

**Consolidated financial
statements of the CAP
Group
as at 31 December 2022**

Table of Contents

Management Report	4
Financial Statements	84
Statement of Financial Position.....	85
Statement of Comprehensive Income.....	86
Cash Flow Statement.....	87
Changes in shareholders' equity.....	88
Explanatory notes to the financial statements	89
General information.....	89
Summary of Accounting Standards.....	89
Financial risk management.....	101
Going concern.....	103
Estimates and assumptions.....	103
Disclosure by operating segments.....	106
Notes to the Consolidated Statement of Financial Position.....	106
Notes to the Statement of comprehensive income.....	125
Related party transactions.....	132
Contractual commitments, Guarantees and Concessions.....	134
Fees to directors and statutory auditors.....	134
Fees to the Independent auditors.....	135
Transparency requirements for those who receive public funds.....	135
Events after the reporting period.....	136
Report of the Independent auditors	

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 Rimini 38, Milan, 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 2022 for the three areas of intervention identified, in compliance with the VISION indicated by the member municipalities during the meeting held on 26 June 2015, and in particular:

Environment;
Customers;
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 Parent company expressly accepted the ESG criteria and Sustainable Development Goals in Article 1 of its articles of association through a special amendment resolved by the extraordinary shareholders' meeting of 27 May 2021.¹

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, the CAP Group has placed at the heart of its business plan a true green deal based on dialogue and stakeholder participation, digitalisation and the circular economy.

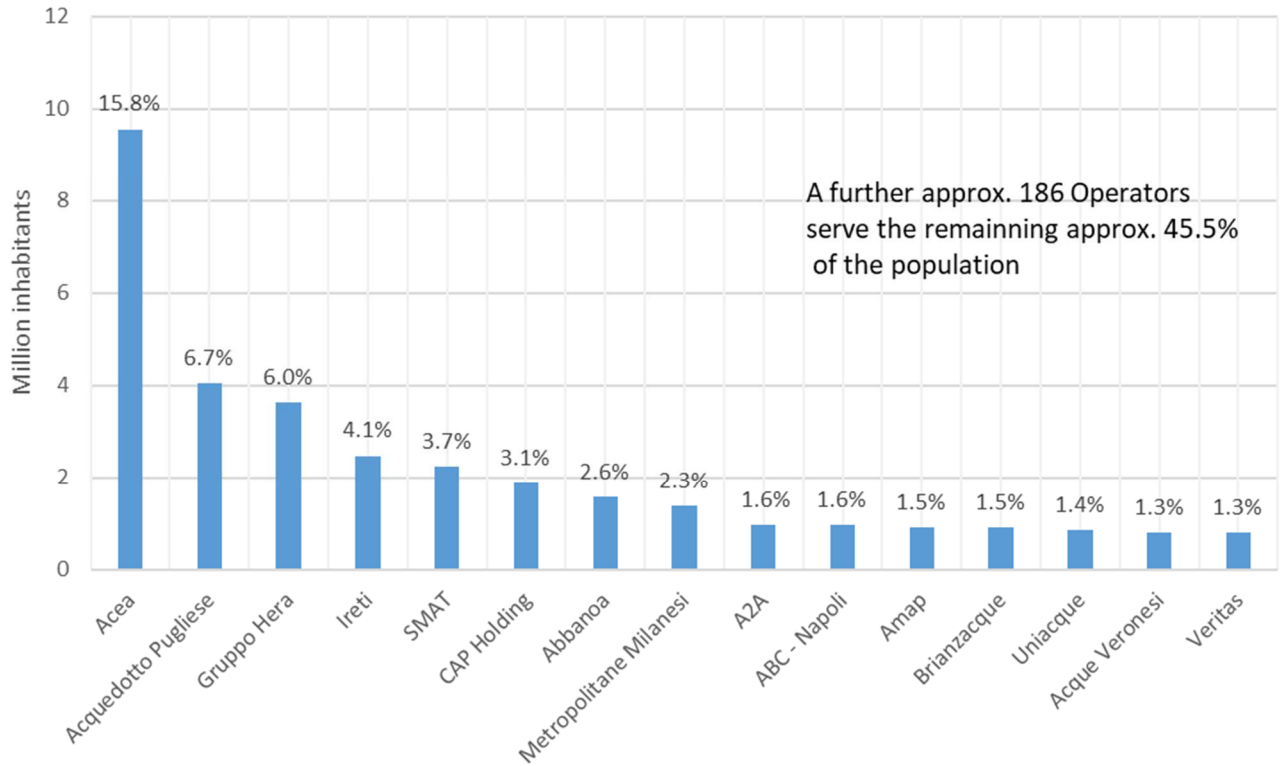
Group presentation

The CAP Group is one of the leading Italian operators (in terms of meters 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 2022 of around 2.4 million resident inhabitants served for wastewater treatment, about 1.8/1.9 million inhabitants for the aqueduct and sewerage.

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

¹ Article 1, paragraph 1, last sentence, reads: *"In carrying out its activities, the Company is inspired, also through its investee companies, by the Environmental, Social and Governance (ESG) criteria and by the Sustainable Development Goals (SDGs) approved by the UN General Assembly, and promotes the development of the circular economy, initiatives for environmental sustainability and energy transition and efficiency, as well as innovation and research for their achievement."*

Top 15 Integrated Water Service Operators by Population and Market Share, mln inhabitants*, %



(Source: CAP processing)

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

Company, Headquarters, share capital:

- AMIACQUE S.r.l., with registered office in Milan, enrolled in the Companies' Register under E&A Index No. 1716795, tax code and VAT no. 03988160960, with share capital of € 23,667,606.16 owned for € 23,667,606.16, equal to 100.00% as at 31 December 2022 (equal to that held as at 31 December 2021 and unchanged to date). The company is subject to the management and coordination of CAP Holding S.p.A.;
- Rocca Brivio Sforza S.r.l. in liquidation (as from 21 April 2015), with registered office in Milan, enrolled in the Milan Companies' Register under E&A Index No. 1130781, tax code and VAT no. 07007600153, with fully paid-up share capital of € 53,100.00 owned for € 27,100.12 holdings, equal to 51.04% as at 31 December 2022 (equal to that held as at 31 December 2021 and unchanged to date).

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

- PAVIA Acque S.c.a.r.l., with registered office in Pavia, enrolled in the Pavia Companies' Register under E&A Index No. 0256972, tax code and VAT no. 02234900187, with fully paid-up share capital of € 15,048,128 owned for € 1,519,861, equal to 10.1% as at 31 December 2022 (equal to that held as at 31 December 2021 and unchanged to date). Pursuant to Article 2359 of the Italian Civil Code, the

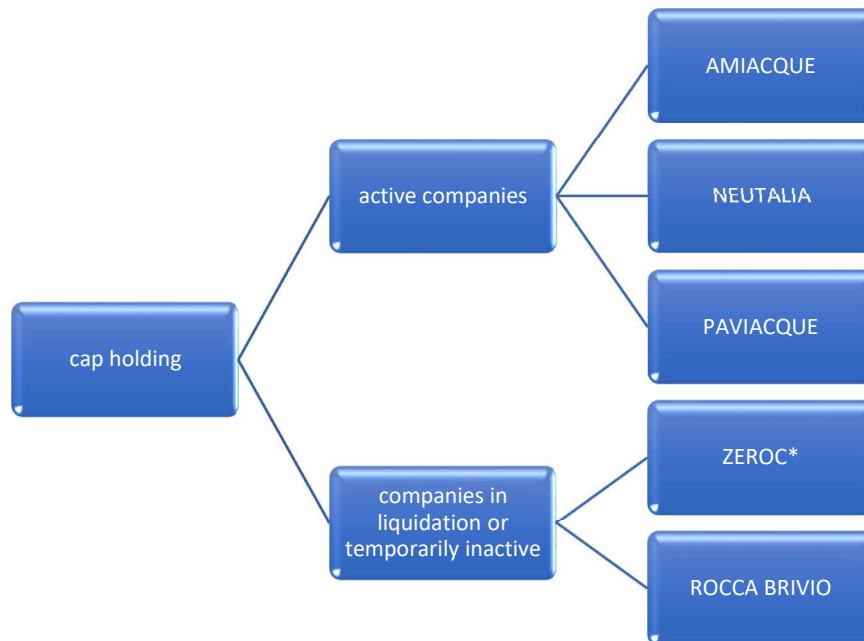
company is not related to CAP Holding S.p.A. The company operates in the integrated water service management sector;

- ZEROC S.p.A., with registered office in Sesto San Giovanni (MI), enrolled in the Milan Companies' Register under E&A Index No. 1501332, tax code and VAT no. 85004470150 (formerly CORE S.p.A.), with fully paid-up share capital equal to € 2,000,000.00 owned for € 1,600,000, equal to 80% as at 31 December 2022 (equal to that held as at 31 December 2021 and unchanged to date). 20% of the capital is owned by the municipalities of Sesto San Giovanni (MI), Cologno Monzese (MI), Cormano (MI), Pioltello (MI), Segrate (MI) and Cinisello Balsamo (MI). The company's main corporate purpose is waste management;
- NEUTALIA S.r.l., with registered office in Busto Arsizio (VA) enrolled in the Varese Companies' Register under E&A Index No. VA-383041, tax code and VAT no. 03842010120, with fully paid-up share capital equal to € 500,000 owned for € 165,000, equal to 33% as at 31 December 2022 (equal to that held as at 31 December 2021 and unchanged to date). The remaining capital is distributed as follows: € 165,000.00 to AGESP S.p.A. of Busto Arsizio (VA), € 165,000 to Alto Milanese Gestioni Avanzate S.P.A. (also known as Amga S.p.A.) of Legnano (MI), € 2,500 to AEMME LINEA AMBIENTE S.R.L. (also ALA SRL) of Magenta (MI) (the latter, in turn, subject to management and coordination and controlled by Amga S.p.A.), for € 2,500 to ASM AZIENDA SPECIALE MULTISERVIZI S.r.l. of Magenta (MI). The company operates in the sector of circular economy management of municipal solid waste and its differentiated fractions, hazardous municipal waste, hazardous and non-hazardous special waste and all waste in general (including waste from plants connected to the integrated water service).

Only AMIACQUE S.r.l. has been consolidated line-by-line with CAP Holding S.p.A., it being maintained 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 as at 31 December 2022, please see the Explanatory notes included in the financial statements.
- with regard to the company ZEROC S.p.A., the local authority shareholders jointly exercise control over the company similar to that exercised over their own services and a decisive influence on the Company's strategic objectives and significant decisions. In this sense, despite the majority shareholding held by CAP Holding S.p.A., ZEROC S.p.A. is not controlled by the latter.
- The company NEUTALIA S.r.l. is under the joint control of its shareholders (essentially as a joint venture) and is recognised in the financial statements of CAP Holding S.p.A. using the equity method (para. 10 of IAS 28), as permitted by IAS 31, para. 38.

The diagram shows the current "corporate" equity investments of the Group in companies as at 31 December 2022:



(*) pending completion of plant work.

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, paragraphs 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 Milan, total share capital of € 1,323,759 fully paid up, owned for € 243,689, equal to 18.4% as at 31 December 2022.

Cap Holding S.p.A. is also the sole member of the CAP Foundation (previously Lida Foundation), with headquarters in 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 assumed its current name.

The Foundation has a temporary sole director without any financial remuneration. The Foundation's balance sheet as at 31 December 2022 shows residual cash and cash equivalents of approximately € 91 thousand. In February 2022, the CAP Group made a donation of € 230,000 to the Foundation.

Having completed the project financed by Fondazione Cariplo, which has paid off the last tranche of the loan, it should be noted that CAP Foundation has submitted to the Board of Directors of CAP Holding, a founding partner, a development project for the years 2022-2023 that envisages a number of educational activities in schools and cultural activities also related to the new headquarters of the CAP Group.

A non-repayable loan of € 51,000 was requested and obtained for this development project called "water community and culture" as part of the call for tender 57/2022 of Fondazione di Comunità, which will be paid out upon completion in 2023.

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 decision-making 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).

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.



Water Alliance
Acque di Lombardia

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 aforementioned 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.

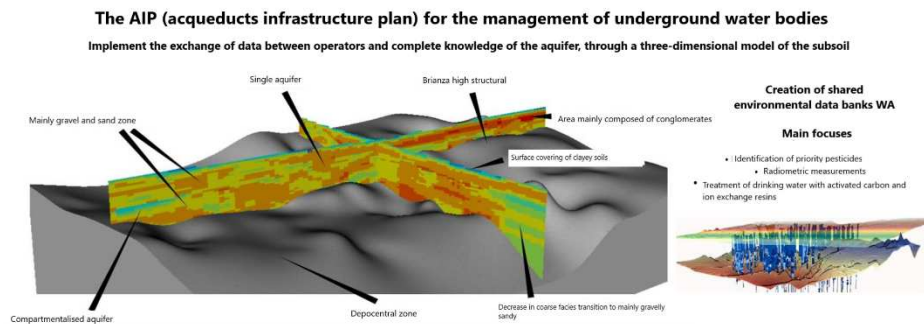
At the beginning of 2020, 5 new companies joined the Network: Acque Bresciane S.r.l., Alfa S.r.l., Como Acqua S.r.l., MM S.p.A., Tea S.p.A.

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.

By a deed signed on 7 June 2021 (volume 411912 / file No. 94359 Notary Public Pietro Sormani), the parties to the original network contract, as well as those who joined it subsequently, entered into a new network contract by which, in continuity with the previous one, they intended to amend and supplement the object and the Network Programme and the governance system in order to give the Network of Enterprises the form of a contractual joint venture also pursuant to Article 6 paragraph 1 letter b) of Italian Legislative Decree no. 50/2016.

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 protocols with Brianzacque s.r.l. and Lario Reti Holding S.p.A. were replaced with the "Convention for the implementation of the "Aqueducts Infrastructure Plan" between the providers of the integrated Water service and the Water Alliance Acque di Lombardia business network", signed in 2019 and expiring in 2021.



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; strategic collaboration agreement as from 1 January 2022 between integrated water service providers on the management of industrial users with the aim of identifying a systematic coordination between their respective Industrial User Management Offices in relation to the best management of environmental aspects in the purification basins affected by the inter-area territories and to promote mutual aid for the control of the territory in cases of emergency or need;
- 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.

On 12 June 2020 (Volume no. 18396 File no. 10835 Notary Public Enrico Maria Sironi), a network contract was signed between the CAP Group and Alfa S.r.l., 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.

On 14 February 2022, an addendum to the network agreement was signed with Alfa S.r.l. for the construction and management of an infrastructure network of sludge bio-drying plants to support the purification service in the Province of Varese (INTERBIODRY BASIN SYSTEM).

In May 2022, the Board of Directors of CAP resolved to take note of the conclusion of the development phase of the network contract with ALFA S.r.l. on 30 May 2022 and to continue with the subsequent consolidation phase of the contract under the terms indicated in the same network contract signed on 12 June 2020.

Sustainability and ESG policy

During 2022, some important steps were taken to meet sustainability requirements: the climate change risk report according to the TCFD framework was completed and published, and the GHG emissions certification according to the 14064 standard including scope 3 was obtained. Following the entry into force of Regulation (EU) 2020/852, which defines a taxonomy of environmentally sustainable activities, the CAP Group reported on sustainable activities according to the first and second objectives, systematising the process to achieve disclosure of revenues, costs and investments related to sustainable activities. Finally, in order to complete the process of developing sustainability governance and to prepare for the entry into force of the obligations related to the new [Directive \(EU\) 2022/2464 of the European Parliament and of the Council of 14 December 2022](#), known as the **Corporate Sustainability Reporting Directive** (CSRD), the Group's new Sustainability Policy was prepared and submitted to the Board of Directors of the Parent Company for approval in January 2023. This policy provides a clearer definition of the roles and responsibilities of the various corporate bodies and offices in the area of sustainability and risk and organises ESG activities by identifying corporate bodies in charge of control and operations.

Operating Performance in 2022

After a 2020 in which the Italian economy experienced an exceptional contraction due to the economic impact of the containment measures related to the Covid-19 health emergency, which depressed domestic demand in particular, to the point of a -8.9% fall in GDP and, after a 2021 undergoing a decisive rebound, with an increase of 6.6% compared to 2020, ²2022 saw a further increase in GDP, which tended to be 3.9% higher than in 2021.

However, 2022 was characterised by many uncertainties, especially at the macroeconomic level, related, in particular, to developments in the market for the supply of raw materials and, above all, energy.

It is well known that the increased geopolitical risk, in particular due to the armed conflict that broke out on 24 February 2022 between Russia (historically the main gas exporter to the EU) and Ukraine, has further accelerated the rise in energy prices that had already been underway since 2021.

In fact, after the collapse in 2020, energy prices had already started to rise in late spring 2021, which then accelerated and intensified in 2022, reaching unprecedented peaks in July and August 2022.

As is well known, the price of electricity on the market follows the price of gas.

Towards December 2022, the combination of still-high European gas stocks, mild climate and consumption restraint, as well as the substitution of countries of origin of gas (which, as we know, is largely supplied from abroad), showed clear signs of falling gas prices.

However, the uncertainties related to energy commodity prices cannot be said to be over, as the underlying geopolitical and economic scenario for 2023 remains uncertain and unstable, which is also reflected in the prospects for changes in Italian GDP.

In fact:

- in a few months' time, gas supplies will need to be replenished, and in the spring, hostilities between Russia and Ukraine (a source of uncertainty and hence volatility for investors), which have been hampered by the winter, may intensify;

² according to preliminary ISTAT estimates PRESS RELEASE id:280291

- according to preliminary estimates by ISTAT, the national consumer price index for the whole of the Community, excluding tobacco, rose by 11.6% in December 2022 compared with the previous year (it is estimated that more than 70% of total inflation in Italy was due to increases in energy prices³);
- activity in advanced countries - still affected by the repercussions of the war in Ukraine and high inflation - slowed down; activity in China, the world's second largest economic and political power, also slowed as a result of the measures introduced in October and November to contain the Covid-19 pandemic. International trade shows signs of slowing down;
- the ECB raised its key interest rates to support an early return of inflation to its medium-term target. At the ECB's Governing Council meeting on 2 February 2022, the official reference rate was set at 3%, with the possibility of further increases, followed by a further 50 basis points at the next meeting on 16 March 2023⁴. Since the functioning of a market economy depends crucially on the expectations of the economy, the orientation of central banks is important in such a context. The signal given seems to confirm the intention that, *after the end of quantitative easing*, European countries should return to placing their debt on the market without the help of European Central Bank purchases.

Given all the above, the CAP Group did not suffer any interruption of essential activities in 2022.

Despite the scenario of uncertainty, the pressure on prices and the increase in the energy costs already mentioned, both operating and investment activity, as detailed below, recorded high levels of performance in 2022, in continuity with previous years and without a break in continuity.

As will be explained in more detail below, 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. Moreover, it is a sector in which the tariff is an element, albeit partial, of elasticity with respect to costs that are only partly under the "control" of the service provider (known as exogenous costs). Energy is one of these costs.

This does not mean that there will not be "financial" effects in the short to medium term, because it takes time for the regulatory mechanisms to take into account (in the calculation of the tariff) the change in the costs necessary for production, especially when these are extraordinary and sudden, as is the case with the cost of electricity in 2022, as far as is relevant here. Cost representing the first operating cost item for 2022 of the CAP Group.

The operating performance is also 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 paragraphs 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).

³ Economic Bulletin no. 1 – 2023 Banca d'Italia, page 6.

⁴ ECB Press Release of 16 March 2023. The interest rates on the main refinancing operations, the marginal lending facility and the deposit facility will be raised to 3.50%, 3.75% and 3.00% respectively, with effect from 22 March 2023.

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. 145⁵ dated 30 December 2018, the TUSP then underwent an initial series of amendments.

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 (known as 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 2016 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 to 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 2010⁶ and has been therefore subject,

⁵ State Budget for the financial year 2019, paragraphs 721 to 724 of Article 1.

⁶ 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

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.

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 complex and on the management structure adopted by the ATO Authority of Milan and Monza Brianza, please refer to the following paragraph.

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 Regional Administrative Court requiring said decision to be cancelled (GR no. 2888/2017 and 2889/2017).

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.

With judgement no. 1212/2021 of 19 May 2021, the Lombardy Administrative Court cancelled all the deeds challenged by CAP Holding S.p.A. against the Municipality of Vedano al Lambro insofar as they did not include the maintenance of the equity investment in CAP Holding S.p.A. in the review of the corporate equity investments.

The Municipality of Vedano al Lambro appealed against the judgement of the Lombardy Administrative Court no. 1212/2021 notified on 13 October 2021, G.R. No. 9158/2021.

With judgement no. 1211/2021 of 19 May 2021, the Lombardy Administrative Court cancelled all the deeds challenged by CAP Holding S.p.A. against the Municipality of Nova Milanese insofar as they did not include the maintenance of the equity investment in CAP Holding S.p.A. in the review of the corporate equity investments.

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).

The Municipality of Nova Milanese filed an appeal notified on 16 December 2021 against the judgement of the Lombardy Administrative Court No. 1211/2021.

The Council of State fixed the hearing for discussion of both appeals on 6 June 2023.

By means of an appeal on additional grounds, notified on 17 February 2023, CAP also challenged before the Lombardy Regional Administrative Court - Milan the resolutions of the Town Councils with which the Municipalities of Nova Milanese and Vedano al Lambro confirmed the disposal of the stake in CAP also as part of the standard review of the stakes held as at 31 December 2021.

The Municipalities of Vedano al Lambro and Nova Milanese are shareholders of CAP at the time we draft this report.

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 Cabiato 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. The Municipality holds 1,554,528 shares.

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 (all 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.

With judgement no. 1213/2021 of 19 May 2021, the Lombardy Administrative Court cancelled all the deeds challenged by CAP Holding S.p.A. against the Municipality of Cabiato insofar as they did not include the maintenance of the equity investment in CAP Holding S.p.A. in the review of the corporate equity investments.

On 9 September 2021, the Municipality of Cabiato appealed against the aforementioned first instance judgement, in accordance with the summary procedure pursuant to Article 119 of the c.p.a. The appeal was filed on 1 October 2021.

CAP Holding S.p.A. and the Area Office of the Metropolitan City of Milan appeared in the appeal proceedings on 15 October 2021.

The Council of State upheld the appeal of the Municipality of Cabiato and with judgement no. 6862 of 4 August 2022 reformed the above-mentioned no. 1213/2021 of the Lombardy Regional Administrative Court - Milan.

As a result, CAP, considering the judgement of the Council of State to be flawed in several respects, filed an appeal with the Council of State (G.R. no. 8278/2022) in order to obtain the revocation of the aforesaid judgement no. 6862/2022 and, consequently, the confirmation of the decision of the Lombardy Regional Administrative Court, Milan no. 1213/2021.

The hearing to discuss this judgement was set for 4 April 2023.

By means of an appeal on additional grounds, notified on 17 February 2023, CAP also challenged before the Lombardy Regional Administrative Court - Milan the resolutions of the Town Council with which the Municipality of Cabiato confirmed the disposal of the stake in CAP also as part of the standard review of the stakes held as at 31 December 2021.

It should also be noted that some member municipalities of CAP have lodged a third-party opposition proceedings with the Council of State against judgement no. 6862/2022 of the Council of State, as they consider that this decision will inevitably have a negative impact on their legal jurisdiction, given the tenor of this judgement.

The application initiating the above-mentioned opposition proceedings was also served on CAP Holding.

The hearing to discuss these proceedings was also set for 4 April 2023.

By letter dated 24 October 2022, the municipality of Cabiato renewed its request for liquidation/payment of its shareholding (all 1,554,528 shares). CAP Holding S.p.A. contested and rejected this request to all legal effects in a note dated 3 November 2022.

Please note that the counterparty values its stake at € 2.15 million.

After having examined the merits of the dispute presented by CAP Holding S.p.A., as well as the entire course of the dispute in terms of the procedural exceptions and the preliminary investigation, CAP Holding S.p.A. considers that it is more likely than not that there is no current obligation on the part of the company towards the Municipality of Cabiato in relation to the notice of withdrawal received. This does not preclude the possibility that the ongoing dispute may also result in the confirmation of such liability.

In such a highly unlikely case, and after checking that the withdrawal process has been properly initiated by the municipalities, the Board of Directors will act in accordance with the procedure set forth in Article 11 of the Articles of Association. It will then proceed, if necessary, in accordance with the provisions of the Italian Civil Code, taking into account, in particular, the nature of the assets transferred and/or assigned to the public service by the municipalities and the company's profitability and financial prospects, including those resulting from a possible withdrawal.

At the time we draft this report, the Municipality of Cabiato, which belongs to the province of Como, is also a shareholder of CAP.

Italian regulations

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 ATO.⁷ 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 the CAP Group.

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 and more generally of local public services, have been and may be subject to specific regulatory changes.

The Reorganisation of the regulation of local public services of economic importance (tuspl).

⁷ ARERA: 16th report pursuant to Article 172, paragraph 3-bis, of Italian Legislative Decree No. 152 of 3 April 2006, containing "environmental regulations", no. 39/2022/I/IDR, 31 January 2023, page 6.

The most recent evidence of this is the publication in Official Gazette No. 304 of 30 December 2022 of Italian Legislative Decree No. 201 of 23 December 2022, which implements the delegation envisaged in Article 8 of Italian Law No. 118 of 5 August 2022 on the "Reorganisation of the regulation of local public services of economic importance" (hereinafter TUSPL), with effect from 31 December 2022.

This measure was taken by the Italian State in order to implement the commitments made with the European Union in the National Plan for Recovery and Resilience (RRP), which, in the case of local public services, includes limiting direct assignments, requiring local administrations to justify any deviation from tender procedures, justifying increased public participation in in-house companies, and limiting the average duration of such contracts.

Article 4 of the TUSPL establishes in general terms that its provisions apply "to all services of general economic interest provided at local level, complementing and, in the event of conflict, taking precedence over sector-specific regulations, in compliance with the law of the European Union and unless this decree provides for specific rules to safeguard and take precedence over sector-specific regulations".

However, with regard to the territorial organisation of the integrated water service, Art. 5 of the TUSPL provides a safeguard for "*existing sector-specific regulations on ATOs and catchment areas in public network services*". The following principles, however, remain firm:

- "units of the water basin or sub-basin or of contiguous water basins, taking into account the basin plans, as well as the location of the resources and the constraints on their destination, including those arising from custom, in favour of the population centres concerned;
- uniqueness of management;
- adequacy of management size, defined on the basis of physical, demographic and technical parameters".

Ad hoc performance is required by Article 17 for the assignment to in-house companies.

First of all, if the amount exceeds the Community thresholds, the decision to assign must be supported by a "qualified" justification "*which explicitly states the reasons for not using the market*" and illustrating "*the advantages for the community*" of this form of management - "with regard to investment, quality of service, cost of services to users, impact on public finances, as well as the objectives of universality, sociality, environmental protection and accessibility of services, also in relation to the results achieved in any previous in-house management". This assessment will have to take into account, among other things, the acts and indicators established by the Italian Regulatory Authority (in the specific case of the ARERA water service) and will be subject to additional transparency obligations (publication on the website of the entrusting body and transmission to ANAC).

Again with reference to in-house providing, Article 17 of the TUSPL introduces the obligation for the local authority to give an account - as part of the periodic rationalisation pursuant to Article 20, TUSP - "*of the reasons that, economically terms and in terms of service quality, justify maintaining the assignment of the service to in-house companies, also in relation to the results achieved in management*".

With regard to the duration of the assignment and the rules on indemnity, Art. 19 of the TUSPL expressly retains the relevant provisions contained in the sector-specific regulations.

Article 26 of the TUSPL on the determination of the tariff of the local public service is "*without prejudice to the powers of the regulatory authorities and the provisions contained in the sector regulations*" and is therefore not intended to affect the current structure of the integrated water service.

Essentially, the regulation of local public services aims to make more complex the direct "in house" assignments in order to take advantage of which the Entities will have to justify the reasons for not resorting to the "market", without prejudice to the fact that the current assignment of the Integrated Water Service in favour of CAP must be considered, to all intents and purposes, as definitively consolidated insofar as it has

been completed in accordance with the pro tempore rules in force at the time of such assignment, i.e. with the Agreement signed on 20 December 2013, subsequently updated (29 June 2016) on the basis of the provisions contained in the Resolution of the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) no. 656/2015/R/IDR.

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 regulation.

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 ARERA regulations affect many profiles; in addition to those of a tariff nature, there are those that regulate the technical and commercial quality of the water service, those that define the "framework" concessionary rules of the service, etc.

About the technical aspect of the service.

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.

With resolution 183/2022/R/idr of 26 April 2022: application of the incentive mechanism of the regulation of the technical quality of the integrated water service (rqti) for the years 2018-2019: there was the first application of the incentive mechanism of the regulation of the technical quality of the integrated water service with the assignment of bonuses and penalties to the operators for the activities of the two-year period from 2018 to 2019 (the method is described by resolution 917/2017/R/idr). Subsequently, procedures were initiated for quantitative evaluations for the two-year period 2020-2021 for both contractual and technical quality.

In particular, we would like to emphasize the result achieved by CAP Holding S.p.A., which, for the two-year period 2018-2019 of technical quality, achieved a bonus of € 1,540,395 without incurring any penalties (€ 739,076 for the year 2018 and € 801,319 for the year 2019, respectively), reaching **5th place in the Topsis Rank for the year 2019 relative to the level of excellence", behind only Hera S.p.A.**

Rank TOPSIS	TOPSIS score	ATO_gestore	ATO	Operator
1	0.85349	809_841	ATO 9 - RIMINI	HERA S.P.A.
2	0.84507	805_841	ATO 5 - BOLOGNA	HERA S.P.A.
3	0.84342	807_841	ATO 7 - RAVENNA	HERA S.P.A.
4	0.83951	808_841	ATO 8 FORLI' - CESENA	HERA S.P.A.
5	0.83644	308_14177	ATO MI - Metropolitan City	CAP HOLDING S.P.A.

On the other hand, in terms of commercial quality, in the ARERA benchmark for 2020, CAP is ranked among the "top" size operators, 1st for the MC2 indicator and 3rd for the MC1 indicator.

About the commercial aspects of the service.

For the commercial aspects, the reference regulations are mainly represented by the "Regulation of 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 610/2021/R/idr).

The methods for defining the tariff structure to be applied to water service users are identified by ARERA Resolution no. 665/2017/R of 28 September 2017.

ARERA also regulated aspects concerning delays in payment with resolution 311/2019/R/idr (Regulation of delays in payment in the integrated water service - REMSI) as amended and supplemented by resolutions 547/2019/R/IDR, 221/2020/R/IDR, 63/2021/R/COM and 610/2021/R/IDR.

With its subsequent Resolution no. 734/2022/r/idr of 27 December 2022, ARERA approved a methodological note aimed at highlighting the first preliminary investigation results emerging from the proceedings initiated with Resolution no. 69/2022/R/idr for the quantitative assessments envisaged by the contractual quality incentive mechanism for the integrated water service (RQSII).

In 2022, both macro-indicators MC1 and MC2 reached their target, i.e. the maintenance in class A.

Macro-indicators	Year 2021	Year 2022	Class	2022 objective
MC1	98.94%	98.51%	A	Maintenance > 98%
MC2	98.94%	97.75%	A	Maintenance > 95%

Moreover, none of the CDS indicators identified any critical issues, non-compliances or penalties envisaged in the ATO CMM technical specifications attached to the service concession.

As from June 2022, the CAP Group's Service Charter and its Regulations were also updated.

It also includes the new TIMSII service quality indicators related to consumption tracking, which will be operational as from 1 January 2023.

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) is based on the principle of the Full Cost Recovering⁸ 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 2021 (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).

In 2021, ARERA started the procedure for defining the rules for the update every two years 2022-23 of the tariff (Resolution of 13 July 2021 306/2021/R/idr) and the adoption of methods for the update every two

⁸ 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).

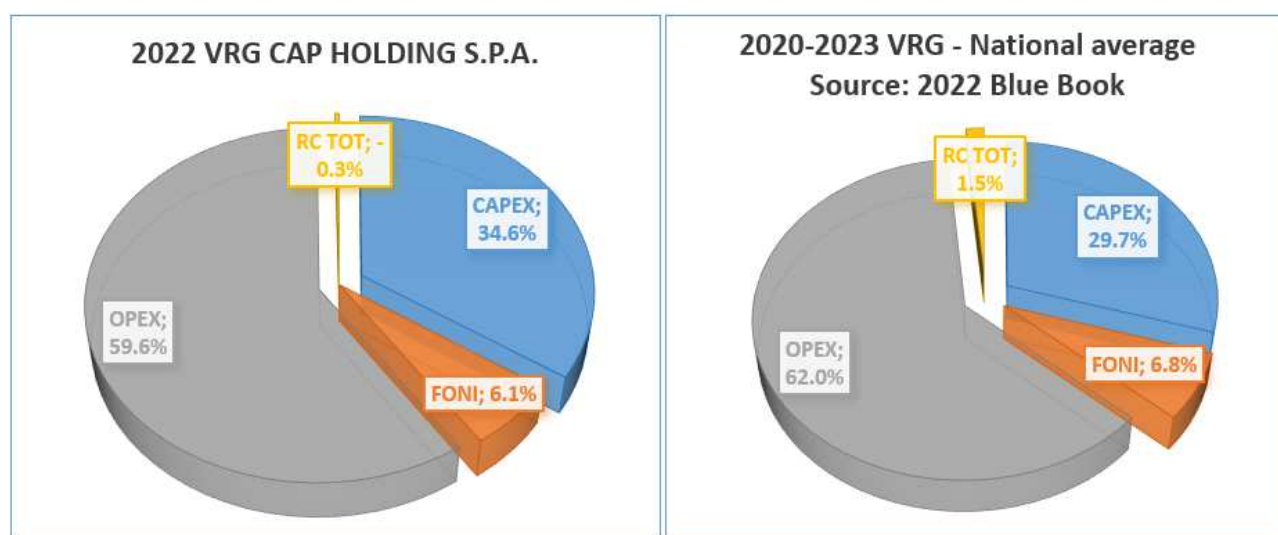
years (2022-2023) of the tariff arrangements for the integrated water service (resolution 639/2021/R/idr of 30 December 2021). In particular, see some comments below about the latter.

Like the previous ones, the approved Method 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).

With Decision 1/2022 - DSID of 18 March 2022, taken after resolution 639/2021/R/idr of the end of December 2021, ARERA began the complex procedure for updating the tariff arrangements for the two-year period 2022-2023 (the second two-year period of the third regulatory period).

In particular, the most recent tariff decisions of interest to the CAP Group are discussed below.

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:



* The VRG of the wholesale operators of ATO MB aqueduct and wastewater treatment were also considered in the calculation of the 2022 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 updated (and in some cases that can be adjusted *ex post*), mainly relating to the purchase costs of raw materials, electricity and fees and, starting from 2018, the costs for treatment sludge disposal.

Concerning the electricity opex, resolution 639/2021/R/idr of 30 December 2021 envisaged the possibility of anticipating already in 2022, temporarily and under various conditions, part of the expected increase in the

cost of electricity that are characterising the energy market. The resolution, which was challenged by several operators before the Lombardy Regional Administrative Court was followed by the subsequent Resolution 139/2022/R/idr. The latter started proceedings to redefine ARERA's intervention, specifically on the issue of tariff adjustment to changes in electricity costs. The proceedings culminated in Resolution 229/2022/R/IDR of 24 May 2022.

The resolution introduces measures to provide certainty to the system and to the various stakeholders. Without prejudice to the forecasts for the 2022-2023 tariff update set out in Resolution 639/2021/R/idr, for 2022, it provides for the possibility of submitting a justified request for the activation of forms of financial advance to cover part of the expenses incurred for the purchase of electricity.

The request, which must be submitted to the relevant EGA by 30 June 2022, is subject to a number of conditions and is granted by CSEA (Cassa per i servizi energetici e ambientali).

The resolution was followed by the subsequent measure 495/2022/R/IDR of 13 October 2022, which reopened the deadlines for requesting the financial advance.

The conditions are 1) absence (in short) of bankruptcy proceedings; 2) adoption and transmission to ARERA of the biennial update of the tariff arrangements (2022-2023); 3) having resorted, as part of the updating of the tariff arrangements in question, to the option of enhancing, for the year 2022, an additional tariff component of a forecast nature (*Op EEexp,a*) referred to in paragraph 20.3 of the MTI-3.

The advance to be paid by 31 December 2024, in two annual instalments, the first of which as at 31 December 2023, is equal to 35% of the recognised electricity cost component quantified for the purpose of updating the tariff arrangement for 2022.

In particular, it should be noted that, in the context of the tariff proposal in question (which is described in more detail below), the CAP Group first took steps to increase the additional tariff component of a forecast nature (*Op EEexp,a*) referred to in paragraph 20.3 of the MTI-3, and, subsequently, to request and obtain in December 2022 approximately € 10 million in financial advances from CSEA.

Again with reference to the costs for the procurement of electricity, on 21 February 2023, with Resolution no. 64/2023/R/IDR to start the procedure for the definition of the Water Tariff Method for the fourth regulatory period (MTI-4), ARERA determined the average cost of the sector (€0.2855/kWh) pursuant to the provisions of paragraph 1.2 of Resolution no. 229/2022/R/IDR mentioned above. The procedure leading to the definition of the MTI-4 must be concluded by 31 December 2023.

This average cost of the sector resulted in a shortfall of approximately € 12 million in the incurred cost of electricity. This shortfall could be made up in the next regulatory period by means of a special request to be submitted to ARERA, if the option currently announced is confirmed, since the Authority indicates in the same resolution that... *“also in the light of the most recent elements represented by the EGAs and the operators, it may be necessary to extend some of the instruments introduced by Resolution 229/2022/R/IDR in order to mitigate the effects of the extraordinary increase in the costs for the purchase of electricity recorded last year balancing the need to favour the maintenance of the economic-financial equilibrium of the operators with that of limiting the burden on users with a view to the sustainability of the tariff applied to them, also considering - with reference to the costs incurred in 2022 - the possible reiteration of the provisions relating to 2021 of paragraph 1.1, letter c), of the aforementioned Resolution 229/2022/R/IDR”*.

Capital expenditure refers to investments made up to the second preceding year and includes the corresponding costs for financial and tax expenses.

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.

By means of an appeal on additional grounds, notified on 28 February 2022, CAP Holding S.p.A also challenged the resolution of the Italian Regulatory Authority for Electricity, Networks and the Environment no. 639/2021/R/IDR of 30 December 2021, concerning the *“Methods for the update every two years (2022-2023) of the updating of the tariff arrangements for the integrated water service”*. The ground of appeal is aimed at contesting, also in this case, the manner in which the MTI-3 regulates the New Investment Fund (known as FoNI, Fondo Nuovi Investimenti).

Finally, we would like to point out Resolution no. 63/2021/R/com of 23 February 2021, which defines the methods of application of the system for the automatic recognition of social bonuses for electricity, gas and water for economic hardship, replacing the regulatory provisions of the previous “demand” system.

In fact, following the modification of the modalities for the disbursement of the social water bonus, (introduction of automatic recognition replacing the previous “demand” system by ARERA resolution no. 62/2021/R/COM) with Resolution no. 26 of 27 June 2022, the EGA of the Metropolitan City of Milan confirmed the quantification of the Integrative Water Bonus, fixed at € 15/year for each member of the household in economic hardship and established that the greater expense (which will increase from about € 862,000 to about € 2,300,000) will be covered by a reduction in the FoNI tariff component, as a form of compensation for the increase in the OPSocial tariff component earmarked to finance the Integrative Water Bonus for the years 2022 and 2023.

Regional regulations

At **regional** level, the reference regulations comprise regional law No. 26 dated 12 December 2003 as amended and supplemented (Regulation of local services of general economic interest. Standards regarding waste management, 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, during 2020, as indicated by the EGA of the Metropolitan City of Milan note prot. 1641 of 10/02/2020 in response to the note of CAP Holding S.p.A. prot. no. 1771 of 29 January 2020, the new management area of sewerage network maintenance was defined, which would include white water infrastructures from 2021.

The completion of the recognition activities was acknowledged, aimed at defining the consistency of the infrastructures and facilities dedicated to the handling of the scour rainwater, and an extensive activity was carried out to ascertain the state of affairs and the maintenance/investment requirements, performed jointly with the Municipalities, as well as the checking of the location of the infrastructures/facilities that must fall within the agglomerations pursuant to Article 74 of Italian Legislative Decree 152/06 and as amended and supplemented - identified by the ATO office by resolution of the Conference of Municipalities no. 2 of 11 June 2018 - given that they represent the boundary of the public sewerage, collection and purification services.

The state of the art concerning the approval of the Simplified Hydraulic Invariance Documents envisaged by Regional Regulation no. 7/2017 of 23 November 2017 is reported below.

CAP and the Region considered it in the interest of the parties to collaborate in order to support the Municipalities in the fulfilment of the obligations placed on them, in particular for the preparation of the Simplified Document of the Hydraulic Risk, defining its methods and contents for the Municipalities included in the area managed by CAP Holding. As a result, Cap Holding S.p.a. entered into specific Conventions with its member municipalities for the implementation of the principles of hydraulic invariance, by preparing the Simplified Document and contributing to the preparation of the Municipal Study.

This was followed by the start of the maintenance management activities of the white water networks.

In particular:

- On 23 November 2021, the last of the simplified documents was sent to the municipality of Truccazzano d'Adda, which is normally followed by the preparation of municipal hydraulic risk studies;
- To date, all 127 simplified documents have been prepared for the Municipalities of the partner CMMs;
- Of these, 121 were approved by resolution of the Municipalities, in addition to 1 non-partner, for a total of 122;
- During 2021, the Cap Group started the management of white water networks, in line with what was indicated in the ATO CMM note prot. 1641 of 10 February 2020 following the signing of specific deeds by the Member Municipalities;

- As at 31 December 2022, the maintenance management of 89 Municipal networks for a total of 656.43 km had been started, with the remaining municipalities expected to complete their management activities by the end of 2022.

The table below shows the Municipalities that have approved the simplified documents and conferred the management of white water networks as at 31 December 2022.

	MUNICIPALITY	DATE OF DOCUMENT APPROVAL	WHITE WATER MAINTENANCE MANAGEMENT START DATE
1	ABBIATEGRASSO	29/07/2020	06/07/2021
2	ALBAIRATE	30/07/2020	29/01/2021
3	ARCONATE	16/12/2019	27/01/2021
4	ARESE	05/03/2020	06/07/2021
5	ARLUNO	30/09/2020	21/12/2021
6	ASSAGO	14/12/2020	06/10/2022
7	BARANZATE	29/07/2020	
8	BAREGGIO	30/04/2020	02/07/2021
9	BASIANO	15/02/2021	
10	BASIGLIO	20/02/2020	12/03/2021
11	BELLINZAGO LOMBARDO	22/02/2022	04/04/2022
12	BERNATE TICINO	21/12/2020	27/01/2021
13	BESATE	19/12/2020	15/10/2021
14	BINASCO	23/11/2020	
15	BOFFALORA SOPRA TICINO	29/10/2020	01/03/2021
16	BOLLATE	30/06/2020	08/06/2021
17	BRESSO	30/11/2020	31/03/2021
18	BUBBIANO	18/11/2020	17/10/2022
19	BUCCINASCO	22/01/2020	
20	BUSCATE	31/12/2020	22/06/2021
21	BUSSERO	06/04/2020	
22	BUSTO GAROLFO	10/11/2020	11/06/2021
23	CALVIGNASCO	23/12/2019	26/09/2022
24	CAMBIAGO	22/06/2020	
25	CANEGRATE	29/06/2020	31/05/2021
26	CARPIANO	23/07/2020	24/03/2021
27	CARUGATE	30/07/2020	
28	CASARILE	23/11/2020	08/03/2021
29	CASOREZZO	08/04/2020	01/02/2021
30	CASSANO D'ADDA	08/10/2019	04/06/2021
31	CASSINA DE PECCHI	22/12/2020	
32	CASSINETTA DI LUGAGNANO	23/05/2020	
33	CASTANO PRIMO	30/11/2020	04/03/2021
34	CASTELLANZA	31/07/2020	06/07/2021
35	CERNUSCO SUL NAVIGLIO	21/05/2020	01/06/2021

36	CERRO AL LAMBRO	29/07/2021	
37	CERRO MAGGIORE	13/11/2019	15/06/2021
38	CESANO BOSCONI	24/11/2020	15/02/2021
39	CESATE	26/05/2022	
40	CINISELLO BALSAMO	05/10/2020	22/02/2021
41	CISLIANO	22/12/2020	20/10/2021
42	COLOGNO MONZESE	18/11/2019	17/02/2021
43	COLTURANO	12/04/2022	19/05/2022
44	CORBETTA	30/09/2019	01/06/2021
45	CORMANO	24/02/2020	
46	CORNAREDO	04/04/2019	
47	CORSICO	16/12/2020	
48	CUGGIONO	20/04/2022	27/09/2022
49	CUSAGO	28/03/2022	19/10/2022
50	DAIRAGO	30/11/2020	29/12/2021
51	DRESANO	04/06/2020	16/06/2021
52	GAGGIANO	30/11/2020	14/10/2022
53	GARBAGNATE MILANESE	31/05/2021	
54	GESSATE	29/11/2021	
55	GORGONZOLA	30/06/2021	04/01/2022
56	GREZZAGO	11/02/2022	
57	GUDO VISCONTI	28/09/2020	28/01/2021
58	INVERUNO	16/10/2019	07/07/2021
59	INZAGO	29/10/2021	15/03/2022
60	LAINATE	13/02/2020	23/03/2021
61	LEGNANO	11/05/2021	10/06/2021
62	LISCATE	14/03/2022	
63	LOCATE DI TRIULZI	21/12/2020	
64	MAGNAGO	23/09/2019	12/10/2021
65	MARCALLO CON CASONE	27/11/2020	29/01/2021
66	MASATE	08/02/2021	26/03/2021
67	MEDIGLIA	14/10/2019	06/07/2021
68	MELEGNANO	11/11/2020	
69	MESERO	30/03/2020	03/02/2021
70	MORIMONDO	20/12/2019	01/06/2021
71	MOTTA VISCONTI	15/12/2021	22/07/2022
72	NERVIANO	13/10/2020	29/06/2021
73	NOSATE	17/12/2019	14/08/2020
74	NOVATE MILANESE	30/11/2020	
75	NOVIGLIO	14/07/2020	29/01/2021
76	OPERA	27/11/2020	25/02/2021
77	OSSONA	18/11/2020	28/10/2022
78	OZZERO	29/05/2020	21/03/2022
79	PADERNO DUGNANO	15/09/2020	26/03/2021
80	PANTIGLIATE	09/09/2021	
81	PARABIAGO	20/12/2019	

82	PAULLO	20/11/2019	04/02/2021
83	PERO	20/12/2019	14/02/2022
84	PESCHIERA BORROMEO	12/10/2020	20/12/2021
85	PIEVE EMANUELE	13/07/2020	18/03/2022
86	PIOLTELLO	30/06/2020	01/02/2021
87	POGLIANO MILANESE	24/11/2020	19/07/2021
88	POZZO D'ADDA	20/07/2020	29/04/2021
89	POZZUOLO MARTESANA	23/12/2021	09/03/2022
90	PREGNANA MILANESE	20/05/2020	
91	RESCALDINA	02/03/2019	10/09/2021
92	RHO	21/10/2020	16/04/2021
93	ROBECCHETTO CON INDUNO	30/11/2020	01/04/2021
94	RODANO	22/02/2021	28/10/2020
95	ROZZANO	22/02/2021	11/05/2021
96	SAN COLOMBANO AL LAMBRO	27/02/2021	
97	SAN DONATO MILANESE	17/12/2020	
98	SAN GIORGIO SU LEGNANO	30/07/2020	24/09/2020
99	SAN GIULIANO MILANESE	27/05/2020	29/03/2021
100	SAN VITTORE OLONA	25/11/2020	
101	SAN ZENONE AL LAMBRO	25/09/2020	08/04/2021
102	SANTO STEFANO TICINO	25/03/2019	10/11/2022
103	SESTO SAN GIOVANNI	19/11/2019	20/12/2021
104	SETTIMO MILANESE	28/07/2020	15/02/2021
105	SOLARO	13/11/2020	05/08/2022
106	TREZZANO ROSA	15/06/2022	
107	TREZZANO SUL NAVIGLIO	11/06/2020	26/03/2021
108	TREZZO SULL'ADDA	28/01/2019	26/03/2021
109	TRIBIANO	25/03/2021	
110	TRUCCAZZANO	22/12/2021	09/03/2022
111	TURBIGO	04/03/2020	02/12/2020
112	VANZAGHELLO	25/05/2020	
113	VANZAGO	28/05/2021	01/02/2022
114	VERMEZZO CON ZELO	30/09/2020	31/03/2021
115	VERNATE	24/11/2020	14/11/2022
116	VIGNATE	26/11/2019	
117	VILLA CORTESE	28/07/2020	01/02/2021
118	VIMODRONE	20/05/2021	22/06/2021
119	VITTUONE	22/12/2020	16/02/2021
120	VIZZOLO PREDABISSI	27/11/2020	05/03/2021
121	ZIBIDO SAN GIACOMO	22/07/2020	

Following the agreement on hydraulic invariance with respect to the above-mentioned municipalities, a cooperation agreement was signed on 14 December 2021 between CAP and the Metropolitan City of Milan for the implementation of the RRP - Integrated Urban Plans project, provided for by art. 21 of Law no. 233 of 29 December 2021, the agreement of which is based on the hydraulic invariance agreement of 12 December 2019, approved with regard to CAP by Decree no. 58/2019 of the Metropolitan Mayor.

As a result, CAP Holding was identified as the party responsible for the implementation and technical and operational support, including the role of delegated contracting station on behalf of the Metropolitan City of Milan, of the RRP project called "Città metropolitana spugna" (Sponge Metropolitan City), which precisely envisages the use of CAP's design skills on hydraulic invariance, as well as the consequent urban redevelopment.

On 1 June 2022, the loan for the "Città metropolitana spugna" (Sponge Metropolitan City) project, amounting to more than € 50 million, which will involve 90 interventions for 32 municipalities in the Milan metropolitan area was obtained from the Ministry of the Interior, in agreement with the Minister of Economy and Finance and the Metropolitan City of Milan.

Organisational performance

In the Metropolitan City of Milan

The year 2022 represented for the CAP Group the ninth 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 2013⁹, which then had another step in 2015¹⁰);
- 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. was still active as at 31 December 2022 in the area of the former Province of Milan, provincial capital excluded, 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 and for which the ATO had long envisaged the regularisation through the transfer of the management of the service from MM S.p.A. to the CAP Group.

On this point, note that, by means of deed dated 27 December 2022 with vol. no. 9306 file no. 6474 of Notary Public M. Sormani of Milan, the CAP Group purchased from the Municipality of Milan, the aqueduct plants and distribution networks located in the municipality of Corsico, effective 1 January 2023.

At the same time, on 30 December 2022, CAP Holding S.p.A. signed a transfer agreement with MM S.p.A., which was already managing the aqueduct service in the municipality of Corsico, to take over the management of the same service from 1 January 2023. The transfer of activities was planned and coordinated between the companies in order to ensure continuity both in the provision of the service and related activities, and in the services offered to the customer and the invoicing of consumption (first invoicing of consumption expected by April 2023).

⁹ 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.

¹⁰ 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).

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.);
- 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, are 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.

Starting in 2021, on the basis of an inter-ATO agreement between the EGAs of the Metropolitan City of Milan and the Province of Bergamo, the wholesale purification service provided by Cogeide S.p.A. for a residual part of the metropolitan municipality of Cassano d'Adda (MI) has been regulated with the same approach.

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.

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. was also involved in the study, which is promoted by the Area Office of the Metropolitan City of Milan.

The study was 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.

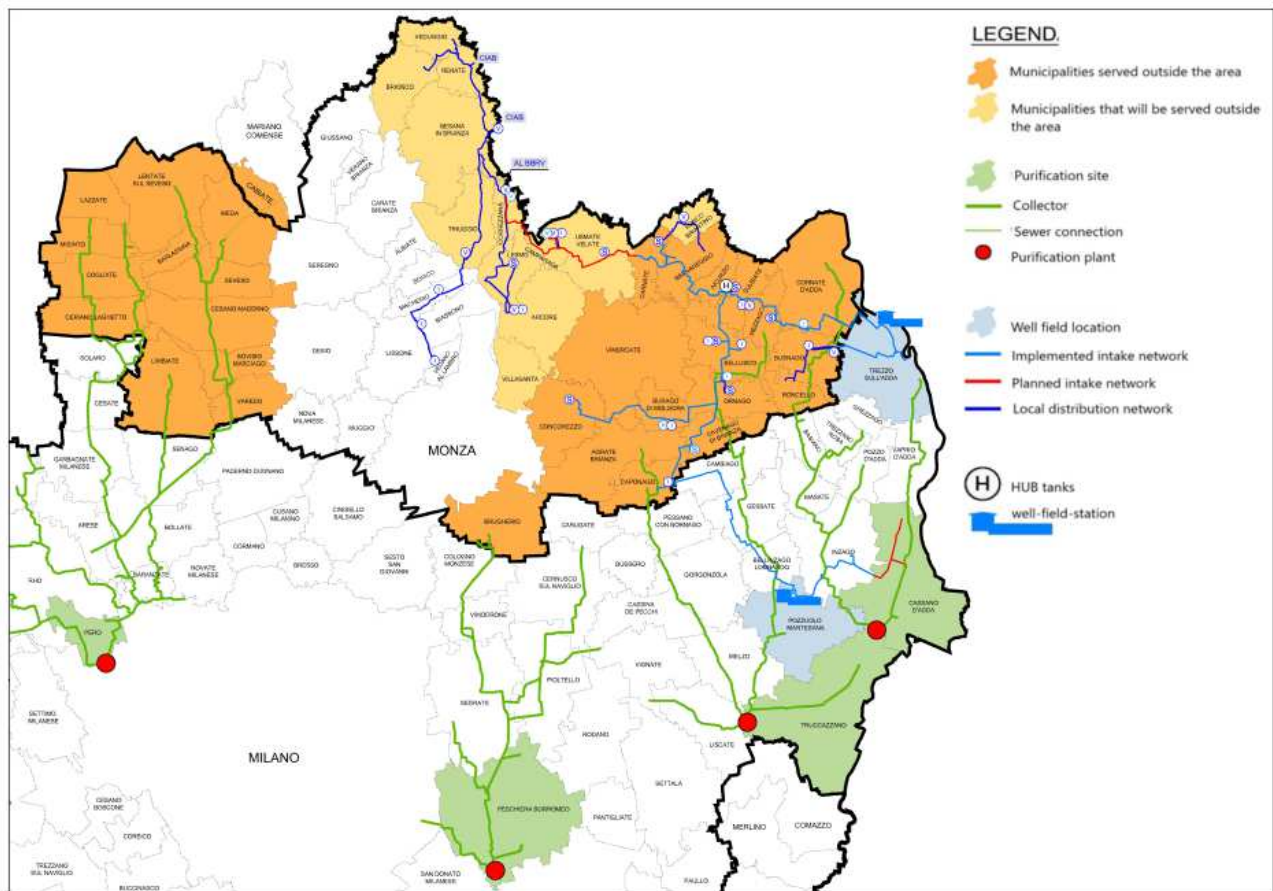
In 2022, the CAP Group continued to develop its involvement in activities that are not strictly water-related, although related to its core business, through the corporate vehicles Neutalia S.r.l. and ZeroC S.p.A. (see below).

In the province of Monza.

As at 31 December 2022, 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 2022 between the Milan and Brianza territories are shown below:



Another operator is present in the Monza area, appointed by the area governance body 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 were 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 specific activities for the shareholder municipalities of Monza according to the in-house providing model (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 acceptance 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 February 2018, notary public Trotta index 140.125/54.195.

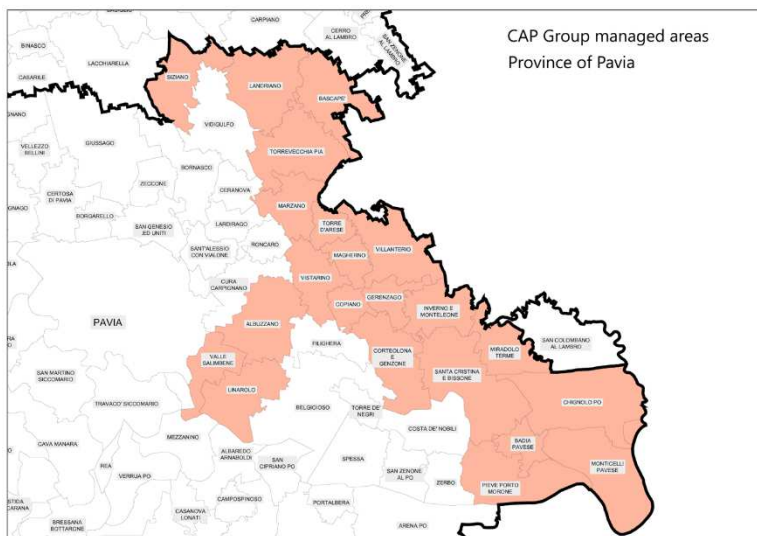
The assets of Pavia Acque S.c.a.r.l., in addition to a share capital of € 1,519,861 held by the CAP Group, include a capital reserve "registered" with reference to the same entity, amounting to € 12,872,952.

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 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.



In the province of Varese.

In July 2019, the CAP Group and Alfa S.r.l. (manager of the integrated water service in the Province of Varese) 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 the CAP Group and Alfa S.r.l., 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.

On 14 February 2022, an addendum to the network agreement was signed with Alfa S.r.l. for the construction and management of an infrastructure network of sludge bio-drying plants to support the purification service in the Province of Varese (INTERBIODRY BASIN SYSTEM).

In May 2022, the Board of Directors of CAP resolved to take note of the conclusion of the development phase of the network contract with ALFA S.r.l. on 30 May 2022 and to continue with the subsequent consolidation phase of the contract under the terms indicated in the same network contract signed on 12 June 2020.

With regard to the management of the integrated water service for the Municipality of Castellanza (VA), please see the section relating to the Metropolitan City of Milan.

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 (Cabiato 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 due to the above mentioned "wholesaler" situations, starting from 2020, the principle of the application of a special 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, was defined.

The switch to the exchange tariff necessarily had to take into account the aspects of tariff sustainability pursuant to resolution 665/2017/R/Idr (TICSI), envisaging a convergence mechanism from the "wholesale" tariff to the exchange tariff, where the difference between the two tariffs was more than 10%. Situation occurred for the purification service for the eastern districts of Milan (rendered in favour of MM S.p.A.) and the municipalities of Cabiato/Mariano Comense (rendered in favour of Brianzacque S.r.l. and Como Acqua S.r.l.).

In addition to the above-mentioned situations, mention should also be made of:

The water supply service provided to some hamlets in the municipalities of Ceriano Laghetto and Limbiate (managed by Brianzacque) through the closed aqueduct network commonly known as "Ex-Brollo";

The water supply service rendered by CAP Holding and SAL Società Acqua Lodigiana s.r.l. at the Borghetto Lodigiano (Casoni) aqueduct plant.

Special projects

CAP Holding S.p.A., in order to better achieve its corporate purpose, established Neutalia S.r.l. in the summer of 2021, in partnership with the AMGA Group of Legnano and AGESP of Busto Arsizio, and took over 80% of the capital of ZEROC S.p.A.

With regard to Neutalia S.r.l., at the time of its establishment on 30 June 2021 (deed drawn up by Notary Pietro Sormani of Milan, vol. 412073, file 94464) the founding shareholders AMGA Legnano S.p.A., CAP Holding S.p.A., AGESP S.p.A. and AEMME Linea Ambiente S.r.l., subscribed and paid up the share capital of € 10,000, divided into shares pursuant to Article 2468 of the Italian Civil Code, of which € 3,300 by CAP Holding S.p.A. Subsequently, on 14 July 2021 (deed drawn up by Notary Stefano Ajello of Milan, volume no. 70827 file no. 15470), the share capital was increased to € 500,000 with a share premium of € 2,500,000. CAP Holding S.p.A. participated in this transaction by contribution in kind (of a movable asset "turbine unit") of € 546,000 (divided between € 89,478.26 for share capital and € 456,521.74 to the share premium reserve) and in cash of € 440,700 (divided between € 72,221.74 for share capital and € 368,478.26 to the share premium reserve). After these operations, CAP Holding S.p.A.'s stake was 33% of the share capital. Subsequently, in November 2021, the shareholders granted Neutalia S.r.l. a total shareholder loan of € 2,030,000 (of which € 670,000 by CAP Holding S.p.A. on 8 November 2021). In June 2022, Neutalia requested a further cash contribution from its shareholders for a total of € 1,500,000, which CAP implemented in July 2022 for its portion of € 495,000. The capital on hand is also part of the needs relating to the revamping of the thermal treatment plant located in Borsano that has since become its property (first, Neutalia S.r.l. rented the relative business unit from ACCAM S.p.A., and then, having acquired 100% of its share capital, incorporated ACCAM itself with a merger deed dated 24 November 2022, under the hand and seal of the notary De Marchi of Milan). On 2 September 2021, CAP holding S.p.A. signed an "in-house providing contract with *Neutalia S.r.l.*

for the final disposal service of special screened waste from urban wastewater treatment". Moreover, on 2 November 2022, the CAP Group issued a surety for 33% of Neutalia S.r.l.'s lending bank, to guarantee a loan for a total principal amount of € 3,000,000.00, granted to the latter, with a 5-year term and expiring in 2027 (repayable in 10 deferred six-monthly instalments).

The initiatives commented on are part of the start-up and implementation phase of Neutalia S.r.l.'s business plan, which is however preparatory to a subsequent development phase, in which the company aims to stand as a player in the area's green transition.

Neutalia S.r.l. has taken the form of a B corp (in accordance with the provisions of Law 208/2015), whose general purpose is to pursue - in addition to the economic objectives proper to a business activity - purposes of common benefit and to operate in a responsible, sustainable and transparent manner. In particular, Neutalia S.r.l. aims to improve the quality of the environment and the territory by helping to reduce the environmental impact of waste and discards in terms of circular economy.

With regard to the company ZeroC S.p.A., in addition to CAP Holding S.p.A., the Municipalities of Sesto San Giovanni, Cormano, Cologno Monzese, Pioltello, Segrate and Cinisello Balsamo are listed as shareholders. The company aims, among other things, to manage the treatment of FORSU for the territory of its members, exploiting the strong synergies that the related facility will have with the thermal treatment of sewage sludge produced by CAP Holding S.p.A. Both facility sections, together called "bio-platform", are being built by CAP Holding S.p.A. at the production site in Sesto San Giovanni (MI), via Manin 181.

In particular, on 5 February 2021, 1,584,000 shares of CORE - Consorzio Recupero 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. In May 2021, the company changed its name to ZeroC S.p.A.

In February 2023, the company Montello S.p.A. notified three appeals before the Lombardy Regional Administrative Court - Milan, against the Municipality of Sesto San Giovanni, the Municipality of Segrate and the Municipality of Pioltello, respectively for the annulment, with a request for the prior granting of appropriate precautionary measures, of the resolutions of the Municipal Council with which the above-mentioned Municipalities in January 2023 ordered the direct "in-house providing" assignment to the company ZEROC S.p.a (formerly CORE S.P.A.) of the service of "disposal, treatment and recovery of the organic fraction "FORSU" and related production and sale of biogas and biomethane".

On 22 March 2023, the date set for the hearing to discuss the suspension, the appellant Montello withdrew the application for precautionary suspension relating to the appeals filed against the Municipality of Sesto San Giovanni and Segrate and the Lombardy Regional Administrative Court set the hearing on the merits for 4 October 2023. On the other hand, the discussion on the request for a precautionary suspension concerning the appeal filed against the municipality of Pioltello was held. On 3 April 2023, the Lombardy Regional Administrative Court published the order by which it rejected the precautionary application made by Montello S.p.A. and set the public hearing on the merits for 4 October 2023.

Summary of the macro-organisational-strategic 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 ¹¹and 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, the management of the Monza area was settled and rationalised, in agreement with the manager of that area, up to the formal recognition of the CAP Group's role as wholesale service provider for that area until the end of the concession that the CAP Group has for the Metropolitan City area.

At the same time, the rationalisation process in the Pavia area was completed, with a series of contributions between 2016 and 2018, completing the 2008 one, aimed at strengthening the equity of the subsidiary Pavia Acque s.c. a r.l., manager of that area.

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

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 2021, the network contract allowed ALFA to complete the process to become Integrated Operator of the province of Varese and CAP to share expertise acquired especially in the IT field with the opening of platforms in the form of SaaS. In 2022, an addendum to the network agreement was signed with Alfa S.r.l. for the construction and management of an infrastructure network of sludge bio-drying plants, as shown in the paragraph "Other areas".

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.

With resolution no. 6 of the Board of Directors of the Area Office of 25 January 2021, a preferable solution was identified, among those identified by the aforementioned Study, as that of an aggregative assumption through the partial demerger of the MM S.p.A. business unit to the benefit of Cap Holding S.p.A. In summary, the subject matter of the demerger would be merged into CAP Holding S.p.A. and the shareholder of the demerged company (the Municipality of Milan) would be assigned the stake in the company.

The study ended - as per the resolution of the Board of Directors of the Area Office of 29 November 2021 - with a report sent to the Metropolitan City on the characteristics of the project to establish the Sole Operator and the benefits that would result from it.

If 2020 was characterised by the Covid-19 pandemic, tackled by the CAP Group in terms of a "Contingency Plan" aimed at guaranteeing business continuity under safe conditions with satisfactory results and recovery of most of the objectives set before the health crisis, 2021 was a year of consolidation and development of corporate strategies.

In 2022, CAP Holding S.p.A. continued its involvement in activities that are not strictly water-related, albeit related, such as the "forsu" project at the symbiosis bio-platform for the optimal use of organic waste" at the Sesto purification plant, through the corporate vehicle ZERO C S.p.A., and synergies with other industrial

¹¹ Partial demerger for the benefit of P.I.L. S.r.l., later merged into S.A.L. S.r.l.

entities operating in the waste field for the treatment of the screenings produced by purification plants, through the corporate vehicle Neutalia S.r.l.

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.

Internal Control and Risk Management System

The CAP Group has an internal control and risk management system integrated into the organisational, administrative and accounting structure and, more generally, into corporate governance, which ensures compliance with the law and company procedures, the protection of company assets, and contributes to the management of its activities by giving solidity to the accounting and financial data processed, and guarantees the management of risks and the compliance of company operations with regulations.

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) and check the risk appetite (e.g.: Risk Management and Corporate Compliance department);

- **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 Risk Management Dept. & Compliance function, whose manager reports hierarchically to the General Manager 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;
- The Risk and Sustainability Control Committee, which plays a steering and supervisory role for those involved in governance, sustainability and risk-related activities, as well as assuming an investigative role for the Board of Directors on matters within its remit and a supervisory role.

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, 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, such as the Corporate Governance Code and the 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. In order to pursue the outlined objectives, the ERM model is based on an approach that is:

- **Strategic** in that it provides CAP Holding's Management and Board of Directors (BoD) with relevant information on risk factors related to the Group's strategic objectives;
- **Enterprise-wide** extended to all types of risks potentially significant for the CAP Group, also integrating environmental, social and governance risks;
- **Value-driven**: it focuses on the most significant/identified risk events that are material to the Group, which could impact the company's value drivers, the achievement of strategic objectives and/or the sustainability of the business in the medium to long term.

The benefits expected from the model and that CAP Group intends to pursue are:

- **Awareness** of the risks to which the company is exposed and the overall risk profile;
- **Confidence** in the achievement of set goals and the ability to respond to changes in the context;
- **Consistency** of objectives and strategies with the risk profile assumed;
- **Assumption of responsibility** of players involved in risk management and monitoring;
- **Transparency** in relation to the company's risk profile vis-à-vis the Board of Directors and Management on risk;
- **Integration of** risk culture into business processes.

The operation and governance model of the ERM model.

On 15 October 2020, the Board of Directors of CAP Holding S.p.A. approved the "Enterprise Risk Management" policy, which defines the ERM Governance model of the CAP Group, 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).

Due to recent organisational and business developments in the company, the ERM Policy was updated in July 2022.

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 results of the risk assessment and monitoring and the related mitigation actions are presented to the Management Committee and the Risk and Sustainability Control Committee with which the risk profile and intervention priorities are discussed, as well as with the Board of Directors, which plays a steering and supervisory role.

In this context, the ERM unit also carries out awareness-raising and training activities for directors on the methods applied and evolutions of the CAP Group's ERM model.

The results are also shared with the Internal Audit Office, which uses them in the preparation of audit plans, and with the QAS Office. Moreover, the results are also shared with the CSR Unit to complement planning and in defining strategies for managing ESG issues.

A characteristic element of the CAP Group's ERM Model is the assessment of the impact of each risk event on two macro-categories of impact: on the CAP Group and on the environment and society.

The risks identified through the ERM process are classified into financial, operational, strategic and legal & compliance. Among these risks, risks related to ESG issues are also identified.

Strategic	An ineffective implementation of strategic initiatives could jeopardise the achievement of the set goals. These risks arise for both short-term and long-term initiatives, as well as for development and investment activities.
Financial	Risks related to capital availability, credit and liquidity management, and/or related to the volatility of key market variables (interest rates, commodity prices, etc.).
Operative	CAP GROUP is exposed to the risk of plant downtime or critical maintenance management issues. Moreover, it also includes risks related to the conduct of business activities with negative consequences on the Group's performance and operations
Legal&Compliance	Risks related to the management of legal and contractual aspects and compliance with internal regulations, regulatory frameworks and/or laws and regulations applicable to the Group.

Integrated Quality Management System.

The CAP Group adopted an Integrated Policy, updated in October 2022, 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 2022, the CAP Group confirmed its focus on maintaining the certifications already achieved in the past, i.e. ISO 9001, ISO 14001, ISO 45001, ISO 50001, ISO 22000, ISO 17025 and SA 8000, as well as the Carbon Footprint for the year 2021 in relation to the emissions of the Group companies.

The new certification for circular economy projects according to AFNOR XPX30-901 was also confirmed.

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

The companies of the CAP Group operate on the basis of a Corporate Management System, which consists of an Organisational System and a Regulatory System that define roles, responsibilities, powers and rules of behaviour to be followed in running the company business.

Both Group companies have an Ethical Commitment 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 aforementioned documents have been constantly updated to acknowledge the legislative amendments introduced by the legislator as well as organisational and business innovations and were reviewed with the aim of harmonising at Group level the processes and procedures, while respecting the autonomy of the two companies.

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.

Moreover, in January 2023, both CAP Group companies approved the new *"Ethical Commitment of the CAP Group"*, which consists of the *"Code of Ethics of the CAP Group"*, the *"Code of Conduct for Suppliers"* and the *"Anti-Corruption Policy"*.

The Ethical Commitment is addressed to all persons within the CAP Group and to all those who, in different ways and with different responsibilities, work or cooperate directly or indirectly on behalf of or in the interest of the companies. All recipients are required to observe and, insofar as it concerns them, actively promote ethical and behavioural values through example and leadership.

The *"Code of Ethics"* is a general principle of Model 231, which cannot be derogated from, and brings together the main ethical values that inspire the CAP Group's actions. The document was updated with a particular focus on international sustainable development objectives, to show stakeholders the importance Amiacque attaches to the concept of sustainability.

The *"Code of Conduct for Suppliers"* was prepared with the intention of providing a specific and comprehensive document aimed at describing the principles and values on which relations between the companies of the CAP Group and the economic operators with whom they deal are based. In addition to giving significant space to sustainable development objectives, the document highlights how the CAP Group requires suppliers to play an active role and share a common value of promoting a sustainable and responsible business model over time.

The *"Anti-Corruption Policy"* completes the framework for the prevention of offences provided for by Italian Legislative Decree 231/01 and Italian Law 190/2012 by defining the values, principles and responsibilities in the fight against corruption.

The latest update added the sensitive activity of *"partnerships"* and further detailed unlawful behaviour.

The framework of the Anti-corruption policy is completed by the UNI ISO 37001:2016 management system, an international standard adopted by the parent company as the first integrated water service company and aimed at preventing, identifying and responding to corrupt phenomena.

By resolution of the Parent Company's Board of Directors of 29 March 2021 and Amiacque's Board of Directors of 27 May 2021, the *"Tax Strategy of the CAP Group"* was approved as a document in which the CAP Group defines the objectives and principles adopted in the management of taxation - both its own and that of Group companies - and outlines the main guidelines for applying these principles and ensuring uniform tax management. The tax strategy is part of the broader design of the Internal Control and Risk Management System adopted by the CAP Group.

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

On 23 June 2014, each management body of the two companies of the Group 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 in the 2022 National Anti-Corruption Plan, the Boards of Directors of both companies, in the sessions held on 26 January 2023 and 31 January 2023, approved the update of the Three-year corruption prevention and transparency plans - years for the period from 2023 to 2025.

The PTPCT is the tool through which the CAP Group plans actions and measures to prevent corruption and organises internal activities to implement transparency regulations.

In coordination with the Ethical Commitment and Anti-Corruption Policy, the Plan confirms the CAP Group's commitment to promoting ethical and responsible business conduct, in full compliance with applicable laws, regulations, standards and guidelines.

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 28 April 2021, 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.

CAP Holding S.p.A. is registered on the WebRating platform activated by the AGCM, which is now the only tool for obtaining or renewing the Rating and for notifying the Authority of any changes to the data contained in its Chamber of Commerce certificates and of any event affecting its possession of the requirements. The CAP Group submitted an application to AGCM, through the above-mentioned platform, for renewal of its legality rating, which was renewed on 14 March 2023, still confirming the award of the maximum three-star rating, with a duration of two years.

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.

According to Article 9 of Italian Legislative Decree no. 33/2013, a special section called "Transparent Company" has been set up on the website of the CAP Group, in which all data and information concerning the organisation, activities and methods for achieving the aims of the 190 Transparency Plan, as set out in Italian Legislative Decree no. 33/2013, Law no. 190/2012 and the 2022 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 2022, the quantity and quality of public data that can be consulted and downloaded from the CAP Group portal were increased.

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.

Internal regulations to ensure compliance with regulations protecting competition.

The CAP Group applies, among other things, the principles of the EU Treaty for the protection of competition and industry regulations in the management of tender contracts.

The CAP Group, with its own regulations, guarantees the quality of its services in accordance with the arm's length principles, cost-effectiveness, efficiency, impartiality, equal treatment, transparency, proportionality, publicity and non-discrimination. The criteria for participation in the assignment procedures are such as to ensure that micro, small and medium-sized enterprises are not excluded and have an effective opportunity to participate.

The Regulations of public works, service and supply contracts in the special sectors and the Regulations on the Qualification System are published on the website www.gruppocap.it.

No internal regulations for the protection of industrial or intellectual property (e.g. rights to inventions, industrial patents) are currently applicable.

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 change¹² 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

¹² "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/>)

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 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, just as has happened with regard to the Cap Group as from 2021 (ref. note prot. no. 1641 of 10 February 2020 Ato Metropolitan City of Milan) . This implied 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 both the guidelines of the Sustainability Plan and with the Kyoto Project approved by the Shareholders' Meeting in 2019, which allocated approximately € 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 Bio-Platform 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.

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).

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 2022, a security policy was to which all procedures related to data management and IT security refer finalised and approved.

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

- Cyber-attack resulting in the blocking of ERP and/or Internet portals (e.g. supplier portal) for 2/3 weeks and subsequent:
 - 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.

Any penalties for the theft of sensitive data would be proportionate to the extent of the damage and the mitigation measures implemented by the company.

- Cyber attack on remote infrastructure control systems, resulting in partial visibility of the operation and security of purification and drinking water supply plants, resulting in disruption of the provision of water services.

The current Russian-Ukrainian conflict, which increases the risk of cyber-attacks, also affects the probability assessment.

- Temporary unavailability of Data centres with an operational block of internal business processes of one week depending on the type of physical damage to the hardware and procurement time.

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 and security appliances;
 - Increase in monitoring systems for email protection;
 - Training to raise personnel awareness.
- Drinking water purification and supply systems can also be manually activated to restore the service.

Economic performance

The consolidated financial statements of the CAP Group, accompanied by this report, illustrate the accounting data relating to financial year 2022 and that of the financial statements as at 31 December 2021,

presented on the basis of the application of the International Financial Reporting Standards (IFRS) adopted by the European Union.¹³

Statement of comprehensive income	Value as at 31/12/2022	Value as at 31/12/2021	Change Variazione	% chg.
Revenues	281,622,670	240,721,687	40,900,983	17.0%
Increases for internal work	3,846,369	3,929,367	(82,997)	-2.1%
Revenues for work on assets under concession	114,232,631	110,811,283	3,421,347	3.1%
Other revenues and income	33,033,651	26,835,089	6,198,562	23.1%
Total revenues and other income	432,735,320	382,297,426	50,437,894	13.2%
Costs for raw materials, consumables and goods	(15,917,845)	(13,769,673)	(2,148,172)	15.6%
Costs for services	(196,155,816)	(136,825,949)	(59,329,867)	43.4%
Costs for work on assets under concession	(65,573,721)	(64,464,772)	(1,108,949)	1.7%
Personnel costs	(51,413,091)	(48,673,621)	(2,739,470)	5.6%
Amortisation, depreciation, provisions and write-downs	(81,896,132)	(58,387,194)	(23,508,939)	40.3%
Other operating costs	(14,693,359)	(14,219,905)	(473,454)	3.3%
Non-recurring operations	0	0	0	0.0%
Total costs	(425,649,965)	(336,341,115)	(89,308,851)	26.6%
Operating result	7,085,355	45,956,312	(38,870,957)	-84.6%
Financial income	2,978,189	1,784,960	1,193,229	66.8%
Financial expense	(5,909,153)	(5,131,826)	(777,327)	15.1%
Result before taxes	4,154,391	42,609,446	(38,455,055)	-90.3%
Taxes	1,570,250	(15,402,673)	16,972,923	-110.2%
Profit (loss) from assets held for sale or disposed of	0	0	0	0.0%
Net result for the year	5,724,641	27,206,773	(21,482,132)	-79.0%

The table shows a net operating result that represents around 1.6 % of total revenues of the CAP group (down from approximately 12.0% in the previous year) and a partial absorption of margins by the financial area.

Total revenues for 2022 increased with respect to those of the previous financial year (+13%) due to the effect of increase in revenues in particular, revenues for works on assets under concession and other revenues and income.

Total costs in 2022 increased considerably from the previous year (+27%) due to the increase in costs for services, amortisation/depreciations and write-downs, costs for raw materials and consumables and goods.

Total Revenues of the Group.

Total Revenues of the CAP Group in 2022 were:

Revenues and other income	Value as at 31/12/2022	Value as at 31/12/2021	Change	% chg.
Revenues	281,622,670	240,721,687	40,900,983	17.0%
Increases for internal work	3,846,369	3,929,367	(82,997)	-2.1%
Revenues for work on assets under concession	114,232,631	110,811,283	3,421,347	3.1%
Other revenues and income	33,033,651	26,835,089	6,198,562	23.1%
Total revenues and other income	432,735,320	382,297,426	50,437,894	13.2%

Some details follow.

¹³ 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 Revenues

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

Their amount (€ 281,622,670) changed by +17% compared to that of 2021 (€ 240,721,687) as a result of the increase in revenues of the Integrated Water Service and wholesaler tariff revenues.

In particular, for the areas of the Metropolitan City of Milan and the other areas where it operates as a wholesaler, the 2022-2023 tariff multiplier updates already provisionally approved in 2020 were approved in 2022.

With regard to the **Manager Tariff of CAP Holding in the area of the Milan Metropolitan City**, on 3 October 2022, the Conference of Municipalities of the same ATO approved the tariff update proposal, which was followed on 22 November 2022 by the approval by ARERA with Resolution 612/2022/R/IDR.

The approved tariff multipliers ϑ are: **1.088** for 2022 and **1.153** for 2023. In order to keep the tariff increase within the limits of the applicable regulatory scheme, adjustments amounting to € **9,819,922** were deferred to annual instalments after 2023. The Authority, pending open disputes concerning the tariff calculation rules for 2012 and 2013, temporarily suspended the approval of further adjustments of approximately € 2.5 million.

With regard to the **Wholesaler Tariffs applied by CAP Holding for services rendered in the ATO of the Province of Monza-Brianza**, on 4 October 2022, the Conference of Municipalities of the same ATO approved the tariff update proposal, which was followed on 20 December 2022 by the approval by ARERA with Resolution 709/2022/R/IDR.

For the **Acqueduct Wholesaler** service, the approved tariff multipliers ϑ are: **1.246** for 2022 and **1.320** for 2023. In order to keep the tariff increase within the limits of the applicable regulatory scheme, adjustments amounting to € **6,175,671** were deferred to annual instalments after 2023.

For the **Purification Wholesaler** service, the approved tariff multipliers ϑ are: **1.121** for 2022 and **1.166** for 2023.

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_{Altro}^a 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_{ws}^a 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 2024 VRG will be used to adjust costs incurred and not covered by the tariff, or to recover the difference in revenues earned as a result of "volumes", relating to 2022.

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 2022, which was not requested to be billed to users in the year 2022, or was requested in excess of the expected amount, can be recovered or returned with the tariffs of 2024.

Compared to the "normal" scheme described above, the update of the exogenous cost of electricity is introduced by Resolution 639/2021/R/idr of 30 December 2021, followed by the subsequent Resolution 139/2022/R/idr and finally by Resolution 229/2022/R/idr of 24 May 2022. The CAP Group filed an application to advance the recognition already in the 2022 tariff of part of the budgeted cost of electricity for that year.

In the Manager Tariff for the ATO of the Metropolitan City of Milan, € 2.6 million was requested and included in the 2022 tariff and € 2.5 million in the 2023 tariff. In practice, this cost component had no impact on the tariffs applied to users, as the operator, in order to keep the tariff increase within the limits set by the regulatory scheme, postponed the adjustments and shifted a large part of them beyond 2023. These amounts are therefore likely to be invoiced to users in the next regulatory period.

Similarly, € 0.3 million was included in the tariff for each of the years 2022-2023 also for the Purification Wholesaler Tariff for the ATO of the Province of Monza Brianza. In this case, the maximum recognisable amount, which contributes to the tariff increase already applied during the two-year period 2022-2023, was used.

See also the previous paragraph "Operating Performance in 2022, the tariff aspect of the service".

The value of the tariff portions, operator and wholesaler, belonging to the CAP group amounts to a total of € 276,214,882 (€ 235,326,020 in 2021).

The comparison of the revenue for the year 2022 with that of 2021 shows a change in the revenue from tariffs of € 40,888,862, equal to 17.4%, mainly attributable to the increase in revenue from tariffs from the Province of Milan 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.

Tariff revenues	Value as at 31/12/2022	Value as at 31/12/2021	Change	% chg.
Province of Milan	252,661,034	218,729,213	33,931,821	15.5%
City of Milan	2,759,872	2,445,198	314,674	12.9%
Province of Lodi	696,447	405,494	290,953	71.8%
Province of Como	242,015	192,870	49,145	25.5%
Total Tariff Revenues	256,359,368	221,772,775	34,586,593	15.6%
Wholesaler revenues				
Province of Monza and Brianza	15,575,824	12,432,087	3,143,737	25.3%
Total Wholesaler Revenues	15,575,824	12,432,087	3,143,737	25.3%
Contingencies				
Contingent assets by tariff	4,279,690	1,121,158	3,158,532	281.7%
Total Tariff Revenues	276,214,882	235,326,020	40,888,862	17.4%

Moreover, 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 31/12/2022	Value as at 31/12/2021	Change	% chg.
Province of Pavia	4,496,657	4,495,576	1,081	0.02%
Total Revenues for industrial services to other operators	4,496,657	4,495,576	1,081	0.02%

Revenues for work on assets under concession

Revenues for work on assets under concession amounted to € 114,232,631 for financial year ended 31 December 2022. Revenues in 2021 amounted to € 110,811,283 (in 2020 they were € 88,134,590). 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 2022 amounted to € 33,033,651. In 2021, they amounted to € 26,835,089. The main components include:

- Other contingent assets/liabilities of € 2,498,827 consisting mainly of collection of reimbursements on closed users accounts and unallocated receipts of € 755 thousand; adjustment of bad debt provision from companies by tariff of € 423 thousand; Foni of € 265 thousand; capital gain for collections on business users exceeding the provision by € 88 thousand; reversal of barred receivables of € 207 thousand;
- Other revenues and income amounting to € 7,483,820 mainly consisting of fees accrued from Alfa s.r.l. (€ 1,936,106) for the provision of IT services, for works in the Municipality of Brebbia, for information Technology services and services for the updating and development of GIS/Webgis software, etc.; Cassa Servizi Energetici e Ambientali (€ 1,540,395) for the application of the incentive mechanism on bonuses and penalties activated by ARERA; Brianzacque S.r.l. (€ 347,130) for services in the field of information technologies and in the field of cartography and hydraulic modelling services, etc; Neutalia S.r.l. of € 229,146 for corporate performance and activities to implement an internal control system, etc.; this item also includes work planning and management revenues from companies and entities of € 568 thousand;
- Adjustments decreasing provisions for future expenses and risks of € 6,217,079;
- reimbursement for personnel seconded to companies of € 1,522,666;
- penalties to users for fire hydrants and to suppliers of € 951,061;
- operating grants of € 9,848,744 and consist mainly of tax credits for expenses incurred for the energy component for non-energy-intensive enterprises totalling € 9,068,632.

Of the aforementioned adjustments decreasing provisions, note the following:

- € 201,000 are related to the adjustment of the provision for reclamation risks due to damages caused by percolation from sewer networks”;
- € 5,721,695 are related to the adjustment of the provision for “lawsuits pending” of which € 5,189,380 for the settlement of the dispute related to the construction of the new CAP Group headquarters;
- € 238,967 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.

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 2022, the CAP Group recorded total costs for € 425,649,965, up compared to 2021 (€ 336,341,115).

There are some details in the following table:

Total costs	Value as at 31/12/2021	Value as at 31/12/2020	Chg	% chg
Costs for raw materials, consumables and goods	15,917,845	13,769,673	2,148,172	15.6%
Costs for services	196,155,816	136,825,949	59,329,867	43.4%
Costs for work on assets under concession	65,573,721	64,464,772	1,108,949	1.7%
Personnel costs	51,413,091	48,673,621	2,739,470	5.6%
Amortisation, depreciation, provisions and write-downs	81,896,132	58,387,194	23,508,939	40.3%
Other operating costs	14,693,359	14,219,905	473,454	3.3%
Non-recurring operations	0	0	0	0.0%
Total costs	425,649,965	336,341,115	89,308,851	26.6%

This is mainly due to the increase in costs for services, costs for work on assets under concession, personnel costs and costs for raw materials, consumables and goods.

Costs for raw materials, consumables and goods.

This item mainly includes the costs for the purchase of consumables and maintenance of the Integrated Water Service (€ 15,917,845 in 2022 against € 13,769,673 in 2021).

Costs for services

Costs for services in 2022 amounted to € 196,155,816 compared with € 136,825,949 in 2021.

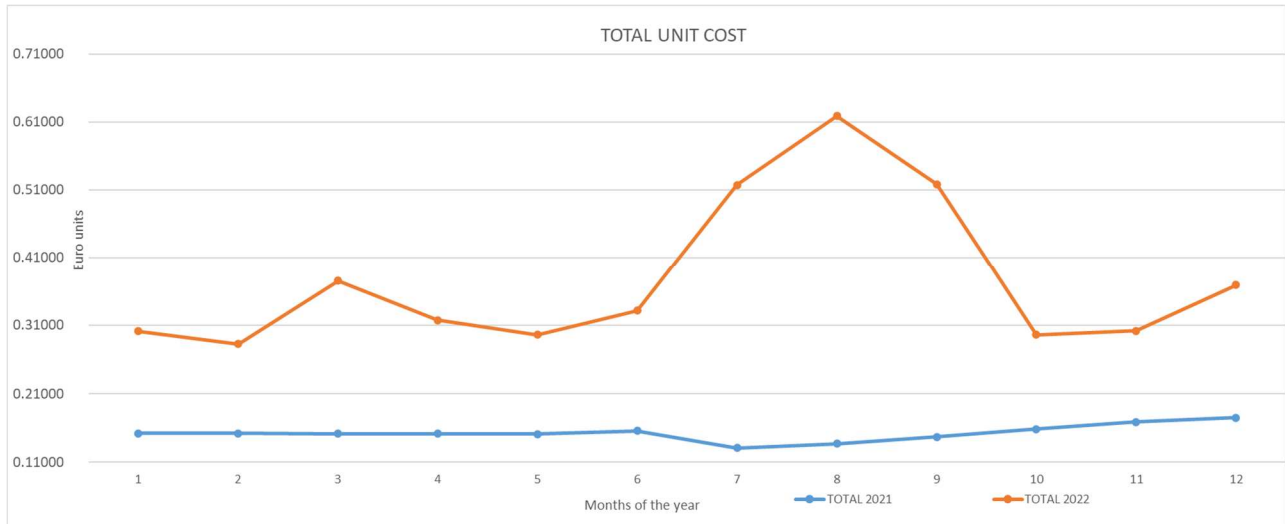
The main items include: electricity, ordinary maintenance and sludge disposal which therefore merit particular mention.

The cost of electricity related to plants came to € 69,954,838 million, up by 139% compared to 2021 (€ 29.2 million). In 2020, it amounted to € 29.8 million. In 2019, it amounted to € 31.3 million; in 2018, it amounted to € 26.9 million; in 2017 to € 29.4 million, in 2016 it amounted to € 32.0 million. In addition to the cost of electricity for plants in 2022, there is a cost of electricity for company premises of € 1.522 million, up by 223% compared to 2021 (€ 471 thousand).

Electricity

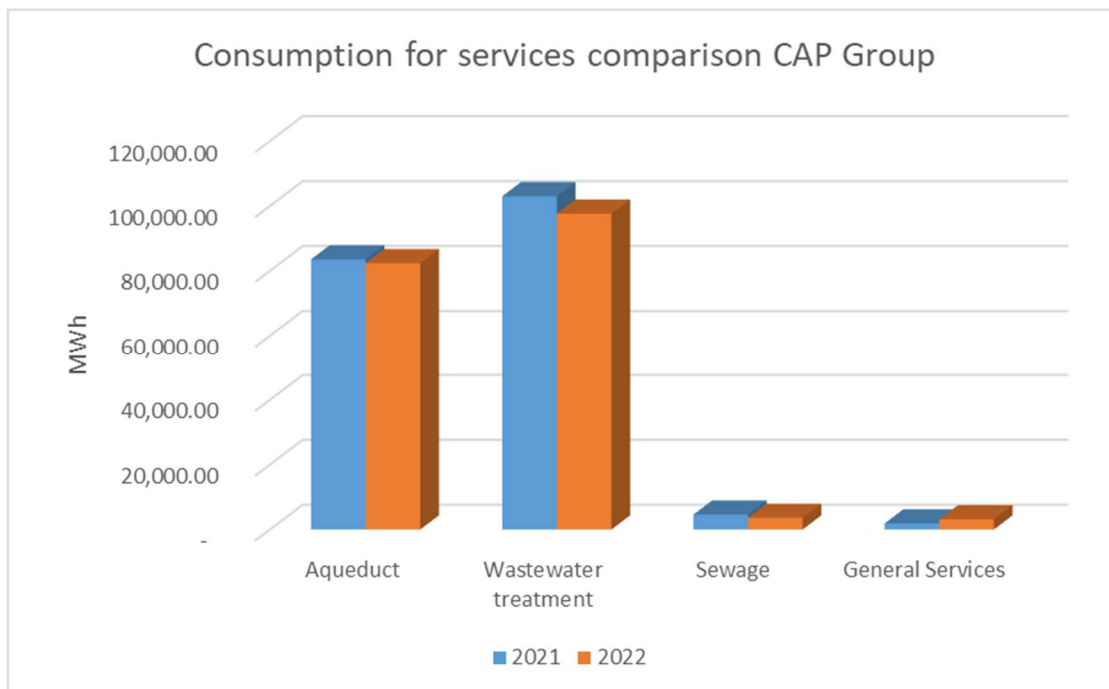
The electricity market in 2022 underwent sharp rises and deviations during the year.

In 2022, the fixed price agreement came to an end, all energy is supplied via Portfolio Management, and there were large increases in energy prices in line with the increase in market prices, even though the charges for the whole year were zero.



In quantitative terms, overall energy consumption was 3.88 % lower than in the previous year.

The reduction is due both 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 and linked to seasonal phenomena such as the low flow rate at the purification plants due to the dry weather throughout the year.



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, the change in the cost of electricity registered in 2022 will lead to a tariff definition for 2024 R_{EE}^a .

Maintenance and sludge

We then witnessed in 2022:

- ordinary maintenance costs of € 16,828,368 changed by 9% compared to the previous year (€ 15,466,507 in 2021, € 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;
- cost of sludge disposal of € 12,786,329 changed by 7% compared to the previous year (in 2021, € 11.991.995 was spent, in 2020, € 10,353,709 was spent, in 2019, € 10,087,865 was spent against the € 8,536,854 spent in 2018).

It should be noted that already in 2019 and even more so in 2020, 2021 and 2022 there has been substantial stability in the regulatory framework of reference, which has allowed a containment of the increase 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. However, there is a trend of increasing €/tonne costs for the different destinations related to the overall general increase in market prices.

DESTINATION	Transfer costs (€/ton)							
	2015	2016	2017	2018	2019	2020	2021	2022
Sludge in agriculture	55.00	55.00	82.00	85.00	103.00	104.32	105.37	112.28
Sludge in landfill	104.00	104.00	115.00	175.00	202.00	-	202.00	-
Sludge to cement factory	75.00	75.00	87.00	87.00	110.00	157.34	132.08	184.93
Sludge to waste-to-energy plant	81.40	81.40	90.20	99.00	120.00	160.34	158.57	159.68
Fertilisers	-	-	75.50	75.50	75.30	75.30	95.22	117.32
Sludge recovery – abroad	-	-	-	202.00	188.00	201.78	-	-
Bio-dried sludge to waste-to-energy plant	-	-	-	-	-	140.00	140.00	140.00
AVERAGE COST (with Fertilisers)	75.83	71.74	82.06	98.87	114.84	119.30	125.10	136.00
AVERAGE COST (without Fertilisers)			82.42	104.20	125.45	133.80	134.70	138.70

As the table shows, there are two significant changes in the €/ton costs of sludge:

- Sludge to cement factory: in 2022, the cement factory suffered extraordinary structural damage that, combined with routine maintenance, led to long periods of plant downtime and consequent disposal of the dried sludge to another, more costly fate;
- Fertilizers: as in 2021, there was an increase in the average price due to the start of new contracts that allow fertilisers to be made both on-site at our plants and at third-party plants.

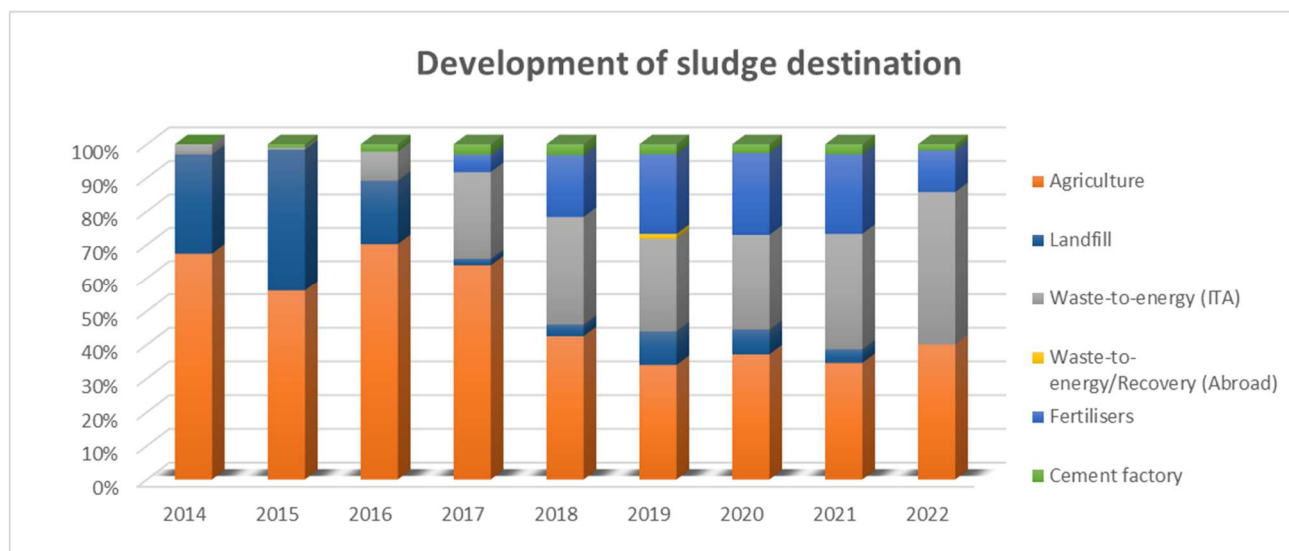
Both the energy and sludge areas have been subject to specific action by the Group aimed at their containment and rationalisation.

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 a further 6 bio-drying modules at the Robecco sul Naviglio wastewater treatment plant, with start-up expected in early 2023, with direct savings in sludge disposal due to the reduction in moisture content;
3. Careful management has allowed us to consolidate the sludge valorisation process despite the complexities faced in recent years: 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.



Use of the assets owned by third parties

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:

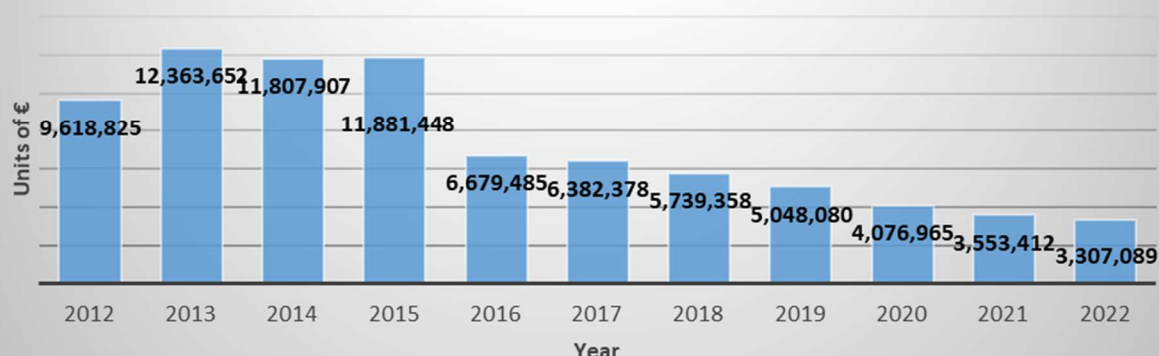
Costs for use of third-party assets	Value as at 31/12/2022	Value as at 31/12/2021	Chg	% chg
Repayments of loans and concession fees	3,307,089	3,553,412	(246,323)	-6.9%
Rental and licence fees	3,514,933	2,317,181	1,197,751	51.7%
Fee for use of well and crossings	2,489,129	2,011,653	477,476	23.7%
Hiring	459,308	261,797	197,512	75.4%
Contingent liabilities - fees	-	368	(368)	-100.0%
Total Costs for use of third-party assets	9,770,459	8,144,411	1,626,048	20.0%

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 € 3,307,089 as at 31 December 2021 (€ 3,553,412 in 2020) 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.

Fees for use of infrastructures of local bodies and former operators



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.

Provisions

The item costs for services includes, among others, € 11,547,839 in annual provisions for risks and charges, in accordance with IAS No. 37 (Provisions, contingent liabilities and contingent assets).

These include:

- € 2,704,668 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 2021, the provision in question was € 1,152,415;
- € 4,171,750 for reclamation risks due to damages from sewerage percolation;
- € 1,458,966 for expenses for tank reclamation;
- € 129,030 are related to the adjustment of the provision for asphalt expenses;
- € 3,083,424 for asbestos disposal in abandoned water networks.

Other services

Following is a breakdown of the cost item (indemnity) relating to the **Directors and statutory auditors** included in the item “services” of the Group.

Allowance for corporate bodies	Value as at 31/12/2022	Value as at 31/12/2021	Chg.	% chg.
Board of Directors' allowance	230,768	231,765	(997)	-0.4%
Board of Statutory Auditors' allowance	134,496	136,743	(2,247)	-1.6%
Total allowances	365,263	368,508	(3,244)	-0.9%

With regard to the costs of the Board of Directors and the Board of Statutory Auditors, it should be noted that the amount is the amount recognised by the shareholders' meetings. In addition to this, there is the cost of the SB of € 106,661.

Costs for work on assets under concession

Costs for work on assets under concession amounted to € 65,573,721 for the financial year ended 31 December 2022 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 2021, they amounted to € 64,464,772.

Personnel costs

The item Personnel costs, € 51,413,091 in 2022 compared to € 48,673,621 in 2021, slightly increased, +5.6%).

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 2021, without prejudice to the new recruitments decided by the Strategic Policy Committee for the new services (of which 20 for upgrading facilities and 15 projects).

Personnel employed as at 31 December 2022 with the Parent Company changed by 11 units compared to 31 December 2021, for a total of 434 employees.

Personnel in service as at 31 December 2022 at Amiacque S.r.l. changed compared to 31 December 2021 by 7 units, for a total of 475 employees.

Overall, for the Group there were 909 employees as at 31 December 2022 (an increase of 18 units; 891 as at 31 December 2021) .

Personnel costs, as will be explained in greater detail below, accounted for 12.78% 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 € 81,896,132 in 2022, compared with € 58,387,194 in 2021, increased by 40.3% mainly due to the depreciation of assets under concession.

In this item we highlight:

- 1) € 23,481,221 for write-downs of "rights on assets under concession";
- 2) allocation to provisions for future liabilities and/or deemed probable (€ 1,096,040), of which:
 - o € 843,500 for the provisions for legal disputes;
 - o € 252,540 for provision for penalties and interest on 2012 premiums;
- 3) depreciation of assets under concession, of intangible and tangible assets for € 48,779,815;
- 4) depreciations of rights of use IFRS 16 Leases of € 2,018,207;

5) bad debt provision of € 6,520,849.

The write-down of € 23,481,221 of rights on assets under concession (assets instrumental to the integrated water service revertible at the end of the concession) measures an impairment loss as at 31 December 2022 of these fixed assets, which emerged following the periodic annual impairment test procedure according to IAS 36. It reflects a worsening of expected future operating cash flows (measured up to 31 December 2033, the year in which the CAP Group's IWS concession expires), related in particular to the increase in prices, already commented on above, of raw materials (construction materials, etc.) both on the opex side (the latter in particular, for those not automatically recovered as is in the tariff) and on the scheduled capex side, and also reflects the increase in discount rates used to measure the value in use of rights on assets under concession.

With regard to capex (the cost of which is also expected to increase), it should be noted that the amortisation rates used by ARERA to calculate tariffs are particularly "low" and correspond to very long durations, so that the present value of the flows generated by the investments (flows within which the value of the RAB at the time of the end of the concession has a significant "weight"), being "distant" in time, decreases as the financial rates increase.

In particular, the discount rate used (WACC of 3.51% vs. 2.74% last year) mainly reflects the increase in the Country Risk Premium component of Italy, measured at 3.79% for the valuation as at 31 December 2022 vs. 2.18% assumed for the valuation as at 31 December 2021.

On this point, it is also hoped that there will be an upward adjustment, related to the changed macroeconomic and sector scenario, of the coefficients used in the tariff for the integrated water service to determine the Financial Expense, related for example to the parameters of the Risk Free Rate, Water Utility Risk Premium, Debt Risk Premium, Beta Utility Water, Equity Risk Premium, as well as the timely recovery in the tariff of the higher opex and capex, for example due to the increase in the Theta limits provided for the various Regulatory Schemes, the possible benefits of which have not been prudently considered in the projections of future cash flows.

Other operating costs

One last item of some importance is other operating costs the value of which as at 31 December 2022 (€ 14,693,359) increased compared to 2021 (€ 14,219,905).

The item "other operating costs" also includes other charges paid to local authorities (EGA operating expenses of € 1,225,660, state fees, COSAP/ TOSAP, IMU, etc. of € 2,376,273) and tariff adjustments for electricity, invoicing of bills to civil and production users pertaining to the years prior to 2021 of € 1,425,911, water bonus of € 4,012,662, fees for water supply services and fire-fighting penalties of € 2,996,892.

Net operating result

The net operating result for 2022 amounted to € 7,085,355, a change of -85% compared to 2021 (+ € 45,956,312).

Financial income and expense

The balance between financial income and expense for 2022 amounted to - € 2,930,964, slightly down compared to that of 2021, amounting to - € 3,346,866.

Taxes

The balance between taxes for the year and deferred tax assets amounted to € 1,570,250 (taxes € 15,402,673 in 2021).

Net result for the year

The balance for the year 2022 amounted to € 5,724,641 (€ 27,206,773 in 2021).

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 2021.

Contents	Notes	31/12/2022	31/12/2021
Shareholders' equity	Consolidated shareholders' equity	853,373,897	848,111,110
Fixed assets	Total non-current assets	966,237,704	942,404,137
Consolidated liabilities	Total non-current liabilities	304,055,332	227,639,410
Current liabilities	Total current liabilities	159,011,517	156,852,916
Loan liabilities	Current and non-current payables to banks and other lenders	209,185,581	143,157,758
Current assets	Current assets	350,203,041	290,199,299
Immediate + deferred liquidity	Cash and cash equivalents + current portion restricted a/c+trade receivables+other current receivables	342,068,358	282,255,555
Net invested capital	Total current assets - liabilities	1,157,429,228	1,075,750,520

PROFITABILITY INDICATORS	31/12/2022	31/12/2021
EBIT	7,085,355	45,956,312
EBITDA (*)	93,480,032	98,161,897
GROSS RESULT	4,154,391	42,609,446
NET RESULT	5,724,641	27,206,773
SALES REVENUES	281,622,670	240,721,687

(*) 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.

PROFITABILITY RATIOS		31/12/2022	31/12/2021
NET ROE	Net result / Shareholders' equity	0.7%	3.2%
GROSS ROE	Gross result / Shareholders' equity	0.5%	5.0%
ROI	Operating result / Net invested capital	0.6%	4.3%
ROS	Operating result / Sales revenues	2.5%	19.1%

FIXED ASSET FINANCING RATIOS		31/12/2022	31/12/2021
FIXED ASSETS TO EQUITY CAPITAL MARGIN	Shareholders' equity - Fixed assets	(112,863,807)	(94,293,027)
FIXED ASSETS TO EQUITY CAPITAL RATIO	Shareholders' equity / Fixed assets	88.3%	90.0%
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/LONG-TERM DEBT MARGIN	(Shareholders' equity + Consolidated liabilities) - Fixed assets	183,056,841	125,402,639
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/LONG-TERM DEBT RATIO	(Shareholders' equity + Consolidated liabilities) / Fixed assets	215.1%	179.9%

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 structure of the loans shows an increasing financial exposure.

RATIOS ON THE STRUCTURE OF LOANS		31/12/2022	31/12/2021
TOTAL DEBT RATIO	(Consolidated liabilities + Current liabilities)/Shareholders' equity	54%	45%
FINANCIAL DEBT RATIO	Funding liabilities / Shareholders' equity	24.5%	16.9%

SOLVENCY INDICATORS		31/12/2022	31/12/2021
LIQUIDITY MARGIN	Current assets - Current liabilities	191,191,525	133,346,382
LIQUIDITY RATIO	Current assets / Current liabilities	220%	185%
CASH MARGIN	(Deferred liquidity + Immediate liquidity) - Current liabilities	183,056,841	125,402,639
CASH RATIO	(Deferred liquidity + Immediate liquidity) / Current liabilities	215%	180%

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 2022 amounted to € **129,277,874** marking a new record (€ 127,242,516 in 2021, € 105,331,819 in 2020, € 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 2014)¹⁴.

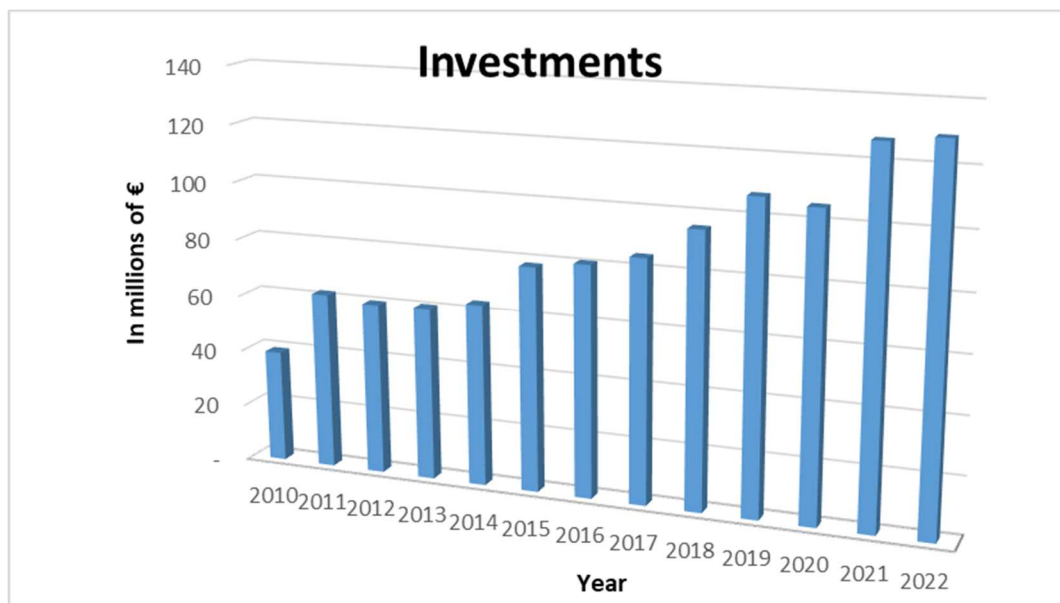
In 2022, business units and/or universality of "used" goods (built by former operators) totalling € 1,404,481 were not purchased. The transaction concerning the Corsico aqueduct (already commented on above) took effect in 2023, with payment being made as an advance in December 2022.

These additional components were zero for 2020, 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 2022	Investments from processing
Parent Company	128,713,667
Amiacque S.r.l.	564,206
Group total	129,277,874

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 € 69.47, despite it being still distant from the European average of € 100 per inhabitant, in the presence however of an average higher tariff of € 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, 51.12 in 2018, 57.53 in 2019 and 56.77 in 2020, 68.28 in 2021.

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

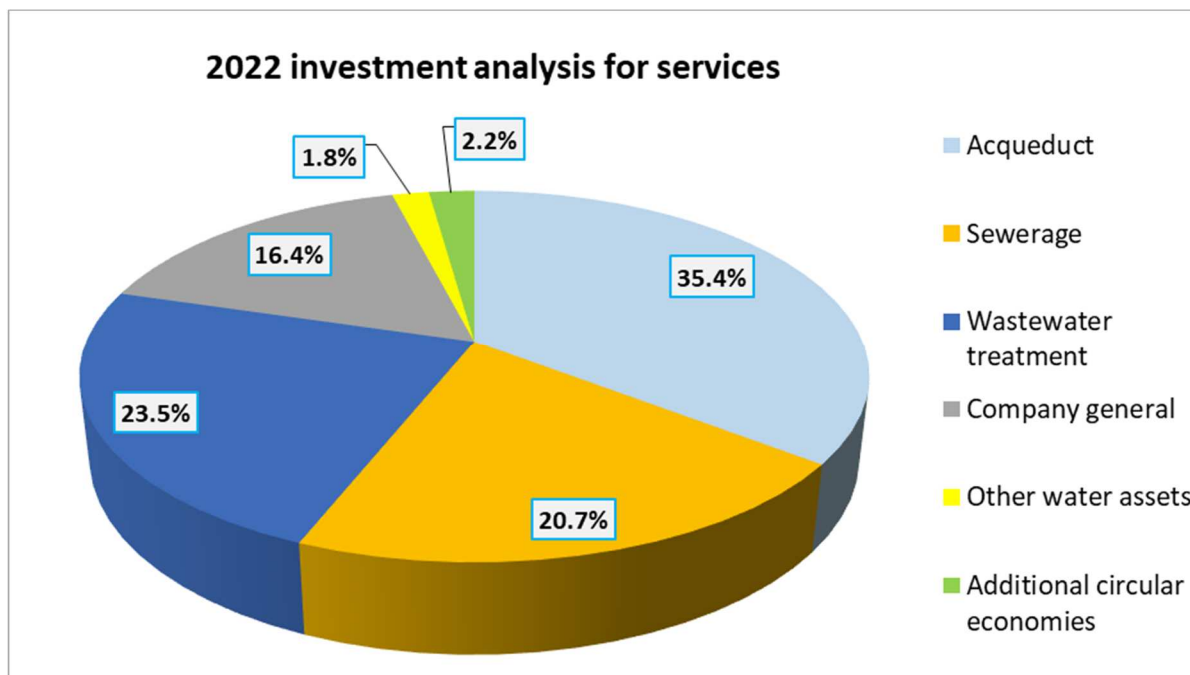
Investments, within the organisational logic of the Group, are mainly seen to by the Parent Company, which undertakes the most complex part (in general public works, site supervision and safety projects).

The important sums planned and realised by the parent company in the last two years are shown below.

	2022	2021
planned:	61,517,131	89,130,805
completed:	53,624,175	65,207,647

The above 2022 total investments can be divided up also by segment, as follows (in €):

AQUEDUCT	SEWERAGE	WASTEWATER TREATMENT	COMPANY GENERAL	OTHER WATER ASSETS	ADDITIONAL CIRCULAR ECONOMIES	TOTAL
45,764,293	26,752,602	30,373,832	21,191,716	2,322,868	2,872,562	129,277,874



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.

The service type "Additional Circular Economies" refers to the projects "Sesto - Core Forsu: industrial symbiosis platform for the optimal use of organic waste" and "Development of biomethane chain with organic matrices (Kyoto) outside established price range; from the year 2020 onwards, these interventions in the field of the circular economy are gaining in importance in terms of both the actual figures for the year and the investments planned for the coming years.

In 2022, 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 20,899 old meters;

- 1,237 km of network subjected to leak detection (within the ATO of Milan). By 2022, the division into districts and modelling of the network, carried out in order to understand in detail the behaviour of certain portions and to obtain an increasingly precise and rapidly processed water balance, was completed throughout the managed territory. In 2022, a length of 891 km, corresponding to 19 municipalities, which will be added to the 115 municipalities completed in previous years for a total of 134 municipalities, was analysed.

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 € 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 € 6,264,707.

With Resolution 917/2017/R/IDR, the sector Authority (ARERA) 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 2022 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.

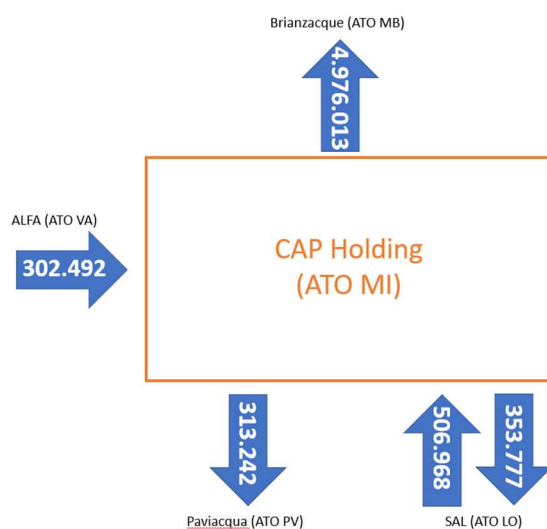
Considering the 2022 intermediate year according to the new methods introduced by ARERA with Resolution 639/21, the CAP Group achieves the linear water leak reduction target laid down by ARERA by registering a reduction in the M1a indicator totalling 2.13%. On the other hand, the M1b indicator shows a reduction of 0.47%.

Overall, Class B was therefore achieved in the 2022 intermediate year.

	M1a	M1b	class
Year 2018	20.04	21.95	B
Year 2019	19.60	21.47	B
Year 2020	18.95	21.00%	B
Year 2021	18.28	20.59%	B
Year 2022	17.89	20.49%	B

More generally, the trend in the volumes of water withdrawn from the environment, supplied and exchanged with other operators is shown in the tables below.

M1 indicator calculation (ARERA) - YEAR 2022		
Volume taken from the environment (Raised)		249,731,843 [m3]
Volume imported from other systems		809,460 [m3]
Total volume ENTERING the system	W in	250,541,303 [m3]
Authorised volume invoiced		189,097,194 [m3]
Authorised volume NOT invoiced Discharges		83,863 [m3]
Authorised volume NOT invoiced PASC		1,536,109 [m3]
Volume exported to other systems		5,643,032 [m3]
Technological Volumes Direct Measures		1,551,683 [m3]
Technological Volumes Indirect Measures		1,294,416 [m3]
Total volume LEAVING the system	W out	199,206,297 [m3]
Total loss volume	W L.	51,335,006 [m3]
Network length	L p	6,461 [km]
Distribution network length	L d	6,365 [km]
Linear water losses	M1a	17.89 [m3/km/gg]
Percentage water losses	M1b	20.49 [%]



(Unit of measurement: m³)

M1 trend breakdown showing improvements

The improvement is the result of policies aimed at reducing apparent and actual water losses that include the application of all international best practices such as, including, but not limited to:

- 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 to prevent misuse, replacement of damaged pipes, the elimination of water hammers, etc..

Based on international best practices, the CAP Group developed an action plan shared by the various company structures, which is implemented progressively over the years in the municipalities with the highest level of losses.

The shared schedule is broken down as follows:

1. Plant inspections and implementation of actions aimed at:
 - i. Checking the plant meters;
 - ii. Solving plant problems;
 - iii. Inserting meters for disbursed/raised quantities to optimise the balance;
 - iv. Interventions derived from the risk analysis within the WSP to mitigate vulnerability;
2. Systematic search for hidden losses;
3. New system calibrations with pressure optimisation that will lead to a progressive reduction in losses;
4. Division into districts and calibration of the hydraulic model;
5. Repair of recognised hidden losses;
6. Search for loss of control following repair and refinement of system calibrations;
7. Completion of surveys and possible search for non-surveyed sections;
8. Verification of the correct effectiveness of cathodic protection, where present, or planning of new installations;
9. Sealing of hydrants to prevent unauthorised water use;
10. Replacement of outdated meters and "SMART METERING" project;
11. Conversion of unmetered fire-fighting users into metered fire-fighting connections;
12. Cuts in unused catchments;
13. Replacement of damaged network sections.

The action plan is cyclical and involves several successive stages of loss detection and possible adjustments of calibrations to take account of changes in consumption due to seasonality and the results monitored following the first actions, according to the principle of the Deming cycle, which envisages:

- Action planning;
- Their application;
- Checking effectiveness;
- Possible corrective or implementation actions.

As part of the investments aimed at ensuring the control and consequent saving of water resources (reduction of water losses), the investment for the construction of a unified remote control centre, started in 2012 in order to remotely monitor and manage corrective actions on parameters to achieve savings in water resources and consequent reduction in energy consumption.

The project included several implementations on the aqueduct portion:

- 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 (98% can be managed remotely, the remainder remotely controlled by display);
- the integration in the system of water houses;
- installation of network water withdrawal points for monitoring sewage pipe and street washing operations;
- monitoring of surface groundwater wells;
- the installation of 19 points for the on-going quality control of the chemical and physical parameters of the water;
- Implementation of district monitoring (flow rate and pressure) in order to continuously monitor the efficiency of the water network, night minimum to identify any water losses, monitor and actively regulate aqueduct pressures.

In 2022, work continued on replacing the old aqueduct stations to allow their integration with the system, thus allowing remote management of all parameters, freeing us from a purely local management.

There are currently under remote control, aqueduct management:

- 575 aqueduct plants (excluding the Pavia region) (98% can be managed remotely, the remainder remotely controlled by display);
- 154 interconnection measurers between remote-controlled aqueducts;
- 31 network water withdrawal points for washing sewage pipes;
- 163 water houses;
- 28 surface groundwater wells;
- 67 district manholes for pressure and flow rate monitoring.

As at 31 December 2022, remote control was installed for the other services of the integrated water system:

- 636 detection systems for the activation of sewer overflows on 818 buildings, of which 804 belonging to the Metropolitan City of Milan, 6 belonging to the Province of Monza and Brianza and 12 belonging to the province of Varese;
- 38 purification plants;
- 370 sewage lifts;
- 77 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 (European Commission) 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 Cause C-668/2019

The EC infringement procedure 2014/2059, started in 2014 due to the non-implementation/incorrect application of EU Directive 91/271/EEC in relation to urban waste water collection and treatment systems in several Italian agglomerations, evolved into Case C-668/2019 during the year 2019.

In fact, the European Court of Justice on 10 September 2019, following an appeal by the European Commission, opened Case C-668/19 against the Italian State.

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

The situation with regard to the implementation of the actions resulting from EC infringement procedure 2017/2181 still in progress is shown in the table below.

Agglomeration code and name	Internal code.	Intervention name	Work start date	Work completion date	Testing function completion date	Technical-administrative testing completion date	IPC
AG01519101 – San Colombano al Lambro							
	6966	Upgrading of the purification plant of San Colombano al Lambro	19-Jul-21	23-Dec-22	28-Nov-22	29-Mar-23	100%

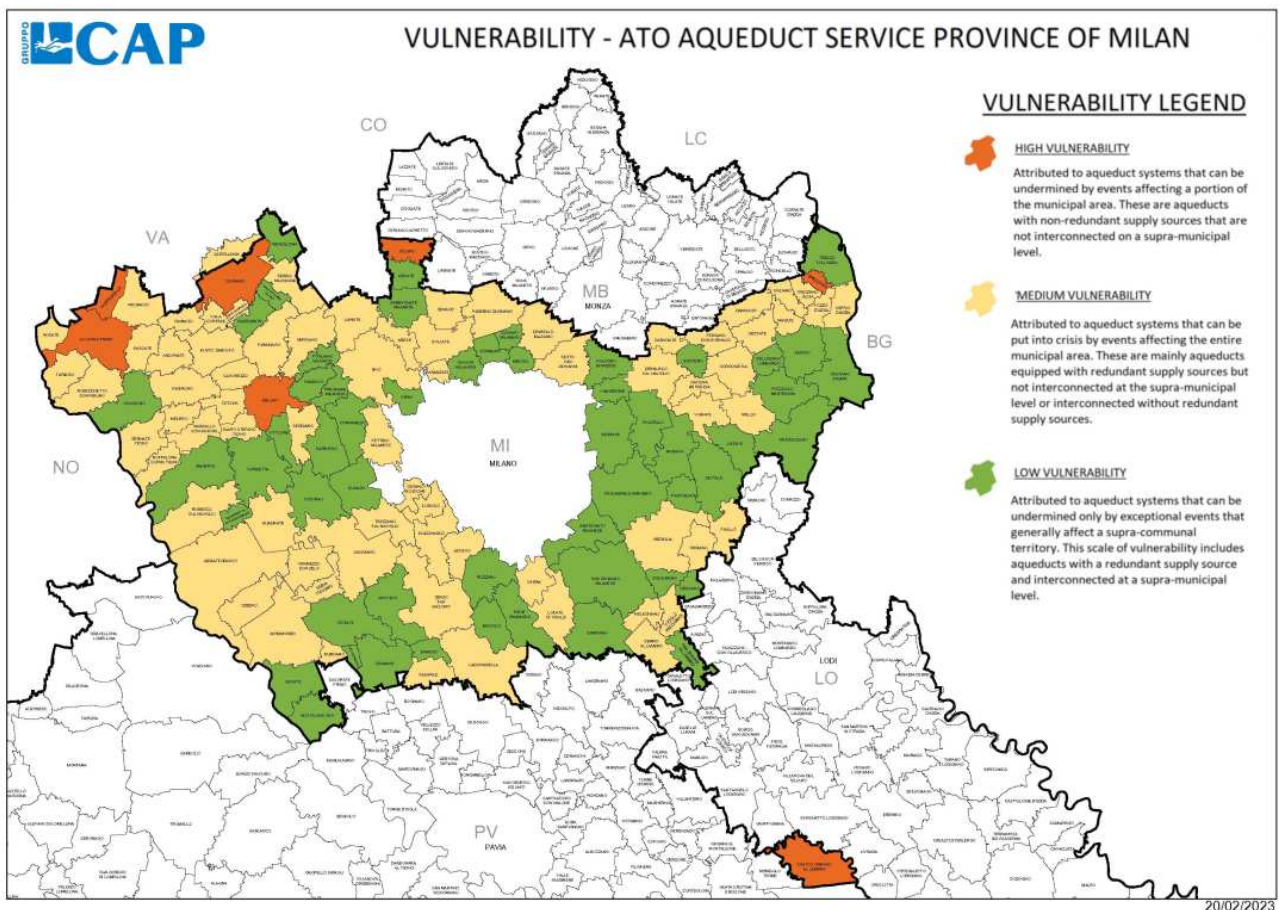
Pre-litigation interventions

The following table shows the interventions in relation to the obligations under Dir. 91/271/EEC and their state of implementation as at 31 December 2022.

Agglomeration code and name	Internal code.	Intervention name	Work start date	Work completion date	Testing function completion date	Technical-administrative testing completion date	IPC
AG01517101_Peschiera Borromeo							
	5861	MSD digester 1 Peschiera Borromeo	12-Apr-21	12-Dec-22	30-Apr-23	31-May-23	100%
	5862	MSD digester 2 Peschiera Borromeo	01-Jun-23	31-Jul-24	31-Jul-24	31-Oct-24	0.00%
	9290	Peschiera Borromeo - adaptation and upgrading of the purification plant	26-Sep-22	17-Jun-24	17-Jun-24	18-Oct-24	0.00%
AG01517001_Olona Sud							
	9028_FPD A_22	Elimination of Sewer Drains and New Mixed Network Connection	18-Jul-22	06-Aug-22	31-Dec-22	31-Mar-23	100%
	9028_FPD A_23	Elimination of Sewer Drains	30-Jun-23	31-Dec-23	31-Dec-23	31-Mar-24	0.00%
	9028_FPD A_24	Elimination of Sewer Drains and New Mixed Network Connection	07-Sep-22	23-Sep-22	31-Dec-22	31-Mar-23	100%
	9028_FPD A_25	Elimination of Sewer Drains and New Mixed Network Connection	07-Sep-22	23-Sep-22	31-Dec-22	31-Mar-23	100%

Agglomeration code and name	Internal code.	Intervention name	Work start date	Work completion date	Testing function completion date	Technical-administrative testing completion date	IPC
	9028_FPD A_28	Elimination of Sewer Drains and New Mixed Network Connection	11-Jul-22	15-Jul-22	31-Dec-22	31-Mar-23	100%
	9027_2-2	Sewer network reconstruction in various streets in the municipality of Bollate with final delivery to the waste water treatment - Lot II	15-Jan-23	30-Sep-23	30-Sep-23	30-Dec-23	0.00%
AG01522401_Trucuzzano							
	9291_1	extraordinary maintenance and upgrading of Trucuzzano agglomeration	23-Nov-21	28-Feb-23	04-Aug-22	31-May-23	70.00%
	9291_3	Upgrading the biological department of the Trucuzzano (MI) purification plant	07-Apr-23	07-Apr-25	07-Apr-25	07-Oct-25	0.00%

b) Availability and quality of the resource



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

1. Reduction of the vulnerability of the drinking water distribution system by means of the creation of interconnections, purification treatments and recovery of wells by means of extraordinary maintenance activities with insights aimed at the search for more protected groundwater tables;
2. Improving the quality of the water supplied by monitoring microbiological and chemical parameters within legal limits.

The measures aimed at the reduction of the risk related to the vulnerability of the resource also include those relating to the construction and activation of the plants and the related aqueduct Backbones, the degree of achievement of which is indicated below.

SAN COLOMBANO PLANT

The civil works are in progress, all 9 wells and all foundation works of the Plant have been constructed, the anti-seismic floor is in place and the two 800 m3 stainless steel storage tanks are being assembled. This will be followed in the first half of 2023 by the assembly of all the metal carpentry and the completion of the prefabricated structure, and in the second half of the year by the completion of all the plumbing and electrical connections in preparation for the activation of the plant.

Completion of Works 31/03/2024 (delay due to the critical supply of materials, especially stainless steel tanks during the outbreak of war in Ukraine. We are trying to get ahead of schedule by having two teams working in parallel on the civil and carpentry works. At this stage, it is difficult to make a realistic estimate of whether it is actually possible to catch up "x" months on the schedule).

Final plant start-up: 1 May 2024

CORNAREDO PLANT

Having validated the Feasible Project, the competitive tender is now being prepared.

Delivery of works: 30 October 2023

Completion of works: 30 April 2026

Plant start-up: 30 July 2026

CORNAREDO BACKBONE

The Decisive Services Conference on the Final Project is in the preliminary stages, and is expected to be concluded in May. This will be followed by the drafting of the EP with implementation of the requirements that will be made during the CDS.

Delivery of works: 31 October 2024

Completion of works: 30 April 2026 (laying of pipe with fibre optic insertion to be completed by 31 December 2025)

Plant start-up: 30 July 2026

With reference to the reduction in the load of pollutants introduced into the distribution network, in view of the new Drinking Water Directive 2020/2184 of 16 December 2020, campaigns are underway in the area managed by the CAP Group aimed at monitoring emerging pollutants.

The PFAS control campaign started in 2017 in compliance with the limit set by ISS Opinion no. 24565/2015. Considering the more stringent limits expressed in the new Drinking Water Directive, which will be implemented in Italy as from 12 January 2026, control campaigns are continuing in order to implement the initiatives deemed necessary and/or the adjustment interventions aimed at complying with the aforementioned limits. By the end of 2021, 40 per cent of the plant sampling points were monitored, and by 2026 the remaining points will be analysed by carrying out one sampling per municipality in order to cover the entire managed territory and at the same time continue monitoring at points where values above the limit of quantification (LOQ) were found. From 2022 onwards, sample analyses for Glyphosate/AMPA, Bisphenol and Hormones will be carried out at the control points of water fed into the network.

During the year 2021, the Aqueduct Operations Department continued to implement actions and interventions aimed at monitoring the concentration values of chemical parameters fed into the distribution network. These include the installation of control points on the distribution network in the municipalities

where the WSP has been developed, with a view to ensuring a more capillary control of the quality of the water captured and supplied.

In relation to the Chromium parameter, the Drinking Water Directive 2020/2184 imposes a limit of 25 µg/l for total chromium to be implemented no later than 12 January 2036. In Italy, this value must be absorbed by 12 January 2026, and until that date the limit of 50 µg/l for total chromium (without distinction with hexavalent chromium) applies, as laid down in the Decree of 30 June 2021. Following the decree of 14 November 2016, which proposed the entry into force of the 10 µg/l limit for hexavalent chromium, several decrees extending the implementation of this limit followed over the years, until the arrival of the decree of 30 June 2021 which, directly absorbs the limit set out in Directive 2020/2184.

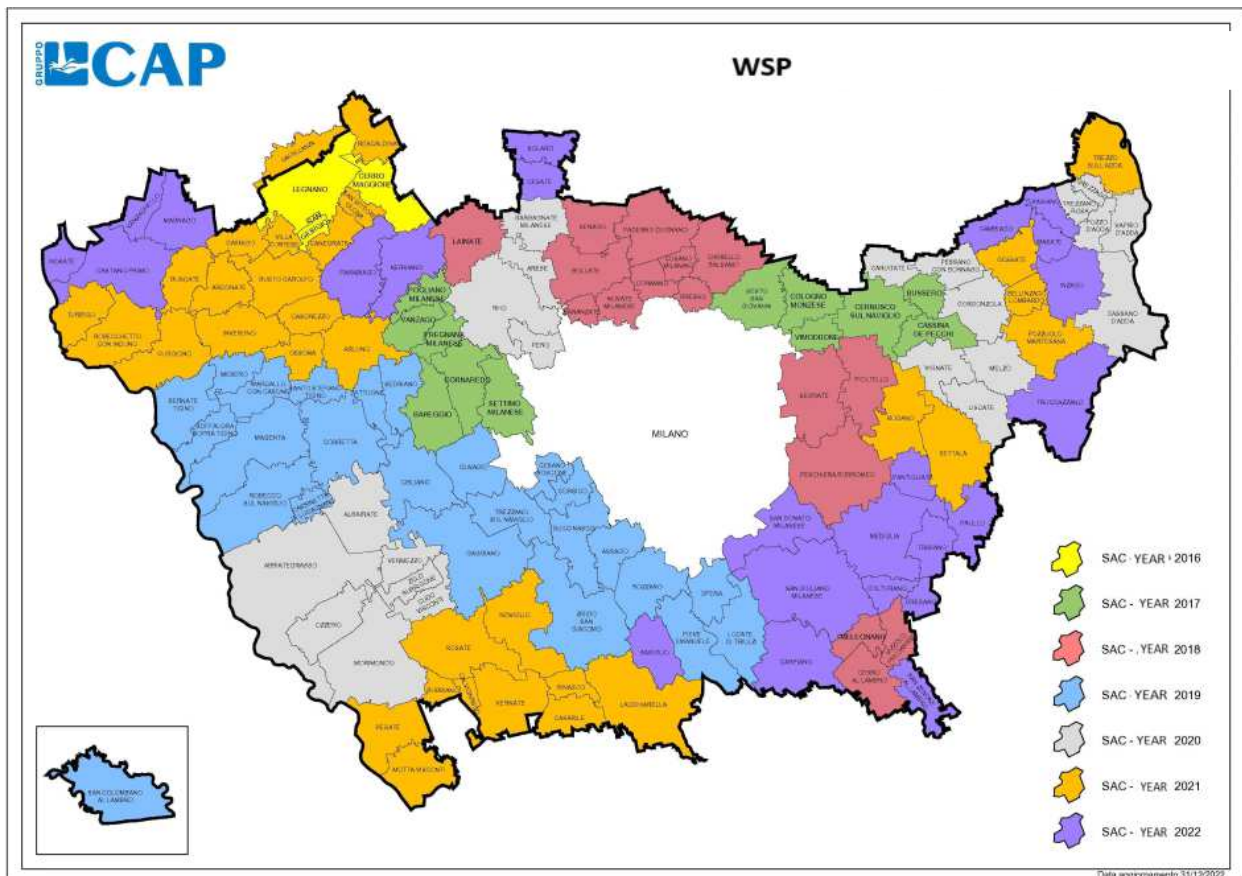
In 2020, work began on the construction of two plants for the reduction of chromium: the plant in Via Bixio in Sesto San Giovanni, whose works are nearing completion; the plant in Via Fratelli Cervi in Cusago, whose completion is scheduled for 31 December 2022. For the same reason, work is currently in progress at the Via Rovani plant in Sesto San Giovanni.

The above actions are consistent with the company's policy of implementing the Water Safety Plan, whose coverage as at 31 December 2022 is 100% of the served territory, which urges the CAP Group not to limit itself to providing good quality water, but to have a preventive safety vision with regard to all nodes of the drinking water supply chain.

The following map shows the territorial coverage of WSPs as at 31 December 2022.

This coverage amounts to 100% of the served territory.

Water Safety Plan – programming of SAC (Controlled 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.

The result achieved in 2022, according to ARERA (Resolution 235/2020/R/IDR), is to be compared with 2021:

Macro indicator	Parameter	2019	2020	2021	2022	Improvement 2022 vs. 2021
M6 - Purified water quality	Class	C	B	B	B	-16.9%
	Value	5.65%	4.86%	4.26%	3.54%	

The precise assessment of emission limit values being exceeded was carried out with reference to the concentrations limited only to the parameters present in table 1 and table 2 of Annex 5 to part III of Italian Legislative Decree 152/2006 as amended (BOD5, COD, suspended solids, total nitrogen and total phosphorus), where the concentration limits for these five parameters against which the absence of limit values being exceeded in the samples must be assessed are the most restrictive of the values in Tables 1 and 2 of Italian Legislative Decree 152/06 and any additional requirements included in the respective discharge authorisation documents.

Therefore, the maximum precise limit values that must not be exceeded indicated by the new authorisations issued in 2020 by the Metropolitan City of Milan were not taken into consideration, in line with what ATO CMM, at the time of the assessment of the two-year period from 2020 to 2021, considered less restrictive than those provided for by the RQTI.

Where applicable, the limits during irrigation and bathing periods were taken into account.

Overall, the indicator is improving, ensuring the achievement of the two-year target required by ARERA for 2022.

In addition to the aforementioned upgrading or revamping interventions, i.e. the Peschiera Borromeo and San Colombano al Lambro purification plants (finished and being tested), over the next three years, planning and management of works will focus on the following lines of action, also for the Parabiago purification plant. Following the confirmation of the disposal of the Rescaldina purification plant and the delivery of wastewater to the Parabiago purification plant, a project to upgrade the plant to treat the new loads corresponding to 49,000 EA was necessary.

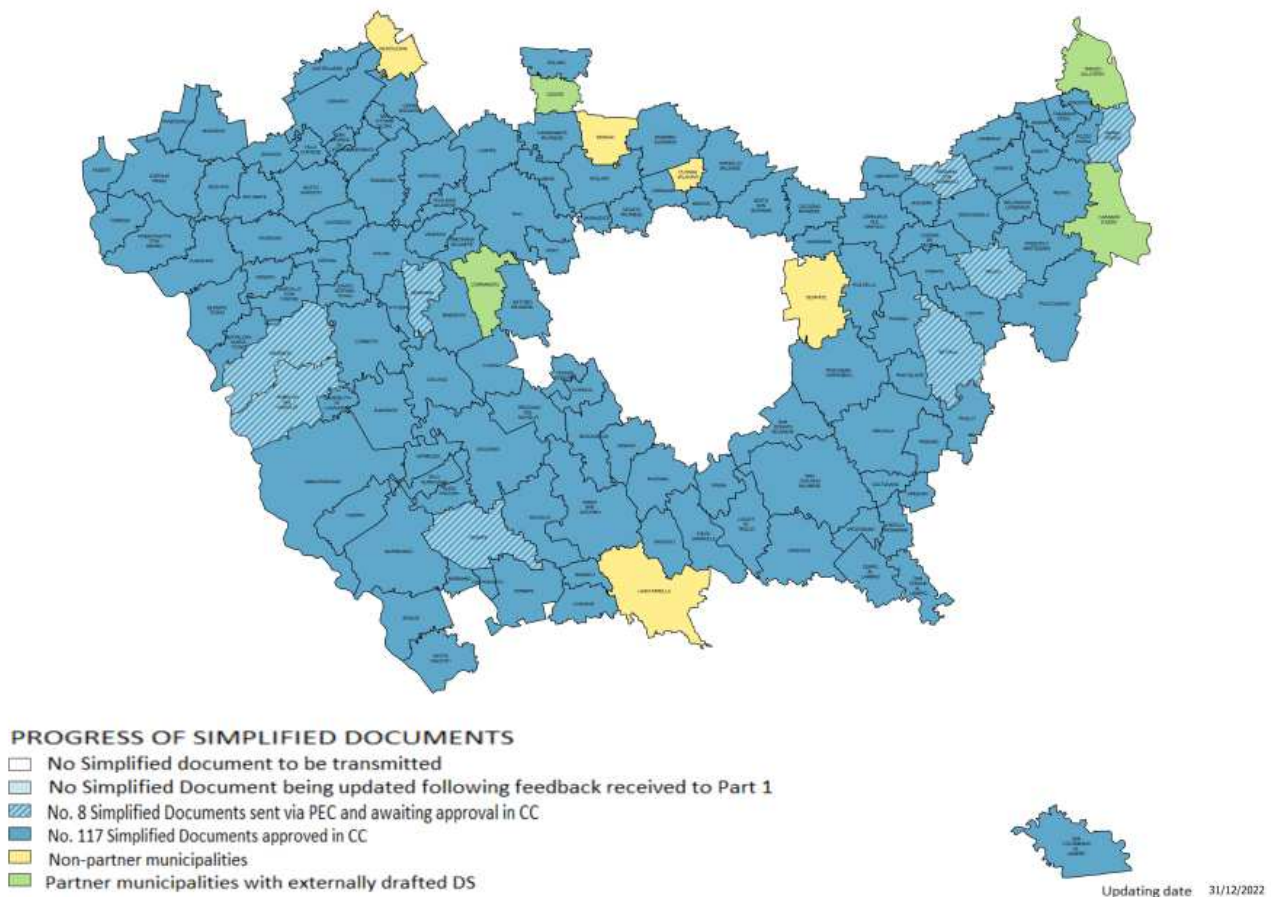
The works were awarded through an integrated tender on 7 June 2021 and the final design was authorised at a Service Conference on 22 November 2021, and is currently being reviewed, which will be completed in the first quarter of 2022.

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 wastewater (RR 06/2018).

During 2022, the activities started in 2019 to draw up Simplified Documents of the Hydraulic Risk were continued 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.

As at 31 December 2022, of the 129 partner municipalities (Vermezzo and Zelo are counted as two separate municipalities), 125 Simplified Documents were prepared and sent to the municipalities and the remaining 4 were prepared directly by the municipalities (Cesate, Cornaredo, Cassano d'Adda, Trezzo sull'Adda).

The following image shows the status of Simplified Documents as at 31 December 2022.



Moreover, the support to external professionals appointed by municipalities for the drafting of Municipal Hydraulic Risk Management Studies continued, 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.

To date, work has begun on the preparation of the Municipal Hydraulic Risk Study for 70 municipalities, 16 of which have been approved by the Municipal Council.

By using the data collected from the simplified documents, in particular from the interventions mapped on the territory, it was possible to participate in regional funding calls on the subject of urban regeneration and land waterproofing, laying the foundations for the construction of the CMM-Spugna Project:

- Design activities on behalf of third parties (i.e. on behalf of municipal administrations or other entities) for hydraulic invariance works and sustainable urban drainage works (disconnection works in Varedo, new road in Carpiano, ecological lay-by in Cormano, etc.);
- Integration of the SiRIC database (acronym for Information System of Hydrological Invariance and Municipal Hydraulic Risk Management) 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 123 Simplified Documents. Link to the SiRIC presentation video: <https://smartgreen.unimi.it/2020/09/10/presentazione-siric/>;
- loading of the Siric DB into the Acque di Lombardia webGIS platform, which will be finalised in May 2022;
- Development of in-house calculation software for the design of sustainable urban drainage works and hydraulic invariance: a demo was realised at the link.

In 2022, CAP Holding developed the "Città Metropolitana Spugna" project together with Metropolitan City of Milan, i.e. a set of 90 sustainable urban drainage interventions to be financed with € 50 million of the RRP funds.

These interventions, planned in 32 municipalities, will allow the redevelopment of squares, car parks and streets. Although different from each other, the works share the same objectives of environmental resilience, urban regeneration, adaptation to climate change, recovery/reconfiguration of spaces and sustainable urbanisation. In particular, design solutions include de-sealing works and the disconnection of sealed surfaces from the sewerage network, which, in addition to their street furniture function, allow rainwater to infiltrate into the ground, reducing heat island effects and the risk of flooding.

This is why urban greenery is configured as the protagonist of the interventions and is used not only as simple street furniture, but also as a social and environmental enhancing element capable of adapting to different situations, improving the quality of life and environmental protection.

At the end of 2022, the final design of the CMM Spugna operations was completed.

With regard to the flyover systems on the sewage network, details are provided in accordance with the latest updates as per Minute Prot. 13 of 2 January 2023.

As a result, 81 buildings indicated below are managed as at 31 December 2022:

	MUNICIPALITY	ADDRESS	TYPE
1	ABBIATEGRASSO	Via Fausto Coppi	Underground sealed tank
2	ARCONATE	Via degli Aceri	Surface sealed tank + dispersing
3	ARLUNO	Via Elisa Restelli (VITTUONE)	Underground sealed tank
4	BERNATE TICINO	Via Vittorio Emanuele	Dispersing tank
5	BOFFALORA SOPRA TICINO	Via 25 Aprile	Underground sealed tank
6	BOFFALORA SOPRA TICINO	Via Marzabotto	Underground sealed tank

	MUNICIPALITY	ADDRESS	TYPE
7	BOFFALORA SOPRA TICINO	Via Alessandro Volta	Underground sealed tank
8	BRUGHERIO	Via Guzzina	Surface sealed tank
9	BUSCATE	Via per Cuggiono	Surface sealed tank + dispersing
10	BUSTO GAROLFO	Via per Furato	Surface sealed tank
11	BUSTO GAROLFO	Via Giuseppe Di Vittorio (Olcella)	Surface sealed tank + dispersing
12	CAMBIAGO	Via Matteotti	Surface sealed tank
13	CARPIANO	Via Caduti	Underground sealed tank
14	CARPIANO	Via Cascina Liberia	Underground sealed tank
15	CARUGATE	Via Fratelli Bandiera	Surface sealed tank
16	CASOREZZO	Via Fiume	Surface sealed tank + dispersing
17	CASSINA DE PECCHI	Via Leonardo da Vinci	Underground sealed tank
18	CASSINETTA DI LUGAGNANO	Viale Lombardia	Underground sealed tank + dispersing
19	CASSINETTA DI LUGAGNANO	Via Trento	Underground sealed tank + dispersing
20	CASTANO PRIMO	SP31	Surface sealed tank
21	CERIANO LAGHETTO	Via Vicinale del Nosetto	Dispersing tank
22	CERRO MAGGIORE	Via dei Cerri	Surface sealed tank
23	CERRO MAGGIORE	Via Pastrengo	Dispersing tank
24	CERRO MAGGIORE	Via Carlo Calvi	Surface sealed tank
25	CESATE	Via Giuseppe Garibaldi	Underground sealed tank
26	CINISELLO BALSAMO	Via 20 Settembre (BRESSO)	Surface sealed tank
27	CORSICO	Via Giuseppe Verdi	Underground sealed tank
28	CORSICO	Via Elio Vittorini	Surface sealed tank
29	CUGGIONO	Via Foscolo	Dispersing tank
30	DAIRAGO	Viale della Circonvallazione	Surface sealed tank + dispersing
31	GORGONZOLA	Via Milano	Underground sealed tank
32	GORGONZOLA	Via Buozzi	Underground sealed tank
33	INVERUNO	Corso Italia	Dispersing tank
34	INVERUNO	Via Milano	Underground sealed tank
35	INZAGO	SP103dir	Dispersing tank
36	LISCATE	Via Alighieri	Underground sealed tank
37	MAGNAGO	Via Trento	Dispersing tank
38	MARCALLO CON CASONE	SP 224	Underground sealed tank
39	MELZO	Via Leonardo da Vinci	Underground sealed tank
40	MESERO	Via Matelda	Dispersing tank
41	MISINTO	Via San Siro	Dispersing tank
42	MOTTA VISCONTI	Via De Gasperi	Underground sealed tank + dispersing
43	NERVIANO	Via Isonzo	Surface sealed tank + dispersing
44	NERVIANO	Novella/Via Montello	Dispersing tank
45	NERVIANO	Novella/via Indipendenza	Dispersing tank
46	NERVIANO	Via Giovanni XXIII	Surface sealed tank
47	NERVIANO	via Giovanni XXIII Loc. Lazzaretto	Underground sealed tank
48	OSSONA	Via per Magenta	Surface sealed tank + dispersing
49	PADERNO DUGNANO	Piazza della Resistenza	Underground sealed tank

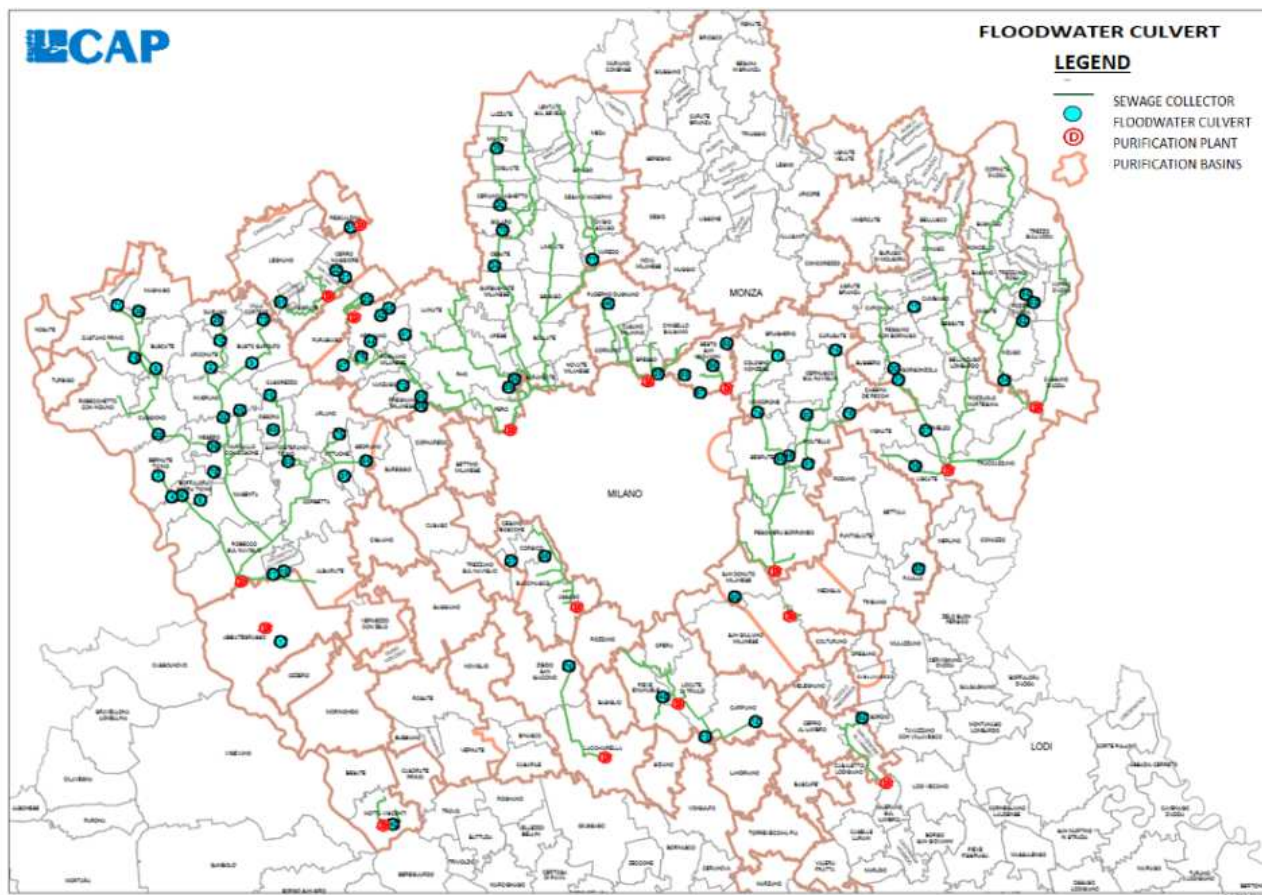
	MUNICIPALITY	ADDRESS	TYPE
50	PARABIAGO	Via Volturmo	Surface sealed tank + dispersing
51	PAULLO	Via Caduti del Lavoro	Underground sealed tank
52	PIEVE EMANUELE	Via Brodolini (Valle Volpi)	Surface sealed tank
53	PIOLTELLO	Via Rugacesio	Surface sealed tank
54	PIOLTELLO	Viale San Francesco	Surface sealed tank
55	PIOLTELLO	Via Dante Alighieri	Underground sealed tank
56	POZZO D'ADDA	via fratelli Cervi frazione Bettola	Surface sealed tank + dispersing
57	POZZO D'ADDA	Via Unità d'Italia	Underground sealed tank
58	POZZO D'ADDA	Via Leonardo da Vinci	Surface sealed tank
59	PREGNANA MILANESE	Via dei Rovedi	Dispersing tank
60	PREGNANA MILANESE	Via Repubblica	Underground sealed tank + dispersing
61	RESCALDINA	Via Provinciale Saronnese	Surface sealed tank
62	RHO	Via Alcide De Gasperi	Underground sealed tank + dispersing
63	RHO	Via Risorgimento	Underground sealed tank
64	SAN DONATO MILANESE	Via Non codificata	Underground sealed tank
65	SAN GIORGIO SU LEGNANO	Via Don Luigi Sturzo	Dispersing tank
66	SAN ZENONE AL LAMBRO	Via Don Gnocchi	Underground sealed tank
67	SANTO STEFANO TICINO	Viale della Stazione	Underground sealed tank
68	SEDRIANO	Via per Cascina Magna	Dispersing tank
69	SEGRATE	Via Rugacesio	Surface sealed tank
70	SESTO SAN GIOVANNI	Via Giovanni XXIII	Underground sealed tank
71	SESTO SAN GIOVANNI	Via Adamello	Underground sealed tank
72	SESTO SAN GIOVANNI	Viale Italia	Underground sealed tank
73	SESTO SAN GIOVANNI	Via L. Granelli	Underground sealed tank
74	SOLARO	Corso Italia	Dispersing tank
75	VANZAGHELLO	Via Gallarate	Dispersing tank
76	VANZAGO	Via I Maggio	Dispersing tank
77	VAREDO	Via Colombi	Underground sealed tank
78	VILLA CORTESE	Via dell'Industria	Surface sealed tank + dispersing
79	VIMODRONE	Via Pio La Torre	Underground sealed tank
80	VITTUONE	Via Elisa Restelli	Dispersing tank
81	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.

In 2022, the design of the tanks of Trezzano Sul Naviglio (first rain tank + floodwater culvert), Sedriano (first rain tank and dispersing tank), Marcallo con Casone (dispersing tank), Bareggio (plant head tank) and San Colombano (plant head tank) were completed. The design of the tanks of Novate Milanese (first rain tank), Paderno Dugnano (phytodepuration and dispersion), and Vanzago (first rain tank and adaptation of dispersion tank) continues. Moreover, the design of the Canegrate (first rain tank and dispersing tank), Magnago (first rain tank and adaptation of dispersing tank), Cambiago (first rain tank and adaptation of dispersing tank) and Legnano (first rain tank and floodwater culvert) was started.

With regard to implementation in 2022, the interventions included both the adaptation of existing tanks and the construction of new storage systems . In particular, works are currently underway on the construction of the tanks at Parabiago Via Foscolo (floodwater culvert), Parabiago Via Matteotti (floodwater culvert), Trezzano Sul Naviglio (first rain tank + floodwater culvert) and Misinto (first rain tank) . Finally, the tanks of Cesano Boscone (rainwater storage system), Marcallo con Casone (first rain tank), Vanzaghello (dispersing tank), Mesero (phytodepuration and dispersing tank) were tested.

The following figure shows the location of the 81 tanks under management on 31 December 2022 together with the mapping of the various collectors under management:



Personnel and the 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 2022:

- 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 2022 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 - 2022 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 Lario Reti e Alfa for the Information Technology Department;
- during 2022, the shared process of cooperation with ALFA s.r.l. was consolidated: it had led on 12 June 2020 to the signing of the network agreement in which a common process that provides, among other things, for the establishment of single offices subject to unified and coordinated management, was identified.

The coordinated management of the integrated water service in interconnected territories led to the activation of 108 secondments to Alfa for the following areas:

- o Administration and Finance;
- o Legal Department and Contracts;
- o Customer Management;
- o Technical and Commercial Services;
- o Planning and control;
- o Research and Development;
- o Engineering;
- o Operation Intelligence;
- o Facility Management.

On 1 April 2021, a Network contract was signed with the company CORE/ZEROC for the development of circular economy policies through the establishment and management of the Sesto San Giovanni Bioplatform. On 17 May 2021, the Ministry of Labour and Social Policies approved the company reorganisation programme for the period from 3 May 2021 to 2 January 2022, and the minutes of the agreement with the trade unions were signed for the placement of Core/ZeroC's personnel on furlough. The aforementioned agreement provided for a lay-off period of eight months, starting on 3 May 2021, for approximately 10 employees of CORE S.p.A. As at 31 December 2022, all ZeroC personnel were seconded to CAP Holding (CAP GROUP), which is the majority shareholder company, with the ascertained and acquired 80% of the shares.

Analysis of the trend in the number of personnel

The personnel in service as at 31 December 2022 numbered 909 employees.

The most significant changes registered for the year concern:

- no. 74 incoming employees for activation of selections pursuant to the current Recruitment Regulation;
- no. 43 outgoing employees due to termination of work contract;
- no. 13 outgoing employees for retirement requirements.

For the number of Group employees, broken down by category, please refer to the notes to the financial statements.

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 May 2018 fixed the following limits:

	Limits	2015	2016	2017	2018	2019	2019 Restated	2020	2021	2022
% INCIDENCE PERSONNEL COSTS/TOTAL COSTS	20.00%	19.50%	17.34%	14.64%	14.59%	14.44%	14.61%	14.56%	14.47%	12.78%
% INCIDENCE PERSONNEL COSTS/TOTAL REVENUES	20.00%	16.27%	14.41%	12.57%	12.45%	12.40%	12.75%	13.27%	12.73%	11.88%

The trend is compliant with the forecasts of the Business Plan.

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

In 2022, total expenditure for personnel training activities amounted to € 167,862.63 for a total of 24,493 hours of training, involving 909 people, of which € 131,524 on safety in the workplace (€ 18,811 Safety and € 112,713 Compulsory Safety), for a total of 11,957 hours (1,242 Safety and 10,715 Compulsory Safety) involving a total of 923 people.

Incentive systems adopted

With regard to the incentive systems applied for the year 2022, 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 2022, the "Result bonus project for the four-year period 2020-2022" signed on 12 December 2019 was applied;
- 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, already aimed at recognising and rewarding the best achievement of the business targets and the carrying-out of better performances;
- in 2022, the following were introduced on an experimental basis:
 - o GAIN SHARING and PROFIT SHARING incentive tools: forms of variable remuneration, in addition to the MBO and intended for management, middle management and executives. Both of these instruments will generate self-financing: GAIN SHARING through cost containment while PROFIT SHARING through the search for new value;
 - o the 2021-2023 Sustainability Performance Plan, addressed to management staff. The purpose of the Plan is to incentivise the executives of the CAP Group companies, vested with functions of strategic importance, to achieve long-term corporate objectives with a view to creating value on Environmental and social sustainability issues (in accordance with the Environmental, Social & Governance criteria) and, at the same time, to create a means of building their loyalty by granting them the right to receive a bonus under the terms and conditions set forth in this Regulation.

As at 31 December 2022, the CAP Group was in line with the provisions envisaged by Italian Law No. 68/69, Provisions for right to work of people with disabilities, having entered into with the Milan Provincial Authority, on 19 September 2022, an agreement for the employment of individuals with disabilities pursuant to Article 11 of Italian Law No. 68/99 for both CAP Holding S.p.A. and AMIACQUE S.r.l.

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:

H2020 Digital Water City Project

The CAP Group participated 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, planned to create digital solutions to address aspects of the integrated water cycle in 5 urban case studies: Paris, Berlin, Copenhagen, Milan, Sofia.

During 2022, CAP Holding developed digital solutions to support the intelligent use of treated water in agriculture. The Acque di Lombardia WebGIS page collects information on the quality of treated water in some of the major plants managed by CAP Holding and also, for the Peschiera Borromeo purification plant, the surface area that can be irrigated by drip irrigation systems. The page also reports warning signals from the Early Warning System developed by Università Politecnica della Marche from data from the numerous probes in the Peschiera Borromeo plant.

Finally, in collaboration with the partner Università Politecnica delle Marche, the first prototypes of the Match-Making Tool and Serious Game, two digital solutions dedicated to stakeholder engagement, were finalised.

Finally, in collaboration with the partner Università Politecnica delle Marche, the first prototypes of the Match-Making Tool and Serious Game, two digital solutions dedicated to stakeholder engagement, were produced.

The project ended in November 2022.

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 developed 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 continued smoothly in 2022 in the various fields of activity. A bioreactor, designed and built by SEAM Engineering, was installed for the controlled growth and subsequent application of fungi to sludge from the San Giuliano Milanese Ovest sludge treatment line. The work carried out by the CAP Geology group involved the development of a three-dimensional numerical model of a pilot area located on the left bank of the Ticino river, between the municipalities of Robecchetto C.I. - Cuggiono - Ossona to the north and Abbiategrasso - Robecco S.N. to the south.

Finally, in the activity dedicated to the recovery of oil from purification plants, several samples were provided to the ENI partner, which evaluated and validated the quality of the oil extracted from the effluent for the production of biodiesel. In parallel, various process alternatives were explored to optimise oil recovery, in terms of e.g. concentration in water, with the aim of decreasing the severity of the extraction process.

The project ended in November 2022.

LIFE Freedom project

CAP Group is taking part in the LIFE FREEDOM project - Solving treatment of wastewater sewage sludge with new HTL technology to produce hydrocarbons, asphalts and fertilisers, which aims to test the applicability of the process known as hydrothermal liquefaction (HTL) for the treatment of sludge from wastewater treatment . In fact, the most common solutions at the moment involve reuse in agriculture, landfilling or waste-to-energy; however, each of these solutions has undesirable environmental (e.g. CO2 emissions from landfilling) or social (social acceptability of waste-to-energy plants) impacts. In this sense, hydrothermal liquefaction will make it possible to reduce the amount of sludge to be treated and to recover materials that can be put back on the market as secondary raw materials for the production of biofuels or asphalt. Moreover, such a solution can allow the recovery of phosphorus for use in agriculture as fertiliser, an element whose availability is decreasing worldwide and for which Italy is dependent on imports.

The pilot plant was installed at the Cassano d'Adda wastewater treatment plant in 2022 and the first material production tests were carried out at the end of the year.

CIRCULAR BIOCARBON Project

The CAP Group participates in the CIRCULAR BIOCARBON project (title in full: Turning carbon of complex organic urban waste streams into value-added products) which aims to create new business models based on the treatment of urban waste with circular economy approach . In two different case studies, in Zaragoza (Spain) and in Sesto San Giovanni, a first-of-a-kind biorefinery based on the valorisation of OFMSW will be developed to obtain high value-added products from urban organic streams, going a step further than classical anaerobic digestion and composting systems.

CIRCULAR BIOCARBON envisages the construction on two parallel sites in Sesto San Giovanni and Zaragoza (Spain) of an integrated biorefinery fuelled by urban organic waste (sewage sludge and FORSU) and intended for the production of materials for various product sectors, such as agriculture, precision industry and sustainable packaging. In particular, at the Sesto San Giovanni site, the production of Polyhydroxyalkanoates (PHA), a family of biodegradable polymers that Novamont will use for the formulation of bags for separate waste collection and mulching sheets, will be validated by the CAP Group.

In 2022, the preliminary works necessary for the construction of the biorefinery were carried out and the existing compartments were adapted. Moreover, the budgeting and scouting phase for the PHA production pilot plant, designed by Università Politecnica delle Marche and Università di Verona, is underway.

BIOMETHAVERSE project

The CAP Group participates in the BIOMETHAVERSE innovation project, (Demonstrating and Connecting Production Innovations in the BIOMETHAnE unIVERSE) which aims to diversify the technology base for biomethane production in Europe in order to increase cost-effectiveness and contribute to the dissemination of innovative processes for biomethane production.

The aim of the project is to implement a series of innovations in the biomethane sector that can increase biomethane production, reduce costs and couple the electricity and gas grid to enable the transition to renewable energy in all energy sectors.

To achieve this goal, BIOMETHAVERSE brings together industrial partners, associations and universities from 8 European countries. The project consortium includes 23 organisations that will develop five case studies in France, Italy, Ukraine, Sweden and Greece. ISINNOVA, an independent Italian research institute based in Rome, is coordinating the European project.

The Italian case study involves the collaboration of the CAP Group, Politecnico di Milano, SIAD and Consorzio Italiano dei Compostatori and will focus on the creation of an integrated technological platform to increase the quality and quantity of biomethane produced at the Bresso - Niguarda wastewater treatment plant where biogas is already converted into biomethane and fed into the grid.

The project officially started on 1 October 2022.

BIORECER project

The BIORECER (Biological Resources Certifications Schemes) project was eligible for funding as part of the call for proposal HORIZON-CL6-2021-ZEROPOLLUTION-01-05 Environmental sustainability criteria for biological resources production and trade in bio-based systems: impacts and trade-offs.

The objective of BIORECER is to stimulate European stakeholders in the use and trade of biological resources through the definition, promotion and transfer of competitive and efficient bio-based circular systems. To achieve this goal, BIORECER will be structured around three main activities:

Develop a multi-dimensional digital framework for the analysis of biological feedstocks and their supply chains;

Create an innovation ecosystem with a multi-player approach to test the framework on four case studies based on different bio-based systems and supply chains;

Complement existing certification schemes with new criteria for certifying the sustainability, origin and traceability of organic resources, ensuring their applicability at European and global level.

CAP Holding participates in the project, together with the other Italian partners UNIVPM and Cluster Spring, for the case study on biological resources from activities in urban areas.

Therefore, different matrices of potential interest such as liquid waste from the food industry, treatment sludge, FORSU and cellulose were included in the case study.

The project officially started in September 2022.

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

MICODEP: from sludge to biomaterials

During 2022, the Micodep project continued its activities on the laboratory-scale testing of fungal strains, identified in 2019 within the mycoflora present in the wastewater, to assess their properties towards the reduction of suspended solids in the thickened sludge, with a view to reducing the final amount of sludge to be disposed of.

The wastewater samples were provided by the CAP Group, and in particular by the Truccazzano 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. At the same time, the foundations were laid for scaling up the experiment to pilot level with the support of Galatea Bio Tech and the use of a bioreactor for the growth and use of the selected species directly at the purification plants.

Sanitation Safety Plan project

The Sanitation Safety Plan - developed by the CAP Group in collaboration with the University of North Carolina, the Istituto Superiore di Sanità, the Mario Negri Institute, the IRSA CNR and the Politecnico di Milano - aims to implement an advanced risk assessment system in the field of irrigated reuse of treated wastewater. Based on the WHO guidelines, an attempt was made to define new criteria and procedures for health risk assessment by analysing the potential transfer of chemical and biological contaminants to crops, soil, surface water and groundwater. In 2022, work was carried out in agreement and coordination with partners in relation to the research projects carried out and the new guidelines relating to European Regulation 741/2020, leading to a methodological revision for the application of the approach. At the same time, input and output sampling campaigns for specific microbiological and chemical pollutants (drugs, pesticides, Legionella, etc.) were carried out at the Peschiera, Assago and Bresso plants, in line with previous analyses.

Finally, Special Projects include the SARI project activity.

As from October 2021, as part of the monitoring envisaged by the "SARI Project", the IWS has requested the activation of the analytical protocol "Monitoring of SARS-CoV-2 in urban wastewater REV. 3 of 25 July 2021. This project involves sampling and analysis in accordance with European recommendation 2021/472 of 17 March 2021 and recording the results in the IWS dashboard within 48 hours of sampling.

The Lombardy region, through the DGR 5807 resolution of 29 December 2022, defined for each participating laboratory (Mario Negri, Bicocca, Izler, UniMI and the CAP group) the number of weekly analyses to be carried out and the purifiers to be analysed.

During 2022, the CAP Group carried out a total of 220 analyses; The samples were concentrated according to ISS Rev.3 protocol and analysed in Real-Time PCR to quantify the SARS-Cov-2 RNA present within the purification plants assigned to the CAP group by DGR 5807 of 29 December 2022 and in particular: Lonate Pozzolo, Canegrate, Varese, Pescheria Borromeo and Bresso.

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. Note that in November 2021, a further agreement was signed with Acque Novara, which will become part of the Lombardy system, albeit on the Piedmont territory.

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.

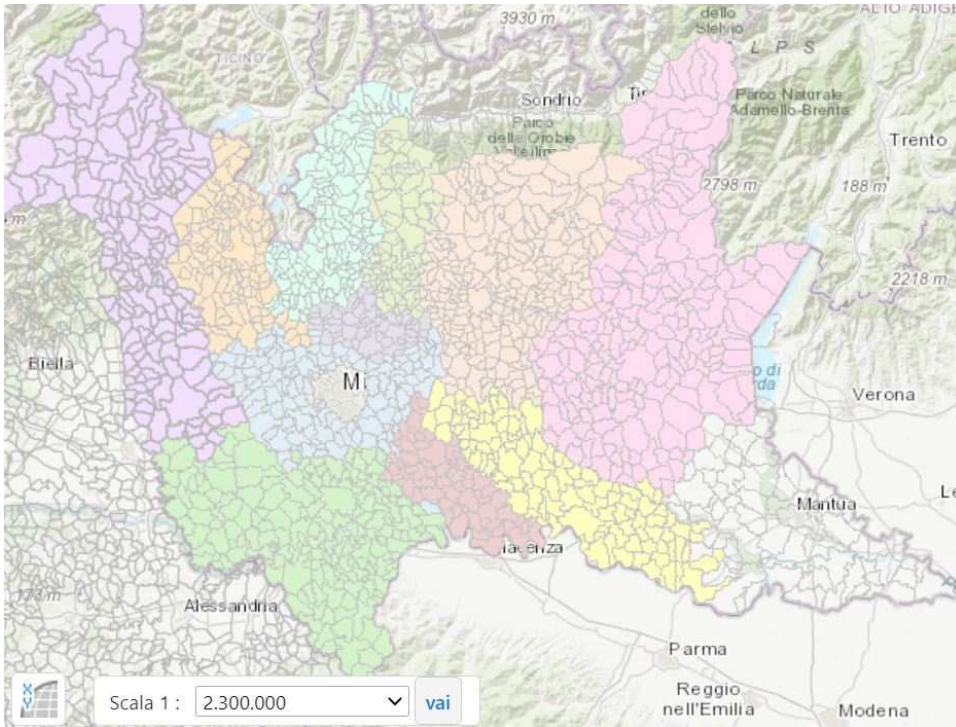
The real process of change in 2020 was the overall renewal of the entire application map dedicated to GIS/WEBGIS, with the start of operations on 23 November 2020 of the new set of applications dedicated to land management.

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	2022
km of sewer mains included in the system	36,080
km of aqueduct network included in the system;	40,081
Number of manholes of the sewerage system	735,529
Number of wells – aqueduct network	5,713



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

Focus: CAP Group WebGIS	2022
Number of investments entered on WEB GIS	118
Number of sewerage drains entered on WEB GIS	904
Number of industrial drains entered on WEB GIS	1,481
Number of extraordinary maintenance interventions entered on WEB GIS	109
Number of corrective maintenance interventions entered on WEB GIS	5
Number of as built by third parties entered on WEB GIS	97
Number of km of aqueduct and sewerage network entered on WEB GIS	12,989
Number of well monographs entered on WEB GIS	695
Number of inspection videos entered on WEB GIS	30
Trap maintenance service entered on WEB GIS	4,861
Number of discharge authorisations entered on WEB GIS	904
Number of monographs for sewerage network manholes accessible on WEB GIS	165,704

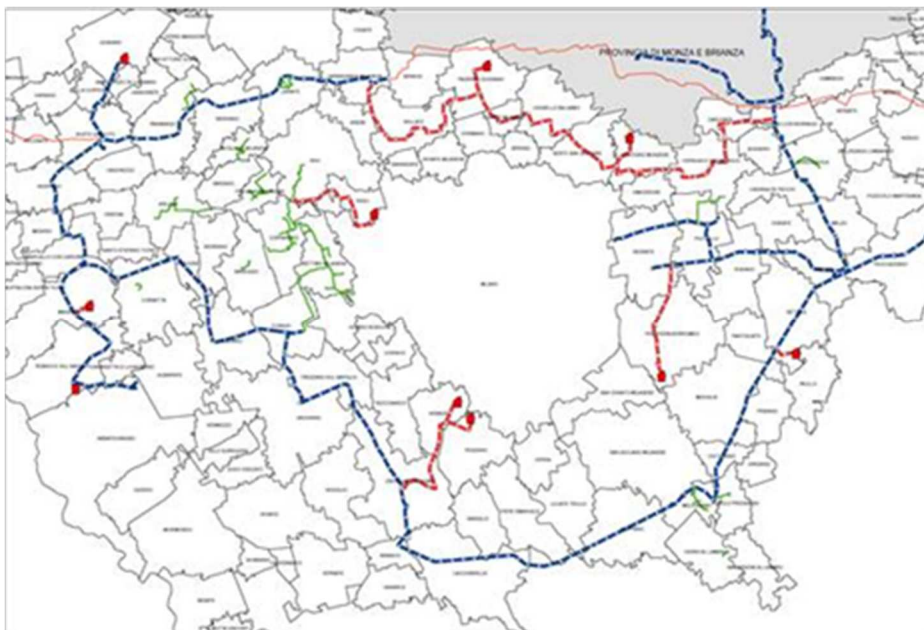
Several agreements with the Lombardy Region and other Italian operators make the platform one of the most advanced both at Italian and international level.

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 € 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 € 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 December 2022 and subsequently approved in January 2023, shows the following trend in 2023:

<i>(units in €)</i>	2023 Budget
Total Revenues	415,976,256
(Total Costs)	(388,219,599)
Net operating result	27,756,657
Financial income (financial expense + write-down of equity investments)	(6,107,134)
Taxes	(6,494,857)
Net result for the year	15,154,666

The forecast for the cost of electricity in 2023 was estimated at about € 74 million.

The high volatility of raw material prices is confirmed for 2023 as well, which requires the utmost care in the continuous monitoring of this cost item.

On the transfer of this cost with respect to the guaranteed revenue, please refer to the previous paragraphs.

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 uncertainties concerning the economic and international scenario, as well as the current variability and growth of raw materials and especially of electricity may in the future affect the Group 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 Group'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 2022, it totalled € 25,649,681, equal to around 11% of the total indebtedness outstanding as at 31 December 2022.

On the same date, part of this indebtedness, € 1,615,385 as at 31 December 2022, at floating rate, is accompanied by non-speculative purely hedging interest rate swap agreements.

With reference to the residual interest rate risk, the Group prepared a sensitivity analysis to determine the impact on the income statement (result before taxes) that would result from a hypothetical positive/negative change in interest rates compared to those actually recorded in each period. The following table shows the results of the analysis carried out.

<i>in euro</i>	Case A)	Case B)
Sensitivity analysis	-200 basis points	+200 basis points
Financial year ended 31/12/2022	289,659	- 289,659

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 satisfy 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 adopted a regulation for the use of liquidity as early as 2013 and updated it by a resolution of the board of directors on 18 February 2021, which 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 2022 to € 42.55 million, of which € 32.55 million have not yet been used. This position is in addition to the "drawdown" of the CSEA advance of € 9,965,666 mentioned earlier in this report.

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 2022 and extended until 31 May 2024.

As at 31 December 2022, this position was zero (as at 31 December 2021 CAP Holding S.p.A. owed € 6,000,000).

Finally, on 11 April 2022, CAP Holding S.p.A. signed a new loan agreement with the European Investment Bank worth € 100 million to support part of the investments of the business plan for the years from 2022 to 2025, fully disbursed in 2022.

(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.

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.

(d) Covenants and Negative pledges and similar.

Part of the CAP Group's indebtedness as at 31 December 2022 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 financial backers 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, 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 2022, the CAP Group used a financial instrument. In particular, during 2015, it acquired an IRS from the merged company Idra Milano S.r.l. (of which Banca Nazionale del Lavoro S.p.A. is the counterparty).

This Interest Rate Swap (IRS), referring to an underlying financial liability, dates back to 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.l. that took place in 2015): IRS for a nominal of € 6,000,000 (in repayment) expiring on 16 May 2026.

A further position opened on 22 January 2008: IRS with a nominal value of € 20,000,000 with BNP Paribas was extinguished in 2022.

The open position is pure (and at least partial) hedge with respect to the interest rate fluctuation risk.

type of derivative contract	interest rate swap with bnl
	1
contract date	16/05/2011
purpose	rate hedging
contract number	5963433
notional value	6,000,000
existing principal	1,615,385
settlement date	16/05/2026
financial risk	
mark to market as at 31/12/2022	-9,144
hedged asset/liability	bnl loan (formerly Idra Patrimonio)

It is possible to add that:

- 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).

Relations with affiliated companies and other investees

With regard to transactions with Neutalia S.r.l. and Zeroc S.p.a., Rocca Brivio Sforza S.r.l. in liquidation, refer to what has already been discussed above and the other details summarised in the notes to the financial statements.

*The Chairperson of the Board of Directors
Karin Eva Imperato*



FINANCIAL STATEMENTS OF THE CAP GROUP AS AT 31 DECEMBER 2022

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

Statement of financial position

Statement of financial position	Notes	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
ASSETS					
Non-current assets					
Rights on assets under concession	7.1	870,043,760	844,830,100	25,213,659	3%
Rights of use	7.2	1,610,435	3,632,883	(2,022,448)	-56%
Other intangible assets	7.3	13,762,601	12,341,511	1,421,090	12%
Tangible fixed assets	7.4	24,939,831	20,472,601	4,467,230	22%
Deferred tax assets	7.5	19,807,842	21,535,091	(1,727,249)	-8%
Other receivables and other non-current financial assets	7.6	36,073,236	39,591,952	(3,518,715)	-9%
Total non-current assets		966,237,704	942,404,137	23,833,566	3%
Current assets					
Trade receivables	7.7	250,990,339	233,055,075	17,935,264	8%
Inventories	7.8	2,664,612	2,528,753	135,859	5%
Contract work in progress	7.9	5,470,071	5,414,991	55,081	1%
Cash and cash equivalents	7.10	73,914,355	34,728,710	39,185,645	113%
Other receivables and other current financial assets	7.11	17,163,663	14,471,770	2,691,894	19%
Total current assets		350,203,041	290,199,299	60,003,743	21%
Non-current assets intended for sale	7.12	0	0	0	0%
TOTAL ASSETS		1,316,440,745	1,232,603,436	83,837,309	7%
SHAREHOLDERS' EQUITY					
Share capital	7.13	571,381,786	571,381,786	0	0%
Other reserves	7.13	277,256,797	250,511,878	26,744,919	11%
FTA reserve	7.13	(989,327)	(989,327)	0	0%
Net result for the year	7.13	5,724,641	27,206,773	(21,482,132)	-79%
Total consolidated shareholders' equity		853,373,897	848,111,110	5,262,787	1%
LIABILITIES					
Non-current liabilities					
Provision for risks and charges	7.14	63,749,038	61,786,233	1,962,805	3%
Employee Benefits	7.15	3,789,874	4,454,572	(664,698)	-15%
Non-current payables to banks and other lenders	7.16	177,105,138	99,300,103	77,805,035	78%
Other non-current payables	7.17	59,411,283	62,098,502	(2,687,219)	-4%
Total non-current liabilities		304,055,332	227,639,410	76,415,922	34%
Current liabilities					
Trade payables	7.18	90,093,562	77,647,376	12,446,186	16%
Current payables to banks and other lenders	7.16	32,080,443	43,857,655	(11,777,212)	-27%
Other current payables	7.19	36,837,511	35,347,885	1,489,626	4%
Total current liabilities		159,011,517	156,852,916	2,158,600	1%
Non-current liabilities intended for sale	7.20	0	0	0	0%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,316,440,745	1,232,603,436	83,837,309	7%

Statement of Comprehensive Income

Statement of comprehensive income	Notes	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Revenues	8.1	281,622,670	240,721,687	40,900,983	17%
Increases for internal work	8.2	3,846,369	3,929,367	(82,997)	-2%
Revenues for work on assets under concession	8.3	114,232,631	110,811,283	3,421,347	3%
Other revenues and income	8.4	33,033,651	26,835,089	6,198,562	23%
Total revenues and other income		432,735,320	382,297,426	50,437,894	13%
Costs for raw materials, consumables and goods	8.5	(15,917,845)	(13,769,673)	(2,148,172)	16%
Costs for services	8.6	(196,155,816)	(136,825,949)	(59,329,867)	43%
Costs for work on assets under concession	8.7	(65,573,721)	(64,464,772)	(1,108,949)	2%
Personnel costs	8.8	(51,413,091)	(48,673,621)	(2,739,470)	6%
Amortisation, depreciation, provisions and write-downs	8.9	(81,896,132)	(58,387,194)	(23,508,939)	40%
Other operating costs	8.10	(14,693,359)	(14,219,905)	(473,454)	3%
Non-recurring operations	8.11	0	0	0	0%
Total costs		(425,649,965)	(336,341,115)	(89,308,851)	27%
Operating result		7,085,355	45,956,312	(38,870,957)	-85%
Financial income	8.12	2,978,189	1,784,960	1,193,229	67%
Financial expense	8.12	(5,909,153)	(5,131,826)	(777,327)	15%
Result before taxes		4,154,391	42,609,446	(38,455,055)	-90%
Taxes	8.13	1,570,250	(15,402,673)	16,972,923	-110%
Profit (loss) from assets held for sale or disposed of	8.14	0	0	0	0%
Net result for the year (A)		5,724,641	27,206,773	(21,482,132)	-79%
Components of the statement of comprehensive income that will not be subsequently reclassified in the income statement					
Actuarial gains/(losses) for employee benefits	7.15	375,406	(73,010)	448,416	-614%
Tax effect on actuarial gains/(losses) for employee benefits		0	0	0	0%
Components of the statement of comprehensive income that will be subsequently reclassified in the income statement					
Fair value change deriving from cash flow hedge (IRS)		(502,597)	706,295	(1,208,892)	-171%
Tax effect on fair value change deriving from cash flow hedge		123,665	(179,848)	303,513	-169%
Total components of the statement of comprehensive income, net of tax effect (B)		(3,526)	453,437	(456,962)	-101%
		5,721,115	27,660,210	(21,939,094)	-79%

Cash Flow Statement

CASH FLOW STATEMENT OF THE CAP GROUP YEAR (*)	Value as at 31/12/2022	Value as at 31/12/2021
Schedule No. 1: Operating cash flow determined using the indirect method		
A. Cash flows from operating activities (indirect method)		
Profit (loss) for the year	5,724,641	27,206,773
Income taxes	(1,570,250)	15,402,673
Interest expense/(interest income)	2,990,401	3,292,824
Interest expense IFRS 16	(59,437)	54,042
(Dividends)	0	0
Capital (gains)/losses deriving from disposal of assets	176,259	2,061,170
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/loss on disposal	7,261,614	48,017,482
<i>Adjustments for non-monetary elements that were not offset in net working capital</i>		
Accruals to provisions	13,031,243	6,175,065
Amortisation/depreciations of fixed assets	50,798,021	48,240,130
Write-downs for impairment losses	24,492,014	112,881
Other adjustments for non-monetary elements	(10,124,636)	(14,022,089)
2. Cash flow before changes in NWC	78,196,643	40,505,987
<i>Changes in net working capital</i>		
Decrease/(increase) in inventories	(190,940)	1,165,373
Decrease/(increase) in receivables from customers	(16,711,813)	(5,543,376)
Increase/(decrease) in trade payables	47,282,569	32,796,661
Decrease/(increase) in accrued income and prepaid expenses	0	0
Increase/(decrease) in accrued expenses and deferred income	0	0
Other changes in net working capital	(1,499)	(19,842)
3. Cash flow after changes in NWC	30,378,318	28,398,816
<i>Other adjustments</i>		
Interest collected/(paid)	(4,130,983)	(3,382,480)
(Income taxes paid)	(680,049)	7,193,444
Dividends collected	0	0
Use of provisions	(1,636,249)	(4,936,321)
4. Cash flow after other adjustments	(6,447,281)	(1,125,357)
Cash flow of income management (A)	109,389,293	115,796,928
B. Cash flow from investment activities		
Tangible fixed assets		
(Investments)	(7,763,388)	(4,743,111)
Realisable value of divestments	736	55,414
Intangible fixed assets		
(Investments)	(9,314,539)	(7,544,498)
Realisable value of divestments	0	0
Fixed assets under concession		
(Investments)	(119,687,332)	(114,954,907)
Realisable value of divestments	(176,679)	31
Financial fixed assets		
(Investments)	(571,918)	(3,006,449)
Realisable value of divestments	3,211,983	0
Current financial assets		
(Investments)	0	0
Realisable value of divestments	131,642	430,678
Cash flow from investment activities (B)	(134,169,494)	(129,762,843)
C. Cash flow from financing activities		
Loan capital		
Increase (decrease) in short-term payables to banks	(25,000,000)	25,000,000
Loans taken out	109,965,666	10,000,000
Loans repaid	(19,043,871)	(25,842,981)
Repayment of financial payables IFRS 16	(1,955,948)	(2,836,728)
Shareholders' equity		
Share capital increase against payment	0	0
Sale (purchases) of own shares	0	0
Dividends (and interim dividend payments) paid	0	0
Cash flow from financing activities (C)	63,965,847	6,320,290
<i>Increase (decrease) in cash and cash equivalents (a ± b ± c)</i>		
Cash and cash equivalents as at 1 January	34,728,710	42,374,335
Cash and cash equivalents as at 31 December	73,914,355	34,728,710
change	39,185,645	(7,645,624)

Changes in shareholders' equity

SHAREHOLDERS' EQUITY	Share capital	FTA reserve	Cash-flow hedge reserve	Other reserves	Net result	Total
Shareholders' equity 31/12/2021	571,381,786	(989,327)	368,018	250,143,860	27,206,773	848,111,110
Allocation of result 31/12/2021	0	0		27,206,773	(27,206,773)	0
Fair value change deriving from cash flow hedge net of tax effect	0	0	(360,644)			(360,644)
Actuarial gains (losses) on employee benefits, net of the tax effect	0	0		(101,210)		(101,210)
Adjustment of deferred tax assets FoNI	0	0				0
Profit (loss) for the year 31/12/2022	0	0			5,724,641	5,724,641
Shareholders' equity 31/12/2022	571,381,786	(989,327)	7,374	277,249,423	5,724,641	853,373,897

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2022

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 Rimini, 38, Milan (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 2022 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 11 April 2023 .

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 2022 and 31 December 2021, 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 2022 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 2022 and 31 December 2021 and the income statement for the year ended 31 December 2022 of the Company and the subsidiaries, approved by the respective management bodies. The list of the companies consolidated line-by-line by the Group as at 31 December 2022 is presented below:

- AMIACQUE S.r.l. of Milan, total share capital of € 23,667,606.16, owned for € 23,667,606.16, equal to 100.00% as at 31 December 2022 (equal to that held as at 31 December 2021 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.

Only AMIACQUE S.r.l. has been consolidated with CAP Holding S.p.A., it being maintained 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 as at 31 December 2022, please see the Explanatory notes included in the financial statements.

- with regard to the company ZERO C S.p.A., the local authority shareholders jointly exercise control over the company similar to that exercised over their own services and a decisive influence on the Company's strategic objectives and significant decisions. In this sense, despite the majority shareholding held by CAP Holding S.p.A., ZERO C S.p.A. is not controlled by the latter.

- The company NEUTALIA S.r.l. is under the joint control of its shareholders (essentially as a joint venture) and is recognised in the financial statements of CAP Holding S.p.A. using the equity method (para. 10 of IAS 28), as permitted by IAS 31, para. 38.

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 from 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 which it previously held in the entity acquired entity at the respective fair value at 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 Group will continue its operating activities in the foreseeable future, and in any event over a period longer than twelve months.

For a broader discussion of the armed conflict in Ukraine in February 2022 and its impact on global financial markets, as well as the increase in prices in general and energy products in particular, and their possible impact on the Group, please refer to the Management Report.

It is currently difficult as well as uncertain to assess the effects and repercussions of the continuing international crisis in the future, including from an accounting perspective. However, based on the current situation and the information available to date, no effects are expected to affect the measurement of items in the financial statements, nor the appropriate use of the going concern assumption. In this sense, even with the uncertainties mentioned above, the intangible and tangible assets of the CAP Group are not expected to be impacted, beyond what has already been considered in this document, 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.

The general principle 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.

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	
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 Group to use the assets under concession of the Integrated Water Service (so-called method of the intangible asset) in consideration of the costs incurred for the design and construction of the asset with the obligations to return the same 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 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 which 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 which does not generate abundantly independent cash flows, the recoverable value 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 Group 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 investments classified as "available-for-sale financial assets" for which the fair value cannot be reliably determined are valued at cost adjusted for reductions in value 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.

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 which 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.

Note that as from the 2020 financial year, the special component of the annual water service tariff called "FoNI" (which must be earmarked for investments), is treated in accounting terms as a grant related to assets. Essentially, FoNI is deducted from the cost of individual assets entering service from year to year, in the same way as public grants related to assets).

Previously (until 2019), it was included in the income for the year. The Group made a voluntary change in accounting policy, with retroactive application from 1 January 2020. As required by IAS No. 8, the effects of retroactive application were adjusted against equity as at 1 January 2020 (with a balancing entry for affected fixed assets and deferred tax assets).

It should be noted that the share paid to the Group for the area of the Metropolitan City of Milan alone by way of FoNI amounts to € 14,645,652 for 2022, in addition to the FoNI component of the wholesale purification tariff arrangement for the area of Monza and Brianza amounting to € 1,129,720.

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 Group 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 Group, 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.

Taxes

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

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 2022.

Document title	Issue Date	Effective date	Date of approval	EU Regulations and publication date	Notes
Improvements to IFRSs (2018-2020 ¹⁵ cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41]	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021	No specific impact
Properties, plant and machinery – Income before intended use (Amendments to IAS 16)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021	does not allow the amount received from the sale of goods produced

					before the asset is ready for use to be deducted from the cost of the fixed asset. These sales revenues and related costs will be recognised in the income statement
Onerous Contracts - Costs required to fulfil a contract (Amendments to IAS 37)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021	clarifies which cost items are to be considered when assessing whether a contract will be loss-making
Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)	May 2020	1 January 2022	28 June 2021	(EU) 2021/1080 2 July 2021	updates the reference in IFRS 3 to the revised Conceptual Framework without changing the provisions of the STANDARD (no specific impact).

IAS/IFRS and related IFRIC interpretations applicable to the financial statements of the financial years as from 1 January 2022 and not adopted early by the company, if permitted.

Documents approved by the EU as at January 2023

Document title	Issue Date	Effective date	Date of approval	EU Regulations and publication date	Notes
IFRS 17 – Insurance contracts (including amendments published in 2020)	May 2017 June 2020	1 January 2023	19 November 2021	(EU) 2021/2036 23 November 2021	defines the accounting for insurance contracts issued and reinsurance contracts held (supersedes IFRS 4) Effective for periods beginning on 1 January 2023
Definition of accounting estimates (Amendments to IAS 8)	February 2021	1 January 2023	2 March 2022	(EU) 2022/357 3 March 2022	clarifies, including through examples, the distinction between changes in estimates and changes in accounting standards (the former generally applied)

					prospectively to future transactions and events, and the latter generally applied retrospectively). Effective for periods beginning on 1 January 2023, with earlier application permitted
Disclosure of Accounting Standards (Amendments to IAS 1 ¹⁶)	February 2021	1 January 2023	2 March 2022	(EU) 2022/357 3 March 2022	requires companies to provide relevant information on the accounting standards applied and suggests avoiding or limiting unnecessary information . Effective for periods beginning on 1 January 2023
Deferred taxes on assets and liabilities deriving from a single transaction (Amendments to IAS 12)	May 2021	1 January 2023	11 August 2022	(EU) 2022/1392 12 August 2022	aims to standardise the way companies recognise deferred taxes on transactions such as leases and dismantling costs. Effective for periods beginning on 1 January 2023. Earlier application permitted
Initial application of IFRS 17 and IFRS 9 — Comparative information (Amendment to IFRS 17)	December 2021	1 January 2023	8 September 2022	(EU) 2022/1491 9 September 2022	amends the transitional provisions of the standard, in particular in respect of comparative information from the previous financial year on first-time adoption.

IAS/IFRS and related IFRIC interpretations applicable to the financial statements of the financial years as from 1 January 2022

Documents STILL to be approved by the EU as at January 2023

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 14 Regulatory deferral accounts	January 2014	1 January 2016	Approval process suspended pending the new accounting standard on "rate-regulated activities".
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment to IFRS 10 and IAS 28)	September 2014	Postponed until completion of the IASB project on the equity method	Approval process suspended pending the conclusion of the IASB project on the equity method
Classification of liabilities as current or non-current (Amendments to IAS 1) and Non current liabilities with covenants (Amendments to IAS 1)	January 2020 July 2020 October 2022	1 January 2024	To be defined
Lease liability in a sale and leaseback (Amendments to IFRS 16)	September 2022	1 January 2024	To be defined

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 2022, it totalled € 25,649,681, equal to around 11% of the total indebtedness outstanding as at 31 December 2022.

On the same date, part of this indebtedness, € 1,615,382 at a floating rate, was accompanied by a non-speculative purely hedging interest rate swap agreement.

With reference to the residual interest rate risk, the Group prepared a sensitivity analysis to determine the impact on the income statement (result before taxes) that would result from a hypothetical positive/negative change in interest rates compared to those actually recorded in each period.

The following table shows the results of the analysis carried out.

in euro	Case A)	Case B)
Sensitivity analysis	-200 basis points	+200 basis points
Financial year ended 31/12/2022	289,659	(289,659)

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 2022, 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 satisfy 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 liquidity 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 liquidity 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 (nominal value). 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 31/12/2022
Payables to Banks and Bonds	289,764,522	31,227,193	65,117,970	111,389,390	176,507,361	207,734,553

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 amounted as at 31 December 2022 to € 42,550,000 million, of which € 32,550,000 million have not yet been used.

(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.

(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 2022 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 2022 follows:

In €	Financial assets and liabilities at fair value with change to OCI	Loans and receivables/payables at nominal value	Available-for-sale financial assets	Financial assets/liabilities at amortised cost	Total as at 31/12/2022
ASSETS:					
Other non-current assets	0	23,337,861	0	12,735,375	36,073,236
Trade receivables	0	250,879,604	0	110,735	250,990,339
Cash and cash equivalents	0	73,914,355	0	0	73,914,355
Other current assets	0	15,612,297	0	1,551,366	17,163,663
LIABILITIES:					
Non-current financial liabilities	0	63,890,452	0	113,214,686	177,105,137
Other non-current liabilities	0	53,102,202	0	6,309,081	59,411,283
Trade payables	0	90,093,562	0	0	90,093,562
Current financial liabilities	9,144	23,750,339	0	8,320,960	32,080,443
Other current liabilities	0	36,056,145	0	781,366	36,837,511

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 which 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 which are measured at fair value as at 31 December 2022, on the basis of the level which reflects the inputs used to determine the fair value:

in €	As at 31 December 2022		
	Level 1	Level 2	Level 3
Derivative financial instruments (IRS)	0	9,144	0

In 2008, the Group entered into an interest rate swap agreement with BNP Paribas that was extinguished in 2022. In 2015, it acquired a second one from the merged company Idra Milano S.r.l., of which Banca Nazionale del Lavoro S.p.A. is the counterparty.

It relates to underlying liabilities of a financial nature that hedge against the risk of interest rate fluctuations.

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

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 2022 to 31 December 2022 are shown below:

In €	Value as at 31/12/2021	Increases	Account transfers	Decreases	FoNI account transfer	Contributions	FoNI	FoNI uses	mise/earthquake bonus	mise uses	Amortisation	Impairment test write-down	Value as at 31/12/2022
Rights on assets under concession in use	728,868,360	1,737,501	93,574,908	(4,440,981)	284,031	(12,956,698)	(14,226,411)	4,326,350	(445,733)	12,132	(43,548,888)	(23,481,221)	729,703,350
Rights on assets under concession in progress	115,961,739	125,688,222	(1,360,685)	(99,683,149)					(265,717)				140,340,409
Rights on assets under concession	844,830,100	127,425,723	92,214,223	(104,124,131)	284,031	(12,956,698)	(14,226,411)	4,326,350	(711,451)	12,132	(43,548,888)	(23,481,221)	870,043,759

In accordance with IFRIC 12, rights on assets under concession for € 870,043,760 as at 31 December 2022 and € 844,830,099 as at 31 December 2021 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 investments for 2022 amounted to € 125,142,528.

Moreover, the item "Rights on assets under concession" is stated net of the grants related to assets amounting to € 12,956,698 accrued for 2022; it is also stated net of the FoNI tariff component, assimilated to grants related to assets, amounting to € 14,226,411 accrued for 2022. In 2022, grants for price review and seismic bonus in the amount of € 711,451 will also be added.

FoNI uses in 2021 represent the portion of FoNi allocated over the years to depreciable assets, accrued in 2022, deducted from item 8.9 of the income statement.

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 carrying value of the asset or group of assets that form the cash-generating unit (C.G.U.) with its recoverable amount, 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 has determined a single CGU coinciding with the Integrated Water Service (SII) operating segment.

The impairment test that was carried out revealed an impairment loss of € 23,481,221 as at 31 December 2022 .

In this regard, it should be noted that the Company reviews its business plan annually, updating it based also on the external context, including market trends and industry regulation.

In particular, these forecasts are based on assumptions that are consistent with those used in previous plans:

- for operating expenses: this was based on the result of an analytical budget formation process for the various company departments and also taking into account the final figures available, and for the main "exogenous" cost items (e.g. electricity), future projections were made in line with the current market context and the best available sources;
- the development of tariff revenues was estimated on the basis of the tariff evolution resulting from the regulation known to date (MTI-3) and within their limits, with regard to the cost-related tariff components, taking into account their specific forecasts;
- a Terminal Value as at 2033 is assessed on the basis of the value of the RAB (Regulatory Asset Base: i.e. the value of the investments for regulatory purposes) and the net working capital at the expiry of the concession.

The above projections are precisely the basis for the subsequent determination of the operating cash flows, consumed and/or generated during the period, of the terminal value, which, appropriately discounted and netted off from the net financial position at the time of valuation, constitute the value in use of the assets under concession.

In determining the components of the discount rate (WACC), we assume the parameters indicated by the ARERA authority in the tariff regulation resolutions known today, which in detail are:

Risk-free rate (Source: 2020-2023 ARERA Tariff)	0.13%
Water Risk Premium (Source: 2020-2023 ARERA Tariff)	1.70%
Beta Utility Water (Source: 2020-2023 ARERA)	0.79
CRP Italy (Source: 2022 Damodaran)	3.79%
Cost of own capital (Ke)	5.24%
Cost of debt (Kd) - Source: 2020-2023 ARERA Tariff	2.40%
Shareholders' equity incidence (E/D+E) - Source: Damodaran Utility Water 2022	49.28%
Incidence of financial liabilities (D/D+E) - Source: Damodaran Utility Water 2022	50.72%
Tax % (2020 - 2023 Arera tariff)	24.00%
Weighted Average Cost of Capital (WACC)	3.51%

The discount rate used (WACC of 3.51% vs. 2.74% last year) mainly reflects the increase in the Country Risk Premium component of Italy, measured at 3.79% for the valuation as at 31 December 2022 vs. 2.18% assumed for the valuation as at 31 December 2021.

This results in a write-down of € 23,481,221.

It reflects a deterioration in the expected future operating cash flows (related in particular to the increase in the price of raw materials: construction materials, etc.) both on the opex side (the latter in particular, for those not automatically recovered as is in the tariff) and on the scheduled capex side, and also reflects the increase in the discount rates used to measure the value in use of rights on assets under concession.

With regard to capex (the cost of which is also expected to increase), it should be noted that the amortisation rates used by ARERA to calculate tariffs are particularly "low" and correspond to very long durations, so that the present value of the flows generated by the investments (flows within which the value of the RAB at the time of the end of the concession has a significant "weight"), being "distant" in time, decreases as the financial rates increase.

To support the test, a sensitivity analysis was also carried out on the assumptions applied as well as on the data used to determine the impairment loss.

This analysis uses, for the most part:

- a measure of the WACC of 4.40%, the result of a different construction of the discount rate (WACC), not strictly bound to the parameters indicated by ARERA broken down as follows:

Risk-free rate	3.10%
Beta Levered	0.59
Equity risk premium	5.14%
Cost of own capital (Ke)	6.13%
Cost of debt post tax (Kd)	2.40%
Shareholders' equity incidence (E/D+E) - Source: Damodaran Utility Water 2022	49.28%
Incidence of financial liabilities (D/D+E) - Source: Damodaran Utility Water 2022	50.72%
Weighted Average Cost of Capital (WACC)	4.40%

- a revision of the economic and financial forecasts according to the Plan with an impact on the revenues generated by the tariff system according to the ARERA methodology (i.e. change in financial and tax expenses, or certain components considered by the tariff method for the construction of the tariff and therefore a different profiling of the revenues);
- an increase in the Theta limit allowed for the various ARERA Regulatory Schemes of +0.60%, resulting from the update of the rpi factor (expected inflation rate 2024) of 2.30%.

This additional test did not reveal a higher write-down, therefore, the write-down of € 23,481,221 is confirmed.

The write-down (§104, IAS 36) was charged in proportion to the book value of each asset forming part of the "assets under concession".

7.2 Right of use

The item "Rights of use" concerns the ROU of long-term rental contracts based on the application of the 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.

In 2022, the depreciation amounted to € 2,018,206.

The changes that occurred in 2022 are shown below:

In €	Value as at 31/12/2021	Increases	Decreases	Depreciations	Value as at 31/12/2022
Right of use	3,632,883	25,157	(29,400)	(2,018,206)	1,610,435
Total Right of use	3,632,883	25,157	(29,400)	(2,018,206)	1,610,435

7.3. Other intangible assets

The changes in the item "Other intangible assets" for the period from 31 December 2021 to 31 December 2022 are shown below:

In €	Value as at 31/12/2021	Increases	Account transfers	Decreases/transfers to asset	FoNI	FoNI uses	Amortisation	Value as at 31/12/2022
Other intangible assets in use	11,930,843	660,545	8,290,491	0	(1,158,448)	1,153,618	(7,888,619)	12,988,430
Other intangible assets in progress	410,668	8,133,918		(7,770,415)				774,171
Other intangible assets	12,341,511	8,794,463	8,290,491	(7,770,415)	(1,158,448)	1,153,618	(7,888,619)	13,762,601

The amount of € 13,762,601 net of the related FoNI component includes € 4,514,492 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 € 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.l. 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.

FoNI uses in 2022 represent the portion of FoNi allocated over the years to depreciable assets, accrued in 2022, deducted from item 8.9 of the income statement.

7.4. Properties, plant and machinery

The tangible fixed assets as at 31 December 2022 amount to € 24,939,831, disclosing a difference with respect to the balance as at 31 December 2021 of € 20,472,601.

In €	Value as at 31/12/2021	Increases	Account transfers	Decreases	FoNI adjustment	FoNI	FoNI uses	Depreciations	Value as at 31/12/2022
Other tangible assets in use	11,993,173	1,872,210	5,793,256	(3,436)	507	(390,513)	337,026	(3,171,434)	16,430,789
Other tangible assets in progress	8,479,427	97,922	(61,278)	(7,030)					8,509,042
Other tangible assets	20,472,601	1,970,132	5,731,979	(10,466)	507	(390,513)	337,026	(3,171,434)	24,939,831

FoNI uses in 2022 represent the portion of FoNi allocated over the years to depreciable assets, accrued in 2022, deducted from item 8.9 of the income statement.

Some fixed assets owned by the Group are outside the scope of the "Group's water service". They have a book value as at 31 December 2022:

- amounting to € 593,278 and have been given for use to unrelated parties: these include, in particular, the Casalpusterlengo (LO) warehouse, rented to the company SAL S.r.l., contractor for the management of the integrated water service in the Province of Lodi (contract renewed until 31 December 2027). The related fees are parameterised to the ISTAT revaluation rate;
- amounting to € 1,231,843 also outside the Group's water service concession perimeter and are destined to be given in the future to investee companies. In particular, it concerns the area and the related building, located in Sesto S. Giovanni, Via Manin, acquired in 2020, at a consideration supported by a recent appraisal dated 23 December 2020; for the portion earmarked for the construction of a "Forsu" treatment plant to be leased to the company ZEROC S.p.A. In addition, there is the cost incurred for the construction of the bio-platform of € 5,141,185 as at 31 December 2022.

In conclusion, it is believed that, as a whole, sufficient future economic benefits can be generated to recover the book value recognised by the Group.

7.5 Deferred tax assets

The breakdown of the item “Deferred tax assets” for the period from 31 December 2021 until 31 December 2022 is presented below:

DEFERRED TAX ASSETS	Value as at 31/12/2021	Updates	Increases	Decreases	Value as at 31/12/2022
For connection contributions from users	2,120,556	(1,906,633)	0	(62,757)	151,165
For amortisation of goodwill	21,609	0	0	(6,525)	15,084
For bad debts exceeding the tax limit	7,073,807	0	1,205,807	(3,168)	8,276,446
For provisions for lawsuits pending	2,016,546	0	263,050	(1,556,501)	723,095
For provisions for amicable settlements	224,281	0	0	(57,352)	166,929
For provisions for other risks	38,024	0	0	0	38,024
For provision for future plant decommissioning costs	1,406,493	0	15,636	(755,139)	666,990
For provision for future tank reclamation costs	836,574	0	350,152	0	1,186,726
For provision for future purification plant area reclamation costs	6,789,880	0	649,120	0	7,439,000
For provision for damages from sewerage percolation	1,039,106	0	1,001,220	0	2,040,326
For provision for environmental damages	217,805	0	0	(48,240)	169,565
For provision for municipal asphalt costs	24,520	0	30,967	(18,898)	36,589
For asbestos disposal expenses	1,184,058	0	740,022	0	1,924,080
For provision for expected financial hedge transactions	0	0	0	0	0
For provision for sundry charges	5,079	0	249,786	0	254,865
For undeducted excess amortisation/depreciation	212,595	0	0	0	212,595
Allocations for adjustments IAS 1 Jan. 2017	680,095	0	0	0	680,095
For foni 2012-2019 contribution	5,502,197	(6,549,762)	1,047,566	0	0
For write-down of assets under concession	0	0	5,635,493	0	5,635,493
For tax loss that can be carried forward	3,990,421	(10,247)	1,314,388	0	5,294,561
For ACE that can be carried forward	228,711	0	322,727	0	551,438
For provision for risks on personnel costs	62,400	0	0	(43,329)	19,070
For default interest payable not paid	0	0	0	0	0
TOTAL IRES (COMPANY INCOME TAX)	33,674,756	(8,466,643)	12,825,933	(2,551,910)	35,482,138
For connection contributions from users	339,645	(333,661)	0	(10,982)	(4,999)
For foni 2012-2019 contribution	962,884	(962,884)	0	0	0
For provision for sundry charges	(990)	0	0	0	(990)
For amortisation of goodwill	(2,284)	0	0	0	(2,284)
For provision for water bonus	-	0	0	0	0
For provision for future tank reclamation costs	146,400	0	61,277	0	207,677
For provision for future purification plant area reclamation costs	1,188,229	0	113,596	0	1,301,825
For provision for damages from sewerage percolation	181,844	0	175,214	0	357,058
For provision for municipal asphalt costs	4,291	0	5,419	(3,307)	6,403
For write-down of assets under concession	0	0	986,211	0	986,211
For provision for sundry charges	0	0	0	(1,142)	(1,142)
For asbestos disposal expenses	238,662	0	129,504	0	368,166
For undeducted excess amortisation/depreciation	38,194	0	0	0	38,194
For provisions for other risks	6,065	0	0	0	6,065
TOTAL IRAP (REGIONAL BUSINESS TAX)	3,102,940	(1,296,545)	1,471,221	(15,431)	3,262,185
	36,777,697	(9,763,188)	14,297,154	(2,567,341)	48,507,510
DEFERRED TAX LIABILITIES					
For default interest receivable to be collected	(374,497)	0	(284,018)	236,644	(421,871)
For tax amortisation	(14,623,097)	0	(3,800,891)	0	(18,423,988)
Allocations for adjustments IAS 1 Jan. 2017	(88,852)	0	0	0	(88,852)
For revaluation of Zeroc equity investment	(30,726)	0	0	30,726	0
For provision for expected financial hedge transactions	(125,435)	0	0	123,665	(1,770)
TOTAL IRES (COMPANY INCOME TAX)	(15,242,606)	0	(4,084,909)	391,035	(18,936,480)
TOTAL DEFERRED TAX ASSETS	21,535,091	(9,763,188)	10,212,245	(2,176,306)	19,807,842

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.

Note that, in 2020, the Group decided to make a voluntary change of the accounting standards in accordance with IAS 8 in relation to the FoNI tariff component. This component was qualified until the 2019 financial year as revenue and was recognised in the income statement together with the other components of the tariff, while from 2020 it was assimilated to a grant related to assets.

In accordance with IAS 8, the change was recognised retrospectively (starting in 2012, the year in which the FoNi was first applied in the tariff), with recognition on 1 January 2020 on the opening balance of shareholders' equity of the adjustment made, on the fixed assets to which the FoNi is linked and on the related assets net of the related deferred taxation effect (deferred tax assets).

The Italian Inland Revenue Agency, in its answer to the request filed by the company on 18 October 2021, replied in April 2022, specifying that the previously taxed income may be recovered by filing defence supplementary returns for reducing the income already taxed for IRES and IRAP purposes, limited to the financial years 2016 to 2029.

Therefore, supplementary returns for the years 2016 to 2019 were filed in 2022. On the other hand, for the years 2012 to 2015, a request for reimbursement was submitted on 8 August 2022 (the latter amount is not recognised as an asset for prudential reasons). In connection with the silent refusal in relation to this request, the Group filed an appeal against the Revenue Agency with the Milan Court of First Instance. The notice of discussion of the appeal is set for 3 April 2023.

Amounts receivable as at 31 December 2022 for deferred tax assets, offset by deferred tax liabilities, amounted to € 19,807,842.

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 2022 refers to:

OTHER RECEIVABLES AND OTHER NON-CURRENT FINANCIAL ASSETS	Value as at 31/12/2022	Value as at 31/12/2021	Change
Equity investments in companies	18,529,648	18,968,524	(438,875)
Accrued income and prepaid expenses	5,088,026	7,747,143	(2,659,117)
Sundry receivables	5,664,983	6,476,825	(811,841)
Tax receivables	2,999,436	2,999,436	0
Receivables from companies with minority investments	402,679	524,533	(121,854)
Guarantee deposits	862,138	846,922	15,216
Receivables from social security institutions	98,036	98,036	0
Financial receivables	726,460	720,694	5,766
Other non-current financial receivables	1,701,830	1,209,839	491,991
Total Other non-current receivables and other financial assets	36,073,236	39,591,952	(3,518,715)

The changes made in 2022 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, Neutalia S.r.l. and ZeroC S.p.A., are shown below:

In €	Value as at 31/12/2021	Increases/revaluations	Decreases/write-downs	Value as at 31/12/2022
<i>Pavia Acque Scarl</i>	14,392,813	0	0	14,392,813
<i>Rocca Brivio Sforza Srl in liquidation</i>	620,821	0	(92,160)	528,660
<i>Water Alliance - acqua di Lombardia, network contract</i>	12,867	76,918	(53,872)	35,913
<i>ZeroC S.p.A</i>	2,952,023	0	(406,206)	2,545,818
<i>Neutalia S.r.l</i>	990,000	495,000	(458,555)	1,026,445
Total equity investments	18,968,524	571,918	(1,010,793)	18,529,648

The stake in Pavia Acque S.c.a.r.l., with registered office in Pavia, enrolled in the Pavia Companies' Register under E&A Index No. 0256972, tax code and VAT no. 02234900187, with share capital of € 15,048,128 owned for € 1,519,861, equal to 10.1% as at 31 December 2022 (equal to that held as at 31 December 2021 and unchanged to date). Pursuant to Article 2359 of the Italian Civil Code, the company is not related to CAP Holding S.p.A.

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

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

The assets of Pavia Acque S.c.a.r.l., in addition to a share capital of € 1,519,861 held by CAP Holding S.p.A., include a capital reserve "registered" with reference to the same entity, amounting to € 12,872,952 as at 31 December 2022. The equity investment is measured using the net cost method.

CAP Holding S.p.A.'s shareholding in Water Alliance - Acque di Lombardia, a network contract of companies with legal subjectivity pursuant to Italian Law no. 33 of 9 April 2009, VAT No.: 11150310966, with registered office in Milan, is equal to 18.4% as at 31 December 2022 (€ 243,689 vs. the total fund of € 1,323,759). The value as at 31 December 2022, net of the coverage of operating expenses, is € 35,913.

The equity investment is measured based on the percentage of contribution to the network's equity fund, as defined in the network contract, and takes into account the accounting results as at 31 December 2022 submitted by the network.

The stake in Rocca Brivio Sforza S.r.l. in liquidation (with registered office in Milan, enrolled in the Milan Companies' Register under E&A Index No. 1130781, tax code and VAT no. 07007600153, with fully paid-up share capital of € 53,100.00) derives from the merger of the company T.A.S.M. S.p.A. into CAP Holding S.p.A. in 2013. The value of the investment decreased by € 92,160 as a result of the losses incurred in 2022. 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. The equity investment is measured using the equity method and takes into account the draft financial statements as at 31 December 2022 submitted by the liquidator on 23 March 2023.

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.

ZEROC S.p.A. (formerly CORE S.p.A.), with registered office in Sesto San Giovanni (MI), enrolled in the Milan Companies' Register under E&A Index No. 1501332, tax code and VAT no. 85004470150, with fully paid-up share capital of € 2,000,000.00 owned by the Group for € 1,600,000, equal to 80% as at 31 December 2022. The equity investments were acquired during 2021. 20% of the capital is owned by the municipalities of Sesto San Giovanni (MI), Cologno Monzese (MI), Cormano (MI), Pioltello (MI), Segrate (MI) and Cinisello Balsamo (MI). The company's main corporate purpose is waste management. The equity investment is measured using the equity method, it decreased by € 406,206 and takes into account the draft financial statements as at 31 December 2022 submitted by the sole director.

NEUTALIA S.r.l., with registered office in Busto Arsizio (VA) enrolled in the Varese Companies' Register under E&A Index No. VA-383041, tax code and VAT no. 03842010120, with fully paid-up share capital equal to € 500,000 owned by the Group for € 165,000, equal to 33% as at 31 December 2021. The shares were acquired during 2021. The remaining capital is distributed as follows: € 165,000.00 to AGESP S.p.A. of Busto Arsizio (VA), € 165,000 to Alto Milanese Gestioni Avanzate S.P.A. (also known as Amga S.p.A.) of Legnano (MI), € 2,500 to Aemme Linea Ambiente S.r.l. (also ALA SRL) of Magenta (MI) (the latter, in turn, 72% controlled by Amga S.p.A.) and for € 2,500 to ASM Magenta S.r.l. that purchased 0.5% of the shareholding from Aemme Linea Ambiente S.r.l. on 28 December 2021. The company operates in the sector of circular economy management of municipal solid waste and its differentiated fractions, hazardous municipal waste, hazardous and non-hazardous special waste and all waste in general (including waste from plants connected to the integrated water service). The company NEUTALIA S.r.l. is under the joint control of its shareholders (essentially as a joint venture) and is recognised in the financial statements of CAP Holding S.p.A. using the equity method (para. 10 of IAS 28), as permitted by IAS 31, para. 38. Specifically, the book value as at 31 December 2022, equal to € 1,026,445, is given, in addition to the original cost of the equity investment, by the loss relating to the financial statements as at 31 December 2021 and the capital grants equal to € 495,000 (33% of the total amount required from all shareholders, i.e., € 1,500,000) approved by the Board of Directors of CAP Holding S.p.a. on 30 June 2022 and unanimously approved in advance by the Shareholders' Meeting of NEUTALIA S.r.l. on 28 June 2022.

With regard to the sub-item "Sundry receivables", these are credit portions whose collectability was estimated over 12 months in 2022, and relating to:

- € 5,540,982 to the company Brianzacque S.r.l. for the sale of the business unit;
- € 100,452 other receivables;
- € 23,549 to social security institutions.

With regard to the sub-item "Financial receivables", these are mainly portions of receivables whose collectability was estimated as beyond 12 months in 2022, 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.
- Non-interest-bearing loan to Neutalia S.r.l. of € 646,397 measured using the amortised cost method. In this regard, in November 2021, the shareholders granted Neutalia S.r.l. a total shareholder loan of € 2,030,000 (of which € 670,000 by CAP Holding S.p.A. on 8 November 2021).

With regard to the sub-item "Other non-current financial receivables" of € 1,701,830, these are portions of receivables whose collectability was estimated as beyond 12 months in 2022, and relating to:

- € 1,173,618 for receivables from Municipalities for works, services and others;
- € 362,389 for trade receivables with collectability beyond 12 months;
- € 165,823 for advances to public bodies.

The item "Receivables from companies with minority investments" of € 402,679 is related to receivables from Pavia Acque S.c.a.r.l.

The item "Tax receivables" is related to:

- € 2,719,952 for receivables due from the state for direct taxes for the year 2007. Said receivable was registered in 2008 subsequent to a payment made by the incorporated company CAP Gestione S.p.A., for IRES (Corporate Income Tax) and IRAP (Regional Business Tax) plus interests and reduced sanctions, and for which a rebate has been requested by an application pursuant to art.38 of Presidential Decree no. 602/1973. For said receivable, a provision for risks of the same amount has been allocated;
- € 279,484 for receivables due from the state relative to the reimbursement, pursuant to art. 2, paragraph 1-quarter, of Italian Decree Law no. 201/2011, converted by Italian Law no. 214 of 22 December 2011, of IRES for non-deduction of IRAP on the costs of employees and equivalent personnel in the years 2007-2011, including interests accrued, € 646,356 was collected in the year 2020.

The item "Prepaid expenses" includes an amount of € 2,858,082 (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 € 801,491.

7.7. Trade receivables

Following is the breakdown of the item "Trade receivables" as at 31 December 2022:

TRADE RECEIVABLES	Value as at 31/12/2022	Value as at 31/12/2021	Change
Receivables from civil users	217,649,222	190,699,412	26,949,811
For invoices issued	146,054,925	157,897,784	(11,842,858)
For invoices to be issued	102,278,660	59,101,777	43,176,883
Bad debt provision	(30,684,363)	(26,300,149)	(4,384,214)
Receivables from productive users	5,179,680	10,026,495	(4,846,815)
For invoices issued	11,196,671	10,650,336	546,336
For invoices/Credit notes to be issued	(3,805,387)	1,758,860	(5,564,247)
Bad debt provision	(2,211,604)	(2,382,700)	171,096
Receivables from other operators for tariffs	6,472,684	17,967,708	(11,495,023)
For invoices issued	66,581	76,812	(10,231)
For invoices to be issued	6,406,103	17,890,896	(11,484,792)
Receivables from other wholesale operators	15,281,874	10,323,594	4,958,280
For invoices to be issued	15,281,874	10,323,594	4,958,280
Other trade receivables	5,248,765	3,699,428	1,549,337
For invoices issued	6,701,747	5,576,027	1,125,720
For invoices to be issued	2,049,505	1,250,677	798,828
Bad debt provision	(3,502,487)	(3,127,276)	(375,211)
Receivables due from affiliates	368,746	123,892	244,853
For invoices issued	204,055	114,350	89,704
For invoices to be issued	164,691	9,542	155,149
Receivables from municipalities	789,368	214,546	574,823
For invoices issued	237,036	158,812	78,224
For invoices to be issued	840,554	310,355	530,199
Bad debt provision	(288,222)	(254,622)	(33,600)
Total	250,990,339	233,055,075	17,935,265

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 2019-2022, is € 62,517,440.

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 2022, but which may be applied to users on consumption after that date. These are the regulatory adjustments for the years 2019 - 2022.

7.8. Inventories

The detail of the item "Inventories" is shown below".

INVENTORIES	Value as at 31/12/2022	Value as at 31/12/2021	Change
Raw materials and consumables	2,664,612	2,528,753	135,859
Provision for stock obsolescence	0	0	0
Total inventories	2,664,612	2,528,753	135,859

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 2022.

7.9. Contract work in progress

The item amounting to € 5,470,071 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 2022, see the comment on liabilities, item 7.19.

The amount as at 31 December 2022 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 31/12/2022	Value as at 31/12/2021	Change
Bank and postal deposits	73,910,609	34,716,156	39,194,453
Cash and equivalents on hand	3,746	12,555	(8,808)
Total liquid funds	73,914,355	34,728,710	39,185,645

Note that as at the date of these financial statements there are no liens, pledges and/or encumbrances on the deposits listed 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 31/12/2022	Value as at 31/12/2021	Change
VAT tax receivables	12,847,675	1,533,818	11,313,857
Receivables from companies with minority investments	2,753,927	2,840,371	(86,444)
Receivables for operating grants	121,958	6,324,729	(6,202,771)
Receivables from banks	879,799	977,187	(97,388)
Receivables from Brianzacque (disposal of business unit)	1,092,269	-	1,092,269
Other sundry receivables	(775,095)	2,511,936	(3,287,031)
Receivables from social security institutions	12,316	15,098	(2,783)
Receivables from employees	46,710	49,064	(2,354)
Accrued income and prepaid expenses	184,106	219,567	(35,461)
TOTAL OTHER CURRENT RECEIVABLES AND OTHER FINANCIAL ASSETS	17,163,663	14,471,770	2,691,894

Tax receivables are mainly broken down as follows:

- € 7,314,830 mainly relating to € 3,426,386 that corresponds to the electricity tax credit of the third quarter of 2022 envisaged by Italian DL 115/2022 ("Aiuti-bis") as amended and € 3,410,399 that corresponds to the electricity tax credit of the fourth quarter 2022 envisaged by Italian DL 144/2022 ("Aiuti-ter") and Italian DL 176/2022 ("Aiuti-quarter") as amended;
- € 597,903 from the VAT credit related to previous years, 2012-2013, in July 2021 a request was sent for the suspension of the limitation period; in March 2023, the VAT refund for 2012 was collected for a nominal € 356,922 as capital share plus € 31,859 as interest share;
- € 3,419,365 for IRES credit to be used as compensation in the following year;
- € 1,407,164 for IRAP credit to be used as compensation in the following year;
- € 41,965 for 2022 VAT credit;
- € 66,448 for other receivables for direct and indirect taxes.

The other items are broken down below:

- Receivables from public bodies, for a sum equal to € 121,958, regarding grants related to assets and/or financing amounts to cover expenses relating to projects included in the Excerpt Plans;
- Receivables for the sale of the Brianzacque s.r.l. branch for € 770,000 related to the branch for the current portion;
- Receivables from the investee company Pavia Acque S.c.a.r.l. of € 2,014,153 related to commercial contracts and invoices to be issued of € 739,774;
- Receivables from banks of € 879,799 mainly refer to prepaid expenses on guarantees; see item 7.6 for further details;
- Receivables from social security institutions of € 12,316;
- Receivables from employees of € 46,710;
- Other sundry receivables of € - 775.095 of which mainly approximately € - 1 million for advances to the compensation fund of the electrical sector (C.C.S.E.) relating to the social bonus and € - 200 thousand relating to security deposits.

7.12 Available-for-sale assets

This item shows no change from 31 December 2022 and amounts to zero euro.

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 € 1 each, fully subscribed and paid up.

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 31/12/2021	Provision	Use/surplus	Value as at 31/12/2022
Provision for risks for future losses	132,957	0	0	132,957
Provision for risks on personal INPS contributions	260,000	0	(180,539)	79,461
Provisions for lawsuits pending	8,402,275	1,096,040	(6,485,417)	3,012,898
Provision for amicable settlements	1,010,554	0	(238,967)	771,587
Provision for risks relating to request for 2007 tax refund	2,719,952	0	0	2,719,952
Total provision for other risks	12,525,738	1,096,040	(6,904,924)	6,716,853
Provision for sundry charges	1,411,939	0	(350,000)	1,061,939
Provision for environmental damage from sewers	933,000	0	(201,000)	732,000
Provision for asphalt expenses	102,166	129,030	(78,740)	152,456
Provision for future tank reclamation costs	3,485,726	1,458,966	0	4,944,692
Provision for purification plant area reclamation	28,291,166	2,704,668	0	30,995,834
Provision for damages from sewerage percolation	4,329,608	4,171,750	0	8,501,358
Provision for expenses for asbestos disposal for water network	4,933,576	3,083,424	0	8,017,000
Provision for future plant decommissioning	5,773,315		(3,146,411)	2,626,904
Total provision for future expenses	49,260,495	11,547,839	(3,776,151)	57,032,184
Total provision for risks and charges	61,786,233	12,643,880	(10,681,075)	63,749,038

Following are some notes on the most significant provisions as at 31 December 2022:

- € 3,012,898 for the provision for "lawsuits pending" that 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, other minor claims for damages disputes for an IMU dispute with the municipality of Pero. During 2022, the fund was increased by:
 - o € 800,000 for the dispute with the contractor that requested the suspension of the works, due to excessive onerousness, related to the construction of the bio-platform in Sesto San Giovanni;
 - o € 43,500 for damages for non-contractual liability;
 - o € 252,540 for the civil lawsuit against the supplier Bior Filtrazioni Group to assess the unlawfulness of the contractual termination for serious breach.

The fund decreased, mainly as a result of the settlement of the reserves entered by the contractor, due to the works for the new headquarters, in the site accounting records for € 5,189,380.

- € 771,587 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;
- € 132,957 for 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;
- € 30,995,834 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;
- € 8,501,358 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;
- € 2,626,904 for the provision for expenses for the disposal of buildings.
- € 4,944,692 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;
- € 8,017,000 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 2022, 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 Law No. 257 of 27 March 1992. In December 2018, the Group made a public commitment to this effect towards the relevant EGA;

- € 732,000 for provision for environmental damage expenses (environmental restoration) due to penalties for non-compliant sewerage discharges;
- € 152,456 for the provision for future expenses for "road repairs". The cost was quantified as the best estimate as at 31 December 2022 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, the Group 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.
- € 79,461 for the "provision for risks on personnel INPS contributions": includes the remaining provision for penalties and interest related to the last tax-assessment notice paid in 2022 of approximately € 180 thousand. The lawsuit was filed by INPS to challenge the judgement of the Milan Court of Appeals no. 1148/2014 in favour of the Group and contesting a tax bill for the payment of certain types of contributions. The provision during 2021 was used to pay the contributions, penalties and interest on the tax-assessment notices in relation to which, the Court of Cassation with judgement no. 21532/19 and with judgement no. 91/2020 upheld the appeal of INPS, repealed the judgement of the Court of Appeal of Milan no. 456/13 and remanded to the same Court for reinstatement. which had then referred the parties to the final calculation of the sums due. In 2021, INPS defined the exact count of contributions, interest and penalties paid by the Group of € 4,496,150.
- € 2,719,952 for the 2007 risk provision for 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. The Group 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. The public hearing date has not been set as yet.
- € 1,061,939 for provision for sundry charges set aside for € 1,400,000 in 2021 for possible assessments of local taxes relating to previous years. The fund was partially released of € 350,000 because no assessments were notified for the year 2017, a year that has now expired and can no longer be assessed.

Finally, the following "possible" liabilities, but which in the Group's opinion are not probable, should be noted:

- case of COGET Soc. Coop./Court of Cassation G.R. no. 26902/2021- opposition brought by AMIACQUE against the order of the court notified by COGET Soc. Coop for the amount of € 150,865.19 plus interest at the rate and with the starting dates pursuant to Italian Legislative Decree 231/2002. After losing the appeal, Amiacque appealed to the Court of Cassation (G.R. no. 26902/2021). Amount € 224,979.69 (already paid by Amiacque on 16 September 2021 enforcing the judgement of the Court of Appeal of Milan);
- Bankruptcy of Ecol Service s.r.l./Court of Milan R.G. no. 56643/2019 - application for a summary order concerning Amiacque's non-payment of certain invoices in the amount of € 169,094.91. The parties filed their legal briefs and the time limit for filing reply briefs expired on 17 January 2022;
- case of ATP S.r.l./Court of Milan - G.R. no. 4305/2021 - Damages for contract termination of € 235,276.70, preliminary stage;
- Different registration tax transfer from AMGA (Alto Milanese Gestioni Avanzate) of ownership of networks, plants and assets. CAP AMGA - Revenue Agency - Court of Cassation G.R. no. 25613/2020 of € 923,261;
- On 28 May 2021, the writ of summons against PPT srl Tecnologie Ambientali concerning tender disputes was notified by certified email. At the hearing on 18 November 2021, the Judge granted the time limits pursuant to Article 183.6 of the Italian Code of Civil Procedure and adjourned the case to 12 April 2022. CAP/PPT. € 106,174;
- Other minor lawsuit for exceeding Turbigo zinc discharge of 12 July 2018 of € 30,000.

7.15. Employee Benefits

The changes in the item “Employee benefits” for the period 31 December 2021 to 31 December 2022 are shown below:

EMPLOYEE BENEFITS	Value as at 31/12/2021	Uses	Financial income (expense)	Actuarial gains (losses)	Other changes	Total changes	Value as at 31/12/2022
Employee severance indemnity	4,454,572	(250,223)	12,590	(375,406)	(51,659)	(664,698)	3,789,874
Total Employee Benefits	4,454,572	(250,223)	12,590	(375,406)	(51,659)	(664,698)	3,789,874

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:

%	2022	2021
Inflation rate	2.30%	1.50%
Discount rate	3.57%	0.29%

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 2022 and 31 December 2021 is shown below:

Current and non-current financial liabilities	Value as at 31/12/2022		Value as at 31/12/2021	
	Current portion	Non-current portion	Current portion	Non-current portion
European Investment Bank loans	6,217,239	146,176,326	6,174,984	52,483,424
Cassa depositi e prestiti mortgages	0	0	255,158	0
Intesa San Paolo mortgages	2,329,483	11,808,911	2,211,524	14,138,393
Banca nazionale del lavoro mortgages	461,538	1,153,846	461,538	1,615,385
Current account overdrafts	-	-	-	-
Monte dei paschi di siena mortgages	157,413	919,275	295,621	1,077,611
Finlombarda spa loans	97,115	264,714	97,115	361,829
Banca Popolare di Milano	438,910	2,553,032	417,699	2,991,942
Payable to Cassa Depositi e Prestiti as guarantee on EIB loan	801,491	2,858,082	898,879	3,659,530
2017 bond ISIN: IT1656754873	5,695,767	5,704,603	5,686,795	11,400,370
Payables to banks for derivatives	9,144	0	171,082	0
Payables to banks portion of interest and mortgages	1,768	0	224,347	0
Financial payables rights of use	887,743	683,516	1,962,913	1,571,620
Mediobanca short-term loan	10,000,000	0	0	10,000,000
CSEA financial advance	4,982,833	4,982,833	0	0
CREDEM short-term loan	0	0	10,000,000	0
Stand-by Loan Intesa Sanpaolo Ex UBI Banca	0	0	15,000,000	0
Current and non-current financial liabilities	32,080,443	177,105,138	43,857,655	99,300,103

The information on bank mortgage loans, short-term 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	5,661,935	1,314,894	4,347,041	0
EIB (I tranche)	2029	11,683,001	1,619,228	6,641,703	3,422,070
EIB (II tranche)	2030	6,962,318	891,967	3,678,547	2,391,804
EIB (III tranche)	2030	8,824,906	1,074,352	4,378,964	3,371,590
EIB (IV tranche)	2031	9,340,835	1,074,718	4,362,969	3,903,147
EIB (V tranche)	2032	15,672,365	1,573,328	6,470,073	7,628,964
EIB BIS (I tranche)	2040	49,957,353	(2,665)	6,879,725	43,080,293
EIB BIS (II tranche)	2040	49,952,787	(13,689)	6,639,909	43,326,568
2017 Bond issue	2024	11,400,370	5,695,767	5,704,603	0
Mediobanca	2023	10,000,000	10,000,000	0	0
Payables to Csea for financial advance	2024	9,965,666	4,982,833	4,982,833	0
Banca Intesa Ex Tasm	2029	8,476,458	1,014,588	4,687,474	2,774,396
BNL (IDRA merger)	2026	1,615,385	461,538	1,153,846	0
Finlombarda	2026	186,416	53,262	133,154	0
Finlombarda	2026	175,413	43,853	131,560	0
Banco BPM (Amiacque)	2028	2,991,942	438,910	1,990,098	562,934
MPS (Amiacque)	2029	1,076,688	157,413	638,216	281,060
TOTAL LOANS		203,943,837	30,380,297	62,820,714	110,742,826

It should be noted that the item includes € 9,965,666 in payables to Cassa per i servizi energetici e ambientali (CSEA) in relation to the financial advance granted by CSEA in December 2022 to meet part of the expenses incurred for the purchase of electricity, as already detailed in the report.

The financial advance paid is proportional to 35% of the recognised electricity cost component quantified for the purpose of updating the tariff arrangement for 2022.

The advance must be repaid by 31 December 2024, in two annual instalments, the first of which is due on 31 December 2023.

Bank mortgage loans

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 € 16,000,000, with repayments from 1 January 2013 until 30 November 2029. The value of this mortgage loan was to a special escrow account, which was fully released in 2021. The nominal value of the residual debt of said loan as at 31 December 2022 amounted to € 8,476,458.

The payables to banks as at 31 December 2022 also include:

- € 1,076,688 at nominal value for a loan with Monte dei Paschi di Siena, acquired in 2013 by Amiacque S.r.l., 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. (deed of 23 December 2016) for which it has not yet been possible to make innovations, due to a residual debt as at 31 December 2022 of a nominal amount of € 524,533 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 2022, of which € 121,854 among current financial assets (item 7.11) and € 402,679 among non-current financial assets (item 7.6);
- portions of loans transferred by partial demerger to Patrimoniale Idrica Lodigiana S.r.l. (deed of 28 May 2014) for a residual nominal value of € 130,850, not yet innovated, and the recognition as an asset of the receivable from Patrimoniale Idrica Lodigiana for the same amount (the company P.I.L. S.r.l. with deed of 14 December 2015 vol. 94891 collection No. 24276 Notary Public Mattea of Lodi was merged into the S.A.L. Società Acqua Lodigiana, S.r.l.), of which € 30,398 under current financial assets (Item 7.11) and € 100,452 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.l. for residual nominal value of € 283,544, not yet innovated. and the recognition as an asset of the receivable from BrianzAcque S.r.l. for the same amount as at 31 December 2022. The receivable is of recognised for € 65,870 under current financial assets (Item 7.11) and € 217,674 under non-current financial assets (Item 7.6).

Payable to Cassa Depositi e Prestiti as guarantee on EIB loan

The item, amounting to € 3,659,572 as at 31 December 2022 (of which € 801,491 current portion and € 2,858,082 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.

EIB funds

With regard to the amount due to the European Investment Bank, granted in 2014 for a maximum amount of € 70,000,000, it should be noted that all tranches were disbursed on 31 December 2022. They 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 Euro 10,000,000 in November 2015, which will be repaid in constant (fixed rate) six-monthly 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.

On 11 April 2022, a further loan was signed with the European Investment Bank ("CAP WATER INVESTMENT GREEN LOAN"), for a maximum amount of € 100,000,000.

The tranches, with full use of the line, disbursed up to 31 December 2022 were:

- in July 2022, the first tranche of € 50,000,000 which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2025 to June 2040;
- in November 2022, a second (and last) tranche of € 50,000,000, which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2025 to June 2040.

As at 31 December 2022, the total amount due to the EIB amounted to a nominal of € 152,483,424.

The costs incurred by the Company to obtain the loan by way of processing fees were initially recognised as a reduction of the financial liability and will be subsequently recorded in the income statement under the amortised cost method, in accordance with the provisions of IFRS 9.

Bonds

The item refers for € 11,400,370 to 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 Group 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 2022, the residual capital, at nominal value, amounted to € 11,428,580, and at amortised cost it amounted to € 11,400,370. The portion of interest pertaining to the year 2022 of € 113.143 due within the next financial year was entered among the financial liabilities.

The portion due within the following year is equal to € 5,808,909 (inclusive of the above mentioned interest portion recorded under financial liabilities); the portion due beyond the following year amounts to € 5,704,603.

The IAS derivative *fair value*

Reference is made to paragraph 5, point "derivative financial instruments". As at 31 December 2022, the value of the derivatives amounted to € 9,144, as shown in the table below:

type of derivative contract	interest rate swap with BNL
contract date	16/05/2011
purpose	rate hedging
contract number	5963433
settlement date	16/05/2026
book value 31/12/2022	9,144
hedged asset/liability	BNL loan (formerly Idra Patrimonio)
Type of derivative contract	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 2022.

Details of current and non-current financial payables relating to the application of the accounting standard IFRS 16 are set out below.

in euro	Value as at	Increases	Decreases	Value as at	Due within	Due beyond
IFRS 16 lease liability	31/12/2021			31/12/2022	the financial year	the financial year
Long-term rentals of cars/trucks	3,080,605	25,157	1,925,533	1,180,229	825,591	354,636
Property leases	453,929	0	62,897	391,031	62,152	328,880
Total	3,534,534	25,157	1,988,431	1,571,260	887,743	683,516

7.17. Other payables and non-current liabilities

Following is the detail of the item "Other payables and non-current liabilities" .

Other payables and non-current liabilities	Value as at 31/12/2022	Value as at 31/12/2021	Change
<i>Payables for contributions</i>			
Payables for ert.nert connection contributions and other third party financed projects	5,372,278	5,791,140	(418,861)
Payables for aqueduct connection contributions	1,570,562	1,416,448	154,114
Payables for sewer connection contributions	909,060	641,630	267,430
Payables for ATO/Regional contributions on work in progress	780,474	2,365,648	(1,585,174)
Total non-current liabilities for contributions	8,632,374	10,214,865	(1,582,491)
<i>Payables to others</i>			
Accrued expenses and deferred income	11,480,478	10,425,410	1,055,068
Loans taken over	13,763,187	16,163,487	(2,400,299)
Guarantee deposits from users and customers	24,850,731	24,594,514	256,217
Other non-current payables	684,512	700,227	(15,714)
Total non-current liabilities to others	50,778,909	51,883,637	(1,104,729)
Total other non-current payables and liabilities	59,411,283	62,098,502	(2,687,219)

Another significant sub-item is represented by amounts due to users and customers for the utility guarantee deposits of the integrated water services of € 24,850,731.

€ 11,480,478 refers to deferred income for contributions/connections , 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 2022 in connection with the depreciation of the related assets.

In conclusion, with regard to the loans undertaken, € 13.763.187, this involves the portions due beyond 12 months, for:

€ 12,898,052 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 € 4,513,431;

- € 389,171 for a debt to the Metropolitan City of Milan, 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.l.). It reached CAP Holding S.p.A. due to the merger of Idra Milano S.r.l. in 2015.;

- € 475,964 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 EELs, now shareholders. The portion due beyond five years amounted to € 239,206.

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 € 2,400,452, 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 € 90,093,562. At 31 December 2022 , 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 31/12/2022	Value as at 31/12/2021	Change
Payables to minority companies	0	8	(8)
Payables to minority companies	0	8	(8)
Payables to municipalities for services and other	694,618	795,211	(100,593)
Payables to municipalities for invoices to be received	1,064,783	1,140,503	(75,720)
Payables to municipalities for services and other	1,759,401	1,935,714	(176,313)
Payables to local authorities for tariff quotas	154,182	236,698	(82,516)
Payables to companies and consortiums for tariff quotas	2,604,146	2,738,824	(134,678)
Payables to consortium villoresi for reclamation grants	2,990,501	2,820,370	170,130
Payables to EGA for tariff quotas write-off law	790,853	793,605	(2,752)
Payables to others for tariff quotas	6,539,681	6,589,498	(49,817)
Advances	3,820,892	3,564,140	256,752
Other payables to users and customers	659,805	462,035	197,770
Advances from users	2,399,903	1,426,077	973,825
Advances from municipalities for services and other	136,552	576,271	(439,720)
Advances on ato Mi/Lombardy region contract contributions	8,623,368	8,623,368	0
Other payables to employees	4,261,951	3,760,983	500,968
Loans taken over	2,400,452	2,343,802	56,650
Tax payables	2,609,876	2,661,989	(52,113)
Payables to social security institutions	3,200,105	3,021,537	178,568
Other liabilities	425,525	382,462	43,064
Payables to others	28,538,430	26,822,665	1,715,765
Total Other current liabilities	36,837,511	35,347,885	1,489,626

With regard to comments on the sub-items "for tariff portions", 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 € 8,759,920 as at 31 December 2022 and mainly regard advance payments for work in progress commissioned by public bodies (€ 136,552) and the Lombardy Regional Authority and ATO Milan (€ 8,623,368). 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 of € 2,400,452 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.

Tax payables mainly refer to the VAT payable on the fourth quarter balance of 2022 paid in 2023 of € 1,523,189 and employees' IRPEF withholdings of € 1,123,193.

7.20 Liabilities available for sale

As at 31 December 2022, no liabilities held for sale are recognised.

8. Notes to the consolidated statement of comprehensive income

8.1 Revenues

As at 31 December 2022, revenues amounted to € 281,622,670.

The revenues achieved in relation to sales and services carried out during the year 2022, 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 (VRG) amounted to € 252,661,034.

- 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 € 15,575,824 for 2022, entirely relating to the share of "wholesaler" services".

- 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 Group has no income from tariffs for that ATO. 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 2022, the income amounted to € 4,496,657 (plant operation and maintenance).

- Other areas

These are residual presences of the Group, which acts by offering certain service segments (and managing them through an exchange rate) relating to the following cases:

purification service carried out by means of the Group 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 of the Lodigiano area (Borghetto Lodigiano, Graffignana, Livraga) in which the main Operator is SAL S.r.l.;

purification service rendered to 2 municipalities of the ATO of Como (Cabiato 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 2022, revenues for the province of Lodi amounted to € 696,447, those for the province of Como amounted to € 242,015 while those for the Metropolitan City of Milan amounted to € 2,759,872.

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).

Some contingent assets, amounting to € 4,279,690 , are also listed under item 8.1 and include:

- fire-fighting penalties and fixed fees in the amount of € 354,290;
- regulatory sludge adjustment for the years 2020 and 2021 of € 1,456,480;
- electricity adjustment of € 206,239;
- regulatory-tariff adjustments for the years 2019-2020-2021 of € 1,948,980 ;
- supplementary bonus adjustment € 136,633;

- 2012 tariff adjustment and invoiced with the 2018 VRG by Pavia Acque, which is due to the company issuing the water service at that time (as defined by the Lombardy Region Regulation of 28 February 2005, No. 4), i.e. Amiacque S.r.l. of € 174,492.

The most significant amounts are also summarised under item 8.1 other income:

- € 517,892 for sludge and third-party wastewater disposal;
- € 49,270 for joining the provision for hidden losses;
- € 19,171 for water discharge authorisation examination fees;
- € 55,081 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.

8.2 Increases for internal works

The value of the item in 2022 amounts to € 3,846,369, a change of € -82,997 compared to 2021 (€ 3,929,367). This concerns staff hours capitalised on investment orders.

8.3 Revenues for works on assets under concession

Revenues for work on assets under concession amounted to € 114,232,631 for financial year ended 31 December 2022 (€ 110,811,283 in 2021). 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.

In terms of operating costs, this item corresponds to items 8.7 for the portion realised directly by the parent company (€ 65,573,721) and the investee company in item 8.5 (€ 2,720,287), item 8.6 (€ 41,069,672) and item 8.8 (€ 4,868,949) for the portions realised by Amiacque S.r.l. in favour of Cap Holding S.p.A.

8.4 Other revenues and income

Following are the details of the item "Other revenues and income" for the year ended 31 December 2022:

Other revenues and income	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Sundry				
Reversal of provisions	6,217,079	8,732,885	(2,515,806)	-29%
Other revenues and income	7,483,820	5,798,469	1,685,350	29%
Other contingent assets/liabilities	2,498,817	1,945,074	553,742	28%
Reimbursement for seconded personnel	1,522,666	1,462,159	60,507	4%
Penalties from suppliers and customers	951,061	1,148,008	(196,947)	-17%
Compensation for damages and other rein	956,022	860,439	95,582	11%
Rental fees received	684,223	558,183	126,040	23%
Revenues from design services	138,965	473,292	(334,328)	-71%
R&D receivable	0	107,145	(107,145)	-100%
Total sundry	20,452,651	21,085,655	(633,004)	-3%
Operating grants				
Operating grants	9,848,744	1,309,293	8,539,451	652%
Total contributions	9,848,744	1,309,293	8,539,451	652%
Considerations				
Considerations from private parties and m	2,732,256	4,440,142	(1,707,886)	-38%
Total considerations	2,732,256	4,440,142	(1,707,886)	-38%
Total other revenues and income	33,033,651	26,835,089	6,198,562	23%

Note that the item "Reversal of provisions" includes the reversal for adjustment of unused portions of the provisions including:

- "Settlement of disputes" of € 237,732;
- "Settlement of dispute related to the construction of the new headquarters" of € 5,189,380;
- "Amicable settlements" of € 238,967 (see also paragraph 7.14 above);
- "2017 TOSAP/COSAP due to expiry of assessment terms" of € 350,000;
- "for adjustment of the provision for environmental damage from sewers" of € 201,000.

The item "Other revenues and income" includes income for sundry works and services in favour of Water Alliance companies, the network itself and other companies of € 3,154,969, application of the RQTI 18-19 Cassa Servizi Energetici e Ambientali incentive mechanism of € 1,540,395, planning, management and execution of works mainly in favour of Municipalities, ATO of the Milan Metropolitan City and Alfa S.r.l. of € 821,184, reimbursement of stamp duty on contracts of € 237,338.

The item "Other contingent assets/liabilities" mainly includes non-existent assets for lower sundry costs from previous years of € 353,383, collections from domestic and production users of € 755,427, release of Foni for grant association of € 264,610 and adjustment of bad debt provision of € 422,895.

The item "Compensation for damages and other reimbursements" includes indemnities from insurance companies for damages of € 362,348, various other charge-backs to Water Alliance and network companies of € 4,243, to ATO and other companies of € 45,420, compensation for damages of € 13,180 and reimbursement of legal costs of € 357,865.

The item operating grants is mainly made up of tax credits for expenses incurred for the energy component relating to non-energy consuming companies for a total of € 9,068,632, of which € 1,921,637 for the second quarter of 2022 envisaged by Italian DL 21/2022 ("Decreto Ucraina"), € 3,489,422 for the third quarter of 2022 envisaged by Italian DL 115/2022 ("Decreto Aiuti-bis"), € 3,460,273 for the fourth quarter of 2022, € 197,300 for the gas tax credit of the third and fourth quarter of 2022 envisaged by Italian DL 144/2022 ("Decreto Aiuti-ter") and Italian DL 176/2022 ("Decreto Aiuti-ter") as amended.

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 2022 is show below:

Costs for raw materials, consumables and goods	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Materials destined for works	8,605,491	7,540,386	1,065,104	14%
Electrical and hydraulic components	1,939,157	1,866,550	72,607	4%
Change in inventories	(135,859)	1,183,834	(1,319,692)	-111%
Consumption metres	2,153,171	1,054,182	1,098,989	104%
Fuels and combustibles	1,738,923	778,653	960,270	123%
Consumable materials	657,335	668,031	(10,696)	-2%
Consumable materials for safety in the workplace	569,071	416,719	152,352	37%
Electrical pumps	350,849	258,464	92,385	36%
Conditioning filters and raw materials for conditioning water	493	2,854	(2,361)	-83%
Wholesale water provisioning	39,215	0	39,215	100%
Total costs for raw materials, consumables and goods	15,917,845	13,769,673	2,148,172	16%

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 2022 is shown below:

Costs for services	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Costs for industrial services	91,353,687	49,285,208	42,068,479	85%
Works carried out for CAP, private individuals and municipalities	44,793,139	41,973,998	2,819,142	7%
Routine maintenance	16,828,368	15,466,507	1,361,861	9%
Demolition of tanks	28,195	10,963	17,232	157%
Work on plant and water houses	29,561	9,353	20,208	216%
Total cost for industrial services	153,032,949	106,746,028	46,286,921	43%
Other administrative, general and commercial costs	21,804,569	20,739,491	1,065,078	5%
Allocation to provision for future expenses	11,547,839	1,196,020	10,351,820	866%
Total other administrative, general, commercial costs and provisions	33,352,408	21,935,510	11,416,898	52%
Repayments of loans and concession fees	3,307,089	3,553,412	(246,323)	-7%
Rental and licence fees	3,514,933	2,317,181	1,197,751	52%
Fee for use of well and crossings	2,489,129	2,011,653	477,476	24%
Hiring	459,308	261,797	197,512	75%
Contingent liabilities - fees	-	368	(368)	-100%
Total costs for use of third party assets	9,770,459	8,144,411	1,626,048	20%
Total costs for services	196,155,816	136,825,949	59,329,867	43%

The services item includes € 11,547,839 in annual provisions for risks and charges. Provisions under this item are:

- € 129.030 for the provision for asphalt expenses.
- € 3,083,424 for the provision for asbestos disposal expenses in abandoned water networks;
- € 4,171,750 for provision for reclamation risks due to damages caused by percolation from sewer networks;
- € 1.458.966 for the provision for tank reclamation costs;
- € 2,704,668 for the provision for future reclamation costs of the areas of the purification plants.

The item "costs for industrial services" is broken down in the following table:

Costs for industrial services	Value as at 31/12/2022	Value as at 31/12/2021	Change	%
Electricity	69,954,838	29,330,465	40,624,373	139%
Costs for sludge disposal	12,786,329	11,991,995	794,334	7%
Other industrial costs	3,845,725	3,356,691	489,034	15%
Cleaning networks and plants	1,548,328	1,678,626	(130,298)	-8%
Regeneration with active carbons	1,525,180	1,577,339	(52,158)	-3%
Wholesaler's purification contract costs	1,693,287	1,350,092	343,195	25%
Total cost for industrial services	91,353,687	49,285,208	42,068,479	85%

The breakdown of "administrative, general and commercial costs" is shown below.

Other administrative, general and commercial costs	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Maintenance on equipment, sw, hw, vehicles and premises	5,279,224	4,597,275	681,948	15%
Other costs	3,155,694	3,267,241	(111,547)	-3%
Operating expenses for premises, cleaning and security	3,173,930	2,306,655	867,275	38%
Personnel costs	2,101,503	2,164,643	(63,140)	-3%
Insurance	1,954,427	1,940,747	13,680	1%
Advertising and propaganda expenses	1,500,487	1,626,242	(125,755)	-8%
Specialist consultancy fees	1,602,488	1,517,703	84,785	6%
Meter reading	386,023	620,533	(234,510)	-38%
Administrative and technical professional services	610,084	593,634	16,449	3%
Connectivity and social networking services	585,284	550,124	35,160	6%
Bank charges and commissions	774,137	534,694	239,443	45%
Fees and costs for corporate bodies and SBs	483,586	483,613	(28)	0%
Seadrome sponsoring and maintenance	5,500	286,555	(281,055)	-98%
Other contingent assets	127,210	171,067	(43,857)	-26%
Water houses	55,396	63,741	(8,345)	-13%
Hydraulic risk study	9,599	15,024	(5,425)	-36%
Total Other administrative, general and commercial costs	21,804,569	20,739,491	1,065,078	5%

8.7 Costs for work on assets under concession

Costs for work on assets under concession amounted to € 65,573,721 for financial year ended 31 December 2022 (€ 64,464,772 in 2021) . 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 2022 is shown below:

Personnel costs	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Salaries and wages	36,649,651	34,664,457	1,985,193	6%
Social security charges	11,050,010	10,422,673	627,337	6%
Employee severance indemnity	2,639,281	2,328,702	310,579	13%
Retirement benefits	301,202	286,310	14,891	5%
Other costs	772,948	971,479	(198,531)	-20%
Total costs for personnel	51,413,091	48,673,621	2,739,470	6%

The following table shows the number of employees of the Group, broken down by category:

Level	Employed as at 31/12/2021	Recruits	Leavers	Employed as at 31/12/2022
<i>Executives</i>				
Permanent contracts	1	0	0	1
Term contracts	10	0	1	9
Total executives	11	0	1	10
<i>Personnel with permanent contracts/apprenticeships</i>				
Middle managers	37	3	3	37
Level 8	45	10	4	51
Level 7	74	18	8	84
Level 6	149	47	31	165
Level 5	187	47	41	193
Level 4	158	30	23	165
Level 3	153	39	25	167
Level 2	61	0	30	31
Level 1	0	0	0	0
Total permanent contracts and apprenticeships	864	194	165	893
Total term contracts	16	8	18	6
Total Gas-Water Sector CCNL	880	202	183	899
Total Employees	891	202	184	909

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 2022 is presented below:

Amortisation, depreciation, provisions and write-downs	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Concession amortisation	39,210,405	36,905,184	2,305,221	6%
Amortisation of intangible fixed assets	6,735,001	6,160,132	574,869	9%
Depreciation of tangible fixed assets	2,834,409	2,387,122	447,287	19%
Depreciations of rights of use	2,018,207	2,787,693	(769,486)	-28%
Write-down of assets under concession	23,481,221	0	23,481,221	100%
Write-down of receivables	6,520,849	6,744,139	(223,290)	-3%
Total depreciation, amortisation and write-downs	80,800,092	54,984,270	25,815,822	47%
Provisions	1,096,040	3,402,923	(2,306,883)	-68%
Total depreciation, amortisation and write-downs	1,096,040	3,402,923	(2,306,883)	-68%
Total depreciation, amortisation, provisions and write-downs	81,896,132	58,387,194	23,508,939	40%

Note that amortisation/depreciation is shown net of utilisation of FoNI.

Concerning the *impairment loss of € 23,481,221* related to rights on assets under concession, please refer to section 7.1 above.

The amount relating to other provisions, amounting to € 1,096,040 refers to the adjustment of the provision for risks and future charges of:

- € 1,096,040 for the provisions for legal disputes.

The bad debt provision in 2022 amounted to € 6,520,849.

8.10 Other operating costs

The item "Other operating costs" for the year ended 31 December 2022 is broken down below:

Other operating costs	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Other contingent assets/liabilities	3,625,504	3,323,874	301,630	9%
Capital losses on fixed assets	176,995	2,612,481	(2,435,486)	-93%
Taxes and duties	2,376,273	2,181,304	194,968	9%
Provisions for indirect taxes	-	1,400,000	(1,400,000)	-100%
Operating expenses for ATO-AEEG entities	1,225,660	1,225,066	593	0%
Additional water bonus	4,012,662	977,224	3,035,438	311%
Expense reimbursements to third parties	906,211	957,437	(51,226)	-5%
Other sundry operating expenses	821,419	824,534	(3,114)	0%
Membership fees	370,690	356,667	14,022	4%
Costs for social welfare and donations	84,812	163,144	(78,332)	-48%
Sundry rights	220,996	131,505	89,491	68%
Fines and penalties	33,098	41,152	(8,054)	-20%
Books, magazines and newspapers	21,145	19,940	1,205	6%
Losses on loans	817,896	5,578	812,318	14564%
Total other operating costs	14,693,359	14,219,905	473,454	3%

The item "other contingent liabilities/non-existent liabilities" mainly refers to tariff adjustments of € 1,425,911, lower revenues of € 1,082,937, mainly for invoicing adjustments pertaining to previous years, higher costs from previous years of € 714,159.

The item "Capital losses on fixed assets" is related to disposals of fixed assets under concession.

8.11 Non-recurring operations

There are none in 2022, as already in 2021.

8.12 Financial income and expense

The balance of the financial income and expense amounts to a negative total of - € 2,930,964.

Financial income as at 31 December 2022 totalled € 2,978,189.

Financial income	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Other interest income	2,493,805	1,652,935	840,870	51%
Revaluation of equity investments	0	128,023	(128,023)	-100%
Bank interest income	7,768	4,002	3,765	94%
Extraordinary income	476,616	0	-	100%
Total financial income	2,978,189	1,784,960	1,193,229	67%

The item "contingent assets" refers to the adjustment of the actuarial gains and losses reserve for employee benefits formed in previous years, following a best estimate.

As at 31 December 2022, the financial expense amounted to € 5,909,153.

The breakdown of interest and other financial expense, relating to bonds, bank payables and others, is shown below:

Financial expense	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Bank loans and mortgages	2,519,598	1,848,818	670,780	36%
ElB loan charges	898,836	989,403	(90,567)	-9%
Assumption of loans	683,656	772,119	(88,463)	-11%
Swaps (to banks)	135,985	780,029	(644,044)	-83%
Bonds	283,029	395,829	(112,800)	-28%
Other	1,328,612	291,586	1,037,026	356%
Financial expenses on rights of use	59,437	54,042	5,394	10%
Total financial expenses	5,909,153	5,131,826	777,327	15%

8.13 Taxes

The item "Taxes" for the year ended 31 December 2022 is broken down below.

Taxes	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
IRES	4,813,471	6,973,721	(2,160,250)	-31%
IRAP	1,295,717	1,882,052	(586,335)	-31%
Recovery of deferred tax assets of previous financial years	2,577,588	4,793,919	(2,216,331)	-46%
Deferred tax assets for the year	(14,297,154)	(2,539,906)	(11,757,248)	463%
Recovery of deferred tax liabilities of previous financial years	(226,709)	(180,389)	(46,321)	26%
Deferred tax liabilities for the year	4,044,248	4,832,619	(788,371)	-16%
Tax from previous years	222,588	(359,343)	581,932	-162%
Total taxes	(1,570,250)	15,402,673	(16,972,924)	-110%

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 2022, 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 Cabiato (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.

Please note that the counterparty values its stake at € 2.15 million.

With judgement no. 1213/2021 of 19 May 2021, the Lombardy Administrative Court cancelled all the deeds challenged by CAP Holding S.p.A. against the Municipality of Cabiato insofar as they did not include the maintenance of the equity investment in CAP Holding S.p.A. in the review of the corporate equity investments.

On 9 September 2021, the Municipality of Cabiato appealed against the aforementioned first instance judgement, in accordance with the summary procedure pursuant to Article 119 of the c.p.a. The appeal was filed on 1 October 2021.

The Council of State upheld the appeal of the Municipality of Cabiato, reforming with judgement no. 6862 of 4 August 2022 the above-mentioned no. 1213/2021 of the Lombardy Regional Administrative Court - Milan.

As a result, CAP, considering the judgement of the Council of State to be flawed in several respects, filed an appeal with the Council of State (G.R. no. 8278/2022) in order to obtain the revocation of the aforesaid judgement no. 6862/2022 and, consequently, the confirmation of the decision of the Regional Administrative Court for Lombardy, Milan no. 1213/2021. A number of municipalities that are shareholders of CAP also brought third-party proceedings before the Council of State against Council of State Judgement no. 6862/2022.

The hearing to discuss this judgement was set for 4 April 2023.

In the director's management report, it is stated that, at present, the Municipality of Cabiato, which belongs to the province of Como, is also a shareholder of CAP.

The same can be said for the municipalities of the Province of Monza and Brianza, Nova Milanese and Veduggio al Lambro, which 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.).

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 2022 between the Group 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 Group to these local authorities.

With regard to other transactions, note that as at 31 December 2022, the Company had payables due to shareholder bodies for invoices to be received totalling € 1,533,840 relating to works and services performed by municipalities.

Paragraph 10 provides, among other things, information on other commitments vis-à-vis shareholder local authorities.

With reference to the investee company NEUTALIA S.r.l., the following transactions took place in 2022:

- capital grant of € 495,000 approved by the BoD of CAP Holding S.p.A. on 30 June 2022. For more details on the aforementioned transaction, please refer to the comments in paragraph 7.6;
- secondment of personnel from CAP Holding S.p.A. to NEUTALIA S.r.l. for 2022 of € 10,000;
- contract to support the implementation of an internal control and compliance system, for fees accrued during 2022 of € 29,000;
- contract for corporate services for fees accrued in 2022 of € 181,645;
- contract for the coordination of communication and sustainability activities for fees accrued during 2022 amounting to € 9,775;
- contract for the coordination of communication activities, stakeholder engagement and benefit plan for fees accrued during 2022 of € 8,000;
- issue by the Group on 2 November 2022 of a 33% surety to Neutalia S.r.l.'s lending bank to secure a loan for a total principal amount of € 3,000,000.00, granted to the latter, with a 5-year term and expiring in 2027 (repayable in 10 deferred six-monthly instalments) together with an irrevocable commitment to provide, during 2023, shareholders' equity or a shareholder loan of at least € 495,000.

With reference to the investee company ZERO C S.p.A., the following transactions took place in 2022:

- secondment of personnel from ZERO C S.p.A. to CAP Holding S.p.A. in 2022 of € 256,632;
- secondment of personnel from CAP Holding S.p.A. to ZERO C S.p.A. in 2022 of € 16,555;
- service contract between CAP Holding S.p.A. and ZERO C S.p.A. concerning the coordination of communication for fees accrued during 2022 of € 15,500.

10. Contractual commitments, guarantees and concessions

There are various commitments, recourse obligations and sureties payable. Details follow.

Commitments amounting to € 62,589,779 of which:

- € 13,975,776 for residual instalments of mortgages to be repaid to shareholder local authorities for the use of their networks and plants in the period from 2022 to 2033; of which € 11,636,157 expiring beyond twelve months;
- € 43,305,765 as the estimated amount of the interest expense paid to lenders in the period after 1 January 2023, on loans taken out and/or taken over and to be repaid at the end of the reporting period;
- € 4,943,533 as an approximation of the maximum liquidation value, measured on the basis of the estimate of CAP Holding S.p.A. presented by the Municipality of Cabiato, of the member municipalities that, as described in paragraph 9 Related Parties and in the Management Report, resolved to dispose of their equity investment in CAP Holding S.p.A.

Obligations vis-à-vis third parties of € 721,594 of which:

- € 138,416 for with-recourse obligations deriving from the demerger of Idra Patrimonio S.p.A. to the benefit of Idra Milano S.r.l. (this latter merged into CAP Holding S.p.A. in 2015) and Brianzacque S.r.l.;
- € 583,178 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).

Sureties payable of € 76,989,923, of which:

- € 64,919,152 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 of 2014 for a residual amount of € 60,355,938 as at 31 December 2022);
- € 12,070,771 as insurance sureties issued in the interest of Cap Holding mainly 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 € 175,472,156 relating to networks, collectors and plants of the IWS owned by the Entities and used by the Group;
- € 59,862,575 for sureties receivable (received) for works;
- € 1,016,423 for a surety issued by the Group to secure a loan of € 3,000,000 granted by a bank to Neutalia S.r.l.

11. Fees to directors and statutory auditors, SBs.

For the year ended 31 December 2022, the fees due to directors and statutory auditors amounted to € 230,768 and € 134,496, respectively. The fee due to the SB amounted to € 106,661.

Allowance for corporate bodies	Value as at 31/12/2022	Value as at 31/12/2021	Change	% change
Board of Directors' allowance	230,768	231,765	(997)	0%
Board of Statutory Auditors' allowance	134,496	136,743	(2,247)	-2%
Fees of the supervisory body	106,661	104,517	2,144	2%
Total allowances	471,924	473,024	(1,100)	0%

12. Independent Auditors' fees

For the financial year ended 31 December 2022, the cost incurred by the Group for the external audit in 2022 amounted to € 41,198.

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 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 loan XS1656754873, already commented on). The fee was then adjusted by resolution of the shareholders' meeting of 25 May 2021.

The Shareholders' Meeting of Amiacque S.r.l. of 27 May 2021 resolved to confirm the mandate for the external audit to BDO Italia S.p.A., for the period from 2021 to 2023, 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 2022, 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 for certification of expenses incurred for advertising investments of € 5,000.

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 34 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 (cash) 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 € 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 Group 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 CAP Holding S.p.A. has received the following contributions:

Issuing body	Amount	Description
ATO Area office of the Metropolitan City of Milan	16,495,396	Grants related to assets
Total	16,495,396	

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 (if not already commented on in previous sections)

No further significant events occurred after the reporting period.

*The Chairperson of the Board of Directors
Karin Eva Imperato*

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 2022, 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 did not receive from the Supervisory Bodies of the company and its subsidiary Amiacque S.r.l. 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 2022 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 11 April 2023 and show a net profit of € 521,404.

The appointed company BDO on 28 April 2023 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:

- the annual confirmation of the independence of the independent auditors;
- the main aspects of the audit;
- the levels of significance for the consolidated and separate financial statements;
- 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 28 April 2023, 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 2022, 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.

For the three-year period from 2021 to 2023, the company entrusted PWC with the Certification of the Consolidated Non-financial Statement for 2021 pursuant to Article 3.10 of Italian Legislative Decree 254/2016 and Article 5 of CONSOB Regulation no. 20267.

We received this certificate on 28 April 2023. It shows that the non-financial statement of the CAP Group for the financial year ended 31 December 2022 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 intra-group 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 28 April 2023, 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 2022, as proposed by the Board of Directors.

Milan, 28 April 2023

The Board of Statutory Auditors

Raffaele Zorloni, Chairman of the Board of Statutory Auditors;

[Illegible signature]

Rosa Maria Lo Verso, Standing Statutory Auditor.

[signature: RosaMaria LoVerso]

Nicola Tufo, Standing Statutory Auditor;

[Illegible signature]



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, 2022*

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.

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 consolidated 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, 2022, 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 financial position of the Group as at December 31, 2022 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 Group 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.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Audit response

Rights over assets under concession

Under IFRIC 12, rights over assets under concession were recognized for € 841 million at 31 December 2022.

At least once a year, management assesses the presence of impairment indicators in relation to rights on assets held under concession (capital goods that can be transferred at the end of the concession relating to the integrated water sector); in particular, during the year, an impairment test was performed, as a result of which impairment losses of € 23 million were identified.

As of 31 December 2022, the company therefore recognized the related impairment loss.

The processes and methods of valuation and determination of the recoverable amount of the rights to concession assets are based on assumptions that are sometimes complex and by their nature involve recourse to the judgment of the directors, in particular with regard to the identification of impairment indicators, the forecast of their future profitability, the definition of market multiples, the determination of normalized cash flows underlying the terminal value estimate, the determination of long-term growth and discount rates applied to the forecasts of future cash flows contained in the business plan used as the basis for the impairment test.

Given the complexity of the estimation process and the uncertainties associated with it, and the relevance of the financial statements item, we considered that the valuation of entitlements to concession assets is a key aspect of the audit.

The disclosure relating to the item are set out in the notes to the statement of financial position in point 7.1- Rights over assets under concession.

Audit procedures performed:

- Discussion with Management;
- Check for impairment indicators;
- Verification of the reasonableness of the main assumptions and hypothesis underlying the consolidated business plan 2023-2033;
- Verification of the adequacy of the impairment model used with the support of an internal expert;
- Verification of the mathematical accuracy of the impairment model used;
- Analysis of the report of the expert who assisted the Group Management in the impairment test, as well as the assessment of its competence, ability and objectivity;
- Verification of the determination of long-term growth rates and discount rates;
- Reperforming of the sensitivity analysis carried out by the Company and reported in the report of the expert appointed by the same to vary key assumptions;
- Reading and discussion with the Group Management of the Report prepared by the expert;
- Comparison between accounting data and impairment test results;
- Verification of the adequacy of the information provided in the notes to the financial statements and its compliance with the applicable accounting standards.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are 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, in the terms prescribed by the law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are 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 they either intend to liquidate the Parent Company CAP Holding S.p.A. or to cease operations, or has no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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.
- Obtained 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 on the consolidated financial statements.

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 as at December 31, 2022, including their consistency with the consolidated 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 as at December 31, 2022 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 as at December 31, 2022 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 non-financial statement is the subject of a separate statement of compliance issued by other auditor.

Milan, April 28, 2023

BDO Italia S.p.A.
signed by Claudio Tedoldi
Partner

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