. and its subsidiary company Amiacque S.r.l. have had a Group Internal Auditing Unit (hereinafter also "IA") since 2014.

The Internal Auditing Unit supports the other players (Board of Directors, Top management) in the fulfilment of their duties with regard to internal control and has the task of assessing the adequacy and efficacy of the entire Internal Control System with reasonable certainty. Internal Auditing is an independent and objective activity for assurance and consulting aimed at assessing the completeness, adequacy and reliability in terms of efficiency and efficacy of the internal control system as well as identifying violations of the procedures and the standards applicable to the CAP Group.

The Head of the IA Unit reports hierarchically to the Board of Directors, is not responsible for any operations area and has been appointed as Individual responsible for Corruption prevention and Transparency. The Board of Directors of each Group company approves, annually, the Audit Plan drawn up by the Head of the Internal Auditing Unit.

The Board of Directors may request the Head of Internal Auditing to carry out checks on specific operating areas and on the observance of the internal procedures and rules in the carrying-out of business transactions.

The Head of IA organises regular meetings with the control bodies for the purpose of establishing a reciprocal exchange of information with the Board of Statutory Auditors, the Supervisory Body and the Independent auditors of the CAP Group companies reporting on the activities carried out and on the suitability of the internal control system. The objective of the meeting is to obtain disclosure on the planning of the assurance measures of the various bodies for the purpose of avoiding overlapping, duplication of activities and maximising possible synergies.

Environmental risks.

As mentioned above, the CAP Group operates in a typically capital-intensive sector where the technical and pricing life of fixed assets is particularly long. This raises the issue of possible changes in the medium to long term of interest to the company. It is now generally recognised that we are in the midst of climate change¹⁰ and that infrastructures must be designed, built and maintained taking into account the potential impacts that a change in the weather system may have on their operation.

The "physical risks" that can arise directly from climate change can be "acute" or "chronic". The former can be traced to those related to extreme weather events and the latter to longer-term changes in climate scenarios.

The latter, insofar as they are "chronic" (a more frequent manifestation of extreme events) and therefore tend to be structural, have been considered in the design of the works already carried out and in the CAP Group's Sustainability Plan and must be taken into account in the company's planning as well as, obviously, in that of the Area Plan.

In addition to direct risks, there are also some indirect risks (or transition risks) such as amendments to regulations (ref. Regional Regulation 06/2019), public policies, technological changes, changes in customer focus, induced by climate change.

The above prompts the CAP Group to take into account, both by means of instruments to hedge the risk of liabilities that may arise as a result of acute physical events (insurance coverage for compensation for

¹⁰ "The world is already 1.1°C warmer than at the dawn of the industrial revolution, with a significant impact on the planet and on people's lives". Cop25: the UN Climate Change Conference, 5 things to know (https://unric.org/it/cop25-la-conferenza-onu-sul-cambiamento-climatico-5-cose-da-sapere/)

damages, for example, due to flooding and spillage of the managed sewerage networks; the inclusion of environmental issues related to the multiplicity of services provided by the CAP Group in the Organisation and Management Model pursuant to Italian Legislative Decree no. 231/01, in the E.R.M.) and by means of a careful assessment in the planning of operating and investment activities of chronic risks (e.g.: hydraulic invariance, management of mixed networks, flyovers, etc.), as far as they may be required of the water services operator (but see also below).

From an economic point of view, the fact that the CAP Group operates in a regulated sector and that at the end of its concession the economic value (terminal value) of the infrastructures built in the course of its operation is indemnified and therefore removed from the future risk of fluctuations in demand, partly reassures the impact of climate risks.

However, it is important for the CAP Group that, as a public company seeking to be present in its area even after the concession has come to an end, the classic technical and industrial planning approach (capturing the resource, transporting it efficiently and economically, etc.) is immediately integrated with the more typical approaches of sustainability plans (assumptions about quantity, changes in demand and availability of supply in the long term), as the best preventive tool that the CAP Group has for managing the risks of long-term climate change. Long-term economic and financial forecasts also tend to be more reliable, partly thanks to the adopted risk management approach.

Regarding transition risks, it is possible that climate change, together with the weakness of Italian public finance, will push public authorities in the future to try to bring rainwater management closer to that of the integrated water service. This implies for the operator a push to increase its knowledge of the served territory, not only limited to the aspect of the water infrastructure directly managed, but also of those indirectly connected.

Finally, the CAP Group closely monitors the issue of climate change and its developments at EU and international level (COPs - Conference of the Parties and European legislation).

The environmental risk is also taken into account in all activities to promote the circular economy - in compliance with the Kyoto Project approved by the Shareholders' Meeting in 2019, which allocated approximately \in 34 million to promote activities closely related to the water service but, in fact, operating in related sectors (such as waste management, etc.).

In particular - as in the procedure started for the construction of the BioPiattaforma in Sesto San Giovanni even in minor projects, compliance with specific legal procedures (AUA, AIA, etc.) requires the Operator to carry out a thorough analysis of the impact of its activities on the environment.

In terms of new project development - in accordance with the ERM model - specific environmental due diligence is activated, as far as applicable.

Security risks to corporate systems and data.

The CAP Group adopted a risk assessment document specifically related to Information Technology (IT risks and the processes governing their activities). The CAP Group adopted rules to ensure compliance with the company's standards and procedures on Information Technology.

In particular, during 2020, a security policy was prepared to which all procedures related to data management and IT security refer. The security policy will be issued to the system in the first half of 2021, consistent and in concert with the ongoing ISO 27001 certification process.

In detail, the following risks with their risk mitigation and cancellation procedures were identified within the risk management process.

• <u>Cyber attack resulting in the blocking of ERP and/or Internet portals and/or billing system and/or supplier portal for 2/3 weeks and subsequent:</u>

- inability to access administrative and management data (e.g. registration/payment of invoices, taxes) by CAP persons and/or Internet portals by suppliers and/or users

- theft of sensitive data (e.g. user/supplier data);

- theft of credentials with an impact on both the Group's operations and reputation in the medium-short term.

This operational block could also result in economic losses.

On the other hand, blockages in the provision of the water service are not considered as the infrastructures are equipped with systems that can also be activated manually, allowing the timely restoration of the service.

A number of actions have been taken to comprehensively mitigate the above risk, the main ones being:

- Disaster recovery system to mitigate cryptolocker attacks (blocking of data and ransom demand to restore them);

- Cover through Cyber Policy with adequate coverage for damages to third parties due to data loss and/or business interruption damages;

- Crisis Communication Management programme to deliver targeted and timely communications;

- increase in permanent monitoring systems for safety parameters, expansion of firewall devices to protect the network in the last half of 2020;

- increase in monitoring systems for email protection.

Economic performance

The consolidated financial statements of the CAP Group, accompanied by this report, illustrate the accounting data relating to 2020 and that of the financial statements as at 31 December 2019 and 31 December 2019 restated, following the change in the accounting policy for FoNi (for more details see below and in the Explanatory Notes to the Financial Statements), presented on the basis of the application of the International Financial Reporting Standards (IFRS) adopted by the European Union.¹¹

Statement of comprehensive income	Value as at	Value as at	Value as at	
	31/12/2020	31/12/2019 Restated	31/12/2019	
Revenues	236,650,408	243,722,886	253,949,891	
Increases for internal work	4,181,035	4,127,584	4,127,584	
Revenues for work on assets under concession	88,134,590	96,534,625	96,534,625	
Other revenues and income	15,769,216	14,652,965	14,652,965	
Total revenues and other income	Total revenues and other income 344,735,249		369,265,065	
Costs for raw materials, consumables and goods	(10,651,430)	(15,477,915)	(15,477,915)	
Costs for services	(130,134,391)	(128,493,077)	(128,493,077)	
Costs for work on assets under concession	(51,133,406)	(56,294,549)	(56,294,549)	
Personnel costs	(45,737,339)	(45,780,163)	(45,780,163)	
Amortisation, depreciation, provisions and write-downs	(57,154,222)	(54,457,661)	(58,169,963)	
Other operating costs	(9,481,805)	(12,896,872)	(12,896,872)	
Non-recurring operations	(9,939,434)	0	0	
Total costs (314,232,028)		(313,400,237)	(317,112,539)	
Operating result	30,503,221	45,637,823	52,152,525	
Financial income	1,248,392	2,025,354	2,025,354	
Financial expense	(5,672,593)	(6,911,346)	(6,911,346)	
Result before taxes	26,079,020	40,751,831	47,266,533	
Taxes	(7,510,067)	(13,145,693)	(14,982,838)	
Profit (loss) from assets held for sale or disposed of	0	(24,589)	(24,589)	
Net result for the year (A)	18,568,952	27,581,550	32,259,106	

¹¹ The adoption of the IAS/IFRS accounting standards was approved by the Board of Directors of CAP Holding S.p.A. at the meeting of 26 June 2017 (as regards the suspensive condition, then occurred on 2 August 2017, of the actual admission to negotiations on the Main Securities Market of the Irish Stock Exchange of a bond of € 40 million issued by CAP Holding S.p.A.)

The table shows a net operating result that represents around 8.8% of total revenues of the CAP group (down from approximately +14.1 in the previous year and 12.7% in 2019 Restated) and a partial absorption of margins by the financial area. Note at the outset the presence of the item "Non-recurring operations" in the year 2020 only.

Total revenues for 2020 decreased with respect to those of the previous financial year Restated (+4%) due to the effect of decrease in revenues and revenues for works on assets under concession.

On the other hand, total costs in 2020 are substantially unchanged compared to the previous year Restated due to the reduction in costs for raw materials, consumables and goods and work on goods under concession against the increase in depreciation, provisions and write-downs and the presence in 2020 of the item non-recurring transactions (consisting of a series of cash donations in support of measures to combat the Covid-19 epidemic emergency in favour of local authorities and Aziende Socio-Sanitarie Territoriali (ASSTs) in the area of reference).

Here we would like to comment on a significant aspect of the FoNI component.

This is a component of the tariff for the year, in turn made up of a number of sub-components, which must be allocated to investments in the IWS. Since there is no specific accounting standard, either international or national, for this item, Italian utilities have, among others, adopted two prevailing accounting treatments:

- 1. allocation to the Income Statement (under Revenues) and consistent allocation (when deciding on the result for the year) to an equity reserve;
- 2. allocation related to realised assets (either on the liabilities side of the Balance Sheet, under Deferred Income or as a direct reduction of the value of fixed assets on the assets side of the Balance Sheet) and direct (or indirect) allocation to the Income Statement of the financial years in which the depreciation of the investments to be financed by the FoNI will take place.

Both of these criteria give a true and fair view of the financial position, the results of the operations and of the cash flows. The CAP Group adopted the first solution until the 2019 financial year.

As from 1 January 2020, in order to:

- facilitate the annual comparison between the net book value of assets and the residual value of the operator¹², also in function of the expected future recurrence in the planning of the area of further significant FoNi components until the end of the concession;
- facilitate an easier comparison of the net book value of each individual asset with the "regulatory" indications of the EGA of the Metropolitan City of Milan¹³;
- provide greater comparability of CAP's financial statements with those of other utilities already using the passive deferral technique for FoNI;
- homogenise the accounting treatment of FoNI with that followed for public operating grants for the plant, since it is treated in the same way as such grants as part of tariff regulations:

¹²Also of relevance here are the changes introduced on this component by Annexe A of Resolution no. 580/2019/R/idr of 27 December 2019 (WATER TARIFF METHOD 2020-2023 MTI - 3) and in particular by the additions brought by Resolution no. 235/2020/R/IDR of 23 June 2020, on the "Adoption of urgent measures in the integrated water service, in the light of the COVID-19 emergency", where (point 35.5) it assimilates the sub-component *AMMa*FoNI - which in the "tariff" economy of the CAP Group is the significant one - to the other sub-components of FoNi itself (for the purposes of determining the gross value of the fixed assets of the Integrated Water Service operator) "*as operating grants for the plant*" to be combined with the assets that came into operation in the year, and, as a result, subtracts it from the Residual Value of the Integrated Water Service operator (point 29) for the portion that is not yet "tariffally" released.

¹³ For the purposes of points 15 and 35 of the aforementioned Annexe A) to MTI-3, the EGA requested the Operator to allocate the entire FoNI accruing in year a), including the *AMMFoNI* component, proportionally to all individual assets, included in all categories of technical fixed assets, which entered into operation in year a).

The CAP Group decided to change the method of accounting for FoNI in the financial statements by adopting the second method (i.e. FoNI is deducted from the cost of individual assets entering service from year to year, in the same way as public grants for plant and machinery), believing, for the reasons explained above, that in this way it can offer reliable and more relevant information on the effects of the business operations.

IAS no. 8 requires that when there is a voluntary change in an accounting policy, the change must be applied retrospectively. Therefore, the effects have been adjusted against shareholders' equity as at 1 January 2020. In the table above, the 2019 Restated income statement was presented as if the application of this new accounting policy had already been done in the past.

Consequently, as a result of the new accounting standard adopted, the Company's shareholders' equity as at 31 December 2019 was lower by approximately \in 35.7 million, against approximately \notin 49.7 million of total deferred income deducted from fixed technical assets for FoNI contributions, before the related tax effects (deferred tax assets) of approximately \notin 14 million.

It should be noted that the share paid to the CAP Group for the province of Milan alone by way of FoNi amounts to \notin 18,115,261 for 2020, in addition to the FoNI component of the wholesale purification arrangement for the area of Monza and Brianza amounting to \notin 1,171,364.

For the period from 2012 to 2020, the portion of the FONI component was used as a priority for the realisation of investments, as well as in part for tariff reductions granted in the form of water bonuses in 2016 and 2017, years in which this option was still admitted by the tariff system.

Total Revenues of the Group.

Total Revenues of the CAP Group in 2020 were:

Revenues and other income	Value as at 31/12/2020	Value as at 31/12/19 Restated	Value as at 31/12/2019	% change 20 vs 19 Restated
Revenues	236,650,408	243,722,886	253,949,891	(2.9%)
Increases for internal work	4,181,035	4,127,584	4,127,584	1.3%
Revenues for work on assets under concession	88,134,590	96,534,625	96,534,625	(8,7%)
Other revenues and income	15,769,216	14,652,965	14,652,965	7.6%
Total revenues and other income	344,735,249	359,038,060	369,265,065	(4,0%)

Some details follow.

The Revenues

These are mainly made up of revenues for Integrated Water Service tariffs.

Their amount (€ 236,650,408) changed by -2.9% compared to that of 2019 Restated (€ 243,722,886) as a result of the decrease in revenues of the Integrated Water Service and wholesaler tariff revenues.

In particular, for the areas of the Metropolitan City of Milan, pending approval of the tariff arrangements pursuant to MTI-3 for the years 2020-2023, the provisional tariffs envisaged in the PEF approved in implementation of the water tariff method for the 2016-2019 regulatory period, as resolved by the Regulation Authority for Energy Networks and Environment, with resolution no. 918/2017/R/IDR of 27 December 2017 updating the infra-annual period, were applied during 2020.

In the municipalities of the Metropolitan City of Milan, the provisional tariffs published in BURL no. 4 of 22 January 2020 were applied as from 1 January 2020, as provided for in the PEF approved by the Regulation Authority for Energy Networks and Environment with resolution no. 436/2018/R/idr of 2 August 2018, which provided for a provisional ϑ value of 0.994 for the year 2020.

On 21 December 2020, the Conference of Municipalities of the Area Office of the Metropolitan City of Milan approved the proposed tariff update for the regulatory period 2020-2023, providing for a tariff multiplier ϑ equal to 1.017 for 2020.

The preliminary investigation process for the final approval of the tariffs for the 2020-2023 regulatory period by the Regulation Authority for Energy Networks and Environment is currently underway.

As previously illustrated, in the light of ATO resolution no. 6 of 16 December 2019, as from the year 2020, the "wholesaler" situations relating to the purification service rendered through the CAP purification plant in San Colombano al Lambro for 3 municipalities in the Lodi area (Borghetto Lodigiano, Graffignana, Livraga), the purification service provided to two municipalities of the Como ATO (Cabiate and Mariano Comense) through the Pero purification plant and the purification service provided by the Peschiera Borromeo plant, which also serves the eastern districts of the City of Milan, were managed through the application of a specific exchange tariff, equal to the tariff applied to its own users by CAP Holding, which was incorporated into the tariff arrangements of the ATO of the Metropolitan City of Milan pursuant to the MTI-3.

On the other hand, the CAP Group continues to sell wholesale services through its plants located in the ATO of the Metropolitan City of Milan area, which supplies wastewater treatment services to the operator BrianzAcque S.r.l., which operates in the Monza and Brianza area. This has led the competent EGAs to envisage the application of the matters established in Article 16.3 of the model agreement approved by means of resolution No. 656/2015/R/IDR, which states that "*if a wholesaler provides services to different operators, operating in a plurality of ATOs, the EGA in whose area the plant is located sees to the tariff arrangement obligations, subject to the opinion, to be provided within 30 days, of the competent EGA for the operator served*".

The Metropolitan City of Milan EGA operated in this sense, arranging the tariffs also for the operations as wholesaler of the CAP Group vis-à-vis the adjacent ATO of the Province of Monza and Brianza for aqueduct and purification services.

On 22 December 2020, by way of Resolution no. 3, the Conference of Municipalities of the ATO MB approved the proposed tariff update for the regulatory period 2020-2023 of the aforementioned wholesaler arrangements, envisaging a tariff multiplier ϑ of 1.039 for the purification service and 1.085 for the aqueduct service, as previously approved by the Conference of Municipalities of the Metropolitan City of Milan on 21 December 2020.

The final approval by ARERA has not yet taken place in this case either.

The components considered in the mechanism of the regulatory adjustments include that on "volumes".

The regulatory model determines the commitment to the revenues of the operator (VRG) for year "a" basing the entire forecast on the amount of the volumes of water sold up to year "a-2" or rather two years prior to the determination of the tariff. The "volumes" adjustment (which will be in the VRG for year a+2) originates precisely from that portion of revenues not collected, or collected in excess, due to the change in resource demand.

Article 29 of Annexe A to resolution No. 580/2019/R/IDR identifies other "exogenous" cost items to be recovered, in particular mention is made of those of greater interest:

- Rc_{EE}^{a} defined as the deviation between the component covering the electricity costs envisaged in the VRG and that effectively due. In this case, ARERA subjects the recovery of the expense for the energy bill to streamlining, establishing an average parametric electricity supply price as the reference base for the calculation of the deviation.
- Rc^a_{Altro} component within which there are items such as the contribution paid to ARERA, the local charges which include taxes and duties paid to local authorities.
- Rc^{a}_{ws} component within which there is a recovery of the difference between the component covering the wholesale costs of the second previous year (a-2) and the costs actually due.

The mechanism described above repeats that already contemplated in resolution no. 664/2015/R/IDR <<water tariff method 2016-2019- MTI -2>> of 28 December 2015 and in the previous resolution No. 643/2013/R/IDR dated 27 December 2013 (method for 2014-2015), and even earlier the one defined by means of resolution No. 585/2012/R/idr (MTT tariff method for 2012-2013), creating a continuum over time of the tariff logic followed.

The matters stated already provide initial evidence that the portion of the future 2022 VRG will be designated to adjust costs incurred and not covered by the tariff, or to recover the differential on revenues earned as a result of "volumes", relating to 2020.

The conclusion of the aforementioned is that the ARERA's tariff method is based on a "guaranteed revenue" approach, defined at the time of approving the tariff and function of various elements of economic cost (operational and capital). Even if with a certain simplification it can be said that a part of the guaranteed revenues for 2020, which was not requested to be billed to users in the year 2020, or was requested in excess of the expected amount, can be recovered or returned with the tariffs of 2022.

The value of the tariff portions, operator and wholesaler, belonging to the CAP group amounts to a total of € 231,787,782 (€ 236,422,312 in 2019 Restated and € 246,649,317 in 2019).

The comparison with the revenue for 2020 shows a decrease in the revenue from tariffs of \notin -4,634,531, equal to -2.0%, compared with 2019 Restated, mainly attributable to the reduction in revenue from tariffs and Wholesaler revenues.

Following is a table showing revenues from tariff by Province, Wholesale revenues and the contingent assets of the item Revenues of the income statement. It should be noted that, starting in 2020, for the City of Milan, the Province of Lodi and the Province of Como, revenues from tariffs are managed through the application of specific exchange rates and no longer in the role of wholesaler.

Tariff revenues	Value as at 31/12/20	Value as at 31/12/19 Restated	Value as at 31/12/2019	% change 20 vs 19 Restated
Tariff revenues				
Province of Milan	212,803,750	219,102,820	228,258,849	(2.9%)
City of Milan	3,322,464	0	0	100.0%
Province of Lodi	402,158	0	0	100.0%
Province of Como	156,214	0	0	100.0%
Total Tariff Revenues	216,684,586	219,102,820	228,258,849	(1,1%)
Wholesaler revenues				
Province of Monza and Brianza	11,606,316	12,998,768	13,978,404	(10,7%)
City of Milan	0	1,865,799	1,957,118	(100,0%)
Province of Lodi	0	400,545	400,566	(100,0%)
Province of Como	0	195,747	195,747	(100,0%)
Total Wholesaler Revenues	11,606,316	15,460,859	16,531,835	(24,9%)
Contingencies				
Contingent assets by tariff	3,496,879	1,858,633	1,858,633	88.1%
Total Tariff Revenues	231,787,782	236,422,312	246,649,317	(2,0%)

In addition, please note, as shown in the table below for the Pavia area, the additional revenues for services rendered for the carrying-out of technical activities pertaining to the running and ordinary maintenance of the works of the IWS for part of the territory of Pavia carried out in favour of the operator of that area.

Revenues for industrial services to other operators	Value as at 31/12/2020	Value as at 31/12/2019 Restated	Value as at 31/12/2019	% change 20 vs 19 Restated
Province of Pavia	3,525,013	2,671,119	2,671,119	1%
Total Revenues for industrial services to other operators	3,525,013	2,671,119	2,671,119	1%

Revenues for work on assets under concession

Revenues for work on assets under concession amounted to \notin 88,134,590 for financial year ended 31 December 2020. They amounted to \notin 96,534,625 in 2019. These revenues correspond, in accordance with IFRIC 12, to the work carried out on the assets under concession owned and used by the Group for its core activities

Other revenues and income.

Other revenues and income for financial year ended 31 December 2020 amounted to € 15,769,216. In 2019, they amounted to € 14,652,965. The main components include:

- Other contingent assets/liabilities of € 4,476,905 comprising higher costs recognised in the tariff of € 965,067, excess provisions for bad debts of € 799,462, invoicing of sewer replacement works and other of € 443,553, collections on receivables from users written down in previous years of € 101,594;
- Other income amounted to € 3,146,705 and mainly consisted of fees from the Parco Idroscalo sponsorship agreement, Information Technology services, cartography and hydraulic modelling services and stamp duty refunds on user contracts and bills;
- reversal of provisions for future expenses and risks of € 3,366,395.
- penalties to users for fire hydrants and to suppliers of € 309,963;
- operating grants of € 680,680.

Of the aforementioned funds transferred:

- € 1,569,379 are related to the partial excess of the fund for "amicable settlements" formed until 2016 pursuant to Article 12 of Italian Presidential Decree no. 207 of 5 October 2010. The unused portion of the fund is in fact released as the scheduled works of the investment programme for which the sums set aside, are completed;
- € 1,554,396 relate to the partial excess of the fund for pending litigations;
- € 242,619 relate to an excess provision for environmental damages.

The total costs of the CAP Group

It should be noted that, as permitted by IAS No. 1 (Presentation of the financial statements), the CAP Group presents an income statement that displays the cost analysis through a classification based on their nature.

In 2020, the CAP Group recorded total costs for € 314,232,028, essentially unchanged from 2019 Restated (€ 313,400,237).

There are some details in the following table:
Total costs	Value as at 31/12/2020	Value as at 31/12/2019 Restated	Value as at 31/12/2019	% change 20 vs 19 Restated
Costs for raw materials, consumables and goods	10,651,430	15,477,915	15,477,915	(31,2%)
Costs for services	130,134,391	128,493,077	128,493,077	1.3%
Costs for work on assets under concession	51,133,406	56,294,549	56,294,549	(9,2%)
Personnel costs	45,737,339	45,780,163	45,780,163	(0,1%)
Amortisation, depreciation, provisions and write-downs	57,154,222	54,457,661	58,169,963	5.0%
Other operating costs	9,481,805	12,896,872	12,896,872	(26,5%)
Non-recurring operations	9,939,434	0	0	100.0%
Total costs	314,232,028	313,400,237	317,112,539	0.3%

This is mainly due to the reduction in costs for raw materials, consumables and goods and work on goods under concession against the increase in depreciation, provisions and write-downs and the presence in 2020 of the item non-recurring transactions (consisting of a series of cash donations in support of measures to combat the Covid-19 epidemic emergency in favour of local authorities and Aziende Socio-Sanitarie Territoriali (ASSTs) in the area of reference).

Costs for services

Costs for services in 2020 amounted to € 130,134,391 compared with € 128,493,077 in 2019.

The main items include: electricity, ordinary maintenance and sludge disposal which therefore merit particular mention.

The cost of **electricity** came to \notin 29.8 million, down by 4.7% compared to 2019 (\notin 31.3 million). In 2018, it amounted to \notin 26.9 million; in 2017 to \notin 29.4 million, in 2016 it amounted to \notin 32.0 million.

The significant reduction in costs is mainly due to the purchase of electricity at Low Voltage with portfolio management, which in recent months has made it possible to benefit from the favourable trend of the energy market compared to last year, and in part also to the reduction of additional charges in May, June and July following the ARERA resolution for the implementation of DL Rilancio.



In quantitative terms, overall energy consumption was 1.6 % lower than in the previous year.

The reduction is mainly due to the reductions in specific consumption for treated water and water taken from the environment obtained through the energy efficiency actions undertaken to achieve the company's objectives.



As mentioned above, due to the mechanism in Article 29 << Adjustment components included in the VRG>> of the MTI-3 and in particular of the therein envisaged adjustment of the component Rc_{EE}^{a} , the change in the cost of electricity registered in 2020 will lead to a tariff definition for 2022.

We then witnessed in 2020:

- an increase of € 3,184,906 million in ordinary maintenance costs or a 23% increase (€ 16,814,755 in 2020, € 13,629,848 in 2019, € 13,248,041 in 2018 compared to € 10,358,341 in 2017) and an increase in extraordinary maintenance items;
- a slight increase (+3%) in the cost of sludge disposal due mainly to the higher average disposal costs of the awarded contracts following the emergency generated in July 2018 on the occasion of the ruling of the Lombardy Administrative Court (in 2020, € 10,353,709 was spent, in 2019, € 10,087,865 against the € 8,536,854 spent in 2018).

However, it should be noted that already in 2019 and even more so in 2020 there has been substantial stability in the regulatory framework of reference, which has allowed a slight reduction in the costs of awarding new tenders, as shown, for example, in the tender for the disposal of sludge in agriculture made on the perimeter of the Water Alliance, which has led to a general homogenisation of the unit costs incurred by the various operators, allowing significant savings, on the WA perimeter, compared to previous contracts.

DESTINATION			Transfer co	sts (€/ton)		
	2015	2016	2017	2018	2019	2020
SLUDGE IN AGRICULTURE	55.00	55.00	82.00	85.00	103.00	104.32
SLUDGE IN LANDFILL	104.00	104.00	115.00	175.00	202.00	-
SLUDGE TO CEMENT FACTORY	75.00	75.00	87.00	87.00	110.00	157.34
SLUDGE TO WASTE-TO-ENERGY PLANT	81,40	81,40	90.20	99.00	120.00	160.34
FERTILISERS	-	-	75.50	75.50	75.30	75.30
SLUDGE RECOVERY – Abroad	-	-	-	202.00	188.00	201.78
BIO-DRIED SLUDGE TO WASTE-TO-ENERGY PLANT	-	-	-	-	-	140.00
AVERAGE COST (with Fertilisers)	75.00	71.74	82.06	98.87	114.84	119.30
AVERAGE COST (without Fertilisers)	75.83	/1./4	82.42	104.20	125.45	133.80

Both the energy and sludge areas have been subject to specific action by the Group aimed at their containment and rationalisation.

With regard to sludge, the following are especially mentioned:

- 1. The optimisation of all processes aimed at reducing the volume of sludge, therefore anaerobic digestion and classical dehydration, up to the optimisation in the yield of the drying plant, making sure to maximise the availability of the plant itself, at the San Giuliano site, reducing the introduction of sludge into the environment.
- 2. The installation of the first experimental bio-drying module at the Robecco sul Naviglio wastewater treatment plant in 2020 made it possible to test its effectiveness with direct savings in sludge disposal due to the reduction in moisture content, on the basis of which activities are being put in place to implement this technology for the entire Robecco plant.
- 3. Careful management has allowed us to consolidate the sludge valorisation process despite the complexities faced in recent years:
 - a. important results have been reached in relation to the growing production of fertilisers and the thermal recovery of sludge, which is becoming a valid alternative in terms of circular economy and in an uncertain regulatory context.
 - b. in 2020, a further increase in the amount of biogas produced (+34%) at the purification plants was achieved, which overall allowed the increase in sewage sludge production to be contained.



Another significant item of costs for services is the cost recognised for the use of the infrastructures and/or third-party assets, thus further composed:

Costs for use of third-party assets	Value as at 31/12/2020	Value as at 31/12/2019 Restated	Value as at 31/12/2019	% change 20 vs 19 Restated
Repayments of loans and concession fees	4,076,965	5,048,080	5,048,080	(19,2%)
Fee for use of well and crossings	1,883,603	1,901,417	1,901,417	(0,9%)
Hiring	164,328	999,613	999,613	(83,6%)
Rental and licence fees	621,058	440,052	440,052	41.1%
Contingent liabilities	1,210	6,468	6,468	(81,3%)
Total Costs for use of third-party assets	6,747,164	8,395,630	8,395,630	(19,6%)

The main portion of these costs is represented by the annual fee paid to the EE.LL.'s for the use of the infrastructures they own and parameterised to the annual repayment instalments of the mortgage loans taken out by the same for the construction of said infrastructures.

The value of \notin 4,076,965 (\notin 5,048,080 in 2019) also includes the fees paid to the former operators for the use of the respective infrastructures when they continued to be owned by them, on the basis of the amount agreed conventionally.

The trend of this cost over the last few years is shown below.



Initially, the item increased considerably as CAP Holding S.p.A. gradually overcame the "shoestring" and/or "non-compliant" operations throughout the territory.

It is destined to decrease gradually as the repayment plans of the underlying loans progress.

The item costs for services includes, among others, € 2,023,488 in annual provisions for risks and charges, in accordance with IAS No. 37 (Provisions, contingent liabilities and contingent assets. Of these:

- € 1,274,488 concern the adaptation of a fund for environmental reclamation and restoration interventions relating to the grounds of the purification plants, evaluated in consideration of the reasonably expected condition of the lands underlying the sections, in particular pre-treatment and

anaerobic digestion at the end of their useful life, as well as an estimate of the charges necessary to eliminate the statistically occurring contaminations. In 2019, the provision in question was € 1,274,488;

- € 597,551 was related to the adjustment of the provision for tank reclamation (€ 559,583 in 2019);
- € 151,449 for adjustment of the provision for future expenses for "road repairs" not yet carried out in 2020, (€ 138,683 in 2019). The cost is the best estimate at 31 December 2020 according to the CAP Holding S.p.A. technicians for the road stretches for which, within the same date, the conditions have developed that require the integrated water service operator to take action, in compliance with the provisions of point 2 of resolution no. 5 of 25 May 2016 of the Area Office of the Metropolitan City of Milan.

Following is a breakdown of the cost item relating to the **directors and statutory auditors** included in the item "services" of the Group.

Allowance for corporate bodies	Value as at 31/12/2020	Value as at 31/12/2019	% change
Board of Directors' allowance	239,403	249,287	(4%)
Board of Statutory Auditors' allowance	132,789	133,081	0%
Total allowances	372,192	382,368	(3%)

With regard to the costs of the Board of Directors and the Board of Statutory Auditors, it should be noted that the amount is always the amount recognised by the shareholders' meetings.

Costs for work on assets under concession

Costs for work on assets under concession amounted to \notin 51,133,406 for the financial year ended 31 December 2020 and represented changes relating to the work carried out on assets under concession. Capitalised internal costs were recognised by nature within the specific Income Statement items. In 2019, they amounted to \notin 56,294,549.

Personnel costs

The item Personnel costs, \notin 45,737,339 in 2020 compared to \notin 45,780,163 in 2019, remained essentially unchanged, -0.1%.

The change, also thanks to policies of rationalisation and containment of personnel costs developed over time, shows a substantial maintenance of personnel costs compared to 2019, without prejudice to the new recruitments decided by the Strategic Policy Committee for the new services (of which 16 for upgrading facilities and 15 projects).

Personnel employed as at 31 December 2020 with the Parent Company increased by 22 units compared to 31 December 2019, for a total of 414 employees.

Personnel in service as at 31 December 2020 at Amiacque S.r.l. decreased compared to 31 December 2019 by 3 units, for a total of 473 employees.

Overall, for the Group there were 887 employees as at 31 December 2020 (an increase of 19 units; 868 as at 31 December 2019).

Personnel costs, as will be explained in greater detail below, accounted for 14.56% of Total Costs, therefore, below the limit set by the Shareholders' Meeting of 18 May 2018 (20%).

Therefore, the limit of containment of the cost established by the Shareholders' Meeting remains active even if the company is no longer subject to the constraints set forth in Italian Legislative Decree 175/2016. The internal staff incentive policies that promote the company remained within the aforementioned limit.

Amortisation, depreciation, provisions and write-downs

The item of € 57,154,222 in 2020, compared with € 54,457,661 in 2019 Restated and € 58,169,963 in 2019, increased by 5% compared to the reclassified figure.

In this item we highlight:

- 1) adjustment of funds for future liabilities and/or deemed probable (€ 2,979,781), of which:
 - provisions for legal disputes of € 2,354,768;
 - provision for future expenses for the disposal of buildings, where the headquarters, located in Milan, Via Rimini 34/36, are currently based, of € 372,287. These buildings are in the process of being demolished and the related works should be completed by 2021. They will be replaced by a new building to be used as "headquarters" of the CAP Group. For more details, see the notes to the financial statements;
 - provision for sundry charges € 52,276;
- 2) depreciation of assets under concession, of intangible and tangible assets (€ 47,579,045);
- 3) bad debt provision (€ 6,595,396).

Other operating costs

One last item of some importance is Other Operating costs the value (€ 9,481,805) of which has decreased compared to 2019 (€ 12,896,872).

The item also includes contingencies, including some adjustments to revenues from previous years (tariff revenues and FoNi adjustments, negative regulatory adjustments, fire-fighting penalties, etc.).

Other charges recognised to local authorities (EGA operating costs of € 1,215,282, state fees, COSAP/TOSAP, IMU, etc. of € 1,234,900) are also significant in the item "other operating costs".

Costs for non-recurring operations.

In 2020, the CAP Group also provided for a series of cash donations in support of measures to combat the Covid-19 epidemiological emergency in favour of local authorities and Aziende Socio-Sanitarie Territoriali (ASST) in the area of reference, for a total cost of € 9,939,434.

Net operating result

The net operating result for 2020 amounted to $+ \in$ 30,503,221 higher than that of 2019 Restated (+ \in 45,637,823) and that of 2019 (+ \in 52,152,525).

Financial income and expense

The balance between financial income and expense for 2020 amounted to - \notin 4,424,201, slightly down compared to that of 2019, amounting to - \notin 4,885,992.

Taxes

Income taxes amounted to € 7,510,067 (€ 13,145,693 in 2019 Restated and € 14,982,838 in 2019).

Net result for the year

The balance for the year amounted to € 18,568,952 in 2020 (€ 27,581,550 in 2019 Restated, € 32,259,106 in 2019).

Financial result indicators

In order to allow an analysis of the asset and financial structure and the operating results and in particular for the analysis of the profitability of the operations as well as the conditions of financial equilibrium, the following indicators have been developed, compared with those presented for 2019 Restated and for 2019.

Contents	Notes	31/12/2020	31/12/19 Restated	31/12/2019
Shareholders' equity	Consolidated shareholders' equity	826,830,131	807,588,073	843,330,363
Fixed assets	Total non-current assets	900,457,533	866,100,354	901,842,643
Consolidated liabilities	Total non-current liabilities	244,470,681	276,553,382	276,553,382
Current liabilities	Total current liabilities	128,843,046	147,755,217	147,755,217
Loan liabilities	Current and non-current payables to banks and other lenders	133,209,391	157,868,877	157,868,877
Current assets	Current assets	299,686,325	365,173,802	365,796,318
Immediate + deferred liquidity	Cash and cash equivalents + current portion restricted a/c+trade receivables+other current receivables	292,578,749	358,335,722	358,335,722
Net invested capital	Total current assets - liabilities	1,071,300,812	1,084,141,455	1,119,883,745

PROFITABILITY INDICATORS	31/12/2020	31/12/19 Restated	31/12/2019
EBIT	30,503,221	45,637,823	52,152,525
EBITDA Adjusted (**)	96,079,971	98,954,122	109,181,127
EBITDA (*)	86,140,537	98,954,122	109,181,127
GROSS RESULT	26,079,020	40,751,831	47,266,533
NET RESULT	18,568,952	27,581,550	32,259,106
SALES REVENUES	236,650,408	243,722,886	253,949,891

(*) In application of Consob Communication of 3 December 2015, which transposes in Italy the guidelines on Alternative Performance Indicators (hereinafter also "IAP") issued by the European Securities and Markets Authority (ESMA) with ESMA/2015/1415 orientation, the meaning and content of the indicator "Gross operating profit (EBITDA)" is described below.

EBITDA is a measure used by the Company's management to monitor and evaluate its operational performance and is not identified as an accounting measure under the IFRS ("Non-GAAP Measure") principles.

The "gross operating margin" (EBITDA) is calculated as the difference between operating revenues and costs before non-monetary costs relating to depreciation/amortisation, write-downs (net of any write-backs) of current and non-current assets and provisions, identified in any item.

any write-backs) of current and non-current assets and provisions, identified in any item. (**) Adjusted EBITDA is the profit or loss that the company would have made in the absence of extraordinary (non-recurring) items.

PROFITABILITY RATIOS		31/12/2020	31/12/19 Restated	31/12/2019
NET ROE	Net result / Shareholders' equity	2.2% 3.4%		3.8%
GROSS ROE	Gross result / Shareholders' equity	3.2%	5.0%	5.6%
ROI	Operating result / Net invested capital	2.8%	4.2%	4.7%
ROS	Operating result / Sales revenues	12.9%	18.7%	20.5%
FIXED ASSET FINANCING RATIOS		31/12/2020	31/12/19 Restated	31/12/2019
FIXED ASSETS TO EQUITY CAPITAL MARGIN	Shareholders' equity - Fixed assets	-73,627,402	-58,512,281	-58,512,281
FIXED ASSETS TO EQUITY CAPITAL RATIO	Shareholders' equity / Fixed assets	91.8%	93.2%	93.5%
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/L	(Shareholders' equity + Consolidated liabilities) - Fixed assets	170,843,279	218,041,101	218,041,101
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/L	(Shareholders' equity + Consolidated liabilities) /Fixed assets	119.0%	125.2%	124.2%

RATIOS ON THE STRUCTURE OF LOANS		31/12/2020	31/12/19 Restated	31/12/2019
	(Consolidated liabilities + Current liabilities)/Shareholders'			
TOTAL DEBT RATIO	equity	45%	53%	50%
FINANCIAL DEBT RATIO	Funding liabilities / Shareholders' equity	16.1%	19.5%	18.7%

The fixed asset funding ratios confirm that the raising of medium and long-term financial resources in total exceeds the investments in fixed assets, ensuring a satisfactory level of financial coverage of the investments.

The trend in the financing structure confirms a decreasing financial exposure.

SOLVENCY INDICATORS		31/12/2020	31/12/19 Restated	31/12/2019
LIQUIDITY MARGIN	Current assets - Current liabilities	170,843,279	217,418,585	218,041,101
LIQUIDITY RATIO	Current assets / Current liabilities	233%	247%	248%
CASH MARGIN	(Deferred liquidity + Immediate liquidity) - Current liabilities	163,735,702	210,580,505	210,580,505
CASH RATIO	(Deferred liquidity + Immediate liquidity) / Current liabilities	227%	243%	243%

The solvency indicators show a ratio greater than one of short-term assets and liabilities.

Group investments

Investments in tangible and intangible fixed assets recorded by the Group in 2020 amounted to € 105,331,819 (€ 107,441,854 in 2019, € 95,452,714 in 2018, € 84,623,580 in 2017, € 80,760,064 in 2016, € 78,301,805 in 2015 and € 63,539,506 in 2104)¹⁴.

In 2020, business units and/or universality of "used" goods (built by former operators) were not purchased unlike in some previous years.

These additional components were zero for 2019 and 2018, they amounted to € 1,833,302 for 2017, to € 2,251,382 for 2016, € 24,500,000 for 2015 and € 364,843 for 2014.

All the investments mentioned above were carried out by the CAP Group.

Year 2020	ear 2020 Investments from processing			
Parent Company	104,817,212			
Amiacque S.r.I.	514,607			
Group total	105,331,819			



¹⁴ Amounts to be intended net of those acquired through the purchase of business units and/or "universality of assets built and already used by former operators"

Also, the amount invested per inhabitant indicator (estimated at around 1.9 million) reported a value of \in 56.77, despite it being still distant from the European average of \in 80/100 per inhabitant, in the presence however of an average higher tariff of \in 4 per cubic metre.

In order to highlight the positive trend of the last few years, you are reminded that this ratio was 20.5 in 2010, 33.1 in 2014, 41 in 2015, 42.5 in 2016, 45.4 in 2017 and 51.12 in 2018, 57.53 in 2019.

The investments almost all concern infrastructures dedicated to the integrated water service.

Investments, within the organisational logic of the Group, are mainly seen to by the Parent Company, which undertakes the most complex part (in general public works, site supervision and safety projects).

With regard to the contract, during 2020 the framework agreement for a total value of \notin 2.3 million was published for the support and design through the implementation of "remote design teamwork" also through BIM design and the competitive dialogue with negotiation was awarded for the construction of a "Control Room for the management of the integrated water service" worth \notin 1.5 million, which, after several phases, will improve the performance in the management of the IS, through the integration of data from company applications and through artificial intelligence algorithms.

As in 2019, an impressive effort in terms of planning and realisation (settled) is evident again in 2020.

The trend was thus significant, summarised as follows:

contracted:	78,521,101	(133,897,000 in 2019)
planned:	134,052,022	(65,210,716 in 2019)
completed:	60,816,884	(61,106,847 in 2019)

The above investments can be divided up also by segment, as follows (in €):

					Additional	
		Waste Water	Company	Other water	circular	
Aqueduct	Sewerage	Treatment	General	assets	economies	Total
31,752,071	33,115,332	20,233,484	17,716,264	888,124	1,626,544	105,331,819



The General Company investments mainly refer to the completion of projects aimed at energy saving, Information Technology and extraordinary maintenance of premises; the investments in Other Water Activities, by contrast, mainly refer to the construction of water houses and surface groundwater wells.

These types of interventions testify to the company's commitment to invest not only in water infrastructures, but also in works whose purpose is to achieve a saving for the municipalities in the use on non-drinking water and, consequently, a correct use of the water resource.

Finally, the new type of service "Complementary circular economies" has been introduced with reference to the "Sesto - Core Forsu: industrial symbiosis platform for the optimal use of organic waste" and "Development of biomethane chain with organic matrices (Kyoto)" projects, as from 2020 these interventions in the field of circular economy are becoming increasingly important in terms of both values recorded in the financial year and investments planned for the coming years.

In 2020, the CAP Group, as part of the "Search, recovery and control of water leaks" plan, also included in the investment plan of the contract for the assignment of the integrated water service of the municipalities of the Area of the Metropolitan City of Milan, developed the following activities:

- replacement of 30,008 old meters;

- 3,614 km of network subjected to leak detection (within the ATO of Milan), of which 2,735 km of network subjected to leak detection with advanced analysis based on calibrated hydraulic modelling with pressure and flow data from remote control and field meters.

The management strategy that the CAP Group intends to develop, pursues two main aims:

- Improve the overall performance of the distribution network by means of districtualisation and modelling policies;
- Ensure equity and correctness in the measurement.

In detail, the project for the replacement of old meters envisaged a commitment of \in 60 million for the replacement of obsolete meters to be carried out in the period from 2018 to 2033, continuing the related

campaign started in 2015, which has led to reporting a value for replaced meters (excluding Smart Metering) of € 5,179,003, a significant amount given the working difficulties related to the Covid-19 health emergency.

With Resolution 917/2017/R/IDR, the Authority identified specific performance indicators and regulated the technical quality of the integrated water service in order to identify the main guidelines for achieving adequate levels of performance, for an efficient and effective service, promoting benefits for customers of the different services. The regulation model identified is inspired, in particular, by principles such as selectivity, correspondence, effectiveness, rewarding, gradualness and stability.

The Resolution envisaged the application of the system of indicators underlying the technical quality, as well as the start of the monitoring of the data underlying them, starting from 1 January 2018 (based on the value assumed by the macro-indicators for the year 2016, while from 1 January 2019 it will be on the basis of the value in the previous year, where available), and from 1 January 2019 the application of the rules concerning the obligation to enter and file data, provided by the same provision.

With regard to water leaks, the specific indicators identified by ARERA are represented by the M1a and M1b indicators.

The results achieved during the year 2020 further improved the performance of the previous year, confirming the class B of the aqueducts located within the perimeter of the Milan ATO and achieving the ARERA target of a 2% reduction.

	M1a	M1b	class
Year 2017	24.999	22.03	В
Year 2018	24.454	21.99	В
Year 2019	23.867	21.47	В
Year 2020	23.018	21.00%	В



Chart M1



M1 trend breakdown showing improvements

The reduction is the result of joint policies aimed at both the change of measuring instruments (in line with the guidelines provided by AEEGSI with consultation document No. 42/2016/R/IDR "Regulation of measurement services as part of the Integrated Water Service in the second regulatory period") and the prompt intervention policies described above that identified in individual SACs (closed aqueduct systems) areas for the advanced analysis of the actions carried out. The action plan for the reduction of water losses includes the application of all applicable Best Practices such as:

- Pressure management;
- Active control of water leaks;
- Speed and quality of repair of hidden and surfacing leaks;
- Asset management: such as, including, but not limited to, sealing of hydrants, checking of gate valves, replacement of damaged pipes.

The investments for the construction of a unified remote-control centre, started in 2012, fall within the investments aimed at guaranteeing a control of the resources. The first stage of the project was concluded in December 2013 and included:

- the unification of the 4 remote control systems in a single supervision centre connected with the company Databases;
- the extension of the remote-controlled aqueduct plants from 210 to 267 with the inclusion of 57 new remote-control stations;
- the integration in the system of 80 water houses;
- the installation of two points for the on-going quality control of the chemical and physical parameters of the water.

During 2020, the existing remote control units for 19 waterworks systems were replaced, thus allowing remote management of all parameters, freeing us from purely local management.

There are currently under remote control on the aqueduct operations side:

- 575 aqueduct plants (96% can be managed remotely, the remainder remotely controlled by display);
- 145 interconnection measurers between remote-controlled aqueducts;
- 31 network water withdrawal points for washing sewage pipes
- 163 water houses;
- 7 surface groundwater wells.

As at 31 December 2020, remote control was installed for the other operations services:

- 627 detection systems were installed for the activation of sewer overflows on 733 tanks pending closure RQTI on 28 February 2020,
- 38 purification plants,
- 355 sewage lifts and
- 46 floodwater culverts.

Settlement of the EU infractions and investments in the quality of the resources and the environment.

a) Overcoming EU infractions

Case C85/13

On 31 December 2015, the deadline envisaged by the European Union for adapting the purification networks and plants and sorting out the EU infraction, regulated by directive 91/271/EEC implemented by Italy by means of Italian Legislative Decree No. 152/2006, known as Environment Code) expired. The directive arises for the protection of the environment and makes it possible to emit the waste produced only after treatments for removing pollutants.

The acquisition over the last few years by the CAP Group of many shoestring or "non-compliant" operations from a subjective standpoint of the previous assignee, led to an increase in measures that had to be carried out by the deadline of 2015 so as to comply with the infraction procedure.

The CAP Group managed to complete the work in time, necessary for dealing with and overcoming the European sanctions linked to the procedure in question, with a total investment of over € 130 million (for around 117 measures, of which 58 concluded in 2014 and 53 in 2015, in 65 municipalities).

The procedure in question concluded with the exclusion of indirect fines for the CAP Group.

We are awaiting the EC opinion on what was previously communicated by the governing body of the area of the Metropolitan City of Milan for investigations on 3 agglomerations since the EC itself has deemed it necessary to acquire the laboratory reports for specific purification plants to confirm the achievement of compliance.

Infringement procedure No. 2014/2059 (in pre-cause)

With regard to the 5 agglomerations affected by the infringement procedure in question in May 2017, all the documentation certifying that the alleged violations had been resolved was transmitted to the EC. Indeed, as at 17 May 2017, all the disputes raised by the Commission, based on data/information assessments

concerning the situation of the agglomerations prior to 2014, were already resolved. Again, the final opinion of the EC is pending.

Directive 91/271/EEC – Infringement procedure 2017/2181

As at 31 December 2019, only one intervention was in the procurement phase, the other being completed or being tested, while as at 31 December 2020 the situation is summarised as detailed below:

Prog.	Intervention name	Municipality	End of works	Hydraulic functionality	Testing	STATUS
6966	Upgrading of the purification plant of San Colombano al Lambro	San Colombano al Lambro	15-gen-2022	15-gen-2022	14-lug-2022	TO BE CONTRACTED OUT
6960_16	Discharge resolution	Vernate	31-mag-2020	18-dic-2018	31-lug-2020	COMPLETIONS
9290_2	EXTRAORDINARY MAINTENANCE OXIDATION LINE 1 AT THE PESCHIERA BORROMEO PURIFICATION PLANT	PESCHIERA BORROMEO	23-mar-2020	21-June-2020	19-Sep-2020	COMPLETIONS
9290_4	Peschiera Borromeo - nitrogen removal plant lines 1 and 2 by methanol dosing plant	PESCHIERA BORROMEO	29-ott-2019	30-Sep-2019	29-feb-2020	TESTING IN PROGRESS
5922	Purification Sector - Extraordinary maintenance works (MSD) - Municipal purification plant in Via Manin, in the municipality of Sesto San Giovanni - Project aimed at improving the process, section of the plant concerned: biofiltration, external carbon line	SESTO SAN GIOVANNI	17-feb-2017	17-feb-2017	17-feb-2017	TESTED
5731/2	Purification Sector - Extraordinary maintenance works (MSD) - Municipal purification plant in C.na Rancate, in the municipality of SAN GIULIANO MILANESE - Project aimed at improving the process Lot 1 Extract 2	SAN GIULIANO M.SE	23-giu-2017	23-giu-2017	21-dic-2017	TESTED
9290_1	Peschiera Borromeo - adaptation and upgrading of the purification plant Extract 1	PESCHIERA BORROMEO	31-gen-2018	31-gen-2018		TESTED
9298_1	Fine screening, Primary sedimentation, Traditional organic treatment department and Final sedimentation	SESTO SAN GIOVANNI	15-mar-2019	21-mar-2019	17-dic-2019	TESTED
6960_14	DISCHARGE RESOLUTION IN CIS IN VIA XXV APRILE, CASSINA DE' PECCHI	CASSINA DE PECCHI	12-apr-2019	31-Dec-2018	20-dic-2019	TESTED

Pre-litigation interventions

Finally, with regard to no. 4 interventions still open as at 31 December 2020, included in the internal prelitigation settlement phase between ATO CMM and the Lombardy Region, the following results:

- The adaptation and upgrading of the purification plant of Peschiera Borromeo is currently in the procurement phase;
- The hydraulic functionality of the works on the 2nd lot of the Rescaldina-Parabiago collector was reached in September 2020 and the final repairs of the road surfaces will be completed by May 2021;
- Two restructuring interventions of the Peschiera Borromeo purification plant's digesters are at an advanced planning stage.

b) Availability and quality of the resource



Investments in the quality of the resource remain a priority in the Group's strategy as they are functional to the following objectives:

- reduction of the vulnerability of the water distribution system by means of the creation of interconnections, treatments and recovery of wells with insights aimed at the search for more protected groundwater tables;
- 2) reduction of the chemical and microbiological parameter values well under the legal limits (moreover never exceeded).

The interventions aimed at reducing the risk connected to the vulnerability of the resource also include those related to the construction and activation of the power plants and the related aqueduct backbones (e.g.: Trezzo sull'Adda backbone in 2019, Cornaredo plant to be activated in 2022, new Casoni plant, San Colombano al Lambro, to be activated in 2022).

With reference to the reduction in the load of pollutants introduced into the distribution network, during the year 2020, the Aqueduct Management Department maintained and implemented the plan to reduce the concentration values of the chemical parameters introduced into the distribution network. Specifically, the plan provides for monitoring the analytical weighted average entered into the distribution network of the municipalities served, for the total solvent parameters, TCE + PCE, Chromium and Nitrate.

In relation to the Chromium parameter, the regulatory value was waived at 50 microgram/litre (as total chromium) until 31 December 2019. Subsequently, Italian Ministerial Decree of 14 February 2020 further extended the coming into force of the limit of 10 for the Hexavalent Chromium, thus maintaining only the limit of 50 micrograms/litre for both total and hexavalent chromium until 30 June 2020. A further extension to 31 December 2020 was issued by Italian Ministerial Decree 24 July 2020.

During 2020, 2 Chrome treatment plants were carried out (Sesto San Giovanni via Bixio and Cusago via Fratelli Cervi), with completion of the works and activation of the plants scheduled for 2021 and two other plants

(Bollate Garbiera and Sesto San Giovanni Rovani) were planned. In 2021, also on the basis of developments in the regulatory framework for the definition of the limit for the total chromium parameter (if confirmed at 10 micrograms/litres or increased to 25 or 50), the planning for the construction of the installations will be revised accordingly.

The aforementioned interventions remain consistent with the company policy of implementing the Water Safety Plan that pushes operators not only to guarantee water within the limits of the law but prompts them towards continuous improvement policies.



Water Safety Plan – programming of SAC (Closed Aqueduct Systems) activities

c) Quality of the environment

To meet the requirements of European regulations on the protection of "sensitive areas", to which the entire Po basin belongs, the CAP Group has, over the last few years, already launched a plan of measures on the purification plants aimed at reducing the "nutrients" such as nitrogen (N) and phosphorus (P) whose uncontrolled discharge leads to phenomena of water eutrophication (as occurred in the past in the Adriatic sea).

In particular, these interventions focused on plants with a potential greater than 10,000 EA (about three quarters of all the purification plants managed) and in detail: Assago, Bresso, Canegrate, Pero, Robecco sul Naviglio, Rozzano, Bareggio, Locate Triulzi, San Giuliano Est, Trezzano sul Naviglio, Turbigo, Abbiategrasso, Basiglio, Binasco, Calvignasco, Dresano, Gaggiano (provincial capital), Lacchiarella, Melegnano, Parabiago, San Giuliano Ovest and Settala.

The upgrading works on the purification plants resulted as from 2013 in a decisive improvement in the quality of the wastewater, both in terms of compliance of the performances and in terms of average values on Ntot and Ptot.

On 27 December 2017, with Resolution No. 917/2017/R/idr, ARERA introduced a specific indicator (called M6) to monitor purification performance under the Technical Quality Monitoring Regulation.

Maara			ation Year 19	2020	Expected		2020
Macro indicator	Parameter	Class to which it belongs	Indicator Value	2020 objective	target value	Result achieved	2020 performance
M6	M6 -Quality of treated water	С					В
	M6		5.65%	-15%	4.80%	-57.30%	2.41%

The table below shows the values of the M6 macro-indicator:

The difference between the value of the indicator at 2019 and 2020 results in a 57% reduction, which is a broad achievement of the target set by ARERA and the transition to class B. This improvement can be associated with management measures that the CAP Group implemented through efficiency improvement policies.

In addition to the aforementioned upgrading or revamping interventions, the next three-year period will see the concentration of design and site supervision activities on the following lines of action and consequently on the following plants:

- Adaptation to Directive 91/271/EEC
 - Adaptation and upgrading of the Peschiera Borromeo purification plant with the construction of a third treatment line; the technical and economic feasibility project has been completed and the authorisation process is currently underway (service conference).
 - For the San Colombano al Lambro purification plant, which is now structurally in an obsolescent phase, the design of the complete plant renovation and the authorisation process were completed and the procedures for awarding works under an integrated contract are currently underway.
- Decommissioning of inappropriate facilities
 - For the Rescaldina plant, the hypothesis of disposal with the transfer of the wastewater to the treatment plant of Parabiago was validated, for which the necessary strengthening will be provided by means of a new collector. The project activities for the upgrading of the Parabiago treatment plant were completed and the authorisation process is currently underway in preparation for the work assignment procedures.

During 2018-2019, support activities for Municipalities were agreed upon with regard to the regulation containing criteria and methods for compliance with the principle of hydraulic and hydrological invariance pursuant to Article 58 bis of the regional law No. 12 of 11 March 2005, with the aim, on the one hand, of drafting the Simplified Document of the Hydraulic Risk directly as CAP Group, and on the other hand contributing to the homogenisation of all documents and analyses (including the Municipal Hydraulic Risk Study) with a view to harmonisation on a wider territorial level with a special reference to the wastewater treatment agglomerations and this also in view of the imminent entry into force of the new regulation on

waste water (RR 06/2018). To date, 128 municipalities have signed the conventions and 92 simplified documents have been completed.

During 2019-2020, activities were carried out to draw up Simplified Documents of the Hydraulic Risk in accordance with the indications given by the *Regulation containing criteria and methods for complying with the principle of hydraulic and hydrological invariance* pursuant to Article 58 bis of *Italian Regional Law no. 12 of 11 March 2005*. At the same time, work was carried out to homogenise all the data and analyses carried out in the Simplified Documents with a view to harmonisation on a wider territorial level with a special reference to the wastewater treatment agglomerations and this also in view of the entry into force of the new regulation on wastewater (RR 06/2019). As at 31 December 2020, of the 128 partner municipalities, 122 Simplified Documents have been drafted and transmitted to the municipalities; the remaining 6 documents will be completed during 2021. The following image shows the status of Simplified Documents as at 31 December 2020.



Additional activities were carried out in 2020. Among these, the first one concerns the support to external professionals appointed by municipalities for the drafting of Municipal Hydraulic Risk Management Studies, with a special attention to the compliance with the "Guidelines for the drafting of the Municipal Hydraulic Risk Study". These guidelines were drawn up in 2019 as further support for municipalities and were published on the "Hydraulic Invariance" page on the CAP Group website. Moreover, design activities were started on behalf of third parties (i.e. on behalf of municipal administrations or other entities) for hydraulic invariance works and sustainable urban drainage works (new school complex in Inveruno, disconnection of municipal car park in Varedo, new municipal car park in Paullo, etc.).

Moreover, the SiRIC database (acronym for *Information System of Hydrological Invariance and Municipal Hydraulic Risk Management*) was integrated for the analysis of the collected data and the procedures that will be implemented for both data analysis and design activities. The data structure is currently based on the results of 107 Simplified Documents finalised and sent via PEC to the municipalities. Link to the SiRIC presentation video: https://smartgreen.unimi.it/2020/09/10/presentazione-siric/.

Finally, a calculation software was developed within the SmartGreen project for the design of sustainable urban drainage works in order to optimise the use of Green Infrastructures on a territorial scale, with the aim of mitigating the negative effects of flood flows.

Link to SmartGreen presentation video: <u>https://smartgreen.unimi.it/2020/09/10/presentazione-smart-green/</u>.

With regard to the flyover systems on the sewage network, details are provided in accordance with the latest updates as per Minute Prot. 16001 of 30 December 2020.

As a result, 76 buildings indicated below are managed as at 31 December 2020:

	MUNICIPALITY	VIA	ТҮРЕ
1	ABBIATEGRASSO	Via Fausto Coppi	Underground sealed tank
2	ARCONATE	Via degli Aceri	Surface sealed tank + dispersing
3	BERNATE TICINO	Via Vittorio Emanuele	Dispersing tank
4	BOFFALORA SOPRA TICINO	Via 25 Aprile	Underground sealed tank
5	BOFFALORA SOPRA TICINO	Via Marzabotto	Underground sealed tank
6	BOFFALORA SOPRA TICINO	Via Alessandro Volta	Underground sealed tank
7	BRUGHERIO	Via Guzzina	Surface sealed tank
8	BUSCATE	Via per Cuggiono	Surface sealed tank + dispersing
	BUSTO GAROLFO	Via per Furato	Surface sealed tank
	BUSTO GAROLFO	Via Giuseppe Di Vittorio (Olcella)	Surface sealed tank + dispersing
	CAMBIAGO	Via Matteotti	Surface sealed tank
	CARPIANO	Via Caduti	Underground sealed tank
	CARPIANO	Via Cascina Liberia	Underground sealed tank
	CARUGATE	Via Fratelli Bandiera	Surface sealed tank
	CASOREZZO	Via Fiume	Surface sealed tank + dispersing
	CASSINA DE PECCHI	Via Leonardo da Vinci	Underground sealed tank
	CASSINETTA DI LUGAGNANO	Viale Lombardia	Underground sealed tank + dispersing
18	CASSINETTA DI LUGAGNANO	Via Trento	Underground sealed tank + dispersing
19	CASTANO PRIMO	SP31	Surface sealed tank
	CERIANO LAGHETTO	Via Vicinale del Nosetto	Dispersing tank
21	CERRO MAGGIORE	Via dei Cerri	Surface sealed tank
	CERRO MAGGIORE	Via Pastrengo	Dispersing tank
23	CERRO MAGGIORE	Via Carlo Calvi	Surface sealed tank
24	CESATE	Via Giuseppe Garibaldi	Underground sealed tank
	CINISELLO BALSAMO	Via 20 Settembre (BRESSO)	Surface sealed tank
	CORSICO	Via Giuseppe Verdi	Underground sealed tank
27	CORSICO	Via Elio Vittorini	Surface sealed tank
28	CUGGIONO	Via Foscolo	Dispersing tank
29	DAIRAGO	Viale della Circonvallazione	Surface sealed tank + dispersing
30	GORGONZOLA	Via Milano	Underground sealed tank
31	GORGONZOLA	Via Buozzi	Underground sealed tank
32	INVERUNO	Corso Italia	Dispersing tank
33	INVERUNO	Via Milano	Underground sealed tank
34	INZAGO	SP103dir	Dispersing tank
35	LISCATE	Via Alighieri	Underground sealed tank
36	MAGNAGO	Via Trento	Dispersing tank
37	MELZO	Via Leonardo da Vinci	Underground sealed tank
38	MESERO	Via Matelda	Dispersing tank
39	MISINTO	Via San Siro	Dispersing tank
40	MOTTA VISCONTI	Via De Gasperi	Underground sealed tank + dispersing
41	NERVIANO	Via Isonzo	Surface sealed tank + dispersing
42	NERVIANO	Novella/Via Montello	Dispersing tank
43	NERVIANO	Novella/via Indipendenza	Dispersing tank
44	NERVIANO	Via Giovanni XXIII	Surface sealed tank
45	OSSONA	Via per Magenta	Surface sealed tank + dispersing
46	PADERNO DUGNANO	Piazza della Resistenza	Underground sealed tank
47	PARABIAGO	Via Volturno	Surface sealed tank + dispersing
48	PIEVE EMANUELE	Via Brodolini (Valle Volpi)	Surface sealed tank
49	PIOLTELLO	Via Rugacesio	Surface sealed tank
50	PIOLTELLO	Viale San Francesco	Surface sealed tank

	MUNICIPALITY	VIA	ТҮРЕ
51	PIOLTELLO	Via Dante Alighieri	Underground sealed tank
52	POZZO D'ADDA	via fratelli Cervi frazione Bettola	Surface sealed tank + dispersing
53	POZZO D'ADDA	Via Unità d'Italia	Underground sealed tank
54	POZZO D'ADDA	Via Leonardo da Vinci	Surface sealed tank
55	PREGNANA MILANESE	Via dei Rovedi	Dispersing tank
56	PREGNANA MILANESE	Via Repubblica	Underground sealed tank + dispersing
57	RESCALDINA	Via Provinciale Saronnese	Surface sealed tank
58	RHO	Via Alcide De Gasperi	Underground sealed tank + dispersing
59	RHO	Via Risorgimento	Underground sealed tank
60	SAN DONATO MILANESE	Via Non codificata	Underground sealed tank
61	SAN GIORGIO SU LEGNANO	Via Don Luigi Sturzo	Dispersing tank
62	SAN ZENONE AL LAMBRO	Via Don Gnocchi	Underground sealed tank
63	SANTO STEFANO TICINO	Viale della Stazione	Underground sealed tank
64	SEDRIANO	Via per Cascina Magna	Dispersing tank
65	SEGRATE	Via Rugacesio	Surface sealed tank
66	SESTO SAN GIOVANNI	Via Giovanni XXIII	Underground sealed tank
67	SESTO SAN GIOVANNI	Via Adamello	Underground sealed tank
68	SESTO SAN GIOVANNI	Viale Italia	Underground sealed tank
69	SESTO SAN GIOVANNI	Via L. Granelli	Underground sealed tank
70	SOLARO	Corso Italia	Dispersing tank
71	VANZAGHELLO	Via Gallarate	Dispersing tank
72	VANZAGO	Via I Maggio	Dispersing tank
73	VILLA CORTESE	Via dell'Industria	Surface sealed tank + dispersing
74	VIMODRONE	Via Pio La Torre	Underground sealed tank
75	VITTUONE	Via Elisa Restelli	Dispersing tank
76	ZIBIDO SAN GIACOMO	Via Asilo Salterio	Underground sealed tank

Starting from 2020, with reference to the tanks serving the sewerage network, planning has been carried out both to comply with the provisions of Regional Regulation 06/2019 and to improve the efficiency and functionality of the network. This implements what was already provided in the 2018-2022 PDI in terms of planning the interventions.

With regard to implementation in 2020, the interventions included both the adaptation of existing tanks and the construction of new storage systems. In particular, work is currently underway on the construction of the tanks at Solaro (adaptation of the dispersing tank on the mixed sewerage system), Cesano Boscone (rainwater accumulation system), and Marcallo con Casone (first rain tank). Work has also been completed and testing is underway on the Paullo, San Giorgio su Legnano and Cantalupo tanks. Finally, the tanks at Pozzo d'Adda, Carpiano, Villastanza, Canegrate and Ossona were completed and handed over to the operator.

Moreover, the designs of the tanks in Mesero (first rain tank - wastewater treatment using marine plants were), Misinto (first rain tank), Novate Milanese (first rain tank), Parabiago via Foscolo (floodwater culvert) and via Matteotti area (floodwater culvert), Sedriano (first rain tank), Trezzano Sul Naviglio (first rain tank + flywheel), San Colombano al Lambro (first rain tank and plant head), Bareggio (first rain tank and plant head) and Sesto San Giovanni (first rain tank and plant head) began and were carried out in 2020.

Moreover, design activities were carried out for the adaptation of the Vanzaghello tank.

Personnel and the work environment

With regard to the information pertaining to the environment and the personnel required by section 1 bis of Article 40 of Italian Legislative Decree No. 127/91, it should be noted that in 2020:

- there were no deaths in the workplace, nor charges have been made with regard to occupational

diseases affecting employees or former employees or lawsuits concerning mobbing, in relation to which responsibility of the company has been definitively ascertained;

 no damages were caused to the environment for which the company has been definitively declared guilty, nor any sanctions or fines have been inflicted on the company for environmental offences or damages;

With regard to organisational development measures, the main action adopted in 2020 is illustrated below.

As part of the consolidation process of the policy and co-ordination activities of CAP Holding - which holds the twenty-year concession for managing the Integrated Water Service in the reference area - 2020 was also characterised by internal reorganisation measures aimed at making the management of said service more effective and efficient, with a view to ongoing improvement, focusing on a greater enhancement of the functions of the Parent Company.

With a view to industrial policies aimed at enhancing in-house management of the integrated water service with the aim of maximising coordinated management of the integrated water service in highly interconnected territories:

- management under co-employment (envisaged by Article 30, paragraph 4-ter of Italian Legislative Decree 276/2003) continued under the network contract with BrianzAcque for the Information Technology Department and the Network Industrial User Management Office;
- the sharing of the collaboration process with ALFA s.r.l. started on 1 January 2020;
- on 12 June 2020, the CAP Group signed a network contract with ALFA s.r.l. in which a common path was identified that provides, inter alia, for the establishment of single offices under a single and coordinated management, referring to the Network, for each of the following company functions:
 - 1) Information Technology Management;
 - 2) Sales Management;
 - 3) Regulatory Affairs Management Planning and Control;
 - 4) Technical management;
 - 5) Administration and Finance Department;
 - 6) Legal and Procurement Department.

Analysis of the trend in the number of personnel

The personnel in service as at 31 December 2020 numbered 887 employees.

The most significant changes registered for the year concern:

- no. 69 incoming employees for activation of selections pursuant to the current Recruitment Regulation;
- No. 30 outgoing employees due to termination of work contract;
- no. 20 outgoing employees for retirement requirements.

Analysis of the trend of personnel costs with reference to the value of Costs

With regard to the analysis of the incidence of personnel costs on production Costs, the shareholders' meeting held on 18/05/2018 fixed the following limits:

	Limits	2015	2016	2017	2018	2019	2020
% INCIDENCE PERSONNEL	20.00%	19.50%	17.34%	14.64%	14.59%	14.44%	14.56%
COSTS/TOTAL COSTS							

The trend is compliant with the forecasts of the 2015 - 2020 Business Plan.

Other personnel management costs include total investments for staff training activities.

In 2020, total expenditure for personnel training activities amounted to € 113,213 for a total of 19,341 hours of training, involving 899 people, of which € 32,468 on safety in the workplace (€ 12,512 Safety and € 19,956 Compulsory Safety), for a total of 3,354 hours (388 Safety and 2,966 Compulsory Safety) involving a total of 212 people.

Incentive systems adopted

With regard to the incentive systems applied for the year 2020, it should be noted that:

- pursuant to Article 9 of the Consolidated Gas Water CCNL, with reference to the incentive systems applied for the year 2020, the "Result bonus project for the four-year period 2017-2020" signed on 2 November 2016 was applied;
- the application of the Technical Incentive Programme for the CAP Group valid for the period 2018 to 2021, as per the agreement signed on 6 March 2019, was confirmed;
- as part of the company policy for developing the responsibilities that aims to enhance the professionalism and individual skills of management personnel, the individual incentive policy instrument launched in 2014 was strengthened, aimed at recognising and rewarding the best achievement of the business targets and the carrying-out of better performances.

As at 31 December 2020, the CAP Group was in line with the provisions envisaged by Italian Law No. 68/69, Provisions for the right of persons with disabilities to work, having entered into with the Milan Provincial Authority, on 27/05/2016, an intercompany agreement for the integration of people with disabilities pursuant to Article 11 of Italian Law No. 68/99 in favour of Groups of Companies as defined by Article 31 of Italian Decree Law No. 276/2003.

Research and development activities

In continuity with the guidelines launched in previous years, the CAP Group further increased - also in collaboration with industrial and scientific partners, such as Universities and Research Institutions - research and development activities aimed at acquiring specific know-how on technologies that serve the integrated water cycle. The Group carries out innovation activities operating at various levels and focuses its activity on three types of projects:

- Financed Projects, which are developed in the framework of regional, national and international funding calls;
- Self-Financed Projects, which are research and innovation activities, entirely financed by the CAP Group, and which have a short potential industrialisation frontier in the order of 1-3 years;
- Special Projects, which are developed with a view to exploring new speculative development opportunities, either within the Group or in collaboration with external parties, such as innovative start-ups.

As part of the Financed Projects, the main activities were as follows:

PerFORM WATER 2030 project

The CAP Group is the leader of the industrial research and experimental development project PerFORM WATER 2030 - Platform for Integrated Operation Research and Management of Public Water towards 2030, carried out as part of POR FESR 2014-2020. During 2020, CAP Group's activities in the project focused on supporting the operations of the various pilot plants located in the purification plants selected by the CAP Group (San Giuliano Milanese Ovest, San Giuliano Milanese Est, Peschiera Borromeo, Bresso). In particular, new results were obtained and analysed from the sludge-to-energy pilots (developed and operated by the partner Vomm), the recovery of phosphorus from waste-to-energy ash (activity followed by the Politecnico

di Milano) and the biological upgrading of biogas to biomethane using hydrogen (plant developed by Hydep and Seam and operated by the Politecnico di Milano).

LIFE METROADAPT project

The METROADAPT project - enhancing climate change adaptation strategies and measures in the Metropolitan City of Milan, is co-funded by the European Commission under the LIFE 2017 Climate Action Programme. Launched in October 2018 and coordinated by the Metropolitan City of Milan, the CAP Group is the project partner, together with Ambiente Italia, e-GEOS, Legambiente Lombardia, Association des agencies de la Democratie Locale (ALDA).

During 2020, the activities of the CAP Group focused on the implementation of two pilot projects located in the municipalities of Solaro and Masate. In particular, the Solaro intervention concerned a case of application of Natural Based Solutions (NBS) to treat and drain the rainwater of a parking area serving a local sports facility, by detaching the collection from the sewer, and using drainage trenches and dispersing wells. The Masate project, again with a view to the application of NBS, focused on the installation of rain containment tanks to better control the impact of any extreme weather events.

H2020 Digital Water City Project

The CAP Group participates in the project "Digital Water City - Leading urban water management to its digital future", co-funded by the European Commission under the Horizon2020 Framework Programme. The project, coordinated by the Berlin Water Competence Centre (KWB - Kompetenzzentrum Wasser Berlin) and consisting of 24 partners from 10 European countries, plans to create digital solutions to address aspects of the integrated water cycle in 5 urban case studies: Paris, Berlin, Copenhagen, Milan, Sofia.

In the Milan application case, in 2020 the CAP Group's activities focused on the evaluation of an analyser probe developed and supplied by the partner Fluidion for the determination of E.coli concentration: in the first stage, more than 100 comparative measurements were made between the instrument supplied by Fluidion and the laboratory method used by the CAP Group. Also as part of the project activities, the CAP Group, in collaboration with the Università degli Studi in Milan, used an area inside the Peschiera Borromeo purification plant to build an experimental agricultural field where to carry out irrigation tests on selected crops using treated water from the same plant.

CE4WE project

The CAP Group participated, together with the University of Pavia, leader of the consortium, a2a Servizio Idrico, ENI, Mogu and NeoruraleHub, in the Circular Economy for Water and Energy - CE4WE project, which was submitted for co-funding on the Call Hub Research and Innovation of the Lombardy Region. The project activities develop on three pillars: two technical dedicated to Water and Energy, and a more general one focused on project management, dissemination and regulatory considerations.

Project activities started in February 2020. As part of the project, the CAP Group will assess the use of fungal membranes for purification, the development of hydrological models in pilot areas for adaptation to climate change and the recovery of the oily fraction of urban wastewater for evaluation by ENI for use as a precursor of biofuels.

LIFE Freedom project

The CAP Group participated together with the companies Agrosistemi and Syngen, and other technical partners, in the presentation of a project proposal on the European LIFE programme. The proposal, submitted in 2019, was accepted for financing in 2020.

The project, which began in October 2020, involves the construction and operation of a hydrothermal liquefaction (HTL) plant for sewage sludge, for their conversion to products useful as foregoers for asphalts and fertilisers.

The pilot plant will be installed at the Cassano d'Adda wastewater treatment plant, operated by our Group.

At the Salazzurra Research Centre, the incubation process of innovative start-ups, in the logic of Open Innovation, engaged in the development of the circular economy, continued in order to improve performance, talent and entrepreneurial skills.

During 2019, the Hexagro Urban Farming start-up was selected as part of the Call for Ideas Innovate H2O launched by the CAP Group. The start-up worked alongside researchers at the Sala Azzurra Research Centre on aeroponic systems.

As part of the Self-financed Projects, the main activities were as follows:

MICODEP: from sludge to biomaterials

During 2020, the Micodep project focused its activities on the laboratory-scale testing of fungal strains, identified in 2019 within the mycoflora present in the wastewater, to assess their removal properties of certain categories of pollutants, such as phosphorous, nitrogen and anthropogenic organic molecules. The wastewater samples were provided by the CAP Group, and in particular by the Robecco sul Naviglio purification plant, and by A2A Water Cycle, by the Verziano purification plant. The experimental tests were carried out by University of Pavia personnel at the biotechnology laboratory of the CAP Group Salazzurra research centre.

Cellulose recovery projects

The CAP Group started a project, in cooperation with the Dutch technology provider CirTec B.V., for the pilot-scale evaluation of Cellvation technology for the recovery of cellulosic fibres from urban wastewater.

After a preliminary phase to estimate the recovery potential according to the characteristics of the CAP wastewater, and to choose the most suitable purification plant in which to install the pilot plant, the Group defined a rental agreement with CirTec for 5 months. The pilot was installed in October 2020 at the Truccazzano purification plant, and will be operated by the CAP Group personnel, in collaboration with the Politecnico di Milano, to obtain the data needed to estimate the material, energy and economic balance of the process, and its impact on downstream wastewater treatment.

Water Reuse Risk Management

The CAP Group, in collaboration with the ISS, the Water Institute of the University of North Carolina, IRSA-CNR, the Mario Negri Institute and the Politecnico di Milano, launched an internal project for the definition of a risk assessment protocol dedicated to the reuse of treated water in agriculture.

In 2020, the project was developed, as before, on two parallel tracks: on the one hand, the second analysis campaign was carried out, conducted by IRSA and Mario Negri, for the research and quantification of various categories of potential pollutants, in particular referring to the PFAS drug categories, carried out at various sampling points inside the Peschiera Borromeo purification plant.

On the other hand, the CAP Group, together with ISS and the Water Institute, focused on the theoretical definition of qualitative and quantitative risk matrices as a basis to be "populated" with analytical data in order to subsequently assess the monitoring and mitigation measures to be taken with a view to risk minimisation.

Finally, Special Projects include the activities of the German-Italian start-up Smart Cloud Farming, which the CAP Group has promoted and supported. In September 2020, at the Baciocca experimental farmstead in Cornaredo, Smart Cloud Farming carried out a flight campaign with a drone equipped with a hyperspectral camera that, by scanning agricultural land, makes it possible to determine the concentration of nutrients (nitrogen, phosphorous and potassium, summarised as the NPK index) in the soil, and thus to understand its needs.

For the year 2020, the tax benefit for the tax credit for research and development expenses was estimated to be \in 107,146.

The Gis - WebGis system

One of the Company's strong points is without doubt the GIS system now extended, after BrianzAcque, Uniacque, Lario Reti Holding and Società Acqua Lodigiana, also PaviaAcque and PadaniaAcque, Acque Bresciane and Alfa Varese, respectively operators in the provinces of Pavia and Cremona, Brescia and Varese.

On the basis of these conditions, the integrated system has become for all purposes a system used 90% by the founders of Water Alliance with the consequent creation of a new concept of GIS/WEBGIS, the WebGIS regional water – https://sit.acquedilombardia.it/Gallery/

A system highly interconnected with the ERP Company Oracle E business suite, with the network maintenance software and with the mobile world for optimum geographic management.

The real process of change in 2020 was the overall renewal of the entire application map dedicated to GIS/WEBGIS, with the start of operations on 23 November 2020 of the new set of applications dedicated to land management.

The new application, based on market technologies, world leaders on proprietary source code, allows and will allow all subscribing companies and in particular the CAP Group to start a development process, integrating artificial intelligence and predictive concepts within the system itself.

Real time	Centralised control	Data sharing	Redundancy reduction
Independence of the data structure	Direct access	Security	Versatility

In order to be able to appreciate the development of the system of the new GIS and WebGis, the following quantitative data is illustrated:

WebGIS ACQUE DI LOMBARDIA	2020
km of sewer mains included in the system	28,379
km of aqueduct network included in the system;	33,547
Number of manholes of the sewerage system	574,156
Number of wells – aqueduct network	3,121



Furthermore, the following data is also reported, referring to the area served by the CAP Group.

Focus: CAP Group WebGIS	2020
Number of investments entered on WebGIS	103
Number of sewerage drains entered on WebGIS	885
Number of industrial drains entered on WebGIS	1,662
Number of extraordinary maintenance interventions entered on WebGIS	55
Number of corrective maintenance interventions entered on WebGIS	11
Number of as built by third parties entered on WebGIS	447
Number of km of aqueduct and sewerage network entered on WebGIS	13,057
Number of well monographs entered on WebGIS	631
Number of inspection videos entered on WebGIS	94
Trap maintenance service entered on WebGIS	4,491
Number of discharge authorisations entered on WebGIS	885

Number of monographs for sewerage network manholes accessible on	
WebGIS	168.392

Several agreements with the Lombardy Region and other Italian operators make the platform one of the most advanced both at Italian and international level.

In conclusion, it is disclosed how, in a tangible manner, the project is for all purposes a virtuous example of sharing economy and will allow the new partners to avoid long timescales and costs for the launch of software by now fundamental for the management of the service.

In 2015, the CAP Group, with a view to optimisation of the connectivity costs and, above all else, to improve the work performances increasingly oriented towards the new technologies and Mobile logics, undertook a process aimed at the possibility of use of its right to 20% of the fibre optics laid by the Metropolitan City of Milan within the sewer pipelines and other proprietary sub-services.

For this purpose, on 16 June 2015 a decree was issued by the metropolitan mayor (Gen. Vol. No. 191/2015) concerning "The collaboration between the Metropolitan City of Milan and CAP Holding spa for the development and valorisation of the telematic backbone", aimed at the drafting of a shared business plan so as to be able to conclude the cabling of the metropolitan city network.

Subsequently, during the agreement as per the previous point, given the excellent results and the possibilities emerging during work, a second agreement was reached in reference to the decree issued on 29 October 2015 (Gen. Vol. 283/2015) by means of which the role of the CAP Group in the Closure of the telematic backbone was defined.



The CAP Group, in compliance with the agreements entered into, as from March 2016 started to lay around 65 km of fibre optic infrastructure using the sewer pipelines managed with the aim of closing the backbone ring and reach the 11 main offices of the Group (in the diagram alongside, see the line in red) permitting a saving on the Opexes referring to the connectivity costs incurred to date.

The necessary investment that is envisaged comes to € 2,254,104. Between March 2016 and December 2016, installation work commenced and continued, permitting the work group to lay around 23 km of infrastructure referring to the closure of the backbone ring, closure which then took place in February 2017.

In December 2017, further to the work brought forward during the entire space of the year, the project was preliminarily completed with the reaching of the main offices of the Group and the activation of the first 3 operational offices with an Opex saving already of \notin 43,700.

The site connections in the scope of the project were completed in 2018, bringing an overall saving of € 138,330 per year.

As a continuation of the project, opex's savings were consolidated in 2019, decreasing on a proportional basis, i.e. without taking into account the new locations to be connected and the organisational changes that have occurred since the start of the project to date, by \notin 189,430. Finally, the completion of the process allowed the group to benefit from the investment during the pandemic period of the year 2020, having at its disposal enabling drivers of redundant connectivity and allowing immediately to guarantee smart working to more than 500 people of the group.

Business Outlook

It should be specified that the CAP Group is involved, as more fully illustrated in this report, in highly regulated activities, especially for the part relating to the revenues and investments.

The CAP Group budget, examined and approved by the Board of Directors of CAP Holding in January 2019, shows the following trend in 2021:

(units in €)	2021 Budget
Total Revenues	361,574,682
(Total Costs)	(330,874,457)
Net operating result	30,700,225
Financial income (financial expense for write-down of	(4,008,572)
equity investments)	
Taxes	(8,007,496)
Net result for the year	18,684,157

The above trend also presupposes the total reuse of the operating balance indicated in the company.

Therefore, in terms of profitability, which is more aimed at producing results to be reused in the Group for investments, the opinion is for expected positive results.

However, it must be pointed out that, at the moment, it cannot be completely ruled out that the pandemic still underway may in the future affect the company beyond the extent already dealt with as a basis for drawing up the above forecasts, as a reflection of the effects induced by the crisis above all at a macroeconomic level, but also at a local and indirect level, and therefore also subsequently reflect on the company's credit management and liquidity.

Financial risk management

As part of the performance of its activities the CAP Group is exposed to certain financial risks such as the interest rate risk, the liquidity risk and the credit/counterparty risk.

The financial risks to which the Group is exposed and the formalities by means of which they are managed are listed in greater details below.

(a) Interest Rate Risk

The portion of financial indebtedness that has a floating rate is however somewhat contained. As at 31 December 2020, it totalled € 7,736,720, equal to around 5% of the total indebtedness outstanding as at 31 December 2020.

On the same date, part of this indebtedness, € 2,538,462 as at 31 December 2020, at floating rate, is accompanied by non-speculative purely hedging interest rate swap agreements.

The objective of the CAP Group is to limit its exposure to the increases in the interest rates keeping the loan costs acceptable. The risks related to the increase in the interest rates are monitored as non-speculative.

There is no guarantee that the hedging policy adopted by the Group, intended to reduce to a minimum the losses associated with fluctuations in the interest rates in the event of floating rate indebtedness transforming them into fixed rate borrowing, will have the effect of reducing any of these losses. If the above does not take place on an absolutely remote basis, negative effects could come about on the activities of the Group, on the financial situation and on the results of the operations.

(b) Liquidity risk

The liquidity risk represents the risk that, due to the inability to procure new funds or liquidate assets on the market, the CAP Group is unable to meet its payment commitments, causing an impact on the economic result in the event that it is forced to incur additional costs to meet its commitments or a situation of insolvency.

The objective of the CAP Group is the maintenance over time of a balanced management of its financial exposure, aimed at ensuring a liability structure balanced with the composition of the financial statement assets and capable of ensuring the necessary operating flexibility by using the liquidity generated by the current operating activities and the recourse to bank loans.

The ability to generate liquidity from the core operations, together with the borrowing capacity, permits the Group to adequately meet its operating requirements, those for financing the working capital and investment needs, as well as the observance of its financial obligations.

The CAP Group is characterised by a policy involving the use of temporary liquidity in financial instruments with a low and/or average-to-low level of risk.

In particular, the parent company has adopted since 2013 a regulation for the use of the liquidity that excludes investments in high-risk financial assets Please see the notes to the financial statements with regard to the loans existing at the end of reporting period.

Thus, the CAP Group also takes steps to hedge the liquidity risk by means of taking out a number of short-term credit facilities with banks.

The facilities for liquidity amounted as at 31 December 2020 to € 32.5 million and none have yet been used.

As from June 2014, with the need of defining internal procedures aimed at optimising the allocation of the total financial resources at CAP Group level and endowing itself with a sole direction in the financial field for the purpose of rendering the financial operations of the entire group more efficient and rational, a sweeping cash pooling agreement was entered into between CAP Holding S.p.A. and Amiacque S.r.l., or rather an agreement for the centralisation of the handling of the liquidity, also operative for 2020 and extended until 30 May 2021.

At 31 December 2020, this position was zero.

As regards the uncertainties due to the coronavirus event, refer to the section on business outlook.

(c) Credit risk

The credit risk represents the company's exposure to potential losses that may arise if a commercial or financial counterparty does not meet their obligations.

The main credit risks for the CAP Group derive from the trade receivables from the supply of the integrated water services, collected by the Group or by other companies (Operators of other ATOs, where CAP Holding S.p.A. is the "wholesale operator").

The CAP Group tries to deal with this risk adopting policies and procedures that regulate the monitoring of the expected funding flows, the granting of extended credit terms and if necessary the implementation of suitable recovery measures, both with regard to the users directly managed and with regard to the operators which it is the Wholesaler of. For the majority of the latter, specific and direct agreements have been reached (see the section "organisational performance in the province Monza").

Notwithstanding the foregoing, a general increase in default rates could have a substantial negative effect on the Group's business, financial situation and results of operations as well as on the Group's ability to fulfil its payment obligations.

Trade receivables are recognised in the financial statements net of the write-down calculated on the basis of the risk of default of the counterparty, determined considering the available information on the solvency of the customer and considering past and future data. The positions, if individually significant, for which there is an objective condition of partial or total non-payment, are subject to individual write-down.

As regards the uncertainties due to the coronavirus event, refer to the section on business outlook.

(d) Covenants and Negative pledges and similar.

Part of the CAP Group's indebtedness as at 31 December 2020 derives from loan agreements or from bonds that, in line with similar market transactions, envisage a number of restrictions and commitments for the Group. These include the commitment not to grant, unless within pre-established limits, to future lenders encumbrances on its assets (negative pledge), change of control, *pari passu* and cross default clauses. A number of restrictive clauses are also envisaged on the accomplishment of specific extraordinary transactions and on the disposal of assets. Financial covenants are also envisaged, as more fully detailed in the notes, the possible non-observance of the which may lead to the operation of the acceleration clause to the detriment of the Group.

Use of financial instruments

As at 31 December 2020, the CAP Group used certain financial instruments. During the years 2006 and 2007, the company entered into a number of Interest Rate Swap agreements (one with Banca Innovazione Infrastrutture e Sviluppo and one with BNP Paribas), and in 2015 it acquired a third IRS contract from the merged company Idra Milano S.r.l. (of which Banca Nazionale del Lavoro S.p.A. is the counterparty).

All refer to underlying liabilities of a financial type.

In detail, the CAP Group entered into three Interest Rate Swap (IRS) agreements that can be listed in terms of timing as follows (those still outstanding as at 31 December 2020 are shown below):

1. 17 February 2006: IRS for a nominal of € 55,313,163 (in repayment) expiring on 31 December 2021;

2 November 2007: IRS for a nominal of € 20,000,000 (in repayment) expiring on 31 December 2026;
16 May 2011 (agreement entered into by Idra Patrimonio S.p.A., which CAP Holding took over further to the merger of Idra Milano S.r.I. that took place in 2015): IRS for a nominal of € 6,000,000 (in repayment) expiring on 16 May 2026.

While the third position is pure (and at least partial) hedge with respect to the interest rate fluctuation risk, the others are "Duration swaps", i.e. they are financial instruments created for the purpose of transforming and standardising, in terms of current value, debt repayment schemes.

By their dynamics, they generally transform the distribution of the underlying instalments over a period of time. In particular, in the case of fixed interest rate loans (the major part of the underlying loans), they had the purpose of mitigating the rates of the first years in exchange for a progressive increase in said rates as the expiry date of the loan approaches.

Transformation on the payment dates in the implementation of the Duration Swap is not achieved free of charge: the bank that is counterparty to the swap applies a spread in its favour on the interest rate curve used for the rescheduling of the instalment plan. This spread is the bank's remuneration.

In other words, in general, a Duration swap is similar to a loan that, under the risk conditions mentioned in the Directors' Management Report of the parent company at the time when it was entered into, also due to the uncertainty linked to the tariffs, allowed the CAP Group to obtain a saving in terms of the repayment of the principal and interest on the first repayment dates, with a higher disbursement on the later repayment dates.

The swaps listed from numbers 1 to 2 are characterised by the exchange of fixed amounts over time (the underlying amounts are at fixed rates and the swaps are in fixed instalments)

The only exception could be swap no. 2 that includes a Floating rate clause (with reference to the trend of a Euribor rate). Should the possibility established by it occur, the Group would benefit from a theoretical total maximum positive flow of \notin 1,200,000 from 31 December 2024 to 31 December 2026 (which leaves the Group the opportunity to benefit from a subsequent theoretical rate reduction).

type of derivative contract	interest rate swap with Intesa	interest rate swap with BNP Paribas	interest rate swap with BNL
	1	2	3
contract date	17/02/2006	22/01/2008	16/05/2011
purpose	loan hedging	loan hedging	rate hedging
contract number	602170669	10706142	5963433
notional value	55,313,163.00	19,389,639	6,000,000
existing principal	1,400,020	8,114,045	2,538,462
settlement date	31/12/2021	31/12/2026	16/05/2026
financial risk		variability of interest rates	
mark to market as at 31/12/2020	-6,598,202	-539,338	-27,291
hedged asset/liability	cassa depositi e prestiti mortgages	Intesa loan (formerly Banca OPI 2006)	BNL loan (formerly Idra Patrimonio)

- there are no significant concentrations of liquidity risk;
- there are no risks related to the trend in exchange rates;
- there are no significant risks related to the trend in interest rates;
- the trend in the prices of the services provided is linked to the tariffs and the Tariff Method determined by the sector Authority (ARERA).

The Chairman of the Board of Directors Alessandro Russo



FINANCIAL STATEMENTS OF THE CAP GROUP AS AT 31 DECEMBER 2020

Prepared in accordance with IFRS adopted by the European Union ("EU IFRS").

Statement of financial position

		Malue es et	Value as at		1	
Statement of financial position	Notes	Value as at 31/12/2020	31/12/2019 Restated	Value as at 31/12/2019	Change	% change
ASSETS						
Non-current assets						
Rights on assets under concession	7.1	787,762,189	747,788,220	795,065,306	39,973,969	5%
Rights of use	7.2	4,535,262	6,009,836	6,009,836	(1,474,574)	-25%
Other intangible assets	7.3	12,161,324	13,453,270	15,117,156	(1,291,945)	-10%
Tangible fixed assets	7.4	18,713,655	17,757,475	18,596,850	956,181	5%
Deferred tax assets	7.5	35,146,593	37,728,716	23,690,658	(2,582,123)	-7%
Other receivables and other non-current financial ass	7.6	42,138,510	43,362,837	43,362,837	(1,224,327)	-3%
Total non-current assets		900,457,533	866,100,354	901,842,643	34,357,179	4%
Current assets						
Trade receivables	7.7	232,926,350	209,955,570	209,955,570	22,970,780	11%
Inventories	7.8	3,712,587	3,581,893	3,581,893	130,694	4%
Contract work in progress	7.9	5,396,530	4,884,259	4,884,259	512,271	10%
Cash and cash equivalents	7.10	42,374,335	134,730,710	134,730,710	(92,356,375)	-69%
Other receivables and other current financial assets	7.11	15,276,524	12,021,371	12,021,371	3,255,153	27%
Total current assets		299,686,325	365,173,802	365,173,802	(65,487,477)	-18%
Non-current assets intended for sale	7.12		622,516	622,516	(622,516)	-100%
TOTAL ASSETS		1,200,143,858	1,231,896,672	1,267,638,962	(31,752,814)	-3%
SHAREHOLDERS' EQUITY						
Share capital	7.13	571,381,786	571,381,786	571,381,786	-	0%
Other reserves	7.13	237,868,719	209,614,065	240,678,798	28,254,655	13%
FTA reserve	7.13	(989,327)	(989,327)	(989,327)	-	0%
Net result for the year	7.13	18,568,952	27,581,550	32,259,106	(9,012,597)	-33%
Total consolidated shareholders' equity		826,830,131	807,588,073	843,330,363	19,242,058	2%
LIABILITIES						
Non-current liabilities						
Provision for risks and charges	7.14	67,909,045	66,453,439	66,453,439	1,455,606	2%
Employee Benefits	7.15	4,813,473	5,194,595	5,194,595	(381,123)	-7%
Non-current payables to banks and other lenders	7.16	107,172,663	132,939,328	132,939,328	(25,766,665)	-19%
Other non-current payables	7.17	64,575,501	71,966,020	71,966,020	(7,390,519)	-10%
Total non-current liabilities		244,470,681	276,553,382	276,553,382	(32,082,701)	-12%
Current liabilities						
Trade payables	7.18	66,597,618	82,833,817	82,833,817	(16,236,199)	-20%
Current payables to banks and other lenders	7.16	26,036,728	24,929,549	24,929,549	1,107,179	4%
Other current payables	7.19	36,208,700	39,991,851	39,991,851	(3,783,151)	-9%
Total current liabilities		128,843,046	147,755,217	147,755,217	(18,912,171)	-13%
Non-current liabilities intended for sale	7.20			-	-	0%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,200,143,858	1,231,896,672	1,267,638,962	(31,752,814)	-3%
Statement of Comprehensive Income

8.1 8.2 8.3 8.4 8.5 8.6	236,650,408 4,181,035 88,134,590 15,769,216 344,735,249 (10,651,430)	243,722,886 4,127,584 96,534,625 14,652,965 359,038,060	253,949,891 4,127,584 96,534,625 14,652,965	(7,072,479) 53,451 (8,400,035)	-3% 1%
8.3 8.4 8.5 8.6	88,134,590 15,769,216 344,735,249	96,534,625 14,652,965	96,534,625	· ·	
8.4 8.5 8.6	15,769,216 344,735,249	14,652,965		(8,400,035)	001
8.5 8.6	344,735,249		14,652,965		-9%
8.6		359.038.060		1,116,251	8%
8.6	(10,651,430)		369,265,065	(14,302,812)	-4%
		(15,477,915)	(15,477,915)	4,826,485	-31%
	(130,134,391)	(128,493,077)	(128,493,077)	(1,641,314)	1%
8.7	(51,133,406)	(56,294,549)	(56,294,549)	5,161,143	-9%
8.8	(45,737,339)	(45,780,163)	(45,780,163)	42,823	0%
8.9	(57,154,222)	(54,457,661)	(58,169,963)	(2,696,561)	5%
8.10	(9,481,805)	(12,896,872)	(12,896,872)	3,415,067	-26%
8.11	(9,939,434)	0	0	(9,939,434)	100%
	(314,232,028)	(313,400,237)	(317,112,539)	(831,791)	0%
	30,503,221	45,637,823	52,152,525	(15,134,602)	-33%
8.12	1,248,392	2,025,354	2,025,354	(776,962)	-38%
8.12	(5,672,593)	(6,911,346)	(6,911,346)	1,238,753	-18%
	26,079,020	40,751,831	47,266,533	(14,672,811)	-36%
8.13	(7,510,067)	(13,145,693)	(14,982,838)	5,635,625	-43%
8.14	0	(24,589)	(24,589)	24,589	-100%
	18,568,952	27,581,550	32,259,106	(9,012,597)	-33%
7.14	12,670	(253,066)	(253,066)	265,736	-105%
	(3,041)	60,736	60,736	(63,777)	-105%
	812,481	1,359,206	1,359,206	(546,725)	-40%
	(206,887)	(346,103)	(346,103)	139,216	-40%
	615,223	820,773	820,773	(205,550)	-25% -32%
	8.7 8.8 8.9 8.10 8.11 8.12 8.12 8.12 8.13 8.14	8.6 (130,134,391) 8.7 (51,133,406) 8.8 (45,737,339) 8.9 (57,154,222) 8.10 (9,481,805) 8.11 (9,939,434) (314,232,028) 30,503,221 8.12 1,248,392 8.12 (5,672,593) 8.13 (7,510,067) 8.14 0 7.14 12,670 (3,041) 312,481 812,481 (206,887)	8.6 (130,134,391) (128,493,077) 8.7 (51,133,406) (56,294,549) 8.8 (45,737,339) (45,780,163) 8.9 (57,154,222) (54,457,661) 8.10 (9,481,805) (12,896,872) 8.11 (9,939,434) 0 (314,232,028) (313,400,237) 30,503,221 45,637,823 8.12 1,248,392 2,025,354 8.12 (5,672,593) (6,911,346) 26,079,020 40,751,831 8.13 (7,510,067) (13,145,693) 8.14 0 (24,589) 7.14 12,670 (253,066) (3,041) 60,736 38,14 1,359,206 (206,887) (346,103) (206,887) (346,103)	8.6 (130,134,391) (128,493,077) (128,493,077) 8.7 (51,133,406) (56,294,549) (56,294,549) 8.8 (45,737,339) (45,780,163) (45,780,163) 8.9 (57,154,222) (54,457,661) (58,169,963) 8.10 (9,481,805) (12,896,872) (12,896,872) 8.11 (9,939,434) 0 0 (314,232,028) (313,400,237) (317,112,539) 8.12 1,248,392 2,025,354 2,025,354 8.12 1,248,392 2,025,354 2,025,354 8.12 (5,672,593) (6,911,346) (6,911,346) 6.911,346 (6,911,346) (6,911,346) (24,589) 8.13 (7,510,067) (13,145,693) (14,982,838) 8.14 0 (24,589) (24,589) 7.14 12,670 (253,066) (253,066) (3,041) 60,736 60,736 60,736 (3,041) 60,736 60,736 7.14 12,670 (253,066) (253,066) (3,041) 60,736 60,736 <t< td=""><td>8.6 (130,134,391) (128,493,077) (128,493,077) (1,641,314) 8.7 (51,133,406) (56,294,549) (56,294,549) (56,294,549) (51,133,406) 8.8 (45,737,339) (45,780,163) (45,780,163) (42,823) 8.9 (57,154,222) (54,457,661) (58,169,963) (2,696,561) 8.10 (9,481,805) (12,896,872) (12,896,872) 3,415,067 8.11 (9,939,434) 0 0 (9,939,434) 0 12,896,872) (317,112,539) (831,791) 8.12 1,248,392 2,025,354 2,025,354 (776,962) 8.12 (5,672,593) (6,911,346) (6,911,346) 1,238,753 8.13 (7,510,067) (13,145,693) (14,982,838) 5,635,625 8.14 0 (24,589) (24,589) 24,589 7.14 18,568,952 27,581,550 32,259,106 (9,012,597) 7.14 12,670 (253,066) (253,066) (265,736) (3,041) 60,736</td></t<>	8.6 (130,134,391) (128,493,077) (128,493,077) (1,641,314) 8.7 (51,133,406) (56,294,549) (56,294,549) (56,294,549) (51,133,406) 8.8 (45,737,339) (45,780,163) (45,780,163) (42,823) 8.9 (57,154,222) (54,457,661) (58,169,963) (2,696,561) 8.10 (9,481,805) (12,896,872) (12,896,872) 3,415,067 8.11 (9,939,434) 0 0 (9,939,434) 0 12,896,872) (317,112,539) (831,791) 8.12 1,248,392 2,025,354 2,025,354 (776,962) 8.12 (5,672,593) (6,911,346) (6,911,346) 1,238,753 8.13 (7,510,067) (13,145,693) (14,982,838) 5,635,625 8.14 0 (24,589) (24,589) 24,589 7.14 18,568,952 27,581,550 32,259,106 (9,012,597) 7.14 12,670 (253,066) (253,066) (265,736) (3,041) 60,736

Cash Flow Statement

CASH FLOW STATEMENT OF THE CAP HOLDING SPA GROUP YEAR (*)	Value as at 3	1/12/2020 Value as	at 31/12/2019 Valu	Value as at 31/12/2019		
Schedule No. 1: Operating cash flow determined using the indirect method						
A. Cash flows from operating activities (indirect method)						
	40.550.050	27.504.55				
Profit (loss) for the year Income taxes	18,568,952 7,510,067	27,581,55		59,106 82,838		
Interest expense/(interest income)	4,362,118	4,824,33		24,330		
Interest expense (Interest income)	62,083	4,824,53		61,662		
(Dividends)	02,000		0	0		
Capital (gains)/losses deriving from disposal of assets	0	137,91	.3 13	37,913		
 Profit (loss) for the year before income taxes, interest, dividends and capital gains/loss on disposal 		30,503,221	45,751,148	52,26		
djustments for non-monetary elements that were not offset in net working capital	5 0 6 0 7 0					
Accruals to provisions Amortisation/Depreciations of fixed assets	5,069,972 47,579,046	4,075,20 42,581,94		75,203 94,248		
Write-downs for impairment losses	138,688	152,62		52,625		
Other adjustments for non-monetary elements	(3,064,367)	(2,991,52)		91,523)		
2. Cash flow before changes in NWC	(5)00 1,507 /	49,723,338	43,818,250	47,53		
Changes in net working capital						
Decrease/(increase) in inventories	(642,965)	(2,100,14		00,147)		
Decrease/(increase) in receivables from customers	(20,274,506)	(16,612,94		12,940)		
Increase/(decrease) in trade payables	(3,743,839)	15,361,74		71,890		
Decrease/(increase) in accrued income and prepaid expenses	0		0	0		
Increase/(decrease) in accrued expenses and deferred income	0		0	0		
Other changes in net working capital 3. Cash flow after changes in NWC	1,631	(5,75)	(3,357,094)	(5,756) (11,74)		
5. Cash now alter changes in twice		(24,033,078)	(5,557,654)	(11,74)		
Dther adjustments						
Interest collected/(paid)	(4,589,255)	(5,161,90	1) (5,16	51,901)		
(Income taxes paid)	(12,687,155)	(7,646,13	6) (9,48	33,281)		
Dividends collected	0		0	0		
Use of provisions	(580,896)	(1,575,95	4) (1,57	75,954)		
4. Cash flows after the other adjustments		(17,857,306)	(14,383,990)	(16,22)		
Cash flow of income management (A)		37,709,575	71,828,314	71,82		
3. Cash flow from investment activities						
(Investments)	(2,652,364)	(7,522,55	6) (7,52	22,556)		
Realisable value of divestments	0	5,00	0	5,000		
ntangible fixed assets	(6.202.420)	10.000				
(Investments)	(6,282,129)	(6,611,85	, , ,	1,857)		
Realisable value of divestments ixed assets under concession	0		0	0		
(Investments)	(96,397,324)	(93,307,44)	1) (03.30			
Realisable value of divestments	0		1) (55,50	7 441)		
inancial fixed assets			0	07,441)		
(Investments)	0		0	07,441) 0		
				0		
Realisable value of divestments	0	(145,17	7) (14			
Realisable value of divestments Current financial assets		(145,17		0		
	0	(145,17	7) (14 0	0		
Current financial assets (Investments) Realisable value of divestments	0 2,326,680 0 437,840	(145,17 (39,83	7) (14 0 7) (3 0	0 15,177) 0 39,837) 0		
Current financial assets (Investments)	0 2,326,680 0 437,840	(145,17 (39,83	7) (14 0 7) (3	0 45,177) 0 39,837)		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities C. Cash flow from financing activities	0 2,326,680 0 437,840	(145,17 (39,83	7) (14 0 7) (3 0	0 15,177) 0 39,837) 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) C. Cash flow from financing activities oan capital	0 2,326,680 0 437,840	(145,17 (39,83 (102,567,297)	7) (14 0 7) (3 0 (107,621,868)	0 15,177) 0 39,837) 0 (107,62:		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) C. Cash flow from financing activities oan capital Increase (decrease) in short-term payables to banks	0 2,326,680 0 437,840 0 0	(145,17 (39,83 (102,567,297)	7) (14 0 7) (3 0 (107,621,868) 0	0 15,177) 0 39,837) 0 (107,62: 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) Cash flow from financing activities oan capital Increase (decrease) in short-term payables to banks Loans taken out	0 2,326,680 0 437,840 0 0 0 0	(145,17 (39,83 (102,567,297)	7) (14 0 7) (3 0 (107,621,868) 0 0	0 15,177) 0 39,837) 0 (107,62: 0 0 0 0		
urrent financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) Cash flow from financing activities coan capital Increase (decrease) in short-term payables to banks	0 2,326,680 0 437,840 0 0	(145,17 (39,83 (102,567,297)	7) (14 0 7) (3 0 (107,621,868) 0 0 3) (25,44	0 15,177) 0 39,837) 0 (107,62: 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) Cash flow from financing activities Cash flow from financing a	0 2,326,680 0 437,840 0 0 0 (24,497,374)	(145,17 (39,83 (102,567,297) (25,449,93)	7) (14 0 7) (3 0 (107,621,868) 0 0 3) (25,44	0 15,177) 0 39,837) 0 (107,62: 0 0 0 19,933)		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) Cash flow from financing activities can capital Increase (decrease) in short-term payables to banks Loans taken out Loans repaid Repayment of financial payables IFRS 16	0 2,326,680 0 437,840 0 0 0 (24,497,374)	(145,17 (39,83 (102,567,297) (25,449,93 (2,280,17)	7) (14 0 7) (3 0 (107,621,868) 0 0 3) (25,44	0 15,177) 0 39,837) 0 (107,62: 0 0 0 19,933)		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) Cash flow from financing activities Cash flow from financing a	0 2,326,680 0 437,840 0 (24,497,374) (3,001,278)	(145,17 (39,83 (102,567,297) (25,449,93 (2,280,17)	7) (14 0 7) (3 0 (107,621,868) 0 0 3) (25,44 5) (2,28	0 15,177) 0 39,837) 0 (107,62: 0 0 19,933) 10,176)		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) C. Cash flow from financing activities oan capital Increase (decrease) in short-term payables to banks Loans taken out Loans repaid Repayment of financial payables IFRS 16 Share capital increase against payment	0 2,326,680 0 437,840 0 0 (24,497,374) (3,001,278) 0	(145,17 (39,83 (102,567,297) (25,449,93) (2,280,17)	7) (14 0 7) (3 0 (107,621,868) 0 0 3) (25,44 6) (2,28 0	0 15,177) 0 39,837) 0 (107,62: 0 0 19,933) 30,176) 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) Cash flow from financing activities coan capital Increase (decrease) in short-term payables to banks Loans taken out Loans repaid Repayment of financial payables IFRS 16 Shareholders' equity Share capital increase against payment Sale (purchases) of own shares	0 2,326,680 0 437,840 0 0 (24,497,374) (3,001,278) 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	(145,17 (39,83 (102,567,297) (25,449,93) (2,280,17)	7) (14 0 7) (3 0 (107,621,868) 0 0 3) (25,44 5) (2,28 0 0 0	0 15,177) 0 39,837) 0 (107,62: 0 0 19,933) 30,176) 0 0 0 0 0 0 0 0 0 0 0 0 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from financing activities (B) C. Cash flow from financing activities Cash flow from financing activities C. Cash flow from financing	0 2,326,680 0 437,840 0 0 (24,497,374) (3,001,278) 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	(145,17 (39,83 (102,567,297) (25,449,93) (2,280,17)	7) (14 0 7) (3 0 (107,621,868) 0 0 0 3) (25,44 6) (2,28 0 0 0 0 0 0	0 15,177) 0 39,837) 0 (107,62: 0 0 0 0 19,933) 30,176) 0 0 0 0 0 0 0 0 0 0 0 0 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) C. Cash flow from financing activities Loan capital Increase (decrease) in short-term payables to banks Loans taken out Loans repaid Repayment of financial payables IFRS 16 Shareholders' equity Share capital increase against payment Sale (purchases) of own shares Dividends (and interim dividend payments) paid Cash flow from financing activities (C) Increase (decrease) in cash and cash equivalents (a ± b ± c) Cash and cash equivalents as at 1 January	0 2,326,680 0 437,840 0 0 (24,497,374) (3,001,278) 0 0 0 0 0 134,730,710	(145,17 (39,83 (102,567,297) (25,449,93 (2,280,17 (2,280,17) (2,280,17) (2,280,17) (2,280,17) (2,280,17) (27,498,652) (27,498,652)	7) (14 0 7) (3 0 (107,621,868) 0 0 0 3) (25,44 6) (2,28 0 0 0 0 0 0 (27,730,109) 3 (27,730,109)	0 15,177) 0 39,837) 0 (107,62: 0 0 0 0 0 0 0 0 0 0 0 0 0		
Current financial assets (Investments) Realisable value of divestments Cash flow from investment activities (B) C. Cash flow from financing activities Loan capital Increase (decrease) in short-term payables to banks Loans taken out Loans repaid Repayment of financial payables IFRS 16 Shareholders' equity Share capital increase against payment Sale (purchases) of own shares Dividends (and interim dividend payments) paid Cash flow from financing activities (C) Increase (decrease) in cash and cash equivalents (a ± b ± c)	0 2,326,680 0 437,840 0 0 (24,497,374) (3,001,278) 0 0 0 0 0	(145,17 (39,83 (102,567,297) (25,449,93 (2,280,17) (2,280,17) (27,498,652)	7) (14 0 7) (3 0 (107,621,868) 0 0 0 0 0 0 0 0 0 0 0 0 0	0 15,177) 0 39,837) 0 (107,62: 0 0 0 0 0 0 0 0 0 0 0 0 0		

92,356,375

(*) for the sake of simplicity, the change in payables for investments remained included in the change in trade payables the individual balances (investments, taking-over of debts, shareholders' equity increase, etc.) include the effect of the disposal/acquisition of business units (see the notes to the financial statements).

Changes in shareholders' equity

SHAREHOLDERS' EQUITY	Share capital	FTA reserve	Cash-flow hedge reserve	Other reserves	Net result	Total
Total shareholders' equity 31/12/2019	571,381,786	(989,327)	(764,022)	241,442,820	32,259,106	843,330,363
Effect of applying IAS 8	-	-		(31,064,734)	-	(31,064,734)
Profit (loss) for the year 31/12/2019 Restated (IAS 8)	-	-		-	(4,677,556)	(4,677,556)
Shareholders' equity as at 31/12/2019 Restated	571,381,786	(989,327)	(764,022)	210,378,086	27,581,550	807,588,073
Allocation of net profit or loss 31/12/2019 Restated	-	-	-	27,581,550	(27,581,550)	0
Fair value change deriving from cash flow hedge net of tax effect	-	-	605,594		-	605,594
Actuarial gains (losses) on employee benefits, net of the tax effect	-	-		31,313	-	31,313
Other changes *	-	-	-	36,199		36,199
Profit (loss) for the year 31/12/2019	-	-		-	18,568,952	18,568,952
Shareholders' equity 31/12/2020	571,381,786	(989,327)	(158,428)	238,027,148	18,568,952	826,830,132

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

1. General information

CAP Holding S.p.A. (hereinafter "CAP" or the "Company") is a company subject to Italian law, established and domiciled in Italy, with registered offices and administrative headquarters in Via del Mulino 2, Building U10, Assago (MI), enrolled in the Milan Companies' Register with tax code, VAT number and enrolment No. 13187590156 and under No. MI-1622889 of the Administrative and Economic Index.

The Company and its subsidiaries (jointly the "Group") operate in the water services sector and is one of the leading Italian operators (in terms of inhabitants served and cubic m raised) among the "mono-utility" operators (or rather operators that do not provide other significant industrial activities).

The company is entirely publicly owned: its shareholding structure as at 31 December 2020 is solely made up of local territorial bodies.

The management of the Integrated Water Service of the ATO of the Metropolitan City of Milan, in which it operates as the CAP Group, is regulated by the Agreement entered into on 20 December 2013 and adapted on 29 June 2016 to the provisions contained in the Resolution of the Italian Authority for Electricity, Gas and Water System No. 656/2015/R/IDR, between the company CAP Holding S.p.A. and the ATO Office of the Province of Milan, effective from 1 January 2014 until 31 December 2033.

These consolidated financial statements were approved by the Company's Board of Directors on 22 April 2021.

2. Summary of the Accounting Standards

2.1 Declaration of compliance with the international accounting standards and transition to the IAS/IFRS

European Regulation (EC) No. 1606/2002 dated 19 July 2002 introduced the obligation, as from 2005, to apply the IFRSs for drafting the financial statements of companies that have equities and/or debt securities listed with one of the regulated markets of the European Community. On 2 August 2017, CAP Holding S.p.A. issued a bond for a nominal amount of € 40 million subscribed by the institutional investors and took steps to list it with the Irish Stock Exchange. In accordance with the legislative provisions referred to above, CAP Holding S.p.A. is therefore obliged to draw up the consolidated and separate financial statements in accordance with the international accounting standards - International Financial Reporting Standards (hereinafter indicated as the IFRS or IAS) adopted by the European Union ("EU IFRS") starting from the financial year ended 31 December 2017, the date of transition to IFRS was therefore 1 January 2016 (the "Transition Date").

Therefore, these consolidated financial statements for CAP Holding S.p.A. were drawn up for the first time in accordance with the "EU IFRS".

The Consolidated financial statements include the consolidated statement of financial position as at 31 December 2020 and 31 December 2019, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in shareholders' equity for the year ended 31 December 2020 and the related explanatory notes.

The EU IFRS includes all the "International Financial Reporting Standards", all the "International Accounting Standards" (IAS), all the interpretations of the "International Reporting Interpretations Committee" (IFRIC), previously known as the "Standing Interpretations Committee" (SIC) which, at the end of the reporting period of the consolidated financial statements, were subject to approval by the European Union according to the procedure envisaged by Regulation (EU) No. 1606/2002 of the European Parliament and the European Council on 19 July 2002.

These consolidated financial statements were drawn up in Euro, which represents the currency of the prevailing economic area in which the Group operates. All the amounts included in this document are presented in Euro units, unless otherwise indicated, rounded to the next unit for cents equal to or greater than 50.

The financial statement schedules and the related recognition criteria adopted by the Group, as part of the options envisaged by IAS 1 - Presentation of the financial statements, are indicated below:

- the consolidated statement of financial position was drawn up by classifying the assets and the liabilities according to the "current/non-current" approach;
- the consolidated statement of comprehensive income whose presentation of the costs is carried out on the basis of their nature - includes both the result for the year and the other changes in the shareholders' equity items attributable to transactions not entered into with the Company's shareholders;
- the consolidated cash flow statement has been drawn up stating the cash flows deriving from the operating activities according to the "indirect method".

2.2 Scope of consolidation and consolidation criteria

These Consolidated financial statements include the statement of financial positions as at 31 December 2020 and 31 December 2019 and the income statement for the year ended 31 December 2020 of the Company and the subsidiaries, approved by the respective management bodies. The list of the companies consolidated lineby-line by the Group as at 31 December 2020 is presented below:

- AMIACQUE S.r.I. of Milan, total share capital of € 23,667,606.16, owned for € 23,667,606.16, equal to 100.00% as at 31 December 2020 (equal to that held as at 31 December 2019 and unchanged to date).

The subsidiary companies are consolidated as from the date control was effectively transferred to the Group and cease to be consolidated as from the date the control is transferred outside the Group.

According to the provisions of IFRS 10, control is obtained when the Group is exposed, or has the right to variable returns deriving from the relationship with the investee company and has the ability, via the exercise of the power over the investee, to influence the related returns. The power is defined as the actual ability to direct the significant activities of the investee company by virtue of essentially existent rights.

The existence of control does not exclusively depend on the possession of the majority of the voting rights, but on the essential rights of the investors over the investee company. Consequently, the opinion of management is required to assess specific situations that lead to essential rights that assign the Group the power to manage the significant activities of the investee company so as to influence the related returns.

For the purposes of the assessment on the requirements of control, management analyses all the events and circumstances, including the agreements with the other investors, the rights deriving from other contractual agreements and from the potential voting rights.

These other events and circumstances may turn out to be particularly significant as part of this assessment especially in the cases where the Group holds less than the majority of the voting rights, or similar rights, of the investee company.

The Group reviews the existence of the conditions of control over an investee company when the events and circumstances indicate that there has been a change in one or more elements considered for checking its existence.

It is hereby noted that with regard to the subsidiary Rocca Brivio Sforza S.r.l. in liquidation, with registered offices in Via Vivaio 6, 20122 Milan (MI), Italy, total share capital of \in 53,100 held as at 31 December 2020 for \in 27,100, equal to 51.04% of the holdings, it has not been consolidated in that pursuant to IFRS 10 it is not believed that Cap Holding S.p.A. has effective control due to the lack of essential rights that assign the power to manage the significant activities of the investee company so as to influence its returns. With regard to the presentation of the Statement of financial position and Income Statement figures of the subsidiary company as at 31 December 2019, please see explanatory note 7.6 included in these financial statements.

The subsidiary companies are consolidated on a line-by-line basis in the theory of the entity as from the date when control was effectively acquired and cease to be consolidated as of the date the control is transferred to third parties. The end of the reporting period of the financial statements of all the subsidiary companies coincide with that of the parent company. The standards adopted for full consolidation are the following:

- the assets, liabilities, expenses and income of the subsidiaries are consolidated line-by-line, assigning the minority shareholders, if applicable, the portion of shareholders' equity and the net result for the period due to them; these portions are indicated separately as part of the shareholders' equity and the income statement;
- the business combination transactions by virtue of which control is acquired over an entity are recognised, in accordance with the provisions contained in IFRS 3 Business combinations, according to the acquisition method. The acquisition cost is represented by the fair value on the date of acquisition of the assets disposed of, the liabilities undertaken and the equities issued. The identifiable assets acquired, the liabilities and the potential liabilities undertaken are recognised at the related current value on the date of acquisition, with the exception of the deferred tax assets and liabilities, the assets and liabilities for employee benefits and the assets held for sale that are recognised on the basis of the related reference accounting standards. The difference between the acquisition cost and the fair value of the assets and liabilities acquired, if positive, is recognised under the intangible assets as goodwill, or, if negative, after having rechecked the correct measurement of the fair values of the assets and liabilities acquired and the acquisition cost is recognised directly in the income statement, as income. The charges accessory to the transaction are booked to the income statement at the time they are incurred;
- the acquisition cost also includes the potential consideration, recognised at fair value on the date control is acquired. Subsequent fair value changes are recognised in the income statement or statement of comprehensive income if the potential consideration is a financial asset or liability. Potential considerations classified as shareholders' equity are not recalculated and the subsequent discharge is recognised directly under shareholders' equity;
- the portions of shareholders' equity and profit pertaining to the minority shareholders are recognised in specific financial statement items; they can be measured at fair value or in proportion to the minority holding in the identifiable assets of the entity acquired. The choice of the measurement method is carried out transaction by transaction. If the combination transactions via which control is acquired take place in several stages, the Group recalculates the interest holding that it previously held in the entity acquired at the respective fair value on the acquisition date and recognises an emerging gain or loss in the income statement;
- the changes in the interest holding of a subsidiary that do not represent an acquisition or a loss of control are treated as "equity transactions"; therefore, for subsequent acquisitions following the acquisition of control and for the partial disposals of subsidiaries without loss of control, any positive or negative difference between the acquisition cost/disposal price and the corresponding portion of shareholders' equity recorded in the accounts is recorded directly under the Group's shareholders' equity;
- in the event that the partial disposals of subsidiaries lead to the loss of control, the equity investment maintained is adjusted to the related fair value and the revaluation contributes to the formulation of the capital gain (loss) deriving from the transaction;
- the significant gains and losses, including the related tax effects, deriving from transactions carried out between companies consolidated line-by-line and not yet realised vis-à-vis third parties, are eliminated. The credit and debt transactions, the costs and the revenues, as well as the financial income and expense are also eliminated, if significant.

2.3 Measurement Criteria

The Consolidated financial statements have been drawn up with a view to the business as a going concern since there is the reasonable expectation that the Company will continue its operating activities in the foreseeable future, and in any event over a period longer than twelve months.

With reference to the crisis situation caused by the Covid-19 pandemic, reference should be made to the management report for a more detailed analysis of the health emergency caused by the pandemic, with reference to the plans implemented by the CAP Group in general to deal with it and the analysis of the effects that it could have. From an accounting point of view, the current and expected impacts for the CAP Group are however, on the basis of the current situation and information available to date, considered marginal and,

consequently, the estimates of the financial statement values have not been revised as a result of the emergency itself. In this sense, the intangible and tangible assets of the CAP Group are not expected to be impacted by the deterioration of the economic outlook, nor is a significant worsening of the liquidity risk and/or expected losses on receivables of the CAP Group due to the pandemic expected.

The general principal adopted in the preparation of these financial statements is that of cost, with the exception of the financial assets and liabilities (including the derivative instruments) measured at fair value.

The most significant accounting standards and measurement criteria used for the preparation of these consolidated financial statements are briefly described below.

Here we anticipate that the 2020 financial statements are characterised by the voluntary change of accounting policy related to FoNi, to which a specific paragraph is dedicated, as well as by the presence of a non-recurring transaction, to which a specific item in the income statement is entitled (8.11) and an explanatory paragraph is included below.

Properties, plant and machinery

The tangible assets are recognised according to the cost approach and recorded at purchase cost or production cost inclusive of the directly attributable accessory costs necessary for making these assets ready to use. The cost also includes any estimated dismantling and removal charges that will be incurred consequent to contractual obligations that require returning the assets to the original conditions.

The charges incurred for maintenance and repairs of an ordinary and/or cyclical nature are directly booked to the income statement in the year they are incurred. The capitalisation of the costs inherent to the expansion, modernisation or improvement of the structural elements owned or used by third parties, is carried out exclusively within the limits in which the same comply with the requirements for being separately classified as assets or part of an asset applying the component approach.

The tangible fixed assets are depreciated systematically each year on a straight-line basis with reference to the economic-technical rates determined in relation to the estimated residual useful life of the assets. The depreciation rates for the various categories of properties, plant and machinery are listed as follows:

Depreciation rates of tangible fixed assets

Depreciation rates of tangible fixed assets	
Sundry small equipment	10%
Generic equipment and plants	8%
Sundry equipment	25%
Specific equipment	19%
Motor vehicles	20%
Cars	25%
Furniture and fittings	12%
Electronic office machines - telephony systems	20%
Mobile phones	20%
Equipment with unit value below € 516	100%

The depreciation starts when the asset is available for use taking into account the actual time when this condition occurs.

Intangible assets

Intangible assets are made up of non-monetary elements, identifiable and lacking physical consistency, controllable and capable of generating future economic benefits. These elements are initially recognised at purchase and/or production cost, inclusive of the directly attributable expenses for preparing the asset for use. Any interest expense accrued during or for the development of the intangible assets are considered to be part of the purchase cost. In detail, as part of the Group the following main intangible assets are identifiable.

(a) Rights on assets under concession (IFRIC 12)

The "Rights on assets under concession" represent the right of the Company to use the assets under concession of the Integrated Water Service (known as method of the intangible asset) in consideration of the costs incurred for the design and construction of the asset with the obligations to return it at the end of the concession.

The value corresponds to the fair value of the design and construction activities increased by the capitalised financial expense, in observance of the requirements envisaged by IAS 23, during the construction phase. The fair value of the construction services of the Integrated Water Service is determined on the basis of the costs effectively incurred. The logic for determining the fair value stems from the fact that the concession holder must apply the matters envisaged by IFRS 15 and therefore if the fair value of the service received (in the specific case the right to exploit the assets) cannot be determined reliably, the revenue is calculated on the basis of the fair value of the fair value of the construction services carried out.

The assets for construction services underway as of the period end date of the financial statements are measured on the basis of the work stage of completion and this measurement is recognised in the income statement item "Revenues for work on assets under concession". The assets under concession are amortised over the duration of the concession on the basis of the methods by means of which the company will obtain the future economic benefits deriving from the use of the asset itself.

The value to be amortised is represented by the difference between the acquisition value of the assets under concession and their residual value which one presumes to realise at the end of the useful life, according to the regulatory provisions currently in force (in particular this value is determined according to the rules defined by the Authority for the regulation of energy, networks and environment and is based on factors and estimates that may vary over time, and which may involve a change to this amount). If events take place which lead to the presumption of a reduction in the value of these intangible assets (impairment), the difference between the book value and the recovery value is booked to the income statement.

(b) Other intangible assets

The other intangible assets are recognised at cost, as previously described net of the accumulated amortisation and any impairment losses. The amortisation starts at the time the asset is available for use and is systematically allocated in relation to its residual possible useful life and in other words on the basis of the estimated useful life.

Reduction in value of the Tangible and Intangible Assets (impairment test)

At the end of each reporting period a check is carried out aimed at ascertaining whether there are indicators that the tangible and intangible assets may have suffered an impairment. For such purpose, both internal and external sources of information are considered.

With regard to the former (internal sources) the following is considered: the obsolescence or the physical deterioration of the assets, any significant changes in the use of the assets and the economic performance of the assets with respect to that envisaged. With regard to the external sources, the following is considered: the trend of market prices for the assets, any technological, market or legislative discontinuity, the trend of market interest rates or the cost of the capital used to assess the investments.

In the event that the presence of these indicators is identified, steps are taken to estimate the recoverable value of said assets, ascribing any write-down with respect to the related book value to the income statement.

The recoverable value of an asset is represented by the fair value, net of the accessory sales costs, or the related value in use, whichever is the higher, the latter being the current value of the future cash flows estimated for these assets. When determining the value in use, the expected cash flows are discounted back using a discount rate gross of the taxes that reflects the current market valuations of the cost of money, placed in relation to the period of the investment and the specific risks of the assets. With regard to an asset that does not generate abundantly independent cash flows, the recoverable amount is determined in relation to the cash generating unit to which this asset belongs.

A loss in value is recognised if the book value of the assets, or of the related CGU to which the same is assigned, is higher than its recoverable amount. The CGU value reductions are booked first of all to decrease

the book value of any goodwill assigned to it and, then, to decrease the other assets, in proportion to their book value and within the limits of the related recoverable value. If the reasons for a write-down previously made cease to apply, the book value of the assets is reinstated with booking to the income statement, within the limits of the net book value that the asset in question would have had if the write-down had not been made and the related amortisation had been applied.

Right of use

These are assets recognised in relation to leases falling within the scope of IFRS 16. The *right of use of the leased asset and the commitment undertaken are shown in the financial figures of the financial statements (IFRS 16 applies to all transactions that provide for a right of use, regardless of the contractual form, i.e. lease, rent or hire).*

Trade Receivables and other Current and non-Current receivables

The assets deriving from the contract are recognized, in accordance with IFRS 15, para.31, in correspondence with the revenues from which they originate, gradually that the Group fulfils the obligation to do, transferring control over the asset or service to the customer performed. Where the service has not been definitively completed or formally accepted definitively by the customer, it nonetheless gives rise to the registration of the activity as a result of a reasonable evaluation of the progress made towards the complete fulfilment of the obligation to do, on the basis of reliable information and in light of the contractual conditions

If the customer has paid the fee or if the company is entitled to an unconditional amount (i.e. a credit), before transferring the good or service to the customer, in accordance with para.106 of IFRS 15, presents the contract as a liability arising from the contract at the time the payment is made or (if earlier) at the time the payment is due.

In the statement of financial position, the assets deriving from the contract are presented, together with any credits for unconditional rights, under the item "trade receivables". These trade receivables also include the invoices to be issued for regulatory adjustments of a regulatory nature (which will be applied to future water consumption).

Trade receivables and other financial assets are initially recognised at fair value and subsequently measured at amortised cost based on the effective interest rate method. Trade receivables and other financial assets are included in current assets, with the exception of those with a contractual maturity of more than twelve months compared to the end of the reporting period, which are classified as non-current assets.

Impairment losses on receivables are accounted for in the financial statements when there is objective evidence that the Group will not be able to recover the credit due from the counterparty based on the contractual terms.

The amount of the write-down is measured as the difference between the book value of the asset and the present value of the estimated future cash flows and is recognised in the income statement. If the reasons for the previous write-downs cease to exist in subsequent periods, the value of the assets is reinstated up to the value that would have derived from the application of the amortised cost.

The estimate of bad debt provision is based on expected losses (IFRS 9), measured using available information without unreasonable charges or efforts, which include historical, current and prospective data relating to the economic conditions of the reference debtors.

Financial assets relating to non-derivative financial instruments with fixed or determinable payments and fixed maturity that the Group intends and is able to hold until maturity are classified as "financial assets held to maturity". These assets are valued according to the amortised cost method, using the effective interest rate criterion, adjusted in the event of impairment. In the case of impairment losses, the same principles are applied as described above in relation to loans and receivables.

Equity investments

Equity investments in subsidiaries, jointly controlled companies, associates and other companies, not classified as held for sale, are measured at purchase cost, possibly reduced in the presence of impairment losses, converted into euro at historical exchange rates if referring to equity investments in foreign companies whose financial statements are prepared in currencies other than the euro.

The cost is reinstated in subsequent years if the reasons that gave rise to the write-downs no longer exist. Write-downs and write-backs are recognised in the income statement.

The other assets available for sale, including equity investments in other companies that make up financial assets available for sale, are measured at fair value, if determinable, and the profits and losses deriving from the changes in the fair value are charged directly to the other components of the overall profit (loss) as long as they are sold or have suffered a loss in value; at that time, the other components of the overall profit (loss) previously recognised in equity are recognised in the income statement for the period. Other unlisted equity investments classified as "available-for-sale financial assets" for which the fair value cannot be reliably determined are measured at cost adjusted for write-downs to be recorded in the consolidated income statement, in accordance with IFRS 9.

Inventories

Inventories are stated at purchase cost, determined using the weighted average cost method, or the realisable value determined on the basis of the market trend, whichever is the lower.

Obsolete and slow-moving inventories are valued in relation to their possibility of use or realisation by means of the establishment of a specific provision, recorded to directly decrease the corresponding asset item.

Contract work in progress

Contract work in progress is recognised using the work stage of completion method in relation to the job costs incurred at the end of the reporting period.

Cash and cash equivalents

The liquid funds include the petty cash, also under the form of cheques and revenue stamps, bank current accounts, demand deposits and other short-term and high liquidity financial investments, which are promptly convertible into cash and are subject to an insignificant risk of change in value.

Financial liabilities, Trade and Other payables

The financial liabilities (with the exclusion of the derivative financial instruments), the trade payables and the other payables are initially recognised at fair value, net of the directly attributable accessory costs, and are subsequently measured at amortised cost, applying the effective interest rate approach. If there is an estimable change in the expected cash flows, the value of the liabilities is recalculated to reflect this change on the basis of the current value of the new expected cash flows and the internal rate of return initially determined. Financial liabilities are classified under current liabilities, unless the Group has an unconditional right to defer their payment for at least 12 months after the reference date.

Financial liabilities are derecognised at the time of their discharge and when the Group has transferred all the risks and the charges relating to said instrument.

Derivative financial instruments

The financial derivatives are assets and liabilities recognised at fair value. The Group uses certain derivative financial instruments to hedge the interest rate risk. The Group also has a number of other derivative instruments that belong to the category of duration swaps, lacking speculative intent, taken out in 2006-2008 with the purpose of transforming the debt repayment profile standardising, in terms of Current Value, the repayment of said debt.

Derivative financial instruments can be recognised according to the methods established for hedge accounting only when:

- the hedging relationship consists only of eligible hedging instruments and eligible hedging items;
- the hedge must be designated as such at the beginning and there must be a formal documentation (hedging instrument, hedged element, nature of the risk hedged, methods of assessing the effectiveness);
- the hedging relationship meets the hedge effectiveness requirements, i.e.: there is an economic relationship between the hedged item and the hedging instrument, verifiable both in qualitative and quantitative terms;
- the effect of credit risk does not prevail over changes in the value of the economic relationship;
- the coverage ratio is determined

When derivative instruments have the characteristics to be recognised in *hedge accounting*, the following accounting treatments are applied:

- if the derivatives cover the risk of changes in the fair value of the hedged assets or liabilities (fair value hedge; e.g. hedging of the variability of the fair value of fixed rate assets/liabilities), the derivatives are recognised at fair value with the allocation of effects on the income statement; consistently, the hedged assets or liabilities are adjusted to reflect the changes in fair value associated with the hedged risk;
- the derivatives cover the risk of changes in the cash flows of the hedged assets or liabilities (cash flow hedge; e.g. hedging of the variability of the cash flows of assets/liabilities due to fluctuations in interest rates), changes in fair value of derivatives are initially recognised in equity and subsequently recognised in the income statement consistently with the economic effects produced by the hedged transaction.

If hedge accounting cannot be applied, the gains or losses deriving from the fair value measurement of the derivative instrument are immediately recognised in the income statement.

Conversion of transactions Denominated in Currency other than the Reporting Currency

The transactions in currency other than the reporting currency of the entity that established the transaction are converted using the exchange rate in force on the transaction date. The exchange gains and losses generated by the closure of the transaction or by the conversion carried out at year end of the assets and liabilities in currency other than Euro are recognised in the income statement.

Own shares

The purchase cost of own shares is recognised as a reduction of shareholders' equity. The effects of any subsequent transactions on these shares are also directly recognised under shareholders' equity.

Employee Benefits

Short-term benefits are represented by wages, salaries, related social security charges, indemnities replacing holiday entitlement and incentives paid under the form of bonuses payable in the twelve months as from the end of the reporting period. These benefits are recognised as components of the personnel costs in the period in which the working activities were provided.

The benefits subsequent to the termination of the employment relationship are divided into two types: plans with defined contribution and plans with defined benefits.

- In the defined contribution plans, the contribution charges are booked to the income statement when they are incurred, on the basis of the related nominal value.
- In the defined benefit plans, which also include the employee severance indemnity in accordance with Article 2120 of the Italian Civil Code ("TFR"), the amount of the benefit to be disbursed to the employee is quantifiable only after the termination of the employment relationship, and is linked to one or more factors such as age, length of service and remuneration; therefore, the related liability is booked to the pertinent statement of comprehensive income on the basis of an actuarial calculation.

The liability recognised in the financial statements for the defined benefit plans corresponds to the current value of the obligation at the end of the reporting period. The obligations for the defined benefit plans are determined annually by an independent actuary using the projected unit credit method. The current value of the defined benefits plan is determined by discounting the future cash flows back to an interest rate equal to that of the bonds (high-quality corporate) issued in Euro and which takes into account the duration of the related pension plan.

As from 1 January 2007, the 2007 finance act and the related implementing decrees introduced significant changes to the discipline of the TFR, including the choice of the workers with regard to assignment of their accrued TFR. In detail, the new TFR flows can be assigned by the worker to pension schemes chosen beforehand or maintained in-house. In the event of assignment to external pension schemes, the company is

required only to pay over a defined contribution to the chosen fund, and as from that date the newly accrued portions are defined contribution plans in nature not subject to actuarial valuation.

Further to the adoption, as from 1 January 2013, of the revised version of IAS 19 (Employee benefits), the recognition of the changes in the actuarial gains/losses is recorded among the other components of the consolidated statement of comprehensive income.

Provisions for risks and charges

Provisions for risks and charges are provided to cover known or likely losses or liabilities, the timing and extent of which however could not be determined at the end of the reporting period. Recognition takes place only when a current obligation exists (legal or implicit) for a future outgoing of economic resources as the result of past events and it is probable that said outgoing is required to fulfil an obligation. This amount represents the best discounted estimate of the expense required to discharge the obligation. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provisions are measured at the current value of the outlay envisaged using a rate that reflects the market conditions, the change in the cost of money over time and the specific risk linked to the obligation. The increase in the value of the provisions, determined by changes in the cost of money over time, is recorded as interest expense.

Contributions

The grants and contributions obtained for investments in plant, both from public bodies and private third parties, are recognised at fair value when there is the reasonable certainty that they will be received and the envisaged conditions will be observed.

The water connection contributions are recognised under other non-current liabilities and released to the income statement over the duration of the investments to which they refer, if linked to an investment, and recognised in full as income if linked to pertinent costs.

Operating grants (granted for the purpose of providing immediate financial aid to the company or as compensation for the costs and the losses incurred in a previous accounting period) are recognised in full in the income statement at the time the recognition conditions are satisfied.

FoNi tariff component, voluntary change of accounting standard.

The FoNi is a component of the annual water service tariff (known as VRG, Commitment to the Revenues of the Operator), in turn composed of several sub-components, which must be allocated to investments. Since there is no specific accounting standard, either international or national, for this item, Italian utilities have, among others, adopted two prevailing accounting treatments:

- 3. allocation to the Income Statement (under Revenues) and consistent allocation (when deciding on the result for the year) to an equity reserve;
- 4. allocation related to realised assets (either on the liabilities side of the Balance Sheet, under Deferred Income or as a direct reduction of the value of fixed assets on the assets side of the Balance Sheet) and direct (or indirect) allocation to the Income Statement of the financial years in which the depreciation of the investments to be financed by the FoNI will take place.

Both of these criteria give a true and fair view of the financial position, the results of the operations and of the cash flows. The CAP Group adopted the first solution until the 2019 financial year.

As from 1 January 2020, in order to:

- facilitate the annual comparison between the net book value of assets and the residual value of the operator, also in function of the expected future recurrence, in the planning of the area, until the end of the concession, of further significant FoNi components;
- facilitate an easier comparison of the net book value of each individual asset with the "regulatory" indications of the EGA of the Metropolitan City of Milan¹⁵;

¹⁵ For the purposes of paragraphs 15 and 35 of Annexe A) of Resolution no. 580/2019/R/idr of 27 December 2019 (WATER TARIFF METHOD 2020-2023 MTI - 3), the governing body of the area requested the operator Cap Holding S.p.A. to allocate the entire FoNI pertaining to year (a), including the *AMMFoNI* component, proportionally on all individual assets, included in all categories of technical fixed assets, which entered into operation in year (a).

- provide greater comparability of CAP's financial statements with those of other utilities already using the passive deferral technique for FoNI.
- homogenise the accounting treatment of FoNI with that followed for public operating grants for the plant, since it is treated in the same way as such grants as part of tariff regulations.

The CAP Group decided to change the method of accounting for FoNI in the financial statements by adopting the second method (i.e. FoNI is deducted from the cost of individual assets entering service from year to year, in the same way as public grants for plant and machinery), believing, for the reasons explained above, that in this way it can offer reliable and more relevant information on the effects of the business operations.

IAS no. 8 requires that when there is a voluntary change in an accounting policy, the change must be applied retrospectively. Therefore, the effects have been adjusted against shareholders' equity as at 1 January 2020. The FoNi tariff components subject to retroactive adjustment include those from the year 2012 to the year 2019.

For comparative purposes, the income statement, balance sheet, statement of changes in equity and cash flow statement also show the figures for the year ended 31 December 2019 restated in application of the change in accounting policy in question, as if the application of this new accounting policy had already been made in the past.

The financial statement items affected by the adjustment, as can be seen directly from the aforementioned statements by comparing the data as at 31 December 2019, revised, with those at the same date, not revised, are:

- on the assets side of the balance sheet: "non-current assets" ("Rights on assets under concession";
 "other intangible assets"; "tangible fixed assets"; "deferred tax assets"); overall, "non-current assets" decreased by € 35,742,290.
- on the liabilities side of the balance sheet: "shareholders' equity" ("other reserves", "result for the year"); overall, "shareholders' equity" decreased by € 35,742,290.
- in the income statement; "revenues"; "amortisation, depreciation, provisions and write-downs"; "taxes" and consequently the items, including "net result for the year", which algebraically aggregate the previous ones. In particular, "the net result for the year" decreased by € 4,677,556.

To summarise: as a result of the new accounting standard adopted, the Company's shareholders' equity as at 31 December 2019 was lower by approximately \notin 36 million, against approximately \notin 50 million of total deferred income deducted from fixed technical assets for FoNI contributions, before the related tax effects (deferred tax assets) of approximately \notin 14 million.

It should be noted that the share paid to CAP Holding S.p.A. for the area of the Metropolitan City of Milan alone by way of FoNi amounts to \notin 18,115,261 for 2020, in addition to the FoNI component of the wholesale purification tariff arrangement for the area of Monza and Brianza amounting to \notin 1,171,364. **Discontinued operations**

Discontinued operations classified as held for sale, if any, have been measured in observance of the following two phases:

- Redetermination of the assets and liabilities of the Group subject to disposal as held for sale;
- Measurement of the assets of the Group subject to disposal at the book value of the assets or their fair value (net of the selling costs), whichever is the lower

Revenue recognition

The revenues are initially recognised at the fair value of the amount received net of any decreases and discounts. The revenues relating to the sale of goods are recognised when the company has transferred the significant risks and the benefits associated with ownership of the goods to the purchaser. Revenues from the provision of services are recognised with reference to the value of the service provided at the end of the

reporting period. Reference should also be made to the previous paragraph "Trade receivables and other current and non-current receivables".

In accordance with the matters envisaged by the IFRS, the payments collected on behalf of third parties, as in the agency dealings that do not lead to an increase in the shareholders' equity of the company, are excluded from the revenues that are by contrast exclusively represented by the premium accrued on the transaction, if envisaged.

Costs for the purchase of goods and provision of services

The costs for the purchase of goods and provision of services are recognised in the income statement according to the accruals principle.

<u>Taxes</u>

Current taxes are calculated on the basis of the taxable income for the period, applying the tax rates in force at the end of the reporting period.

Deferred tax assets and liabilities are calculated for all the differences that emerge between the tax-related value of an asset or liability and the related book value. Deferred tax assets, with regard to the portion not offset by the deferred tax liabilities, are recognised to the extent that it will be probable that future taxable income is available against which they can be recovered. Deferred tax assets and liabilities are determined using the tax rates that are expected to be applicable in the period in which the differences will be realised or discharged, on the basis of the tax rates in force or essentially in force at the end of the reporting period.

Current taxes, deferred tax assets and liabilities are recognised in the income statement, with the exception of those relating to items directly charged against or credited to shareholders' equity in which case the related tax effect is recognised directly under shareholders' equity. The taxes are offset when they are applied by the same tax authorities and there is a legal right to offset

2.4 Recently issued accounting standards

On 15 December 2020, the EU approved the following document:

• Extension of temporary exemption from applying IFRS 9 - Amendments to IFRS 4 Insurance Contracts

On 13 January 2021, the EU approved the following document:

• Interest rate benchmark reform - phase 2 - Amendments to IFSR 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The two documents must be adopted obligatorily as from the financial statements for the financial years starting on 1 January 2021. With regard to the document Interest rate benchmark reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, early application is permitted.

The accounting standards and amendments issued by the IASB are shown in the following tables:

New documents issued by IASB and approved by the EU to be adopted mandatorily starting from the financial statements of the financial years as from 1 January 2020.

Document title	Issue Date	Effective date	Date of approval	EU Regulations and publication date
Amendments to references to the Conceptual framework in IFRSs	March 2018	1 January 2020	29 November 2019	(EU) 2019/2075 6 December 2019
Definition of material – Amendments to IAS 1 and IAS 8)	S October 2018	1 January 2020	29 November 2019	(EU) 2019/2104 10 December 2019
Interest rate benchmark reform (Amendments to IFS) 9, IAS 39 and IFRS 7)	R September 2019	1 January 2020	15 January 2020	(EU) 2020/34 16 January 2020

Definition of a business (Amendments to IFRS 3)	October 2018	1 January 2020	21 April 2020	(EU) 2020/551 22 April 2020
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IAS/IFRS and related IFRIC interpretations applicable to the financial statements of the financial years as from 1 January 2021

Documents approved by the EU as at 13 January 2021

Document title	Issue Date	Effective date	Date of approval	EU Regulations and publication date	Notes and references to this list of control
Concessions on Covid-19 Related Rents (Amendment to IFRS 16)	May 2020	1 June 2020	9 October 2020	(EU) 2020/1434 12 October 2020	Early application is permitted
Extension of temporary exemption from applying IFRS 9 - Amendments to IFRS 4 Insurance Contracts	June 2020	1 January 2021	15 December 2020	(EU) 2020/2097 16 December 2020	Early application is not envisaged
Interest rate benchmark reform - phase 2 - Amendments to IFSR 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	August 2020	1 January 2021	13 January 2021	(EU) 2021/25 14 January 2021	Early application is permitted See applications from 511 to 513

Documents STILL to be approved by the EU as at 13 January 2021

It should be noted that these documents will be applicable only after the approval by the EU.

Document title	Issue Date by IASB	Effective date of the IASB document	Date of expected approval by the EU	
Standards				
IFRS 17 Insurance Contracts, including subsequent amendment issued in June 2020	May 2017 June 2020	1 January 2023	TBD	
Amendments				
Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	TBD	
Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)	May 2020	1 January 2022	TBD	
Onerous contracts—Cost of fulfilling a contract (Amendments to IAS 37)	May 2020	1 January 2022	TBD	
Annual improvements to IFRS Standards (Cycle 2018–2020)	May 2020 1 January 2022		TBD	
Classification of Liabilities as Current or Non-current (Amendment to IAS 1), including subsequent amendment issued in July 2020	January 2020 July 2020	1 January 2023	TDB	

3. Financial risk management

As part of the carrying-out of its activities, the Group is exposed to certain financial risks such as the interest rate risk, the liquidity risk and the credit/counterparty risk.

The financial risks to which the Group is exposed and the formalities by means of which they are managed are listed in greater details below.

(a) Interest Rate Risk

The portion of financial indebtedness that has a floating rate is however somewhat contained. As at 31 December 2020, it totalled \in 7,736,720, equal to around 5% of the total indebtedness outstanding as at 31 December 2020.

On the same date, part of this indebtedness, € 2,538,462 at a floating rate, was accompanied by non-speculative purely hedging interest rate swap agreements.

The objective of the Group is to limit its exposure to the increases in the interest rates keeping the loan costs acceptable. The risks related to the increase in the interest rates are monitored as non-speculative.

There is no guarantee that the hedging policy adopted by the Group, intended to reduce to a minimum the losses associated with fluctuations in the interest rates in the event of floating rate indebtedness transforming them into fixed rate borrowing, will have the effect of reducing any of these losses. If the above does not take place on an absolutely remote basis, negative effects could come about on the activities of the Group, on the financial situation and on the results of the operations.

(b) Liquidity risk

The liquidity risk represents the risk that, due to the inability to procure new funds or liquidate assets on the market, the Group is unable to meet its payment commitments, causing an impact on the economic result in the event that it is forced to incur additional costs to meet its commitments or a situation of insolvency.

The objective of the Group is the maintenance over time of a balanced management of its financial exposure, aimed at ensuring a liability structure balanced with the composition of the financial statement assets and capable of ensuring the necessary operating flexibility by means of the use of the liquidity generated by the current operating activities and the recourse to bank loans.

As at 31 December 2020, deposits with banks satisfy the liquidity requirements.

The ability to generate liquidity from the core operations, together with the borrowing capacity, permits the Group to adequately meet its operating requirements, those for financing the working capital and investment needs, as well as the observance of its financial obligations.

The company policy with regard to the financial risk is aimed at guaranteeing a balance between average maturity of the loans, flexibility and diversification of the sources.

With regard to the diversification of the sources, the Group chose in 2017 to resort to the issue of a Bond so as to increase the transparency on the credit worthiness of the Group, enter a market in which international investors usually operate, also admitting the Bond to listing with the Irish Stock Exchange, which represents the reference point for the European bond market.

These measures might not be sufficient for completely eliminating the financial risk: the ability of the Group to obtain new sources of funding may be influenced by contractual clauses of existing loans (for example: negative pledge clauses aimed at limiting the guarantees in favour of other lenders).

In accordance with IFRS 7 and with reference to the liquidity risk, the maturity analysis of the financial liabilities is presented below. The following table contains indication of the exposure of the Group to the liquidity risk and an analysis of the maturities based on the contractual repayment obligations not discounted back. The flows are included in the first timing range in which they might occur.

Loans	Amount disbursed	Repayable within 12 months	Repayable between 12 months and 5 years	Repayable beyond 5 years	Total repayable beyond 12 months	Total residual principal as at 31/12/2020
Payables to Banks and Bonds	224,495,762	23,659,415	60,694,528	44,473,126	105,167,655	128,827,070

The Group takes steps to hedge the liquidity risk also by means of taking out a number of short-term credit facilities care of other banks.

The facilities for liquidity amount as at 31 December 2020 to € 32,550,000 million and none have yet been used.

For further considerations, please refer to the section "Significant events after the reporting period".

(c) Credit risk

The credit risk represents the Group's exposure to potential losses that may arise if a commercial or financial counterparty does not meet their obligations.

The main credit risks for the Group derive from the trade receivables from the supply of the integrated water service, collected by the Group or by other companies (Operators of other ATOs, where the Group is the "wholesale operator").

The Group tries to deal with this risk adopting policies and procedures that regulate the monitoring of the expected funding flows, the granting of extended credit terms and if necessary the implementation of suitable recovery measures, both with regard to the users directly managed and with regard to the operators for which it is the Wholesaler.

Notwithstanding the foregoing, a general increase in default rates could have a substantial negative effect on the Group's business, financial situation and results of operations as well as on the Group's ability to fulfil its payment obligations.

Trade receivables are recognised in the financial statements net of the write-down calculated on the basis of the counterparty default risk, determined by considering the information available on the customer's solvency and considering historical data. The positions, if individually significant, for which there is an objective condition of partial or total recoverability are subject to individual write-down.

For further considerations, please refer to the section "Significant events after the reporting period".

(d) Price risk

The Group mainly operates in a regulated market (integrated water service). The trend of the prices for the services provided (tariff) is therefore linked to the tariff regulation (by the EGA and by the national sector Authority ARERA). In this sense, the risk of change in the prices of the services provided by the Group is mitigated by the tariff regulation that leads to a correlation, even if indirect and partial, between its purchase prices and its sales prices.

Despite the above, a general increase in the prices of the production factors used by the Group could have a negative economic effect on the results of the Group's operations.

Accordingly, the Group constantly monitors the main markets on which it carries out its procurement for its production input, also resorting to competitive comparison procedures for the related procurements, what is more in accordance with Italian Legislative Decree No. 50/2016.

4. Going concern

The financial statements of the Cap Group as at 31 December 2020 have been prepared under the assumption that the business is a going concern. Reference should be made to paragraph 2.3 above, noting that the Group is deemed to continue to have the capacity to constitute a functioning economic complex for the production of income.

5. Estimates and assumptions

The drawing up of these consolidated financial statements requires the directors to apply the accounting standards and methods that, under certain circumstances, lie on difficult and subjective valuations and estimates based on past experience and assumptions that are from time to time considered reasonable and realistic in relation to the related circumstances. The application of these estimates and assumptions influences the amounts indicated in the financial statement formats as well as the disclosure provided. The final results of the financial statement items for which the afore-mentioned estimates and assumptions have been used could differ from those indicated in the financial statements that reveal the effects of the occurrence of the

event subject to estimation, due to the uncertainty which characterises the assumptions and the conditions on which the estimates are based.

The areas that require more than others a greater subjectivity by the directors when drawing up the estimates and for which a change in the conditions underlying the assumptions used could have a significant impact on the financial data, are briefly described below.

(a) Amortisation and depreciation of intangible and tangible assets

The cost of the tangible and intangible assets is depreciated/amortised on a straight-line basis over the estimated useful life of each asset. The economic useful life of the tangible and intangible assets is determined at the time when they are acquired and is based on past experience for similar assets, market conditions and advances with regard to future events that could have an impact, including changes in technology. Therefore, the effective economic life may differ from the estimated useful life. The Group annually assesses the technological and sector changes, any changes in the contractual conditions and current legislation linked to the use of the tangible and intangible assets and the recoverable value so as to update the residual useful life. The result of this analysis may change the amortisation/depreciation period and therefore also the amortisation/depreciation charge for the year and future ones.

(b) Residual value at the end of the Concession

The Group will receive an indemnity at the end of the Concession for an amount parameterised to the residual regulatory value of the work and the assets realised during the concession period. This value, determined according to the rules defined by ARERA (Italian Regulatory Authority for Energy, Networks and Environment, formerly AEEGSI), is based on factors and estimates that may vary over time, and that may involve a change to this amount.

(c) Write-down/Write-back of fixed assets

Non-current assets are subject to monitoring for the purpose of ascertaining an impairment that, in the presence of indicators that foresee difficulties in terms of recovery, is recognised via a write-down of the related net book value. Verification of the existence of the above-mentioned indicators requires subjective assessments based on the information available within the Group and on the market, as well as past experience. Furthermore, when it is deemed that a potential impairment has been generated, steps are taken to determine it using suitable assessment techniques. The correct identification of the elements indicating the existence of potential impairment, as well as the estimates for its determination depend on factors that may vary over time, reflecting in the assessments and estimates made. Similar considerations in terms of existence of indicators and use of the estimates in the application of the assessment techniques can be found in the assessments to be made with reference to any reinstatement of the write-downs made in previous periods.

(d) Deferred tax assets

The recognition of deferred tax assets is carried out on the basis of the income expectations in future periods. The measurement of the expected income for the purposes of the recognition of deferred tax assets depends on factors that may vary over time and leads to significant effects on the measurement of this financial statement item.

(e) Provisions for risks and charges

The Group records the probable liabilities attributable to disputes with staff, suppliers, third parties and, in general the liabilities deriving from obligations undertaken in the provisions for risks and charges. The determination of these provisions leads to the undertaking of estimates based on the current awareness of the factors that may change over time, thus being able to generate final outcomes also significantly different to those taken into account when drafting the financial statements.

(f) Bad debt provision

The bad debt provision reflects the estimates relating to the losses on the receivables portfolio. The provisions for the expected losses express the estimate of the credit risk that arises from past experience for similar receivables, from the analysis of the past due amounts (current and past) of the

losses and the collections, and finally from the monitoring of the performance of the current and forecast economic conditions of the reference markets.

(g) Measurement of derivative financial instruments

The determination of the fair value of unlisted financial assets, such as the derivative financial instruments, takes place by means of commonly used financial assessment techniques that require basic assumptions and estimates. These assumptions might not occur within the timescales and in the manner envisaged. Therefore, the estimates of these derivative instruments could diverge from the final figures.

Financial assets and liabilities by category

A classification of the financial assets and liabilities by category as at 31 December 2020 follows:

In €	Financial assets and liabilities at fair value with change to OCI		Available-for-sale financial assets	Financial assets/liabilities at amortised cost	Total
ASSETS:					
Other non-current assets	-	27,377,935	-	14,760,575	42,138,510
Trade receivables	-	232,849,953	-	76,396	232,926,350
Cash and cash equivalents	-	42,374,335	-	-	42,374,335
Other current assets	-	13,653,639	-	1,622,885	15,276,524
LIABILITIES:					
Non-current financial liabilities	877,376	76,817,306	-	29,477,980	107,172,663
Other non-current liabilities	-	57,050,472	-	7,525,029	64,575,501
Trade payables	-	66,597,618	-	-	66,597,618
Current financial liabilities	6,204,570	10,147,241	-	9,684,917	26,036,728
Other current liabilities	-	35,427,334	-	781,366	36,208,700

Financial instruments

IFRS 7 and IFRS 13 require that the classification of the financial instruments measured at fair value be carried out on the basis of the quality of the sources of the inputs used in the determination of the fair value itself. In particular, IFRS 7 and IFRS 13 define 3 fair value levels:

- level 1: this level contains the classification of the financial assets/liabilities whose fair value is determined on the basis of prices listed (unchanged) on active markets, both Official and Over the Counter of identical assets or liabilities;
- level 2: this level contains the classification of the financial assets/liabilities whose fair value is determined on the basis of inputs other than the listed prices as per level 1, but that for these assets/liabilities said inputs are observable directly or indirectly on the market;
- level 3: this level contains the classification of the financial assets/liabilities whose fair value is
 determined on the basis of market data that cannot be observed. The category includes the
 instruments measured on the basis of internal estimates, carried out using proprietary methods on the
 basis of the sector best practices.

The following table summarises the assets and liabilities that are measured at fair value as at 31 December 2020, on the basis of the level that reflects the inputs used to determine the fair value:

in€	As at 31 December 2020					
iii e	Level 1	Level 2	Level 3			
Derivative financial instruments (IRS)		7,081,947				

The Company, during the years 2006 and 2007, entered into certain Interest Rate Swap agreements; specifically, insofar as still existing as at 31 December 2020, one with Banca Innovazione Infrastrutture e

Sviluppo and one with BNP Paribas. In 2015, it acquired a third from the merged company Idra Milano S.r.l., of which Banca Nazionale del Lavoro S.p.A. is the counterparty.

All the positions indicated refer to underlying liabilities of a financial type, specifically:

- The position acquired from the company IDRA Milano S.r.l. is a hedge against the risk of interest rate fluctuations.
- The other positions belong to the category of "Duration Swap", i.e. financial instruments created for the purpose of transforming the debt repayment profile standardising, in terms of current value, the repayment of said debt.

6. Disclosure by operating segments

The disclosure relating to the sectors of activities has been prepared according to the provisions of IFRS 8 "Operating segments", which envisage the presentation of the disclosure on a consistent basis with the methods adopted by management for the adoption of the operational decisions. Therefore, the identification of the operating segments and the disclosure presented are defined on the basis of the internal reporting used by management for the allocation of the resources to the various segments and for the analysis of the related performances.

An operating segment is defined by IFRS 8 as a component of an entity: i) that undertakes entrepreneurial activities generating revenues and costs (including the revenues and costs regarding transactions with other components of the same entity); ii) whose operating results are periodically reviewed at the highest operational decision-making level of the entity for the purpose of the adoption of decisions regarding the resources to be allocated to the sector and the assessment of the results; iii) in relation to which separate financial statement information is available.

Management has identified the following operating segments:

• Integrated Water Service (IWS): it includes the integrated water services mainly for the population of the Metropolitan City of Milan (excluding the capital);

The operating segments are monitored on the basis of: i) revenues; ii) EBITDA and iii) EBIT.

The EBITDA is defined as the net profit/loss for the year, adjusted by the following items: i) taxation; ii) financial income and expense; iii) amortisation and depreciation, write-downs and provisions. The EBIT is defined as the net profit/loss for the year, adjusted by the following items: i) taxation and ii) financial income and expense.

7. Notes to the consolidated statement of financial position

7.1. Rights on assets under concession

The changes in the item "Rights on assets under concession" for the period from 1 January 2020 to 31 December 2020 are shown below:

ln €	Value as at 31/12/2019	FoNi 2012-2019	Value as at 31/12/2019 Restated	Increases	Account transfers	Decreases/transfer to assets	Contributions	FoNI	FoNi uses	Amortisation/ depreciation	
Rights on assets under concession in use	686,563,234	(47,277,087)	639,286,148	93,305,045	-	(1,235,449)	(599,452)	(17,553,359)	3,609,413	(39,913,823)	676,898,524
Rights on assets under concession in progress	108,502,072	-	108,502,072	97,724,993	(730,686)	(94,632,714)	-	-	-	-	110,863,664
Rights on assets under concession	795,065,306	(47,277,087)	747,788,219	191,030,038	(730,686)	(95,868,162)	(599,452)	(17,553,359)	3,609,413	(39,913,823)	787,762,188

In accordance with IFRIC 12, rights on assets under concession of \in 787,762,188 as at 31 December 2020 and \in 795,065,306 as at 31 December 2019 (\in 747,788,219 as at 31 December 2019 restated) were recognised. These rights are amortised on a straight-line basis over the duration of the concession, and then destined to be assigned to the assignor on conclusion of the concession.

The item "Rights on assets under concession" is stated net of the operating grants for the plant amounting to € 599,452. From 2020 onwards, FoNi is treated as an operating grant for the plant and therefore deducted from the value of fixed assets.

The investments for 2020 amounted to € 97,724,993.

Impairment test on rights on assets under concession

The Group carried out an impairment test in order to assess the existence of any permanent losses in value with reference to the amounts accounted for among the rights on assets under concession.

The test is performed by comparing the book value (carrying value) of the asset or Group of assets that form the cash-generating unit (C.G.U.) with the recoverable value of the same, given by the greater between fair value (net of any sales charges) and the value of the net cash flows that are expected to be generated by the asset or Group of assets that make up the C.G.U. (value of use).

For the purpose of performing the impairment test, the cash flows for the duration of the Concession were used as extrapolated from the economic-financial plan drawn up by the Group, as well as the envisaged residual value of the works and assets achieved during the concession period that the Group envisages it will obtain at the end of the Concession.

For the purposes of the impairment test, the Group determined a single CGU coinciding with the Integrated Water Service (IWS) operating segment.

The discounted cash flow rate (WACC) used, which reflects the market valuations of the cost of money and the specific risks of the sector of activities and the geographic area of reference, is equal to 3.23%.

The impairment test carried out did not reveal any permanent losses in value with reference to the amounts recorded under rights on assets in concession for the 2020 financial year and, consequently, no write-downs were made on these assets.

7.2 Right of use

The item "Rights of use" concerns the ROU of long-term rental contracts based on the application of the new accounting standard IFRS 16. The effect of the application of the above standard concerned long-term rental contracts relating to tangible fixed assets, with a special reference to vehicle and truck rentals, and real estate leases.

The adoption of IFRS 16 led to the recognition on 1 January 2019 - the date of first-time adoption - of higher fixed assets for rights of use of \in 3,323,699 and lease liabilities for the same amount segmented between current and non-current financial liabilities.

In 2020, the generated depreciation amounted to € 2,692,282.

The changes that occurred in 2020 are shown below:

In€	Value as at 31/12/2019	Increases	Decreases	Depreciations	Value as at 31/12/2020
Right of use	6,009,836	1,489,628	(1,920)	(2,962,282)	4,535,262
Total Right of use	6,009,836	1,489,628 -	1,920	(2,962,282)	4,535,262

7.3. Other intangible assets

The changes in the item "Other intangible assets" for the period from 31 December 2020 to 31 December 2019 are shown below:

In€	Value as at 31/12/2019	FoNi 2012-2019	Value as at 31/12/2019 Restated	Increases	Account transfers	Decreases/tran sfer to asset	FoNI	FoNi uses	Amortisation/d epreciation	Value as at 31/12/2020
Other intangible assets in use	14,527,445	(1,663,886)	12,863,559	6,331,974	-		1,250,046	1,016,882	(7,211,631)	11,750,739
Other intangible assets in progress	589,711	-	589,711	4,636,483	(129,280)	(4,686,327)	-	-	-	410,586
Other intangible assets	15,117,156	(1,663,886)	13,453,270	10,968,457	(129,280)	(4,686,327)	(1,250,046)	1,016,882	(7,211,631)	12,161,324

The amount of \in 14,527,445 net of the related FoNi component includes \in 6,577,021 equal to the residual value of the amount resulting from the recognition in the financial statements of the purchase value of the business unit of Genia, which took place on 1 July 2011 (for an initial value of \in 5,813,250, subsequently

revised to € 5,698,014 when adjusted and subsequently increased by € 1,654,770 following the merger in 2013 of the company T.A.S.M. S.p.A. which had a similar financial statement item).

The agreement entered into between Genia S.p.A., transferor, and CAP Holding S.p.A., Amiacque S.r.I. and T.A.S.M. S.p.A., purchasers, envisaged that the ownership of the assets remains with Genia S.p.A. The purchase value has been recognised with open balances and is amortised on a straight-line basis with reference to the rates referable to the underlying asset.

The rest refers to capitalised ERP business software.

7.4. Properties, plant and machinery

As at 31 December 2020, the tangible fixed assets amounted to \in 18,713,657, with a difference compared to the balance as at 31 December 2019 of \in 4,943,333 (\in 18,596,850 in 2019, \in 17,757,475 restated).

In€	Value as at 31/12/2019	FoNi 2012-2019 3	alue as at 1/12/2019 estated	Increases	Decreases	Account transfers	FoNI	FoNi uses	Amortisation/d epreciation	Value as at 31/12/2020
Other tangible assets in use	10,020,971	(839,375)	9,181,596	2,565,131	(88,701)	-	(483,221)	290,353	(2,407,957)	9,057,201
Other tangible assets in progress	8,575,879	-	8,575,879	88,884	(1,649)	993,343	-	-	-	9,656,456
Other intangible assets	18,596,850	(839,375)	17,757,475	2,654,015	(90,350)	993,343	(483,221)	290,353	(2,407,957)	18,713,657

Other fixed assets owned by the Group for a book value as at 31 December 2020 amounting to € 668,015 have been given for use to unrelated parties: these include, in particular, the Casalpusterlengo (LO) warehouse, rented to the company SAL S.r.I., contractor for the management of the integrated water service in the Province of Lodi (contract renewed until 31 December 2021). The related fees are parameterised to the ISTAT.

It should be noted that the building called "Q7" located in Rozzano Palazzo Q - Scala 7, purchased in 2002, reclassified pursuant to IFRS 5 under fixed assets held for sale in 2019, was sold on 22 December 2020 by deed of notary Ferrelli VOL. 27722 for € 748,5877.5 Deferred tax assets

The breakdown of the item "Deferred tax assets" for the period from 31 December 2019 until 31 December 2020 is presented below:

For connection contributions from users For foni 2012-2019 contribution For amortisation of goodwill For bad debts exceeding the tax limit For provisions for lawsuits pending For provisions for amicable settlements For provisions for other risks For provision for future plant decommissioning costs For provision for future purification plant area reclamation costs For provision for damages from sewerage percolation For provision for nuncipal asphalt costs For soludge disposal expenses For absets disposal expenses For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For ACE that can be carried forward For ACE that can be carried forward For datu interest payable not paid TOTAL IRES (COMPANY INCOME TAX)	3,286,585 - 34,659 4,520,824 1,134,664	- 11,947,284 - - -		441,663	(225,344)	3,502,904
For foni 2012-2019 contribution For amortisation of goodwill For bad debts exceeding the tax limit For provisions for lawsuits pending For provisions for amicable settlements For provisions for amicable settlements For provision for future plant decommissioning costs For provision for future plant decommissioning costs For provision for future purification plant area reclamation costs For provision for damages from sewerage percolation For provision for municipal asphalt costs For provision for municipal asphalt costs For provision for sexpected financial hedge transactions For provision for sexpected financial hedge transactions For provision for sudry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For ax loss that can be carried forward For AcE that can be carried forward For provision for for supper forward For provision for for supper lab to be corried forward For default interest payable not paid	- 34,659 4,520,824 1,134,664	-	-			
For bad debts exceeding the tax limit For provisions for lawsuits pending For provisions for amicable settlements For provisions for other risks For provision for future plant decommissioning costs For provision for future plant decommissioning costs For provision for future purification plant area reclamation costs For provision for future purification plant area reclamation costs For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For sludge disposal expenses For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For ax loss that can be carried forward For provision for risks on personnel costs	4,520,824 1,134,664	-	-		(891,546)	11,055,738
For bad debts exceeding the tax limit For provisions for lawsuits pending For provisions for amicable settlements For provisions for other risks For provision for future plant decommissioning costs For provision for future plant decommissioning costs For provision for future purification plant area reclamation costs For provision for future purification plant area reclamation costs For provision for damages from sewerage percolation For provision for nuncipal asphalt costs For sludge disposal expenses For sludge disposal expenses For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For ax loss that can be carried forward For Act: that can be carried forward For provision for risks on personnel costs For default interest payable not paid	4,520,824 1,134,664			-	(6,525)	28,134
For provisions for lawsuits pending For provisions for amicable settlements For provisions for other risks For provision for future plant decommissioning costs For provision for future purification plant area reclamation costs For provision for future purification plant area reclamation costs For provision for damages from sewerage percolation For provision for municipal asphalt costs For sludge disposal expenses For soludge disposal expenses For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For tax loss that can be carried forward For Act that can be carried forward For provision for risks on personnel costs		-	-	1,255,473	-	5,776,297
For provisions for other risks For provision for future plant decommissioning costs For provision for future tank reclamation costs For provision for future purification plant area reclamation costs For provision for future purification plant area reclamation costs For provision for damages from sewerage percolation For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For provision for sepected financial hedge transactions For provision for adjustments IAS 1 Jan. 2017 For inventory write-downs For at loss that can be carried forward For Act that can be carried forward For provision for for signal expensed			-	565,144	(373,055)	1,326,753
For provisions for other risks For provision for future plant decommissioning costs For provision for future tank reclamation costs For provision for future purification plant area reclamation costs For provision for future purification plant area reclamation costs For provision for dure purification plant area reclamation costs For provision for dure purification plant area reclamation costs For provision for dure purification plant area reclamation costs For provision for dure purification plant area reclamation For provision for dure purification plant area reclamation For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For sludge disposal expenses For provision for expected financial hedge transactions For provision for sudry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For ax loss that can be carried forward For Ax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	816,129	-	-	-	(376,651)	439,478
For provision for future tank reclamation costs For provision for future purification plant area reclamation costs For provision for water bonus For provision for damages from sewerage percolation For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For tax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	155,402	-	-	-	-	155,402
For provision for future purification plant area reclamation costs For provision for water bonus For provision for damages from sewerage percolation For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For tax loss that can be carried forward For Act that can be carried forward For provision for risks on personnel costs For default interest payable not paid	1,227,795	-	-	89,349	-	1,317,144
For provision for water bonus For provision for damages from sewerage percolation For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For asbestos disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	1,354,913	-	-	143,412	-	1,498,326
For provision for water bonus For provision for damages from sewerage percolation For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For abestos disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	6,207,423	-	-	305,877	-	6,513,300
For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For asbestos disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For AcE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	326	-	-	-	(326)	-
For provision for environmental damages For provision for municipal asphalt costs For sludge disposal expenses For asbestos disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	1,765,656	-	-	-	-	1,765,656
For sludge disposal expenses For asbestos disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	246,766	-	-	-	(64,721)	182,045
For sludge disposal expenses For asbestos disposal expenses For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For provision for risks on personnel costs For default interest payable not paid	50,606	-	-	36,348	(36,758)	50,195
For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	-	-	-	-	-	-
For provision for expected financial hedge transactions For provision for sundry charges For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	1,184,058	-	-	-	-	1,184,058
For undeducted excess amortisation/depreciation Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	261,300	-	-	-	(206,887)	54,413
Allocations for adjustments IAS 1 Jan. 2017 For inventory write-downs For tax loss that can be carried forward For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	5,659	-	-	14,869	-	20,527
For inventory write-downs For tax loss that can be carried forward For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	212,595	-	-	-	-	212,595
For tax loss that can be carried forward For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	680,095	-	-	-	-	680,095
For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	149,721	-	-	-	(149,721)	-
For ACE that can be carried forward For provision for risks on personnel costs For default interest payable not paid	4,629,952	(248,043)	-	-	(418,840)	3,963,068
For default interest payable not paid	-	-	-	169,784	-	169,784
	1,149,357	-	-	48,000	-	1,197,357
TOTAL IRES (COMPANY INCOME TAX)	-	-	-	-	-	
	9,074,486	11,699,241	-	3,069,918	(2,750,375)	41,093,270
For connection contributions from users	544,065	-	-	77,291	(39,435)	581,921
For foni 2012-2019 contribution	,	2,090,775	-	-	(156,020)	1,934,754
For provision for sundry charges	-	-	-	-	-	
For amortisation of goodwill	-	-	-	-	(1,142)	(1,142)
For provision for water bonus	57	-	-	-	(57)	-
For provision for future tank reclamation costs	237,110	-	-	25,097	-	262,207
For provision for future purification plant area reclamation costs	1,086,299	-	-	53,528	-	1,139,828
For provision for damages from sewerage percolation	308,990	-	-	-	-	308,990
For provision for municipal asphalt costs	8,843	-	-	6,361	(6,420)	8,784
For sludge disposal expenses	-	-	-	-	-	-
For asbestos disposal expenses	238,662	-	-	-	-	238,662
For undeducted excess amortisation/depreciation	38,194	-	-	-	-	38,194
For provisions for other risks	6,065	-	-	-	-	6,065
TOTAL IRAP (REGIONAL BUSINESS TAX)	2,468,286	2,090,775	-	162,277	(203,075)	4,518,263
	31,542,772	13,790,016		3,232,196	(2,953,450)	45,611,534
DEFERRED TAX LIABILITIES						
For default interest receivable to be collected	(218,177)	-		(187,990)	121,905	(284,261)
For tax amortisation	7,545,086)	-	-	(2,555,357)	8,615	(10,091,828)
Allocations for adjustments IAS 1 Jan. 2017	(88,852)	-	-	-	-	(88,852)
	7,852,114)		-	(2,743,347)	130,520	(10,464,941)
TOTAL DEFERRED TAX ASSETS		-	-			

In accordance with IAS 12, deferred tax assets and liabilities are offset only if the entity has a legally exercisable right to offset the current tax assets with the current tax liabilities and the deferred tax assets and liabilities relate to income taxes applied by the same tax jurisdiction.

Amounts receivable as at 31 December 2020 for deferred tax assets, offset by deferred tax liabilities, amounted to € 35,146,592

The Group envisages having future taxable income capable of absorbing the deferred tax assets recognised.

7.6. Other non-current assets

The item "Other non-current assets" as at 31 December 2020 refers to:

Other receivables and other non-current financial assets	Value as at 31/12/2020	Value as at 31/12/2019	Change
Equity investments in companies	15,121,868	15,257,002	(135,134)
Accrued income and prepaid expenses	8,761,919	9,585,129	(823,210)
Sundry receivables	8,029,266	8,751,047	(721,781)
Tax receivables	6,351,846	5,281,476	1,070,370
Receivables from companies with minority investments	2,543,567	2,216,876	326,691
Bank and postal deposits	104,100	1,206,842	(1,102,742)
Guarantee deposits	786,407	698,273	88,134
Receivables from social security institutions	125,480	125,480	-
Financial receivables	80,063	80,063	-
Other non-current financial receivables	233,994	160,649	73,345
Total Other non-current receivables and other financial assets	42,138,510	43,362.838	(1,224,328)

The changes made in 2020 with regard to the equity investments held in Pavia Acqua S.c.a r.l., Rocca Brivio Sforza S.r.l. in liquidation, Water Alliance – Acque di Lombardia, network contract for companies with legal status, are shown below:

In €	Value as at 31/12/2019	Increases/revaluations	Decreases/write-downs	Value as at 31/12/2019
Pavia Acque Scarl	14,392,813	-	-	14,392,813
Rocca Brivio Sforza Srl in liquidation	818,270	-	(100,883)	717,387
Water Alliance - acqua di Lombardia, network contract	45,920	3,554	(37,805)	11,669
Total equity investments	15,257,002	3,554	(138,688)	15,121,868

The equity investment in Water Alliance - Acque di Lombardia, originally registered during 2017 due to the transfer of endowment capital completed on 20 January 2017, was 21.6% as at 31 December 2020 (€ 149,259 vs. total fund of € 689,742). The value as at 31 December 2020, net of the coverage of operating expenses, is € 11,669. The network contract was valid until 31 December 2020

The investment in Rocca Brivio Sforza S.r.l. in liquidation derives from the merger in 2013 of the company T.A.S.M. S.p.A. into CAP Holding S.p.A. The value of the investment decreased by \notin 100,883 as a result of the losses incurred in 2020. The percentage held is equal to 51.036% of the shareholders' equity of Rocca Brivio Sforza S.r.l. itself.

CAP Holding S.p.A. does not have effective control over Rocca Brivio Sforza S.r.l. in liquidation since it does not possess essential rights that assign it the power to manage the significant activities of the investee company so as to influence the related returns.

Pursuant to IFRS 10, the company was not subject to consolidation since the Group does not have actual control because the parent company owns the substantial rights that attribute it the power to manage the relevant activities of the investee thereby influencing the returns.

Note that the item "Bank and postal deposits" as at 31 December 2020 includes the non-current portion of the amount present in the restricted account in favour of Banca Intesa San Paolo S.p.A. for an amount of \in 104,100 (\in 1,199,924 in 2019). For more details on the loan to which the amount is connected, see item 7.16.

With regard to the sub-item "Sundry receivables", these are credit portions whose collectability was estimated over 12 months in 2020, and relating to:

- € 6,770,574 to the company BrianzAcque S.r.I. for the sale of the business unit;
- € 346,324 other receivables.

With regard to the sub-item "Financial receivables", these are mainly portions of receivables whose collectability was estimated as beyond 12 months in 2020, and relating to:

- € 80,063 mainly consisting of deposits made for € 22,498 by the merged company I.A.No.Mi. S.p.A. and for € 43,032 directly by CAP Holding S.p.A., at the Provincial Treasury Section of Milan – Servizio Cassa Depositi e Prestiti - as indemnity for various properties subject to occupation and/or expropriation for the acquisition of the areas necessary to build the plants.

With regard to the sub-item "Other non-current financial receivables", these are portions of receivables whose collectability was estimated as beyond 12 months in 2020, and relating to:

€ 160,648 is represented by receivables from Cassa Depositi e Prestiti for unused loans;

The item "receivables from companies with minority investments" includes receivables from Pavia Acque S.c.a.r.l. of € 2,543,256.

The item "Prepaid expenses" includes an amount of \notin 4,558,409 (as a non-current portion) recognised as a matching balance to the payable due to Cassa Depositi e Prestiti S.p.A. as guarantee commissions on the loan issued by the European Investment Bank backed by Cassa Depositi e Prestiti itself. The current portion is recognised under item 7.11 for an amount of \notin 989,403.

7.7. Trade receivables

Following is the breakdown of the item "Trade receivables" as at 31 December 2020:

TRADE RECEIVABLES	Value as at	Value as at	Change
	31/12/2020	31/12/2019	
Receivables from civil users	192 100 600	164 224 706	17.055.002
For invoices issued	182,190,699	164,234,796	17,955,902
·	144,044,233	129,576,848	14,467,385
For invoices to be issued	59,675,687	50,613,351	9,062,336
Bad debt provision	(21,529,222)	(15,955,403)	(5,573,819)
Receivables from productive users	15,435,424	15,440,618	(5,194)
For invoices issued	11,643,049	17,776,465	(6,133,416)
For invoices/Credit notes to be issued	5,571,711	(1,011,601)	6,583,312
Bad debt provision	(1,779,337)	(1,324,246)	(455,091)
·			
Receivables from other operators for tariffs	20,157,255	6,389,763	13,767,492
For invoices issued	175,025	175,025	0
For invoices to be issued	19,982,230	6,214,738	13,767,492
Bad debt provision		0	0
Receivables from other wholesale operators	10,183,340	14,160,688	(3,977,348)
For invoices issued		0	0
For invoices to be issued	10,183,340	14,160,688	(3,977,348)
Bad debt provision		0	0
Other trade receivables	4,137,031	9,353,474	(5,216,443)
For invoices issued	2,235,868	6,634,211	(4,398,343)
For invoices to be issued	4,602,183	6,221,946	(1,619,763)
Bad debt provision	(2,701,020)	(3,502,683)	801,664
Receivables from subsidiaries (Rocca Brivio Sforza)	2,584	282	2,302.00
For invoices issued	2,584	282	2,302.00
			_
Receivables from municipalities	820,017	375,947	444,069
For invoices issued	188,593	244,064	(55,471)
For invoices to be issued	916,411	511,383	405,028
Bad debt provision	(284,987)	(379,499)	94,512
Total	232,926,350	209,955,570	22,970,780

Trade receivables mainly refer to amounts set aside for invoices issued and to be issued to civil users, production users and other customers. The balance also includes the amounts set aside for invoices to be issued deriving from tariff adjustments.

The amount of the receivable from civil users for invoices to be issued, referring to regulatory adjustments for 2019-2020, is € 17,691,154.

The invoices to be issued for "guaranteed revenues" refer to the sums that, based on the agreements for the assignment of the water service and the "tariff" regulation of the sector Authority (ARERA) constitute regulatory financial assets accrued by the date of 31 December 2020, but which may be applied to users on consumption after that date. These are the regulatory adjustments for the years 2019 - 2020.

7.8. Inventories

The detail of the item "Inventories" is shown below.

INVENTORIES	Value as at 31/12/2020	Value as at 31/12/2019	Change during the year
Raw materials and consumables	3,712,587	4,205,730	(493,144)
Provision for stock obsolescence	-	(623,838)	623,838
Total inventories	3,712,587	3,581,893	130,694

The inventories item is composed of electrical and hydraulic components, electrical pumps for wells, raw materials for purification, meters and other consumable materials held in the warehouse at 31 December 2020.

7.9. Contract work in progress

The item amounting to € 5,396,530 includes the value of the contracts for work in progress, inherent to the planning, works management and construction of works for the hydraulic repairs of the Cagnola water source, on behalf of the Lombardy regional authority, entrusted to the company I.A.No.Mi. S.p.A. incorporated by CAP Holding S.p.A. in 2013.

For advances received up to 31 December 2020, see the comment on liabilities, item 7.19.

The amount as at 31 December 2020 represents the gross value of the stage of completion of said contract.

7.10. Cash and cash equivalents

Following is the breakdown of the item "Cash and Cash Equivalents":

CASH AND CASH EQUIVALENTS	Value as at 31/12/2020	Value as at 31/12/2019	Change
Bank and postal deposits	42,369,309	134,718,995	(92,349,686)
Cash and equivalents on hand	5,025	11,715	(6,689)
Total cash and cash equivalents	42,374,335	134,730,710	(92,356,375)

Cash and cash equivalents include the current portion of the escrow account in favour of the bank Banca Intesa San Paolo S.p.A., amounting to € 1,995,824 as at 31 December 2020.

The additional portion, considered as non-current, is commented on under item 7.6.

The amount refers specifically to the purpose loan for the construction of the extension of the purification plant in the municipality of Assago, the upgrading of phase 1 Melegnano purification plant, the adaptation of the existing plant line of purification of Rozzano and sewage networks. The account is released upon presentation of the expense documents incurred for the carrying out of the interventions indicated above.

7.11. Other current assets

Following is the detail of the item "Other current assets":

OTHER RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS	Value as at 31/12/2020	Value as at 31/12/2019	Change
VAT tax receivables	7,254,679	4,022,663	3,232,015
Receivables from companies with minority investments	2,611,955	1,796,320	815,635
Receivables for operating grants	1,335,656	1,369,386	(33,730)
Receivables from banks	1,137,008	1,114,932	22,075
Other sundry receivables	2,564,926	3,250,215	(685 <i>,</i> 289)
Advances to Public Bodies	-	165,823	(165,823)
Receivables from social security institutions	53,801	164,762	(110,961)
Receivables from employees	61,769	64,351	(2,581)
Accrued income and prepaid expenses	256,730	72,919	183,811

TOTAL OTHER CURRENT RECEIVABLES AND OTHER FINANCIAL ASSETS 15,276,524 12,021,371 3,255,153

The tax credit essentially consists of VAT refunds receivable of \in 597,903, IRES receivables to be offset of \in 700,000 and virtual stamp duty of \in 8,098.

The other items are broken down below:

- receivables from investee company Pavia Acque SCARL of € 2,611,955 for services relating to commercial contracts;
- other sundry receivables of € 2,564,926 mainly refer to receivables from some companies that are counterparties to transactions involving the sale of business units;
- receivables from credit institutions of € 1,137,008 mainly refer to prepayments on commissions relating to guarantees;
- receivables from public bodies in which the preponderant part consists of receivables from the ATOs
 of the provinces of Milan and Monza Brianza, for a sum equal to € 1,335,656, regarding grants related
 to assets and/or financing amounts to cover expenses relating to projects included in the excerpt plans.

7.12 Available-for-sale assets

The item as at 31 December 2020 amounted to zero euro. As at 31 December 2019, this item amounted to € 622,516 and related to the building in Rozzano called "Q7", which was then sold on 22 December 2020.

7.13. Shareholder's equity

Share capital

The share capital (referring to the consolidating company CAP Holding S.p.A.) is made up of 571,381,786 ordinary shares with a par value of \in 1 each, fully subscribed and paid-in.

Reserves

The change in the shareholders' equity reserves is shown in these financial statements.

7.14. Provisions for risks and charges

The changes in the item "Provisions for risks and charges" are shown below:

PROVISION FOR RISKS AND CHARGES	Value as at 31/12/2019	Provision	Use/surplus	Value as at 31/12/2020
Provision for risks for future losses	622,033	-	-	622,033
Provision for risks on personal INPS contributions	4,788,991	200,000	-	4,988,991
Provisions for lawsuits pending	4,727,767	2,354,768	1,554,396	5,528,139
Provision for amicable settlements	3,476,585	-	1,569,380	1,907,206
Provision for risks relating to request for 2007 tax refund	2,719,952	-	-	2,719,952
Provision for sundry charges	23,576	-	-	23,576
Total provision for other risks	16,358,904	2,554,768	3,123,776	15,789,896
Provision for company water bonus	1,360	-	1,360	-
Provision for sundry charges	-	52,725.40	-	52,725
Provision for environmental damage from sewers	1,053,670		269,670	784,000
Provision for asphalt expenses	210,553	151,449	152,856	209,145
Provision for future tank reclamation costs	5,645,472	597,551	-	6,243,024
Provision for purification plant area reclamation	25,864,262	1,274,488	-	27,138,750
Provision for percolation damage reclamation	7,356,900	-	-	7,356,900
Provision for sludge disposal	-	-	-	-
Provision for expenses for asbestos disposal for water networks	4,933,576	-	-	4,933,576
Provision for future plant decommissioning	5,028,741	372,287	-	5,401,028
Total provision for future expenses	50,094,535	2,448,501	423,887	52,119,149
Total provision for risks and charges	66,453,439	5,003,269	3,547,662	67,909,045

Some notes on the most significant provisions as at 31 December 2020 are shown below:

- the provision for lawsuits pending refers to various cases including disputes with social security institutions, disputes concerning compensation for damages in the vicinity of an area adjacent to a purification plant, disputes arising from the takeover of business units by former operators, for reserves entered by the contractor for the works for the new headquarters in the site accounting records, for three pending cases with INAIL (the judgment is pending the fixing of the hearing for discussion), for the dispute regarding personnel for ad personam reabsorption and other minor claims for damages.
- € 1,907,206, for the provision of "amicable settlements". It was formed, especially in 2010 and 2011, in compliance with article 12 of the Presidential Decree No. 207 of 5 October 2010 "Regulation for the execution and implementation of Legislative Decree No. 163 of 12 April 2006" (Procurement Code) which, following the repeal of Legislative Decree 163/2006, and with it expired for contracts subsequent to April 2016. Article 12 provided for the mandatory pre-formation of an equal fund at 3% of the "economic framework" for the risks associated with "disputes relating to subjective rights deriving from the execution of public works contracts". As the works for which it was set aside close, the fund is progressively released;
- The provision for future expenses mainly refers to the recognition of a part of the tariff by the operator of another territorial area and various disputes;
- € 27,138,750 for the provision for reclamation and environmental restoration intervention related to the purification plant site, following the assessment, which will be the reasonably expected condition of the lands underlying the sections, in particular pre-treatment and anaerobic digestion at the end of their useful life, as well as the estimate of the charges necessary to eliminate the statistically occurring contaminations;
- € 7,356,900 for the provision for reclamation of sewerage percolation damage, through which it is believed that it is possible to face the probable costs of reclamation of the soil polluted by the drainage of wastewater from deteriorated sewage networks;
- € 5,401,028 for the provision for expenses for the disposal of buildings. This mainly refers to buildings in Milan, Via Rimini 34/36. These buildings will in fact be demolished presumably in 2021 and a new building will be erected to be used as the "headquarters" of the CAP Group;
- € 6,243,024 for the provision for expenses for the reclamation of floodwater culverts (environmental restoration). It was established in view of the termination of the life cycle of said tanks with consequent re-naturalisation and recovery of the areas occupied, for which it is necessary to remedy any environmental damages potentially due to percolation into the ground;
- € 4,933,576 for the provision for future removal of aqueduct networks granted to CAP Holding S.p.A., no longer in operation, which have asbestos cement among the building materials. This is essentially an estimate, as at 31 December 2019, of the cost of future excavations and removal of approximately 12 km of pipelines, surveyed in 2018 and decided as an alternative to the risk control and management

activities envisaged by Article 12 of the Law No. 257 of 27 March 1992. In December 2018, the company made a public commitment to this effect towards the relevant EGA;

- € 784.000 for the provision for future expenses for environmental damage (environmental restoration) due to the drainage of sewage discharges into the ground;
- € 209,145 for the provision for future expenses for "road repairs". The cost was quantified as the best estimate as at 31 December 2020 by the technicians of CAP Holding S.p.A. of the road sections for which, by the same date, the requirements that are imposed on the Operator of the IWS to intervene, in compliance with what is regulated by resolution no. 5 point 2 of the Area Office of the Metropolitan City of Milan of 25 May 2016. In summary: CAP Holding S.p.A. must repair municipal roads (when defined tolerance margins are exceeded) that have been damaged more than once by works carried out as part of the integrated water service.
- "provision for risks on personal INPS contributions": includes provisions set aside for requests made by INPS for the regularisation of payments of certain types of contributions. In the 2020 financial year, a prudential provision of € 200,000 was made in view of the additional time that has elapsed from the dates of issue of the tax assessment notices to date. The provision thus created was considered adequate with respect to the amount of the tax-assessment notices notified by INPS, interest and penalties, in relation to which, for 6 tax-assessment notices, the Court of Cassation with judgement no. 21532/19 upheld the appeal of INPS, repealed the judgement of the Court of Appeal of Milan no. 456/13 and remanded to the same Court also for the regulation of the expenses of the judgement of legality, for other 4 tax-assessment notices, the Court of Cassation order no. 21532/19 was issued (awaiting reinstatement before the Court of Appeal of Milan) and for one last tax-assessment notice, the relative case is still pending before the Court of Cassation. The Court of Appeal, for the first six tax-assessment notices, has left to the counterparties the exact count of contributions, interest and penalties that Amiacque will have to pay.
- risk provision for 2007 tax rebate: this includes the amount provided in 2008 for the recognition in the accounts of an amount receivable for the same amount due to the Tax Authorities, represented by taxes (IRES company earnings' tax and IRAP regional business tax) paid and not due and the related interest and reduced sanctions, paid on 30 September 2008 by the absorbed company CAP Gestione, and requested for rebate by means of application as per Article 38 of Italian Presidential Decree No. 602/1973, presented on 11 May 2009 care of the Italian Inland Revenue Agency, and subsequent appeal to the Milan Provincial Tax Commission, rejected by means of sentence No. 78/47/12. An appeal was brought against this judgement before the Regional Tax Commission that, with judgement No. 110/28/13, filed on 19 September 2013, declared the appeal inadmissible. Amiacque has therefore decided to appeal sentence No. 110/28/13 with appeal for revocation. Against its rejection, it was decided to lodge an appeal with the Court of Cassation. At the same time, an appeal to the Supreme Court is still pending on the merits of the case.

7.15. Employee Benefits

The changes in the item "Employee benefits" for the period 31 December 2019 to 31 December 2020 are shown below:

Employee Benefits	Value as at 31/12/2019	Inflows/outflows	Provisions	Utilisations	Financial expense	Actuarial gains (losses)	Other changes	Value as at 31/12/2020
Employee severance indemnity	5,194,595	-	-	(387,813)	19,360	(12,670)	-	4,813,473
Total Employee Benefits	5,194,595	•	•	(387,813)	19,360	(12,670)	-	4,813,473

The provision for employee severance indemnity reflects the effects of the discounting in accordance with the requirements of IAS 19.

The economic and demographic assumptions used for actuarial valuations are broken down below:

	2020	2019
Inflation rate	1.00%	1.50%
Discount rate	0.08%	0.37%
Annual frequency of Leavers	2.00%	1.50%
Annual frequency of Advances	1.50%	1.50%

7.16. Current and non-current financial liabilities

The breakdown of the items "Current financial liabilities" and "Non-current financial liabilities" as at 31 December 2020 and 31 December 2019 is shown below:

	Value as at 31/12/2020		Value as at 31/12/2019		
Current and non-current financial liabilities	Current portion	Non-current portion	Current portion	Non-current portion	
Cassa depositi e prestiti mortgages	1,642,030	255,158	2,294,565	1,897,189	
Intesa San Paolo mortgages	2,099,577	16,349,918	1,990,481	18,449,494	
Banca nazionale del lavoro mortgages	461,538	2,076,923	567,094	2,538,462	
Current account overdrafts	-	-	0	0	
Monte dei paschi di siena mortgages	418,823	1,374,436	528,576	1,793,643	
Finlombarda spa loans	97,115	458,944	97,115	556,059	
Banca Popolare di Milano	397,513	3,409,641	378,275	3,807,153	
European Investment Bank loans	5,349,610	58,658,408	4,010,335	64,008,018	
Payable to Cassa Depositi e Prestiti as guarantee on EIB loan	989,403	4,558,409	1,059,805	5,547,812	
2005 bond ISIN: IT0003853568	-	-	-	-	
2017 bond ISIN: IT1656754873	5,678,013	17,087,165	5,667,760	22,765,178	
Payables to banks for derivatives	6,204,570	877,377	5,676,614	7,894,428	
Payables to banks portion of interest and mortgages	283,077	-	345,452	-	
Financial payables rights of use	2,415,459	2,066,285	2,313,479	3,681,893	
Current and non-current financial liabilities	26,036,728	107,172,663	24,929,549	132,939,328	

The information on bank mortgage loans, EIB loans and bond issues are summarised in the following table:

in €	Maturity	Total	Due within one year	Due in 2 to 5 years	Due over 5 years
BANCA INTESA OPI 2006	2026	8,108,822	1,193,933	5,395,223	1,519,667
EIB (I tranche)	2020	14,873,163	1,587,086	6,509,866	6,776,211
EIB (II tranche)	2030	8,713,980	870,496	3,590,000	4,253,484
EIB (III tranche)	2030	10,949,569	1,058,345	4,313,719	5,577,506
EIB (IV tranche)	2031	11,471,306	1,062,087	4,311,692	6,097,527
EIB (IV tranche)	2032	18,000,000	771,596	6,328,660	10,899,744
2017 Bond issue	2024	22,765,178	5,678,013	17,087,165	0
BANCA INTESA EX TASM	2029	10,340,672	905,644	4,185,664	5,249,364
BNL (IDRA merger)	2026	2,538,462	461,538	1,846,154	230,769
MPS	2022	402,154	263,099	139,055	0
Cdp	2022	1,897,189	1,642,030	255,158	0
Finlombarda	2026	292,939	53,262	213,046	26,631
Finlombarda	2026	263,120	43 <i>,</i> 853	175,413	43,853
Banco BPM (Amiacque)	2028	3,807,153	397,513	1,802,194	1,607,446
MPS (Amiacque)	2029	1,391,105	155,723	631,365	604,017

TOTAL LOANS

115,814,811 16,144,218 56,784,374 42,886,219

Bank mortgage loans

We mention that the payables to banks include a loan from Monte dei Paschi Siena S.p.A. signed on 14 December 2011 by the company T.A.S.M. S.p.A. (then merged into CAP Holding S.p.A. deed of merger of 22 May 2013, Volume No. 23262 file No.10176 Notary Public Ferrelli Milan), originally of \notin 2,000,000, with repayment beginning December 2012 and ending December 2022, which is guaranteed with the release of a voluntary mortgage to guarantee a loan, for a total of \notin 4,000,000 on real estate units in Rozzano (sheet 15,

parcel 995 sub-parcel 701, category E3, Via dell'Ecologia, 8), on which a treatment plant owned by the former T.A.S.M., now CAP Holding S.p.A. (public notary deed 6 March 2012 volume 22358/9707 Notary Public Ferrelli of Milan). The nominal value of the residual debt of this loan as at 31 December 2020 amounted to € 402,154.

Payables to banks also include a loan from Banca Infrastrutture Innovazione e Sviluppo S.p.A., which has now become Intesa San Paolo S.p.A., taken out on 14 October 2010 by the company T.A.S.M. S.p.A. (later merged into CAP Holding S.p.A. by merger deed dated 22 May 2013, volume No. 23262, file No. 10176, Notary Public Ferrelli of Milan), originally for \leq 16,000,000, with repayments from 1 January 2013 until 30 November 2029. The value of said loan was credited on a special escrow account as collateral in favour of the Bank and it will therefore be unavailable to the company financed until the Bank releases it subsequent to the progress of the expenses financed (deposits as at 31 December 2020 for a total of \leq 2,099,924). The balance of the abovementioned account was recognised in item 7.6 (for the non-current portion) and 7.10 (for the current portion). The nominal value of the residual debt of said loan as at 31 December 2020 amounted to \leq 10,340,672.

The payables to banks as at 31 December 2020 also include:

€ 1,391,105 at nominal value for a loan with Monte dei Paschi di Siena, acquired in 2013 by Amiacque S.r.I., with the business unit of AMAGA together with the Abbiategrasso headquarters, which was purchased with the loan in question. A voluntary mortgage is registered as security for the loan on the Abbiategrasso building. The redemption plan expires on 1 September 2029.

Note also that the amounts due to banks also include the residual debt as principal for:

- portions of loans transferred by conferment of business unit pursuant to Article 2560 of the Italian Civil Code, in Pavia Acque S.c.a r.l. (deeds of 15 July 2008 and 23 December 2016) for which it has not yet been possible to make innovations, due to a residual debt as at 31 December 2020 of a nominal amount of € 838,554 and the recognition of the residual receivable from Pavia Acque S.r.l. for the same amount at the nominal value as at 31 December 2020, of which € 197,883 among current financial assets (item 7.11) and € 640,671 among non-current financial assets (item 7.6);
- portions of loans transferred by partial demerger to Patrimoniale Idrica Lodigiana S.r.I. (deed of 28 May 2014) for a residual nominal value of € 323,820, not yet innovated, and the recognition as an asset of the receivable from Patrimoniale Idrica Lodigiana for a nominal value of € 437,748 (the company P.I.L. S.r.I. with deed of 14 December 2015 vol. 94891 collection No. 24276 Notary Public Mattea of Lodi was merged into the SAL Società Acqua Lodigiana, S.r.I.), of which € 163,998 under current financial assets (Item 7.11) and € 273,750 under non-current financial assets (Item 7.6);
- portions of loans transferred for the sale of a business unit to the company BrianzAcque S.r.I. for residual nominal value of € 507,717, not yet innovated. and the recognition as an asset of the receivable from BrianzAcque S.r.I. for the same amount as at 31 December 2020. The receivable is of recognised for € 161,393 under current financial assets (Item 7.11) and € 346,324 under non-current financial assets (Item 7.6).

Payable to Cassa Depositi e Prestiti as guarantee on EIB loan

The item, amounting to \in 5,547,812 as at 31 December 2020 (of which \in 989,403 current portion and \in 4,558,409 non-current portion), is related to the total charge linked to the guarantee commissions due to the Guarantor bank, calculated in proportion to the actual drawdowns on the guaranteed EIB loan, paid periodically until the guaranteed loan expires.

This payable is recognised as a balancing entry to the item Other Current and Non-current Assets (see Notes 7.6 and 7.11) which follows the allocation to the income statement on an accrual basis.

BEI loan

With regard to the amount due to the European Investment Bank, the tranches disbursed up until 31 December 2020 were:

- an initial disbursement of € 18,000,000 in May 2015, which will be repaid in straight-line (fixed rate) six-monthly instalments from June 2019 until December 2029;
- a second issue of € 10,000,000 in November 2015, which will be repaid in constant (fixed rate) sixmonthly instalments from December 2019 until June 2030;

- in May 2016, a third of € 12,000,000, which will have a repayment period in constant six-monthly instalments (at a fixed rate) starting from June 2020 to December 2030;
- in July 2016, a fourth of € 12,000,000, which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2020 to June 2031;
- in July 2017, a fifth of € 18,000,000 which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2021 to June 2032.

As at 31 December 2020, the total amount due to the EIB amounted to a \in 64,008,018.

Bonds

The item refers to:

€ 22,765,178 for the bond (ISIN code No. XS1656754873), for a nominal € 40,000,000 admitted for listing and trading on the regulated market of the Irish Stock Exchange on 2 August 2017. The bond was fully subscribed by institutional investors. The 7-year bonds (maturing August 2024) bear interest payable on an annual basis (first maturity in August 2018) at a fixed rate of 1.98%. The capital is repaid according to a redemption plan at constant principal, without prejudice to the cases of early repayment governed by the regulation of the Bonds.

The costs incurred by the Company to obtain the bond were initially recognised as a reduction of the financial liability and subsequently recorded in the income statement under the amortised cost method, in accordance with the provisions of IFRS 9.

As at 31 December 2020, the residual capital, at nominal value, amounted to \in 22,857,148, and at amortised cost it amounted to \in 22,765,178. The portion of interest pertaining to the year 2020 of \in 226.286 due within the next financial year was entered among the financial liabilities.

The portion due within the following year is equal to \in 5,904,298 (inclusive of the above mentioned interest portion recorded under financial liabilities); the portion due beyond the following year amounts to \in 17,087,165.

The IAS derivative fair value

Reference is made to paragraph 5, point "derivative financial instruments". As at 31 December 2020, the value of the derivatives amounted to € 7,081,947, subdivided as shown in the following layout:

type of derivative contract	interest rate swap interest rate swap with Intesa with BNP Paribas		interest rate swap with BNL	
	1	2	3	
contract date	17/02/2006	22/01/2008	16/05/2011	
purpose	loan hedging	loan hedging	rate hedging	
contract number	602170669	10706142	5963433	
settlement date	31/12/2021	31/12/2026	16/05/2026	
underlying financial risk		variability of interest rates		
book value 31/12/2020	(6,527,703)	(527,203)	(27,041)	
hedged asset/liability	cassa depositi e prestiti mortgages	Intesa loan (formerly Banca OPI 2006)	BNL loan (formerly Idra Patrimonio)	
Type of derivative contract	interest rate swap with Intesa	interest rate swap with BNP Paribas	interest rate swap with BNL	

Accessory charges on loans

The charges incurred by the Group to obtain bank loans were initially recognised as a reduction of financial liabilities and subsequently recognised in the income statement using the amortised cost method, in accordance with IFRS 9.

It should be noted that following the application of IFRS 16, financial payables were recorded in 2019.

Details of current and non-current financial payables relating to the application of the new accounting standard IFRS 16 are set out below.

In € IFRS 16 lease liability	Value as at 31/12/2019	Increases	Decreases	Value as at 31/12/2020	Due within the financial year	Due beyond the financial year
Long-term rentals of cars/trucks	4,840,412	176,886	1,875,200	3,142,098	1,588,240	1,612,357
Property leases	1,154,959	1,312,742	1,128,054	1,339,647	827,220	453,929
Total	5,995,371	1,489,628	3,003,255	4,481,745	2,415,459	2,066,285

7.17. Other non-current liabilities

Following is the detail of the item "Other non-current liabilities.

Other payables and non-current liabilities	Value as at 31/12/2020	Value as at 31/12/2019	Change
Payables for contributions			
Payables for ert.nert connection contributions and other third party financed projects	4,712,441	4,821,222	(108,782)
Payables for aqueduct connection contributions	5,727,319	5,591,184	136,136
Payables for sewer connection contributions	2,712,703	2,661,205	51,498
Payables for ATO/Regional contributions on work in progress	504,483	504,483	0
Total non-current liabilities for contributions	13,656,946	13,578,095	78,852
Payables to others			
Accrued expenses and deferred income	5,077,556	4,384,032	693,524
Loans taken over	18,464,860	20,696,103	(2,231,243)
Guarantee deposits from users and customers	26,606,403	32,470,962	(5,864,559)
Other non-current payables	769,736	836,829	(67,093)
Total non-current liabilities to others	50,918,555	58,387,926	(7,469,371)
Total other non-current payables and liabilities	64,575,501	71,966,020	(7,390,519)

Another significant sub-item is represented by amounts due to users for the utility guarantee deposits of the integrated water services of € 26,606,403.

€ 5,077,556 refers to deferred income for contributions/connections, etc. and includes the portion of contributions received from users for the completion of aqueduct and sewer connections that will be posted under the revenues in periods after 31 December 2020 in connection with the depreciation of the related assets.

In conclusion, with regard to the loans undertaken, \in 18.464.860, this involves the portions due beyond 12 months, for:

€ 16,769,241 for payables to the ATO for "take over" corresponding to the loan taken out by the Province of Milan from Cassa Depositi e Prestiti, Ref. No. 4492128/00, required for financing decree No. 3/2009 of the ATO Authority of the Province of Milan, that CAP Holding S.p.A. took over in 2013. The portion due beyond 5 years amounted to € 8,813,964;

- € 1,120,199 for a debt, recorded during 2015, for the taking over of the Cddpp loan position No. 4430124, based on agreements signed by the then Idra Patrimonio S.p.A. to finance the "Idra Fanghi" (plant sold during 2015 by Idra Milano S.r.I.). It reached CAP Holding S.p.A. due to the merger of Idra Milano S.r.I. in 2015.;

 $- \in$ 575,419 for other mortgages and/or financial loans taken over, transactions that mainly took place further to the contributions in kind in CAP Holding S.p.A. (or its assignors, by CAP Gestione S.p.A. to CAP Impianti S.p.A., to its merged companies in 2013) of the assets of the water service by EELLs, now shareholders. The portion due beyond five years amounted to \in 420,485

The portions of these payables for the assumption of loans due within 12 months are shown under "other current liabilities".

The short-term portions of loan assumptions represent the sums due within 12 months of the loans taken over of € 2,482,298, the latter already commented on in greater detail in the item "current and non-current payables to banks and other lenders", section 7.16

7.18. Trade payables

This item includes payables relating to the normal performance of commercial activities by the Group, relating to the supply of goods, fixed assets and services of \in 66,597,618. At 31 December 2020, there were no payables in the financial statements with a residual duration of more than five years.

7.19. Other current liabilities

Following is a breakdown of the item "Other current liabilities".

Other current payables and liabilities	Value as at 31/12/2020	Value as at 31/12/2019	Change	
Payables to minority companies	-	18,872	(18,872)	
Payables to minority companies	0	18,872	(18,872)	
Payables to municipalities for services and other	956,517	1,172,080	(215,563)	
Payables to municipalities for invoices to be received	1,140,553	1,082,558	57,995	
Payables to municipalities for services and other	2,097,070	2,254,638	(157,568)	
Payables to local authorities for tariff quotas	428,278	945,611	(517,333)	
Payables to companies and consortiums for tariff quotas	3,928,725	2,941,464	987,261	
Payables to consortium villoresi for reclamation grants	2,763,384	2,367,547	395,837	
Payables to EGA for tariff quotas write-off law	793,660	3,672,327	(2,878,666)	
Payables to others for tariff quotas	7,914,048	9,926,949	(2,012,901)	
Advances	4,684,617	5,020,443	(335,826)	
Other payables to users and customers	520,442	534,313	(13,871)	
Advances from users	1,284,714	895,424	389,290	
Advances from municipalities for services and other	430,350	628,559	(198,209)	
Advances on ato Mi/Lombardy region contract contributions	8,622,068	8,622,068	0	
Other payables to employees	3,545,425	3,086,670	458,755	
Loans taken over	2,507,657	2,435,455	72,202	
Tax payables	1,580,522	3,553,957	(1,973,435)	
Payables to social security institutions	2,541,591	2,760,409	(218,818)	
Other liabilities	480,196	254,094	226,102	
Payables to others	26,197,583	27,791,392	(1,593,809)	
Total Other current liabilities	36,208,700	39,991,851	(3,783,151)	

With regard to comments on the sub-items "for tariff portions" as well as utility guarantee deposits, reference is made to the matters already indicated in section 7.17 where the portions due beyond 12 months of said liabilities are indicated.

Advances amount to \notin 9,052,418 as of 31 December 2020 and mainly regard advance payments for work in progress commissioned by private entities and public bodies (\notin 430,350) and the Lombardy Regional Authority (\notin 8,622,068).

It should be noted that part of this amount of € 8,528,005 refers to the long-term order "arrangement of the Cagnola Fontanile". Since these are advance payments, the value of work in progress on order has not been deducted from the total amount of advances.

The short-term portions of loan assumptions represent the sums due within 12 months of the loans taken over, already commented on in greater detail in the item "other current liabilities", section 7.16.

The above table illustrates the breakdowns of the amounts by individual item.

7.20 Liabilities available for sale

They amounted to zero as at 31 December 2020, in the same way as at 31 December 2019.

8. Notes to the consolidated statement of comprehensive income

8.1 Revenues

As at 31 December 2020, revenues amounted to € 236,650,408. The revenues achieved in relation to sales and services carried out during the year 2019, divided by the main Area Authorities, are shown below.

The Revenues recognised in the financial statements mainly comprise:

• Revenues from sales and services for the Area of the Metropolitan City of Milan.

Revenues for tariffs of the IWS within the Metropolitan City of Milan area determined as part of the Guaranteed Revenue Bonds amounted to € 212,803,750.

• Revenues from sales and services in the Monza Brianza area.

On the whole, revenues for the integrated water system tariffs within the province of Monza and Brianza determined as part of the relevant VRG amounted to \in 11,606,316 for 2020, entirely relating to the wholesaler share.

• Revenues from sales and services for the Pavia area

For the Pavia area, the entire tariff as at 1 January 2014 is due to the consortium company Pavia Acque S.c.a.r.l. pursuant to the agreement assigning the service entered into by said companies and the Pavia ATO Office on 20 December 2013.

Therefore, the Company does not have revenue consisting of a tariff for that area. The CAP Holding S.p.A., as a member of S.c.a.r.l. was appointed to carry out various infrastructure activities in some municipalities of Pavia, consequently registering among their income a consideration arising from the prices recognised to it by Pavia Acque S.c.a r.l. For 2020 the income amounted to € 3,525,013 (plant operation and maintenance).

• Other areas

These are residual presences of CAP Holding S.p.A., which acts by offering certain service segments (and managing them through an exchange rate) relating to the following cases:

- purification service carried out through the CAP Holding S.p.A. purifier located in the municipality of San Colombano al Lambro (enclave of the Metropolitan City of Milan in the territory of Lodi) for 3 municipalities in the Lodi area (Borghetto Lodigiano, Graffignana and Livraga) in which the main Operator is SAL S.r.l.;
- purification service rendered to 2 municipalities of the ATO of Como (Cabiate and Mariano Comense, for the latter case there are very few utilities) through the Pero purifier located in the Metropolitan City of Milan;
- purification service carried out by the Peschiera Borromeo plant (located in the Metropolitan City of Milan) that also serves the eastern districts of the City of Milan, where the main Operator is MM S.p.A.
In 2020, revenues for the province of Lodi amounted to \in 402,158, those for the province of Como amounted to \in 156,214 while those for the Metropolitan City of Milan amounted to \in 3,322,464.

As mentioned above, the management of the water service in the Municipality of Castellanza (VA) (aqueduct, wastewater treatment and sewerage) is also to be considered as metropolitan "tariff" (see Board of Directors resolution of the EGA of the Metropolitan City of Milan No. 1 of 31 May 2016 - Annexe A)

Note that the item "Tariff contingencies" includes various adjustments, related to electricity \in 1,429,266, supplementary bonus \in 855,203 and fire penalties and fixed charges \in 560,866. The most significant amounts are included under "Other revenues":

- € 512,271 for contract work in progress for the planning, site supervision and construction of works for the hydraulic repairs of the Cagnola water source, on behalf of the Lombardy Region, assigned to the company I.A.No.Mi. S.p.A. merged in 2013.
- € 190,094 for fixed charges;
- € 95,492 for joining the provision for hidden losses;
- € 32,858 for discharge authorisation;
- € 335,206 for sludge disposal.

8.2 Increases for internal works

The value of the item in 2020 amounts to \in 4,181,035, a change of \in 53,451 compared to 2019 (\in 3,792,407). These are hours of personnel capitalised on investment contracts.

8.3 Revenues for works on assets under concession

Revenues for work on assets under concession amounted to \in 88,134,590 for financial year ended 31 December 2020 (\in 96,534,625 in 2019). In accordance with IFRIC 12, these revenues correspond to the works carried out on the assets under concession owned by the company and used by it in the exercise of its characteristic activity.

8.4 Other revenues and income

Following are the details of the item "Other revenues and income" for the year ended 31 December 2020:

Other revenues and income	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
Sundry				
Other contingent assets/liabilities	4,476,905	5,517,176	(1,040,270)	-19%
Reversal of provisions	3,366,395	1,888,306	1,478,089	78%
Other revenues and income	3,146,705	2,156,211	990,493	46%
Compensation for damages and other reimbursements	764,155	1,355,237	(591,082)	-44%
Rental fees received	539,948	515,043	24,905	5%
R&D receivable	373,212	743,543	(370,331)	-50%
Penalties from suppliers and customers	309,963	1,059,678	(749,715)	-71%
Reimbursement for seconded personnel	306,115	0	306,115	100%
Insurance premiums to cover losses	0	27,775	(27,775)	-100%
Total sundry	13,283,398	13,262,970	20,428	0%
Operating grants				
Operating grants	680,680	602,330	78,350	13%
Total contributions	680,680	602,330	78,350	13%
Considerations				
Considerations from private parties and municipal authorities	1,805,138	787,665	1,017,473	129%
Total considerations	1,805,138	787,665	1,017,473	129%
Total other revenues and income	15,769,216	14,652,965	1,116,251	8%

The item "Other income" includes various contingent assets for \in 1,604,805, income for sundry works and services for \in 1,632,834, and reimbursement of costs for activities at the service of the waterfront carried out in 2020 for \in 691,475. The item "Other extraordinary income" mainly includes higher costs recognised in the tariff of \in 965,067 and works and services of \in 444,589. Note that the item "Reversal of provisions" includes the reversal of unused portions of the provision for "amicable settlements" for \in 1,569,380 (see also paragraph 7.14 above).

The item "Other reimbursements" includes various recharges to the subsidiary of \in 151,983 and to Water Alliance of \in 85,921, recharges for seconded personnel of \in 152,846 by other companies (Alfa S.r.I. and Core S.p.A.) and for legal expenses of \in 126,167.

8.5 Costs for raw materials, consumables and goods

A breakdown of the item "Costs for raw materials, consumables and goods" for the year ended 31 December 2020 is show below:

Costs for raw materials, consumables and goods	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
Materials destined for works	6,302,477	9,140,082	(2,837,605)	-31%
Electrical and hydraulic components	1,636,493	1,741,190	(104,697)	-6%
Fuels and combustibles	689,551	757,497	(67,946)	-9%
Consumable materials	640,667	714,558	(73,891)	-10%
Consumption metres	556,200	993,899	(437,699)	-44%
Consumable materials for safety in the workplace	522,001	420,889	101,111	24%
Electrical pumps	246,839	263,035	(16,197)	-6%
Wholesale water provisioning	187,071	225,901	(38,829)	-17%
Conditioning filters and raw materials for conditioning water	825	492	333	68%
Change in inventories	(130,694)	596,535	(727,229)	-122%
Provision for obsolete and slow moving goods	0	623,838	(623,838)	-100%
Total costs for raw materials, consumables and goods	10,651,430	15,477,915	(4,826,485)	-31%

This item mainly includes the costs for the purchase of consumables and maintenance of the Integrated Water Service.

8.6 Costs for services

A breakdown of the item "Costs for services" for the year ended 31 December 2020 is shown below:

Costs for services	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
Costs for industrial services	47,719,373	48,323,922	(604,549)	-1%
Works carried out for CAP, private individuals and municipa	35,104,648	36,006,873	(902,225)	-3%
Routine maintenance	16,814,755	13,629,848	3,184,906	23%
Work on plant and water houses	21,145	111,741	(90,596)	-81%
Demolition of tanks	14,076	12,722	1,353	11%
Total cost for industrial services	99,673,997	98,085,107	1,588,890	2%
Other administrative, general and commercial costs	21,689,742	20,039,585	1,650,157	8%
Allocation to provision for future expenses	2,023,488	1,972,754	50,734	3%
Total other administrative, general, commercial costs and provisions	23,713,230	22,012,340	1,700,890	8%
Repayments of loans and concession fees	4,076,965	5,048,080	(971,115)	-19%
Fee for use of well and crossings	1,883,603	1,901,417	(17,815)	-1%
Rental and licence fees	621,058	440,052	181,006	41%
Hiring	164,328	999,613	(835,285)	-84%
Contingent liabilities	1,210	6,468	(5,258)	-81%
Other sundry operating expenses	0	0	0	-81%
Total costs for use of third party assets	6,747,164	8,395,630	(1,648,466)	-20%

Total costs for services

130,134,391 128,493,077 1

1,641,314 1%

The services item includes \in 2,023,488 in annual provisions for risks and charges: Other provisions under this item are:

- € 151,449 for the provision for asphalt expenses as at 31 December 2020.

- \in 1,274,487 for the provision for expenses for the future reclamation of the areas of the purification plants.

€ 597,551 for the provision for expenses for future tank reclamation.

The item "other services" is broken down in the following table:

Costs for industrial services	Value as at 31/12/2020	Value as at 31/12/2019	Change	%
Electricity	29,813,718	31,282,566	(1,468,848)	-5%
Costs for sludge disposal	10,353,709	10,087,865	265,843	-3%
Other industrial costs	2,493,044	2,146,861	346,183	16%
Cleaning networks and plants	1,915,401	1,732,415	182,986	11%
Regeneration with active carbons	1,744,785	1,516,318	228,467	15%
Wholesaler's purification contract costs	1,398,716	1,557,896	(159,180)	-10%
Total cost for industrial services	47,719,373	48,323,922	(604,549)	-1%

The breakdown of "administrative, general and commercial costs" is shown below.

Other administrative, general and commercial costs	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
				0.5.0
Maintenance on equipment, sw, hw, vehicles and premises	5,444,634	4,024,795	1,419,838	35%
Other costs	2,823,739	2,965,961	(142,222)	-5%
Operating expenses for premises, cleaning and security	1,944,061	1,842,592	101,469	6%
Insurances	1,898,053	1,969,682	(71,629)	-4%
Personnel costs	1,878,758	1,896,806	(18,048)	-1%
Seadrome sponsoring and maintenance	1,818,049	468,756	1,349,292	288%
Specialist consultancy fees	1,494,324	1,535,167	(40,842)	-3%
Advertising and propaganda expenses	918,541	1,059,534	(140,993)	-13%
Administrative and technical professional services	595,579	689,987	(94 <i>,</i> 408)	-14%
Contingencies	558,955	254,825	304,130	119%
Bank charges and commissions	537,676	511,618	26,058	5%
Connectivity and social networking services	515,992	520,094	(4,102)	-1%
Fees and costs for corporate bodies and SBs	489,833	500,525	(10,692)	-2%
Meter reading	382,526	487,923	(105,398)	-22%
Water houses	254,430	311,501	(57,071)	-18%
Hydraulic risk study	134,593	999,818	(865,225)	-87%
Fotal Other administrative, general and commercial costs	21,689,742	20,039,585	1,650,157	8%

8.7 Costs for work on assets under concession

Costs for work on assets under concession amounted to \in 51,133,406 for financial year ended 31 December 2020 (\in 56,294,549 in 2019). They represent charges relating to works carried out on the assets under concession by third parties. Capitalised internal costs were recognised by nature within the specific Income Statement items.

8.8 Personnel costs

The breakdown of the item "Personnel costs" for the year ended 31 December 2020 is shown below:

Personnel costs	Value as at 31/12/2020	Value as at 31/12/201 9	Change	% change
Salaries and wages	32,691,503	32,561,505	129,998	0%
Social security charges	9,826,780	9,991,856	(165 <i>,</i> 077)	-2%
Employee severance indemnity	2,140,411	2,123,092	17,319	1%
Retirement benefits	256,437	259,216	(2,780)	-1%
Other costs	822,210	844,493	(22,283)	-3%
Total costs for personnel	45.737.339	45.780.163	(42.823)	0%

The following table shows the number of employees of the Company, broken down by category:

Level	Employed as at 31/12/2019	Recruits	Leavers	Employed as at 31/12/2020
Executives				
Permanent contracts	1	0	0	1
Term contracts	8	1	0	9
Total executives	9	1	0	10
Personnel with permanent contracts / apprenticeship	s			
Middle managers	29	3	4	28
Level 8	52	5	3	54
Level 7	51	17	7	61
Level 6	106	42	14	134
Level 5	177	49	39	187
Level 4	167	19	20	166
Level 3	140	17	10	147
Level 2	82	6	4	84
Level 1	2	0	1	1
Total permanent contracts and apprenticeships	806	158	102	862
Total term contracts	53	17	55	15
Total Gas-Water Sector CCNL	859	175	157	877
Total Employees	868	176	157	887

8.9 Amortisation, depreciation, write-downs and provisions

The breakdown of the item "Amortisation, depreciation, write-downs and provisions" for the year ended 31 December 2020 is presented below:

Amortisation, depreciation, provisions and write-downs	Value as at 31/12/2020	Value as at 31/12/2019 Restated	Value as at 31/12/2019	Change	% change
Amortisation/depreciation	47,579,045	42,557,543	46,269,845	5,021,503	12%
Bad debts	6,595,396	9,888,549	9,888,549	(3,293,154)	-33%
Total depreciation, amortisation and write-downs	54,174,441	52,446,092	56,158,395	1,728,349	4%
Provisions	2,979,781	2,011,569	2,011,569	968,212	27%
Total provisions	2,979,781	2,011,569	2,011,569	968,212	27%
Total depreciation, amortisation, provisions and write-downs	57,154,222	54,457,661	58,169,963	2,696,561	5%

Note that amortisation/depreciation is shown net of utilisation of FoNi.

The amount relating to other provisions, amounting to \in 2,979,781 refers to the adjustment of the provision for risks and future charges of:

- € 372,287 for provision for facility decommissioning for the headquarters of via Rimini.
- € 2,354,768 for the provisions for legal disputes.
- € 52,725 for the provision for sundry charges.
- € 200,000 for provision for risks on personal INPS contributions

The bad debt provision in 2020 amounted to \in 6,595,396.

8.10 Other operating costs

The item "Other operating costs" for the year ended 31 December 2020 is broken down below:

Other operating costs	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
Other contingent accets (lightlitics	E 670 104	9 464 900	(2 796 706)	220/
Other contingent assets/liabilities Taxes and duties	5,678,184	8,464,890	(2,786,706)	-33%
	1,302,794	781,467	521,327	
Operating expenses for ATO-AEEG entities	1,215,282	1,111,934	103,348	9%
Additional water bonus	363,236	878,582	(515,346)	-59%
Expense reimbursements to third parties	344,737	323,496	21,241	7%
Membership fees	186,210	180,747	5,463	3%
Sundry rights	129,867	295,028	(165,161)	-56%
Other sundry operating expenses	124,782	70,120	54,662	78%
Fines and penalties	65,447	26,447	39,001	147%
Costs for social welfare and donations	45,455	92,021	(46,566)	-51%
Books, magazines and newspapers	25,631	18,894	6,737	36%
Losses on loans	180	510,333	(510,153)	-100%
Capital losses on fixed assets	0	142,913	(142,913)	-100%
Total other operating costs	9,481,805	12,896,872	(3,415,067)	-26%

The item "Other negative contingencies" mainly refers to some adjustments to revenues from previous years (regulatory adjustments, credit notes to users).

8.11 Non-recurring operations

In 2020, the CAP Group provided for a series of cash donations in support of measures to combat the Covid-19 epidemiological emergency in favour of local authorities and Aziende Socio-Sanitarie Territoriali (ASST) in the area of reference, for a total cost of \in 9,939,434.

8.12 Financial income and expense

The balance of the financial income and expense totalled \in (4,424,201). Financial income as at 31 December 2020 totalled \in 1,248,392.

Financial income	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
Other interest income	1,240,612	1,972,065	(731,452)	-37%
Bank interest income	7,780	53,290	(45,510)	-85%
Total financial income	1,248,392	2,025,354	(776,962)	-38%

As at 31 December 2020, the financial expense amounted to € 5,672,593.

The breakdown of interest and other financial expense, relating to bonds, bank payables and others, is shown below:

Financial expense	Value as at 31/12/2020	Value as at 31/12/2019	Change	change %
Bank loans and mortgages	2,082,742	2,408,899	(326,156)	-14%
EIB loan charges	1,059,805	1,095,687	(35,882)	-3%
Assumption of loans	865,093	962,850	(97,756)	-10%
Swaps (to banks)	786,528	1,255,871	(469,343)	-37%
Bonds	509,029	623,344	(114,316)	-18%
Other	307,312	503,034	(195,722)	-39%
Financial expenses on rights of use	62,084	61,662	422	1%
Total financial expenses	5.672.593	6.911.346	(1.238.753)	-18%

8.13 Taxes

The item "Taxes" for the year ended 31 December 2020 is broken down below:

Taxes	Value as at 31/12/2020	Value as at 31/12/2019 Restated	Value as at 31/12/2019	Change	% change
IRES	3,632,665	10,933,208	10,933,208	(7,300,544)	-67%
IRAP	1,625,046	3,008,220	3,008,220	(1,383,174)	-46%
Recovery of deferred tax assets of previous financial years	2,866,516	3,345,481	2,298,612	(478,965)	-14%
Deferred tax assets for the year	(3,232,196)	(6,849,735)	(3,965,719)	3,617,539	-53%
Recovery of deferred tax liabilities of previous financial years	(85,027)	(154,214)	(154,214)	69,187	-45%
Deferred tax liabilities for the year	2,697,854	2,777,266	2,777,266	(79,412)	-3%
Tax from previous years	5,210	85,466	85,466	(80,256)	-94%
Total taxes	7,510,067	13,145,693	14,982,838	(5,635,625)	-43%

The description of the temporary differences that implied the recognition of deferred and prepaid taxes is provided in the schedules included in section 7.5 "Deferred tax assets", respectively.

9. Related party transactions

The consolidating company CAP Holding S.p.A. is entirely publicly owned. As at 31 December 2020, there are 197 Shareholders, of which 195 municipalities divided as follows: 133 municipalities of the Metropolitan City of Milan, 40 municipalities of the Province of Monza and Brianza, 20 municipalities of the Province of Pavia, 1 municipality of the Province of Como, 1 municipality of the Province of Varese. The Province of Monza and Brianza and the Metropolitan City of Milan (former province of Milan) complete the shareholders' register of CAP Holding S.p.A.

Note that the municipality of Cabiate (CO) by letter dated 19 October 2020 prot. 12856 requested the liquidation of the shareholding pursuant to articles 20 and 24 of Italian Legislative Decree no. 175/2006. CAP Holding S.p.A. contested and rejected to all legal effects this declaration of withdrawal in a note dated 6 November 2020.

The Company is under joint control (known as in house providing) of said public bodies, pursuant to article 2, paragraph 1, letter d) of Italian Legislative Decree No. 175 of 19 August 2016.

The Company made use of the exemption provided by paragraph 25 of IAS 24, and therefore is exempt from the information requirements referred to in paragraph 18 of IAS 24 relating to transactions with related parties and outstanding balances, including commitments, with respect to the served territorial bodies.

The main transactions that took place in 2020 between the Company and the local entities that jointly control CAP Holding S.p.A. are not individually relevant. As a whole, they are almost entirely related to the invoicing of tariffs for the integrated water service by the Company to these local authorities.

10. Contractual commitments, guarantees and concessions

There are various commitments, recourse obligations and sureties payable. Details follow.

Commitments amounting to € 33,647,779 of which:

- € 19,772,285 for residual instalments of mortgages to be repaid to local authorities for the use of their networks and plants in the period from 2019 to 2033; of which € 16,894,225 expiring beyond twelve months;
- € 13,875,495 as the estimated amount of the interest expense paid to lenders in the period after 1 January 2021, on loans taken out and/or taken over and to be repaid at the end of the reporting period.

Obligations vis-à-vis third parties of € 1,600,880 of which:

- € 662,602 for with-recourse obligations deriving from the demerger of Idra Patrimonio S.p.A. to the benefit of Idra Milano S.r.I. (this latter merged into CAP Holding S.p.A. in 2015) and BrianzAcque S.r.I.;
- € 893,690 for with-recourse obligations deriving from the granting to Pavia Acque S.r.l. of the business unit pursuant to Article 2560 of the Italian Civil Code (transfer deed dated 2016);
- € 44,588 for with-recourse obligations deriving from the granting to Pavia Acque S.r.l. of the business unit pursuant to Article 2560 of the Italian Civil Code (transfer deed dated 15 July 2008).

Sureties payable of € 96,833,358, of which:

- € 86,832,384 for guarantees issued by banks in favour of various entities in the interest of the Group (including the guarantee issued by Cassa Depositi e Prestiti on EIB financing for a residual amount of € 75,888,115 as at 31 December 2020);
- € 10,472,939 as insurance sureties issued in the interest of Cap Holding for assignment conventions of the IWS in favour of the AATO of Milan and the AATO of Monza and Brianza.

Other

Finally, the following are noted:

- Plants granted for use by local authorities of € 174,773,182 relating to networks, collectors and plants of the IWS owned by the Entities and used by the Company;
- € 63,670,899 for sureties receivable (received) for works.

11. Directors' and Statutory Auditors' fees

For the year ended 31 December 2020, the fees due to directors and statutory auditors amounted to € 239,403 and € 132,789, respectively.

Allowance for corporate bodies	Value as at 31/12/2020	Value as at 31/12/2019	Change	% change
Board of Directors' allowance	239,403	249,287	(9,884)	-4%
Board of Statutory Auditors' allowance	132,789	133,081	(292)	0%
Fees of the supervisory body	110,639	104,035	6,604	6%
Total allowances	482,831	486,403	(3 <i>,</i> 572)	-1%

12. Independent Auditors' fees

For the financial year ended 31 December 2020, the cost incurred by the Company for the external audit in 2019 amounted to € 27,499.

The external audit of these financial statements is entrusted to the company BDO Italia S.p.A. appointed, with approval of the relevant fee, by the Shareholders' Meeting of CAP Holding S.p.A., in the meeting of 1 June 2017, on a justified proposal of the Board of Statutory Auditors and subject to experiment of a negotiated procedure with comparison of offers, for the years ending on 31 December 2017 to 31 December 2025 (subject to the acquisition by CAP Holding S.p.A. of the status of Public Interest Entity, following the issue and listing, which then took place on 2 August 2017, of the ISIN bond Ioan XS1656754873, already commented on.

The Shareholders' Meeting of Amiacque of 20 April 2018 resolved to confirm the mandate for the external audit to BDO Italia S.p.A., for the period from 2018 to 2020, pursuant to article 13 of Italian Legislative Decree No. 39/2010 and Article 2409 bis of the Italian Civil Code, fixing the relative fee.

In addition to these, in 2020, the following costs will be paid to these independent auditors:

- costs attributable to the Company's obligations pursuant to AEEGSI Resolution No. 137/2016/R/COM
 of 24 March 2016 (auditing of the "regulatory" annual separated accounts, for the purpose of
 unbundling, inseparably entrusted with the external audit mandate) of € 6,000;
- costs relating to the assurance of the 2019 Sustainability Report, entrusted with the mandate of November 2017 for € 13,377;
- costs for Research and Development certification activities of € 7,000.

13. Transparency obligations for those who receive public funding

Article 1, paragraph 125, third period, of Italian Law No. 124/2017, as amended by Article 35 of Italian Decree Law of 30 April 2019 (converted into Italian Law no. 58 of 28 June 2019) "Decreto crescita" (growth decree), requires Italian companies to indicate the amounts received (cashed) in the previous year of "grants, subsidies, advantages, contributions or aid, whether in cash or in kind, which are not of a general nature and are not of a reciprocal, remunerative or compensatory nature," of an amount equal to or greater than \notin 10,000, by the public administrations and other subjects (certain public companies) indicated in the first period of the aforementioned paragraph 125.

Specifically, from an objective point of view, the information concerns disbursements that are "contributions", i.e. disbursements that do not refer to synallagmatic relationships, and also excludes advantages received by the beneficiary on the basis of a general scheme, such as tax benefits and contributions that are granted to all persons who meet certain conditions.

In conclusion, only sums (or utilities, in kind) received in the context of selective "donations" to the company would be subject to publication.

However, State aid and *de minimis* aid contained in the National Register of State aid referred to in Article 52 of the Italian Law No. 234 of 24 December 2012 are expressly excluded (from Article 3-quarter, paragraph 2, of Italian Decree Law 135/2018), if they are declared to exist and must be published as part of the said Register.

Note that, given the very wide reference to the "lenders" made by the first period of the aforementioned paragraph 125, objective difficulties may exist in knowing the subjective social situation of some lenders (referring to the case of "companies in public participation", for which there is no comprehensive public list that can be consulted).

The information to be provided is:

- the identifiers of the lender;
- the amount of the economic advantage received;
- a brief description of the type of advantage/title at the base of the assignment (cause)

With regard to the above, even though in our opinion they do not fall within the case referred to in Italian Law 124/2017, we inform you that the company has received the following contributions:

Issuing body	Amount	Description	
ATO AREA OFFICE OF THE METROPOLITAN	693,910	Grants related to assets	
CITY OF MILAN	095,910		
Total	693,910		

Finally, it should be recalled that the above rules still present numerous difficulties of interpretation, which lead to the conclusion that regulatory clarifications are desirable. In their absence, the above is our best interpretation of the rule.

14. Events after the reporting period

With regard to the continuation of the covid emergency also for 2021, there are no significant uncertainties regarding the continuity of the CAP Group.

However, it cannot be completely ruled out that the pandemic still underway (and the emergency measures adopted by the Public Authorities) may in the future affect the CAP Group beyond the extent already dealt with as a basis for preparing these financial statements, as a reflection of the effects induced by the crisis above all at a macroeconomic level, but also at a local and indirect level, and therefore also subsequently reflect on the company's credit management and liquidity.

On 5 February 2021, 1,584,000 shares of CORE - Consorzio Recuperi Energetici - S.p.A. were acquired by Cap Holding S.p.A. Share capital, divided into shares of €1 each, of €2,000,000.00 fully paid up. Companies' Register and Tax Code 85004470150 - VAT No. 02733400960, owned by the municipalities of Sesto San Giovanni, Cologno Monzese, Cormano, Pioltello and Segrate, equal to 79.2%.

On 22 March 2021, CAP Holding acquired a further 16,000 shares in the company CORE, owned by the Municipality of Cologno Monzese, equal to 0.80% of the company's capital. Therefore, CAP Holding's stake in CORE totals 80% of the share capital.

There are no other events to report that could significantly affect the situation at the end of the year.

The Chairman of the Board of Directors Alessandro Russo

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REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING OF CAP HOLDING S.P.A.

Pursuant to Article 2429.2 of the Italian Civil Code

Dear Shareholders,

During the financial year ended 31 December 2020, we conducted our work in accordance with legal requirements and with the Rules of behaviour of the Board of Statutory Auditors issued by the National Board of Accountants; we carried out the self-assessment on each member of the Board of Statutory Auditors according to these laws and rules and the outcome was always positive.

Supervisory activities pursuant to Article 2403 et seq. of the Italian Civil Code.

We monitored the compliance with the law and with the Articles of Association and the observance of the principles of proper administration.

We attended the Shareholders' Meetings and the meetings of the Board of Directors, in relation to which, based on the available information, we did not note any violations of the law or the articles of association, or transactions that were manifestly imprudent, hazardous, in potential conflict of interest or such as to compromise the integrity of the company's assets.

During the meetings held, we acquired information on the general trend in operations and the outlook for the future as well as on the most significant transactions in terms of size or characteristics, carried out by the company and its subsidiaries.

We met with the company BDO appointed to audit the accounts and no significant data or information emerged that needs to be highlighted in this report.

We did not receive any significant data or information from the Board of Statutory Auditors of the subsidiary company Amiacque S.r.l. that needs to be highlighted in this report.

We have not received from the Supervisory Bodies of the company and its subsidiary Amiacque S.r.I. any critical issues with respect to the correct implementation of the organisational model that need to be highlighted in this report.

We acquired knowledge and monitored, to the extent of our remit, the adequacy and operation of the organisational structure of the company, also via the gathering of information from the heads of the divisions and departments and we have no particular observations to report in this regard.

Finally, we monitored, to the extent of our remit, the adequacy and operation of the administrative and accounting system as well as its reliability to correctly represent the operating events, by obtaining information from the heads of the divisions and examining company documents. We have no special observations to make in this regard.

No complaints were received from the shareholders pursuant to Article 2408 of the Italian Civil Code.

During the supervisory activity, as described above, no further significant facts emerged that need to be detailed in this report.

Comments on the financial statements

The financial statements of CAP Holding S.P.A. for the year ended 31 December 2020 were drawn up in accordance with the International Accounting Standards as envisaged for "Public Interest Bodies" pursuant to Italian Legislative Decree No. 39/2010.

The financial statements were approved by the meeting of the Board of Directors held on 22 April 2021 and show a net profit of € 16,816,274.

The appointed company BDO on 7 May 2021 issued the Additional Report for the Internal Control and Audit Committee as per Article 11 of Regulation (EU) No. 537/2014, which will be duly forwarded to the Board of Directors.

In the said report, BDO illustrated, inter alia:

- o the annual confirmation of the independence of the independent auditors;
- o the main aspects of the audit;
- o the levels of significance for the consolidated and separate financial statements;
- o the Audit Plan;
- the scope and method of consolidation;
- the audit method and the methods applied to the consolidated and separate financial statements;

- the areas of the consolidated and separate financial statements;
- the activities carried out by the audit team dedicated to the CAP Holding S.p.A. Group.

In the same document, BDO also certified that no significant differences were reported in the auditing of the separate and consolidated financial statements, nor any significant shortfalls were identified in the internal control system and in the financial statements in relation to the financial reporting process; BDO listed the mandatory communications to the Board of Statutory Auditors and concluded acknowledging that the checks on the due keeping of the company accounts and the correct recognition of the operating events on the accounting records did not reveal significant aspects to be reported.

On 7 May 2021, we have received from BDO the reports envisaged by Articles 14 of Italian Legislative Decree No. 39/2010 and 10 of said Regulation, with regard to the separate and consolidated financial statements as at 31 December 2020, in which the Independent auditors expressed a positive opinion, without remarks or requests for information.

In the opinion of the Independent auditors, the management report is consistent with the separate and consolidated financial statements, drawn up in compliance with the legal provisions with no significant errors.

During the 2020 financial year, the company entrusted PWC with the Certification of the Consolidated Non-financial Statement for 2020 pursuant to Article 3, par. 10 of Italian Legislative Decree No. 254/2016 and Article 5 of CONSOB Regulation No. 20267.

We received this certificate on 7 May 2020. It shows that the non-financial statement of the CAP Group for the financial year ended 31 December 2020 was drawn up in compliance with the provisions of Articles 3 and 4 of the Decree and the GRI Standards.

Since we have not been entrusted with the external audit of the financial statements, we ascertained, via direct checks and information gathered from the Independent auditors, compliance with the legal provisions on the formation and layout of the separate and consolidated financial statements and the management report accompanying them.

Furthermore, we examined the measurement criteria adopted for the formation of the financial statements presented so as to check their compliance with the legal requirements and the economic and business conditions.

The Board of Statutory Auditors did not come across any atypical or unusual transactions, including those with related parties or inter-company transactions.

Conclusions

Considering that the results of the activities carried out by the Independent auditors contained in the audit report on the financial statements, which were made available to us on 7 May 2021, the Board of Statutory Auditors proposes to the Shareholders' Meeting to approve the separate financial statements of CAP Holding S.p.A. and the related proposal for the allocation of the operating result for the year, as well as to approve the consolidated financial statements of the CAP Group, for the period ended 31 December 2020, as proposed by the Board of Directors.

Milan, 7 May 2021

The Board of Statutory Auditors

Raffaele Zorloni, Chairman of the Board of Statutory Auditors;

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Giuditta Vanara, Standing Statutory Auditor.

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Antonio Traviglia, Standing Statutory Auditor;

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CAP Holding S.p.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

Consolidated financial statements at December 31, 2020

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

CTD/ACR/cbr - RC031132020BD1979





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Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014

To the Shareholders of `CAP Holding S.p.A.

Report on the financial statements

Opinion

We have audited the consolidated financial statements of Gruppo CAP (the Group), which comprise the statement of financial position as at December 31, 2020, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the the financial position of the Group as at December 31, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Gruppo CAP (the Group) in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

The Group Cap defined in year 2020 the change in the accounting method of the regulatory component Foni in order to offer more relevant information about the effects of business operations. The directors describe in the explanatory notes to the paragraph "FoNi tariff component, voluntary change of accounting standard" the reasons and effects on the financial statements of the Group Cap for this change of accounting policy.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree No. 38/05 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Parent Company Cap Holding S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Bari, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Roma, Torino, Verona

BDO Italia S.p.A. - Sede Legale: Viale Abruzzi, 94 - 20131 Milano - Capitale Sociale Euro 1.000.000 i.v. Codice Fiscale, Partita IVA e Registro Imprese di Milano n. 07722780967 - R.E.A. Milano 1977842 Iscritta al Registro dei Revisori Legali al n. 167911 con D.M. del 15/03/2013 G.U. n. 26 del 02/04/2013 BDO Italia S.p.A., società per azioni italiana, è membro di BDO International Limited, società di diritto inglese (company limited by guarantee), e fa parte della rete internazionale BDO, network di società indipendenti.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of consolidated the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of CAP Holding S.p.A. on June 1, 2017 to perform the audits of the financial statements of each fiscal year starting from December 31, 2017 to December 31, 2025.



We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n. 537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10

The directors of CAP Holding S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Group Cap as at December 31, 2020, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Group Cap as at December 31, 2020 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above-mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Group Cap as at December 31, 2020 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of December 30, 2016

The directors of Cap Holding S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of December 30, 2016. We have verified that the directors approved the non-financial statement.

In accordance with article 3, paragraph 10, of Legislative Decree No. 254 of December 30, 2016, the nonfinancial statement is the subject of a separate statement of compliance issued by other auditor.

Milan, May 7, 2021

BDO Italia S.p.A. signed by Claudio Tedoldi Partner

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