

**Consolidated Financial
Statements of the
CAP GROUP
at 31 December 2016**



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*FINANCIAL STATEMENT
SCHEDULES*

BALANCE SHEET ASSETS				
	31/12/2016		31/12/2015	
B) FIXED ASSETS				
I - Intangible fixed assets:				
1) Plant and expansion costs				-
2) Development costs				-
3) Ind. patents and intellectual property rights		1,854		3,600
4) Concessions, licences, trademarks and similar rights		7,967,572		8,101,590
5) Goodwill				-
5 bis) Difference from consolidation				-
6) Fixed assets in progress and advances		3,317,854		1,813,767
7) Others		1,007,887		1,368,798
Total intangible fixed assets		12,295,167		11,287,755
Total intangible fixed assets:				
1) Land and buildings		77,034,971		75,284,036
2) Plant and machinery		631,313,471		607,661,220
3) Industrial and commercial equipment		1,304,178		1,060,387
4) Other assets		2,837,527		2,411,994
5) Fixed assets in progress and advances		85,958,354		120,241,518
Total tangible fixed assets		798,448,501		806,659,155
III - Financial fixed assets				
1) Equity investments in:		15,236,386		10,172,505
a) subsidiaries	1,158,651		1,257,611	
d-bis) other companies	14,077,735		8,914,894	
2) Receivables		121,198		121,198
a) due from subsidiaries			-	
b) due from affiliates			-	
c) due from holding companies			-	
d) due from others	121,198		121,198	
3) Other securities				
4) Derivative financial instrument assets				
Total financial fixed assets		15,357,584		10,293,703
TOTAL FIXED ASSETS B)		826,101,252		828,240,613
C) CURRENT ASSETS				
I) Inventories:				
1) Raw, subsidiary and consumable materials		5,327,121		5,804,746
3) Works in progress to order		574,818		513,872
4) Finished products and goods				
5) Advances				
6) Fixed assets destined for sale		26,132,202		11,739,497
Total inventories		32,034,141		18,058,115
II) Receivables				
1) Trade receivables		246,960,511		237,581,655
- amounts due within next period	154,098,350		151,022,116	
- amounts due after next period	92,862,161		86,559,539	
2) Due from subsidiaries		141,512		246,520
- amounts due within next period	141,512		246,520	
- amounts due after next period				
3) Due from affiliates		-		-
- amounts due within next period				
- amounts due after next period				
4) Due from holding companies		-		-
5) Due from subsidiaries of the holding companies				
5-bis) Tax receivables		22,551,411		18,187,759
- amounts due within next period	6,143,069		6,462,053	
- amounts due after next period	16,408,342		11,725,706	
5-ter) Prepaid taxes		23,159,135		18,731,482
- amounts due within next period	2,641,422		1,441,670	
- amounts due after next period	20,517,713		17,289,812	
5-quater) Due from others		22,850,974		26,179,127
- amounts due within next period	16,003,869		22,786,619	
- amounts due after next period	6,847,105		3,392,508	
Total receivables		315,663,543		300,926,543
II) Current financial assets				
Total financial assets		-		-
IV) Cash and cash equivalents				
1) Bank and postal deposits		118,704,415		93,856,402
- amounts due within next period	113,48,1436		82,615,404	
- amounts due after next period	5,222,979		11,240,998	
2) Cheques		55,669		4,386
3) Cash and valuables in hand		29,004		34,782
Total cash and cash equivalents		118,789,088		93,895,570
TOTAL CURRENT ASSETS (C)		466,486,772		412,880,228
D) ACCRUED INCOME AND DEFERRED ASSETS				
- Discounts on loans		9,038,865		2,031,964
- Other accruals and deferrals	9,038,865		2,031,964	
TOTAL ACCRUED INCOME AND DEFERRED ASSETS D)		9,038,865		2,031,964
TOTAL ASSETS		1,301,626,889		1,243,152,805

BALANCE SHEET LIABILITIES

	31/12/2016	31/12/2015
A) SHAREHOLDERS' EQUITY		
<i>Appertaining to the group:</i>		
I Capital	571,381,786	571,381,786
II Share premium reserve	1,393,862	1,393,862
III Revaluation reserves		
IV Legal reserve	2,688,880	1,987,604
V Statutory reserves		
VI Other reserves	139,825,689	126,501,436
- consolidation reserve	20,206,722	20,206,722
- other	119,618,967	106,294,714
VII Reserve for expected cash flow hedging transactions	(3,674,123)	
VIII Profits / Losses carried forward	8,871,852	2,754,285
XI Profit / Loss of the period	29,482,689	20,401,462
X Negative reserve for treasury shares in portfolio	(623,083)	(623,083)
Total shareholders' equity appertaining to the group	749,347,552	723,797,352
<i>Minorities' equity:</i>		
X Capital and reserves		
XI Profit / Loss of the period		
Total minority shareholders' equity		-
TOTAL SHAREHOLDERS' EQUITY A)	749,347,552	723,797,352
B) PROVISIONS FOR RISKS AND CHARGES		
1) For retirement benefits and similar obligations		-
2) For taxes, including deferred taxes	1,488,990	1,323,209
2 bis) Consolidation provision for future risks and charges	4,929,301	-
3) Derivative financial instrument liabilities		-
4) Others	43,353,520	32,552,540
TOTAL PROVISIONS FOR RISKS AND CHARGES B)	49,771,811	33,875,749
C) EMPLOYEE SEVERANCE INDEMNITY	6,095,397	6,768,529
D) PAYABLES		
1) Bonds	5,185,200	5,925,940
- amounts due within next period	1,481,480	1,481,480
- amounts due after next period	3,703,720	4,444,460
2) Convertible bonds		
3) Payables on shareholders' loans		
4) Payables to banks	119,869,766	97,066,503
- amounts due within next period	8,916,199	10,889,462
- amounts due after next period	110,953,567	86,177,041
5) Payables to other lenders		
6) Advances	19,791,272	20,345,594
7) Trade payables	80,244,318	64,821,252
- amounts due within next period	80,175,035	63,333,004
- amounts due after next period	69,283	1,488,248
8) Payables represented by credit instruments		
9) Payables to subsidiaries	304,966	3,295
- amounts due within next period	304,966	3,295
- amounts due after next period		
10) Payables to affiliates		
11) Payables to holding companies		-
11-bis) Payables to holding companies		
12) Tax payables	3,246,936	3,104,861
13) Payables to pension and social security institutes	2,644,321	2,134,143
14) Other payables	114,531,364	131,428,110
- amounts due within next period	52,208,853	44,946,847
- amounts due after next period	62,322,511	86,481,263
TOTAL PAYABLES D)	345,818,143	324,829,698
E) ACCRUED EXPENSE AND DEFERRED LIABILITIES	150,593,986	153,881,477
- Premiums on loans		
- Other accruals and deferrals	150,593,986	153,881,477
TOTAL ACCRUED EXPENSE AND DEFERRED LIABILITIES E)	150,593,986	153,881,477
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,301,626,889	1,243,152,805

INCOME STATEMENT

	31/12/2016	31/12/2015
A) PRODUCTION VALUE		
1) Revenues from sales and services	260,000,502	239,693,513
2) Change in inventories of products in progress and semi-worked and finished products		-
3) Change in works in progress to order	60,946	(4,431,297)
4) Increases in fixed assets for internal works	27,896,052	15,910,449
5) Other revenues and income	16,151,886	17,671,514
- contributions to operating expenses	619,578	257,861
- others	15,532,308	17,413,653
TOTAL A)	304,109,386	268,844,179
B) PRODUCTION COSTS		
6) Raw, ancillary and consumption materials and goods	(11,054,300)	(10,105,459)
7) Services	(108,985,768)	(82,145,701)
8) Use of property of third parties	(12,275,805)	(17,413,430)
9) Personnel	(43,808,875)	(43,966,353)
a) wages and salaries	(30,952,709)	(30,604,015)
b) social security contributions	(9,903,493)	(9,964,325)
c) severance indemnity	(2,079,879)	(2,023,537)
d) for retirement benefits and similar obligations	(238,949)	(219,568)
e) other costs	(633,845)	(1,154,908)
10) Depreciation, amortisation and impairment	(61,783,357)	(60,689,384)
a) amortisation of intangible fixed assets	(1,607,485)	(1,916,874)
b) depreciation of tangible fixed assets	(52,862,381)	(48,203,780)
c) other fixed asset write-downs		-
d) impairment of receivables classified as current assets and of cash and cash equivalents	(7,313,491)	(10,568,730)
11) Change in inventories of raw, ancillary and consumption materials and goods	(467,753)	446,083
12) Allocations for risks	(1,721,951)	(2,208,803)
13) Other allocations	(2,336,650)	(1,915,689)
14) Sundry operating costs	(10,231,890)	(8,670,793)
TOTAL B)	(252,666,349)	(226,669,529)
Difference between production value and costs (A-B)	51,443,037	42,174,650
C) FINANCIAL INCOME AND CHARGES		
15) Income from equity investments		-
- dividends and other income from subsidiaries		
- dividends and other income from affiliates		
- dividends and other income from others		-
16) Other financial income	3,056,267	2,623,170
a) from receivables posted under fixed assets:		
- from subsidiaries		
- from affiliates		
- from holding companies		
- others		
b) from securities classified as fixed assets that are not equity investments		
b) from securities classified as current assets that are not equity investments	6,352	23,047
d) revenues other than the above:		
- from subsidiaries		-
- from affiliates		-
- from holding companies		-
- others	3,049,915	2,600,123
17) Interests and other financial charges	(7,871,663)	(6,629,676)
- due to subsidiaries		-
- due to affiliates		-
- due to holding companies		-
- others	(7,871,663)	(6,629,676)
17-bis) Gains and losses on currency exchange		
TOTAL C)	(4,815,396)	(4,006,506)
D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS		
18) Revaluations		-
19) Impairments	(529,901)	(1,122,841)
a) to equity investments, included portions of losses of non-consolidated participated companies	(529,901)	(1,122,841)
b) to financial fixed assets		
c) to securities classified as current assets		
TOTAL D)	(529,901)	(1,122,841)
Result before taxes (A-B+C+D+E)	46,097,740	37,045,303
20) INCOME TAX FOR THE PERIOD	(16,615,051)	(16,643,841)
- current	(19,551,348)	(18,374,833)
- deferred (prepaid)	2,936,297	1,730,992
20 bis) Profit/Loss of the period appertaining to minority shareholders		-
21) PROFIT (LOSS) OF THE PERIOD	29,482,689	20,401,462

CASH FLOW STATEMENT		2016	2015
A. Cash flows deriving from the Company's operations (indirect method)			
Profit (loss) of the period	29,482,689		20,401,462
Income taxes	16,615,051		16,643,841
Interest expense/(interest income)	4,815,396		4,471,027
(Dividends)			
(Gains)/losses deriving from the disposal of assets	163,974		2,075,090
1. Profit (loss) of the period before taxes, interests, dividends and gains/losses on disposals		51,077,110	43,591,420
<i>Adjustments for non-monetary elements that have no contra entry in the net floating capital</i>			
Allocations to provisions	16,049,947		9,002,667
Write-downs of fixed assets	54,469,866		50,120,654
Write-downs for lasting value impairment	529,901		1,122,841
Other adjustments for non-monetary elements	74,984		
2. Cash flow before changes in the net current assets		71,124,698	60,246,162
<i>Changes in net current assets</i>			
Decrease/(Increase) in inventories	12,156,176		3,985,214
Decrease/(increase) in trade receivables	(1,1036,906)		(15,985,859)
Increase (decrease) in trade payables	(3,873,925)		22,336,685
Decrease/(Increase) in accrued income and deferred assets	(36,715)		2,943,496
Decrease/(Increase) in accrued expense and deferred liabilities	(739,952)		40,283,417
Other changes in net current capital			
3. Financial cash flow after changes in the net current capital		(3,531,322)	53,562,953
<i>Other adjustments</i>			
Interests collected/(paid)	(4,815,396)		(4,471,027)
(Income taxes paid)	(18,619,288)		(20,043,504)
Dividends cashed in			
(Use of provisions)	(4,635,128)		(3,558,588)
4. Cash flows after all the other adjustments		(28,069,812)	(28,073,119)
Cash flow of income management (A)		90,600,674	129,327,416
B. Cash flows deriving from investment activities			
<i>Tangible fixed assets</i>	(69,521,361)		(177,800,633)
(Investments)	(78,202,249)		(177,800,633)
Price of investment disposals	8,680,888		
<i>Intangible fixed assets</i>	(4,450,530)		(973,035)
(Investments)	(4,450,530)		(973,035)
Price of investment disposals			
<i>Financial fixed assets</i>	(5,593,782)		(421,630)
(Investments)	(5,593,782)		(421,630)
Price of investment disposals			
<i>Current financial assets</i>	(8,360,832)		16,762,127
Financial (Investments)	(9,002,759)		
Price of investment disposals	641,927		16,762,127
<i>Acquisition or disposal of business units net of cash and cash equivalents</i>			
(Investments)			
Price of investment disposals			
Cash flow from investments activities (B)		(87,926,505)	(162,433,171)
C. Cash flows deriving from lending activities			
<i>Resources of third parties</i>			
Increase (decrease) in short term payables to banks			
Loans taken out	36,876,749		36,487,290
Repayment of loans	(14,657,402)		(17,394,750)
<i>Own resources</i>			
Paid capital increase	2		43,438,696
Sale (purchase) of treasury shares			21
Dividends (and advances on dividends) paid out			
Cash flow from investments activities (C)		22,219,349	62,531,257
Increase (decrease) in cash and cash equivalents (A + B + C)		24,893,518	29,425,502
Cash and cash equivalents opening balance		93,895,570	64,470,067
of which:			
-bank and post office deposits	93,856,402		64,339,430
-cheques	4,386		101,019
-cash and valuables in hand	34,782		29,618
Cash and cash equivalents closing balance		118,789,088	93,895,570
of which:			
-bank and post office deposits	118,704,415		93,856,402
-cheques	55,669		4,386
-cash and valuables in hand	29,004		34,782

(* the cash flow statement for 2015 is the first presented.

for simplicity, the change in payables for re-investments has been left included in the change of trade payables

the single balances (investments, debts taken over, receivables, capital increase, etc.) includes the effect of the IDRA MI merger.

INTRODUCTION

These Notes to the Accounts of the Consolidated Financial Statements of the CAP Group have been drawn up pursuant to art. 38 of Legislative Decree 127/1991. Point 1 below indicates the companies included in the consolidation of the Group.

For clearer understanding of some references, contained in the notes, to the assignor companies of CAP Holding S.p.A., we take the liberty of reminding you that this latter, by deed of merger signed on 22 May 2013, has incorporated the companies TASM S.p.A., TAM S.p.A. and I.A.No.MI S.p.A.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENT

The consolidated financial statements have been drawn up in accordance with the provisions of Legislative Decree 127/1991, of artt. 2423 and following of the Civil Code as amended by Legislative Decree no. 6 of 17 January 2003, and of Legislative Decree no. 310 of 28 December 2004, and also according to the Italian accounting standards and the interpretations given by the Italian Accounting Body or, failing this, those established by the International Accounting Standards Board (I.A.S.B.).

The financial statements comprise, in addition to these Notes to the Accounts which give the information requested by art. 2427 of the Civil Code, the Balance Sheet (according to the structure prescribed by art. 2424 of the Civil Code), the Income Statement (according to the structure prescribed by art. 2425 of the Civil Code) and the Cash Flow Statement (art. 2425-ter of the Civil Code).

The Balance Sheet, the Income Statement, the Cash Flow Statement and the accounting information contained in these Notes to the Accounts conform to the accounting records, from which they have been directly inferred, and they are consistent with previous periods.

The financial statement schedules, as required by art. 2423-ter of the Civil Code, show the value of the preceding period, 2015 being the fourth year of consolidation.

CONSOLIDATION CRITERIA

We present below the principles adopted for drawing up the Consolidated Financial Statements.

1. COMPANIES INCLUDED IN THE CONSOLIDATION AND REFERENCE DATA

The consolidated financial statements have been drawn up on the basis of the financial statements of the single companies.

The CAP group includes the parent company, CAP Holding S.p.A., and the following companies:

- AMIACQUE S.r.l., VAT no. and tax ID 03988160960, registered office at Via Rimini 34/36, Milan, total share capital Euro 23,667,606, of which the parent company holds 100% at 31 December 2016 (as in 2015);
- Rocca Brivio Sforza in liquidation S.r.l., VAT no. and tax ID 07007600153, registered office at Via Vivaio 6, 20122 Milan (MI), total share capital Euro 53,100 of which the parent company holds 51.04% for a value of Euro 27,100 at 31 December 2016 (as in 2015);

CAP Holding S.p.A. has its registered office at Via del Mulino 2 - Palazzo U10 - 20090 Assago (MI), tax ID and VAT no. 13187590156.

Only AMIACQUE S.r.l. has been consolidated with CAP Holding S.p.A., it being maintained that:

- as far as concerning Rocca Brivio in liquidation S.r.l. (whose core business is "*la salvaguardia e valorizzazione del complesso storico monumentale di Rocca Brivio*" [to safeguard and upgrade the historic monumental complex of Rocca Brivio], the case contemplated by letter a) of the second paragraph of art. 28 of Legislative Decree no. 127 of 9 April 1991 exists. Furthermore, said company has been in voluntary liquidation since 21 April 2015.

The financial statements for 2016 have been drawn up within 180 days from the closure of the period due to the need to draw up the Group's consolidated financial statements.

2. CONSOLIDATION TECHNIQUES

Total consolidation

Amiacque has been consolidated with the global integration, or line by line, method.

The asset and liability items, as well as the income and charges of the aforesaid companies, have all been taken into consideration - line by line - on the consolidated financial statements.

The following are subject to elimination:

- a) the stake in the subsidiary and the corresponding fraction of the shareholders' equity held by the parent company;
- b) the receivables and payables exchanged between the companies included in the consolidation;
- c) the income and charges relating to transactions between said companies;
- d) the profits and losses consequent to transactions between said companies and relating to values included in the capital.

In particular the consolidation procedure involves the elimination of the book values of the stakes held and the corresponding quotas of the shareholders' equity of the subsidiary. Said elimination is carried out on the basis of the book values at the date on which the subsidiaries were included in the consolidation for the first time.

Elimination of infra-group profits/losses

For the consolidated financial statements, the Group's economic result ensues only from transactions with third parties.

Any profits/losses deriving from infra-group transactions are eliminated within the sphere of the consolidation process, the adjustment being divided proportionately between the equity share held by the Group and that of minority shareholders, also taking into account taxation effects.

The consolidated financial statements have been drawn up on the basis of the 2016 draft financial statements of the companies AMIACQUE S.r.l. and CAP Holding S.p.A., for the period which closed at 31 December 2016, approved by their respective boards of directors on 27 March 2017, in the case of the former, and on 26 April 2017 in the case of the latter.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

These financial statements have been drawn up in accordance with the provisions of artt. 2423 and following of the Civil Code, the national accounting standards and the interpretations given by the Italian Accounting Body.

The financial statements have been drawn up in a systematic manner, according to the accruals method, prudentially and considering the company as an on-going business.

The Notes to the Accounts give all the information required by art. 2427 of the Civil Code; in particular, the Balance Sheet has been drawn up according to the layout indicated in art. 2424 of the Civil Code, the Income Statement according to the layout indicated in art. 2425 of the Civil Code, and the Cash Flow Statement according to the indications of OIC (Italian Accounting Body) standard no. 10 of 22 December 2016.

The main valuation criteria conform to artt. 2424-bis, 2425-bis and 2426 of the Civil Code, adopted in the same manner as in the past, and, when contemplated, with the consent of the Board of Statutory Auditors.

For comparison, the values of the period are given together with those of the period that closed at 31 December 2015.

With regard to the amendments introduced by Legislative Decree no. 139/2015, taking effect as of the financial statements of 2016, to the layout of the Income Statement and the Balance Sheet, since paragraph six of art. 2423-ter requires the indication of the amount of the preceding period for every item on the Income

Statement and the Balance Sheet, suitable adjustments were necessary for some of the corresponding items of the previous period (2015), which adjustments are specifically explained herein.

Intangible fixed assets

These regard expenses for assets of long-term usefulness and they are posted on the financial statements at purchase or production cost including any connected charges; the amounts are directly and systematically amortised on the basis of their remaining possibility of use.

Intangible fixed assets in the process of being produced at 31 December 2016 are posted on the basis of the expense sustained up to that date. The amortisation of these assets will start in the year in which they begin to be used.

Tangible fixed assets

Tangible fixed assets are posted at purchase or production cost net of the provisions for depreciation. No financial charges have been capitalised.

Maintenance and repair costs are posted under the Balance Sheet assets when they are of a non-routine nature and when they increase the value of said assets; otherwise they are posted under the expenses of the period.

The fixed assets are systematically depreciated or amortised at constant rates according to their remaining possibility of use.

For fixed assets constructed or purchased and first used in 2016, the depreciation or amortisation rates have been halved.

Fixed assets in the process of being produced at 31 December 2016 are posted on the basis of the expense sustained up to that date. The depreciation of these assets will start in the year in which they begin to be used.

Fixed assets destined for disposal are classified separately as current assets under the item Inventories.

Financial fixed assets

Financial fixed assets, mainly represented by equity investments in subsidiaries, are valued according to the net equity method, pursuant to art. 2426, point 4, of the Civil Code. However, the company Amiacque S.r.l. has been consolidated.

Financial fixed assets in affiliated and other companies, however, are valued at cost, including any connected charges. The book value is determined on the basis of the purchase or underwriting cost. The cost of the stakes is reduced if the company in question has sustained lasting value impairments.

Any changes, pursuant to art. 2426, paragraph 1, point 3, of the Civil Code, are mentioned in the detailed comments on the financial statement items.

Treasury shares are posted on the financial statements as a direct reduction of the shareholders' equity, pursuant to paragraph 3 of art. 2357-ter of the Civil Code.

Receivables and payables

Receivables and payables are posted on the financial statements according to the amortised cost criterion, taking into account the temporal factor and, for receivables, the presumed collection value (by adjustment obtained with an allocation to the credit impairment provision).

To this regard, CAP Holding S.p.A. has taken avail of the possibility of applying the amortised cost only to receivables arising after the 2016 period, pursuant to art. 12, paragraph 2, of Legislative Decree 139/2015, according to which the amendments introduced by art. 2426, paragraph 1, number 8, of the Civil Code (amortised cost criterion) "*possono non essere applicate alle componenti delle voci riferite ad operazioni che non hanno ancora esaurito i loro effetti in bilancio*" [need not be applied to the components of the items referring to transactions that have not yet fully affected the financial statement data].

In accordance with OIC standard no. 25 of December 2016, tax payables are posted net of advances and withholding taxes.

The breakdown by geographic area pursuant to art. 2427, paragraph 6, of the Civil Code, is not presented for the receivables and payables, inasmuch as they practically all ensue from agreements with Italian customers and suppliers.

Accruals and deferrals

Accrued income and deferred assets and accrued expense and deferred liabilities refer to revenues and costs common to more than one financial period, and they are posted according to the accruals principle, in respect of the provision of the last paragraph of art. 2424-bis of the Civil Code.

Shareholders' equity

Shareholders' equity items are posted at values resulting from company resolutions and/or pursuant to provisions of law and/or pursuant to the application of the accounting standards.

Share premium reserve

The share premium reserve includes the merger swap surplus originating from the incorporation of CAP Impianti Spa in 2005 and from the contributions to the equity in 2007 and 2010.

Other reserves

The other reserves comprise:

- a reserve set up in CAP Holding S.p.A. by allocating the profits of the preceding periods;
- a reserve resulting from the annulment of shares ensuing from the merger by which CAP Impianti S.p.A. was incorporated into CAP Holding S.p.A. (2005);
- a reserve allocated in CAP Holding S.p.A. for prepaid taxes deriving from the closure of the 2005 financial period;
- a merger swap surplus reserve (relating to the incorporation of Idra Milano S.r.l.) posted by CAP Holding S.p.A. in 2015;
- a reserve deriving from the provisions of the profits of preceding periods that have not been distributed and that are destined to finance investments by Amiacque S.r.l.;
- a consolidation reserve generated by the annulment of the stake in the subsidiary against its shareholders' equity;
- a reserve established in accordance with art. 14 of Law 36/1994.

Reserve for expected cash flow hedging transactions

This reserve (under item AVII of the liabilities) is to cover changes in the fair value of derivative financial instruments held for the purpose of hedging expected cash flows, net of any deferred tax effects.

Reserve (negative) for treasury shares in the portfolio

Treasury shares are posted on the financial statements as a direct reduction of the shareholders' equity, under a specific negative reserve (item A.X. of the liabilities), in accordance with paragraph 3 of art. 2357-ter of the Civil Code.

Financial instruments

The Group has not issued any financial instruments, except for an ordinary bond issue (ISIN code IT0003853568) composed of 200 bonds with a par value of Euro 100,000 each, deposited at Monte Titoli S.p.A., issued by CAP Impianti S.p.A. in 2005, guaranteed by Amiacque S.r.l. (formerly CAP Gestione S.p.A.) and placed by an underwriting commitment by a bank. The loan is repaid at constant six-monthly instalments increased by a variable interest rate (final payment: 31 December 2019).

The bonds can be traded on the ExtraMOT PRO segment of the ExtraMOT market managed by Borsa Italiana S.p.A. as of 22 July 2016, subsequent to the application for admission of 30 June 2016.

At 31 December 2016, the residual principal amounted to Euro 5,185,200 (Euro 4,444,460 after the debit, on 02 January 2017, of the 2nd six-monthly payment of 2016).

Capital destined for a specific business operation

The Group has not allocated any capital for any specific business operation, pursuant to art. 2447-septies of the Civil Code.

Loans destined for a specific business operation

The Company has not issued any loans for any specific business operation.

Provisions for risks and charges

Provisions for risks and charges have been allocated over the years to cover possible liabilities of specific nature and of probable existence, the precise amount of which, or the date on which they will fall due, is not known at the closure of the period.

Provisions for charges which are expected to fall due in the long term have been discounted when the time factor is an important element for their estimation, as optionally allowed by point no. 34 of OIC no. 31 of December 2016.

Employee severance indemnity

This represents the liability accrued in favour of employees at the closure of the period. The provision is constituted of the allocations made until 30 June 2007 and by the revaluations contemplated from year to year, in application of the NCLA [National Collective Labour Agreement] for blue and white collar workers of the Gas and Water sector, and in application of the Conservizi NCLA for managers.

Revenues and costs

These are posted on the financial statements at conservative values and on an accruals basis.

As already described for receivables and payables, the breakdown by geographic area is not deemed significant inasmuch as the commercial agreements from which the revenues and costs ensue are with companies that are practically all local or, at any rate, in Italy.

OTHER INFORMATION

Transactions with related parties and off-book agreements, referred to under art. 2427, point 22-bis, of the Civil Code.

With reference to the indications required by art. 2427, point 22-bis, of the Civil Code, we mention that the company Amiacque S.r.l. is subject to the governance and coordination of the company CAP Holding S.p.A. (which draws up the consolidated financial statements of the CAP Group), according to specific guidelines approved by the shareholders at the meeting of 14 December 2012, successively updated on 30 September 2013.

Said guidelines provide, among other things, that *"....., the Amiacque board of directors submits to the prior examination of CAP Holding the following, by way of example but without limitation: a) annual and pluriannual plans for investments in tangible and intangible fixed assets; b) deeds for the acquisition and disposal of companies or business units; c) deeds for the acquisition and disposal of controlling stakes, affiliations and minority stakes in other companies, and the stipulation of agreements on the exercise of the rights inherent to such stakes; d) loans taken out and loans granted and the issue of guarantees in the interests of companies of the Group; e) merger decisions in the cases contemplated under artt. 2505 and 2505-bis of the Civil Code; f) the establishment and the suppression of branches; g) amendments to the articles of association to comply with legal provisions; h) the annual recruitment plan; i) the annual budget, and the six-monthly report on the company's trend"*¹.

Many agreements between Amiacque S.r.l. and CAP Holding S.p.A. were concluded before that moment, but at 31 December 2016 they had not yet exhausted their effects. Other agreements were signed later, especially after the integrated water service, in all its stages, was entrusted to CAP Holding (with effect as of 01 January 2014) and because of the need to consequently define, on new bases, the relationship between the two subjects. The management report already declares that in general said agreements were concluded at normal market conditions, or that there is no market of reference for the services supplied. We mention below the main transactions carried out.

¹ Actual wording: *"....., il Consiglio di Amministrazione di Amiacque sottopone al preventivo esame di CAP Holding, a titolo esemplificativo, ma non esaustivo, le seguenti operazioni: a) piani annuali e sovranuali di investimento in immobilizzazioni immateriali e immateriali; b) atti di acquisto e disposizione di aziende o rami di azienda; c) atti di acquisto e disposizione di partecipazioni di controllo e collegamento e interessenze in altre società, nonché la stipula di accordi sull'esercizio dei diritti inerenti a tali partecipazioni; d) assunzione di finanziamenti, nonché l'erogazione di finanziamenti e il rilascio di garanzie nell'interesse di società del Gruppo; e) decisione di fusione nei casi di cui agli articoli 2505 e 2505-bis del codice civile; f) istituzione e la soppressione di sedi secondarie; g) adeguamento dello statuto sociale a disposizioni normative; h) piano delle assunzioni annuale; i) budget annuale, nonché la relazione dell'andamento semestrale dell'impresa"*

Commercial transactions:

- agreement for operating plants and networks, for the integrated execution by the supplier (Amiacque S.r.l.) on behalf of the principal (CAP Holding S.p.A.) of the activities for operating and routine maintenance of the infrastructures and plants essential for the provision of the integrated water service and for the execution of the corresponding operational and service activities, in all the areas where CAP Holding, pursuant to deeds of assignment or contracts, operates the integrated water service or parts of the same. The agreement, a first draft of which was signed in December 2013, has effect from 01 January 2014 until 31 December 2016 and provides for a consideration composed of a fixed part and a variable part to cover certain direct costs sustained by Amiacque to fulfil the obligations assumed pursuant to said contract. The total consideration accrued in 2016 amounts to Euro 100,762,254. With an annex and the successive definition of a “new price” signed during 2016, the fixed part of the consideration was considerably decreased;
- service agreement for the management of customer relations, which service was provided by Amiacque S.r.l. on behalf of CAP Holding S.p.A. under a mandate without representation relative to the integral management of all commercial and administrative agreements and of relations with the integrated water service users, in both the pre-contractual and contractual stages. The agreement, a first draft of which was signed in December 2013, refers to the performances to be provided, on a continuous basis, for the tariffs of the mandating party (CAP Holding S.p.A.) relative to water consumption fees for the years 2014 and 2015. With regard to the tariffs of these last periods, Amiacque S.r.l. undertakes to pay 100% of the effective revenues from sales within the month of June of the fourth year following that of the consumptions. On this point, it must be noted that Amiacque S.r.l. is entitled, first and foremost, to a consideration for the losses that it will suffer in the management of the collection process, amounting to 2.10% of the global sales of the period, net of VAT. With regard to the consideration, in 2015 the agreement was amended so that the performance was remunerated by a fixed part and a variable part (to cover certain direct costs sustained). With an annex and the successive definition of a “new price” signed during 2016, the fixed part of the consideration was considerably increased. In the 2016 financial period, said consideration was Euro 15.694.585. The agreement, with effect until 31 December 2016, was renewed until 31 December 2017;
- agreement between Amiacque S.r.l. and CAP Holding S.p.A. for “*manutenzione straordinaria programmata, manutenzione a rottura/ non programmata; investimenti di costruzione di nuovi allacciamenti ed estensioni rete, lavori di rinnovo allacciamenti e di sostituzione contatori su allacciamenti esistenti*” [programmed non-routine maintenance works, non-programmed maintenance in the case of faults; investments for the construction of new connections and extensions of the network, works for the renewal of connections and the replacement of metres on existing connections]. The agreement entrusts to Amiacque S.r.l. all the activities necessary for the planning and execution of the above-indicated works in 2016 and 2017. The agreement provides for a consideration for full remuneration composed of Amiacque’s specific internal labour cost of, the final cost of the materials taken from the warehouse, and the final cost for the execution of the works entrusted to third parties, with a mark-up of 5% on said amounts. The consideration accrued in 2016 in favour of Amiacque S.r.l. amounted to Euro 27,034,486;
- agreement for the joint performance of Information Technology services for the year 2016 supplied by CAP Holding S.p.A. to Amiacque S.r.l. In 2016 the accrued consideration that Amiacque must recognise to CAP Holding amounts to Euro 2,897,566;
- agreement between Amiacque S.r.l. and CAP Holding S.p.A. for the use of the integrated water service infrastructures, recognising that the provider CAP Holding S.p.A. is entitled to use the networks and plant of the integrated water service owned by Amiacque S.r.l. in exchange for the payment of a consideration corresponding to the annual depreciation of the assets in question, which amounted to Euro 2,310,267 in 2016. The agreement, with effect as of 01 January 2014, was extended until 31 December 2016;
- agreement for the temporary transfer of employees of CAP Holding S.p.A., to work entirely or partially for Amiacque S.r.l., debiting to this latter the relative costs, which amounted to Euro 1,375,224 in 2016;
- agreement for the temporary transfer of Amiacque S.r.l. employees, to work entirely or partially for CAP Holding S.p.A., debiting to this latter the relative costs which amounted to Euro 1,164,593 in 2016;
- agreement between Amiacque S.r.l. and CAP Holding S.p.A. for the performance by CAP Holding of services relating to the management of legal affairs, tenders and contracts, for a term of 24 months as of 01 February 2016, for which Amiacque S.r.l. was debited fees of Euro 687,500 in 2016. In addition to the above amount, CAP Holding S.p.A. has debited to Amiacque a portion of the premiums for the insurance policies taken out in the interests of the Group, for Euro 1,589,637, of

- which Euro 950,807 represents the costs of the period for Amiacque S.r.l. (in addition to Euro 32,500 for the insurance premiums relative to 2015 debited to Amiacque in 2016);
- agreement pursuant to which CAP Holding S.p.A. provides Amiacque S.r.l. with the processing service of salaries and stipends and the management of the personnel selection and training procedures. Initially stipulated in May 2013, it was then re-negotiated on 01 February 2015 and is effective until 31 January 2017. In 2016 the fees accrued bearing on Amiacque amount to Euro 667,455;
 - agreement pursuant to which CAP Holding S.p.A. has entrusted to Amiacque S.r.l. the execution of the "*Facility Management e gestione automezzi*" [Facilities and motor vehicles management] service. In 2016 the fees accrued in favour of Amiacque amount to Euro 648,940;
 - agreement between Amiacque S.r.l. and CAP Holding S.p.A. for the performance on behalf of the latter of services relating to management control, with a duration of 18 months as of 01 July 2015. In 2016 the fees accrued in favour of CAP Holding S.p.A. amount to Euro 281,844;
 - agreement between Amiacque S.r.l. and CAP Holding S.p.A. for the performance on behalf of the latter of services relating to the operating of the VOMM drying plant, relative to 2016. In 2016 the fees accrued bearing on Amiacque amount to Euro 244,801;
 - agreement between Amiacque S.r.l. and CAP Holding S.p.A. for the performance on behalf of the latter of external communication services for a term of three years with effect as of 01 April 2013, successively extended from 01 April 2016 to 31 December 2016. In 2016 the fees accrued bearing on Amiacque amount to Euro 258,287;
 - agreement for the performance of assistance, representation and tax consultation services for the year 2016, pursuant to which Amiacque S.r.l. buys from the professional firm appointed by CAP Holding S.p.A. the services for the adequate support for its own activities regarding accounting and taxes. The costs sustained by Amiacque S.r.l. in 2016 for the performance of said services was Euro 11,960;
 - agreement between Amiacque S.r.l. and CAP Holding S.p.A. for assistance in procurement and in controlling the costs of electricity and natural gas for the systems managed by Amiacque S.r.l., for a term of 36 months as of 01 January 2016, for which Amiacque S.r.l. was debited fees of Euro 58,534 in 2016;
 - agreement between Amiacque S.r.l. and CAP Holding S.p.A. for the supply of technical services and the execution of works included in the TEEM order, relative to the removal of interferences between the latter's systems and/or those managed by CAP Holding and the future External East Ring Road of Milan, for an estimated amount of Euro 1,239,632 for which no consideration accrued in 2016;
 - agreement signed in 2010 between Amiacque S.r.l. and CAP Holding S.p.A., I.A.NO.MI. S.p.A., T.A.S.M. S.p.A. and TAM S.p.A. (the last three incorporated into the first in 2013), for the conferment of a mandate without representation and to discipline the division of the tariff income. Said agreements, entering into force on 01 January 2010 and with validity until the payment of the consumptions of 2013, inclusive, conferred on Amiacque S.r.l., at that time the company which issued the water service (according to the concept of Regional Law 26/2003 as successively amended and the Regulations approved by the Regional Council of 10 February 2005) a mandate without representation for invoicing and collecting the tariff and obliged Amiacque S.r.l. to transmit the accounting information to the said companies (responsible for the complementary "*gestione di impianti e reti*" [plant and network management] phase), and to pay 100% of the sales of its effective pertinence within the month of June of the fourth year after that in which the consumptions took place. The agreement assigned to Amiacque S.r.l. a compensatory consideration for the activities performed equal to 4% of the effective sales of its pertinence. The agreement remains in force until the expiry of the relative agreements (therefore, at present, until June 2017); (*)
 - agreement signed between Amiacque S.r.l. and IA.No.Mi S.p.A. (then incorporated into CAP Holding) for the year 2009, which confers on Amiacque S.r.l. a mandate without representation for the activities of invoicing and collecting the tariff, pursuant to sector regulations, and it obliges Amiacque S.r.l. to transmit the management and accounting information and to pay the tariffs effectively collected at the contractually foreseen frequency. The agreement remains in force until expiry of the relative agreements;
 - agreement concluded in 2010, expiring on 30 June 2010, between Amiacque S.r.l. and I.A.NO.MI. S.p.A. (then incorporated into CAP Holding S.p.A.), for the deferral and division into instalments of the trade receivables due from Amiacque S.r.l. representing the balance of the fee for the use of networks and plant in 2008, originally amounting to Euro 13,985,272, pursuant to which it would be paid in six-monthly instalments, the last falling due on 31 December 2017. In 2016 Amiacque S.r.l. took avail of the possibility of the early extinction of its debt, paying Euro 3,496,319 as the residue of the principal sum and interests of Euro 79,170; (*)

- agreement, stipulated in 2008, for the deferral of trade receivables of CAP Holding S.p.A. due from Amiacque S.r.l. for Euro 18,548,013, signed at the moment of the conferment on Amiacque S.r.l. of the stake of the incorporated company CAP Gestione S.p.A., with fixed interest of 3.5% and expiry in 2017. In 2016 Amiacque S.r.l. took avail of the possibility of the early extinction of its debt, paying Euro 3,359,259 as the residue of the principal sum and interests of Euro 88,503; (*)
- agreement between Amiacque S.r.l. and T.A.S.M. S.p.A. (then incorporated into CAP Holding S.p.A.), for the deferral and division into instalments of the trade receivables of Amiacque S.r.l. for the balance of the 2008 tariff originally amounting to Euro 1,949,972, pursuant to which it would be paid in six-monthly instalments at the ECB interest rate increased by a spread of 3%, the last instalment falling due on 31 December 2017 (*).

Financial transactions:

- In 2013 CAP Holding S.p.A. agreed (deed of 30.12.2013) with the company AMGA Legnano S.p.A. (delegating party) to act as proxy, in favour of Amiacque S.r.l. (delegatee) in relation to a receivable claimed by the latter from AMGA L. S.p.A. (pursuant to a deed for the purchase of a business unit) divided into instalments until 2020. The global value of the delegation when the agreement was signed was Euro 7,977,083 plus interests. Cap Holding S.p.A. was recognised, as commission under an internal agreement between delegating party and delegatee, the right, pursuant to art. 1241, to offset the sums paid to the delegatee against the payables that had accrued against the same pursuant to an agreement by which CAP Holding S.p.A. was the concessionaire of the assets of the water service owned by AMGA Legnano S.p.A. (outgoing provider for certain towns in the province of Milan). On the receivables that AMGA Legnano S.p.A. claimed from CAP Holding S.p.A., a lien was also constituted in favour of Amiacque S.r.l. Towards the end of 2015, CAP Holding S.p.A. (with deed no. 16481, dossier no. 8934, of 22 December 2015 drawn up by the notary De Marchi of Milan) bought the water service assets from AMGA Legnano S.p.A., providing, among other things, for simultaneously and immediately offsetting against the purchase price the entire residual receivable claimed by Amiacque S.r.l. from AMGA Legnano S.p.A. and for remitting the corresponding amount (Euro 5,318,055) to the subsidiary Amiacque S.r.l. in January 2016. Thus, at 31 December 2016, this position has been definitively closed.
- CAP Holding S.p.A. agreed (deed of 28 July 2011) with the company MEA S.p.A. of Melegnano (delegating party) to act as proxy in favour of Amiacque S.r.l. (delegatee) regarding a receivable claimed by the latter from MEA S.p.A. of Melegnano (pursuant to an agreement for the purchase of a business unit) divided into instalments until 2017. The total value of the delegation at the moment of its stipulation was Euro 928,759 (excluding adjustments to the deed of sale of the business unit), plus interests. Cap Holding S.p.A. is, in turn, debtor towards MEA (outgoing provider for certain towns in the province of Milan) for the indemnity recognised for taking over the management of the assets of the integrated water service, a segment of the aqueduct, as resulting from the agreement stipulated on 28 July 2011; at 31 December 2016 the theoretic value of the delegation is Euro 149,854 including interests (*).
- Between Amiacque S.r.l. and CAP Holding S.p.A. an agreement was reached on 28 December 2015 under which Cap Holding S.p.A. was to pay the purchase price that Amiacque S.r.l. owes to Brianzacque S.r.l. (see private deed authenticated by the notary Ferrelli of Milan - deed no. 25010/11072, of 28 December 2015, entered in the Companies Register on 12 January 2016) in exchange for the business unit relative to certain segments of the integrated water service in certain towns in the north-east part of the province of Milan and in the south-west part of the province of Monza and Brianza, and to collect the sale price that Brianzacque S.r.l. owes to Amiacque S.r.l. (see private deed authenticated by the notary Ferrelli of Milan - deed no. 25009/11071 of 28 December 2015, entered in the Companies Register on 11/01/2016) in exchange for the business unit relative to certain segments of the integrated water service in certain towns in the south-east part of the province of Monza and Brianza. The sums originally delegated were Euro 9,980,450 to be paid and Euro 4,413,180 to be collected. At 31 December 2016 Euro 5,567,270 remains to be collected.
- An agreement was concluded relative to centralised treasury management (sweeping cash pooling) pursuant to which CAP Holding S.p.A. provides for the central management of the liquidity in order to harmonise the Group's cash flows and to optimise the management of the positive and negative balances, using in the best way the accumulated credit lines and neutralising the undesirable effects of the banking system in respect of financial positions of opposing signs. The infra-group credit generated by this agreement produces interests at a determined on the basis of the average conditions obtained by CAP Holding S.p.A. on the capital market, in relation to the various technical forms of the financing obtained. The agreement, signed in 2014, was successively renewed until 29

- June 2018. Consequent to said agreement, Amiacque S.r.l. results as the creditor of CAP Holding S.p.A. at 31 December 2016, for the sum of Euro 10,000,000.
- An agreement was stipulated for the Group's VAT disciplining the agreements between Amiacque and CAP Holding pursuant to the adhesion of the two companies to the procedure for the payment of the Group's VAT for the year 2015. The agreement was also renewed for the tax year 2016 and then also for 2017. For said agreement, Amiacque S.r.l. results as the debtor of CAP Holding S.p.A. at 31 December 2016, for the sum of Euro 1,860,419.
 - CAP Holding S.p.A., in the interests of Amiacque S.r.l., also issued to the Large Taxpayer's Office of Lombardy of the Regional Head Office of the Revenue Agency a guarantee (pursuant to art. 38-bis of Presidential Decree 633/1972) for the reimbursement of about Euro 4,280 thousand as the surplus value added tax emerging relative to the tax year 2013.
 - Lastly, in 2016, CAP Holding S.p.A. transferred, free of charge, to Amiacque S.r.l. tender contracts for maintenance works that it had concluded in the interests of Amiacque S.r.l. with third party suppliers, for a total value of Euro 9,000,000.
 - Amiacque S.r.l. issued a surety in the interests of CAP Holding S.p.A. to guarantee the bond issued by CAP Holding for Euro 20.000.000, maturing at 31 December 2019. The residual principal of said bond at 31 December 2016 is Euro 4,444,460 (*).

The agreements marked with an asterisk (*) were concluded before Amiacque S.r.l. became subject to the governance and coordination of CAP Holding S.p.A. The transactions of the agreements not marked by an asterisk (*) were concluded at normal value, or there is no market of reference for the services provided.

There are also important off-book agreements which should be mentioned, pursuant to point 22-ter of art. 2427 of the Civil Code.

In addition to those with Amiacque S.r.l., CAP Holding S.p.A. is also party to the following important agreements:

- a loan to the subsidiary Rocca Brivio Sforza in liquidation S.r.l., the remaining credit of which, at 31 December 2016, amounts to Euro 138,100 (Euro 3,409 net of interests), which receivable is now outstanding but which has not been paid;
- a contribution in 2016 to the capital of Rocca Brivio Sforza in liquidation S.r.l. of Euro 101,993 pursuant to shareholders' agreements signed on 15 July 2005 and successively renewed by the then T.A.S.M. S.p.A. (later incorporated by CAP Holding S.p.A.) at the moment of the acquisition of the stake in Rocca Brivio Sforza S.r.l.;
- the issue on the part of the then T.A.S.M. S.p.A. of a surety in favour of Banca Popolare di Milano S.p.A., for Euro 100,000 to cover a credit facility of Euro 60,000 granted to Rocca Brivio Sforza S.r.l. in liquidation;

Although technically not transactions with "related parties" (according to International Accounting Standard 24, recalled by the OIC document no. 12 of December 2016), the following agreements with Pavia Acque S.c.a r.l. (of which CAP Holding S.p.A. is a shareholder/co-consortium member) are to be mentioned:

- the conferment by CAP Holding S.p.A. on Pavia Acque S.c.a.r.l., on 15 July 2008 with deed authenticated by the notary Antonio Trotta, deed no. 124403/42999, of a business unit relative to the water networks of various towns in the Pavia area;
- the conferment by CAP Holding S.p.A. on Pavia Acque S.c.a.r.l., on 23 December 2016 drawn up by the notary Trotta of Pavia, deed no. 138720, dossier no. 53119, of a business unit and instrumental goods, located in the Pavia area, after due diligence investigation by Ms Maria Angela Zanoni, sworn on 14 December 2016, with authentication by the notary Antonio Trotta, deed no. 138659; the value of the conferment according to the due diligence investigation (at 31 July 2016) amounting to a net sum of Euro 5,451,715, had to be updated at the conferment date (23 December 2016) to Euro 5,5162,841 as evaluated by CAP Holding S.p.A., which must be confirmed by the parties within 6 months of the deed. The conferment will be represented in the shareholders' equity of Pavia Acque S.C.A.R.L. in a capital reserve available only to CAP Holding S.p.A. The net amount of said item (in accordance with a decision of the Pavia Acque s.c.a r.l. shareholders' meeting of 22 December 2016) will not be available for distribution or for a capital increase and will be afforded maximum protection possible against any losses of the period and/or other management events that the Company may sustain. If PAVIA ACQUE S.C.A.R.L. is wound up, after honouring all payables, priority will be given, in the division of the assets, to the return of said amount to the shareholders which made the contribution, in the same proportions as their contributions. Similarly, in the case of withdrawal, only CAP Holding S.p.A. will be entitled to said reserve;

- provisionally, the ratios for reimbursement, on the part of Pavia Acque S.c.a r.l. to CAP Holding S.p.A., will hold form for the quotas of the loans assumed by the latter but conferred on the former before the deeds of conferment of 15 July 2008 and 23 December 2016, but which have remained in the name of CAP itself (nominal value of the principal: Euro 2,169,106 at 31 December 2016);
- until the conferment, Pavia Acque S.c.a.r.l., for its use of the networks and plant owned by CAP Holding S.p.A., must pay a fee which, for the year 2016, is Euro 653,324;
- Pavia Acque S.c.a.r.l. has also entrusted some industrial activities to CAP Holding S.p.A.: with an agreement of 24 July 2015, the execution of various technical activities regarding the operating and routine maintenance of the integrated water system works, for the years 2015 and 2016. (In 2016 a consideration of Euro 2,163,948 accrued). With an agreement of 11 June 2015, the execution of the works for the expansion and renewal of the aqueduct network in the south-west area of the town of Siziano (PV) was assigned (with the accrual, in 2016, of a consideration of Euro 213,647).

Waivers pursuant to paragraph 4 of art. 2423 of the Civil Code

There were no exceptional cases in the period that would have required waiver of the legal provisions regarding the financial statements, as contemplated by paragraph 4 of art. 2423 of the Civil Code.

Value of the amounts mentioned in the Notes to the Accounts

Unless otherwise indicated, the amounts given in the Notes to the Accounts are in units of one Euro.

CHANGES IN THE ASSET AND LIABILITY ITEMS

In 2016, pursuant to private deed authenticated by the notary Ms Giuliana Grumetto of Milan, deed no. 12738/12739 of 19/12/2016, the data on the Balance Sheet referring to the acquisition of the business unit for the integrated water service of AMAGA Energia e Servizi and AMAGA S.p.A., which took place on 27 June 2013, was definitively adjusted. Said data at 31 December 2015 were, at least in part, still provisionally those indicated in the purchase deed, while the stipulation of the deed for the adjustment was pending. The value adjustments adopted in 2016 are shown in the paragraphs containing the comments on the single items concerned.

ASSETS

Total assets of the CAP Group posted on the Balance Sheet at 31 December 2016 amount to Euro 1,301,626,889 (Euro 1,243,152,805 at 31 December 2015)

They include:

	Balance at 31.12.2016	Balance at 31.12.2015	change
Fixed assets	826,101,252	828,240,613	(2,139,361)
Current assets	466,486,772	412,880,228	53,606,544
Accruals and deferrals	9,038,865	2,031,964	7,006,901
Total assets	1,301,626,889	1,243,152,805	58,474,084

A. Receivables due from shareholders for outstanding contributions

At 31 December 2016 there are no outstanding contributions of the share capital due from shareholders. The situation is identical to that at 31 December 2015.

B. FIXED ASSETS

B.I. Intangible fixed assets

Balance at 31.12.2016	12,295,167
Balance at 31.12.2015	11,287,755
Change	1,007,412

Detail and movement:

	Value at 31.12.2015	Amaga /AES adjustment	Increases	Decreases / Adjustement	Amortisation at 31.12.2016	Reclassification of fixed assets for disposal	Value at 31.12.2016
Usage rights of original works	3,600	-	-	-	(1,747)	-	1,854
Concessions, licences, trademarks and similar rights	8,101,590	(3,007)	629,323	3,007	(763,341)	-	7,967,572
others	1,368,798	(215)	93,197	380,872	(834,765)	-	1,007,887
Fixed assets in progress and advances	1,813,767	-	1,606,011	(101,924)	-	-	3,317,854
Total intangible fixed assets	11,287,755	(3,222)	2,328,531	281,955	(1,599,853)	-	12,295,167

The most important item is that of "*concessions, licences, trademarks and similar rights*"; this item includes the purchase value of the Genia business unit, which took place on 01 July 2011, for Euro 5,813,250, then revised on the occasion of adjustment to Euro 5,698,014, to which, with the incorporation of T.A.S.M. S.p.A. in 2013, Euro 1,654,770 has been added relating to the sewer branch. Under the agreement signed between Genia S.p.A., seller, and CAP Holding S.p.A., Amiacque S.r.l. and T.A.S.M. S.p.A., buyers, ownership of the assets will remain held in the name of Genia S.p.A.

The purchase value is posted under the open balances of the “similar rights” and is amortised at constant rates on the basis of the underlying asset (as reported in Mr Maurizio Poli's due diligence report of 31 May 2011), leaving the amortisation plan unchanged compared to Genia's amortisation plan.

This is a type of agreement included in business unit transfer plans which specify that the goods that serve the integrated water service must remain in the hands of third parties (or providers) but are made available to the incoming provider.

The CAP group, in exchange for the transfer of the business unit, acquired the right to exploit and manage the assets used for the integrated water service.

The consideration paid is posted under item B.I.4 of the intangible fixed assets for its full amount pursuant to national provisions and the OIC accounting standards applicable to intangible and tangible fixed assets inasmuch as being a long term payable, and inasmuch as equivalent to “concessions, licences, trademarks and similar rights” - being, in this specific case, a “similar right” - and it is amortised according to the residual possibility of use, on the basis of a detailed residual amortisation plan of the plant under management, with the continuance of the same, in order to guarantee a true and correct representation of this Company event, inasmuch as consistent with the scheme of the tariffs that the provider receives as remuneration for the management costs sustained.

This approach also respects the principle of the connection between costs and revenues. At 31 December 2016, the value amounts to Euro 7,363,999.

Said item also includes the purchase of the trademark of the waterworks houses of T.A.S.M. S.p.A. and the CAP Holding and CAP Group trademarks acquired in 2013 and 2016, the value of which, at 31 December 2016, is Euro 5,453.

In accordance with the principle expressed in the paragraph “Significant Balance Sheet Values” of these Notes to the Accounts, we also point out that in 2016, pursuant to private deed authenticated by the notary Ms Giuliana Grumetto of Milan, deed no. 12738/12739 of 19/12/2016, the figure of the tangible fixed assets referring to the acquisition of the business unit for the integrated water service of AMAGA Energia e Servizi, or AMAGA S.p.A., which took place on 27 June 2013, was definitively adjusted. Said adjustment amounts to Euro 3,222 and an offset entry has been posted under the payables.

The item “*Fixed assets in progress*” refers to the costs for intangible fixed assets that have not yet been completed.

Said item, “*Fixed assets in progress*”, refers essentially to the costs for the Oracle software (ERP) not yet completed and works on the head office for Euro 3,308,916.

Non-routine maintenance costs for reinforcement, expansion or modernisation of the networks and systems owned by CAP Holding posted, in compliance with OIC accounting standard no. 24, under the item “*Other intangible fixed assets*” of the subsidiary, for Euro 7,515,295 at 31 December 2016, inasmuch as the improvements and expenses sustained cannot be separated from the assets themselves, nor do they function autonomously, have been reclassified on the consolidated financial statements to the item “*Plant and machinery*”.

The amortisation rates are the same as those of the preceding period:

Amortisation rates of intangible fixed assets	
Company constitution costs	33.33%
Usage rights of original works	33.33%
Costs of non-routine maintenance on systems under concession	20%
SET goodwill	33.33%
ENI goodwill	20%
Expansion costs	20%
Software	33.33%
Costs for the planning and management of works on third party assets	25%
Concessions	5.26%
Easements	20%
Studies and research	33%
Concessions	5%
Trademarks	10%

For the costs of non-routine maintenance relating to works carried out on the Company's head office, however, the amortisation period has been defined on the basis of the residual term of the rental agreement.

B. II. Tangible fixed assets

Balance at 31.12.2016	798,448,501
Balance at 31.12.2015	806,659,155
Change	(8,210,651)

Infrastructures are valued and posted under the fixed assets differently according to whether they are:

- conferred contributions or the subject of an incorporation;
- purchased for a consideration;
- constructed internally.

In the case of a conferment, the value is determined on the basis of the criteria fixed for the valuation of conferred assets, confirmed by an expert technical examination which testifies to the value. In the case of an incorporation (as in the case of the merger, which took place in 2013, of I.A.No.Mi. S.p.A., T.A.M. S.p.A. and T.A.S.M. S.p.A., and that which took place in 2015 with the incorporation of Idra Milano S.r.l. into CAP Holding S.p.A.), the asset is posted at a value consistent with the book values of the incorporated company.

In the case of a purchase, the value is determined by the purchase cost of the asset.

In the case of internal construction, i.e. infrastructures planned within the company and constructed by external supply and works contractors, the value is determined mainly by the sum of:

- internal planning costs
- total invoices from the suppliers
- amounts paid for crossings and connected charges.

The total of the costs is summed up in the final account drawn up by the Company's technicians. Said account is the basis for its entry under the fixed assets, and it is also the document which testifies to the commencement of the use of the system and the condition for starting the depreciation of the same.

The following table shows the value of the fixed assets and respective movements.

Tangible fixed assets	Value at 31.12.2015	Provision for depreciation in 2015	Value at 31.12.2015	Amaga /AES adjustment	Acquisition of Brianzacque	Increases	Pavia conferment	MB sale	Disposals/arrangements	Reclassification from works in progress to assets	Depreciation	Reclassification of fixed assets for disposal	Value at 31.12.2016
Land and buildings:	114,795,827	39,511,791	75,284,036	(14,355)	-	4,824,052	(88,635)	-	1,717	-	(2,887,050)	(84,795)	77,034,970
Total	114,795,827	39,511,791	75,284,036	(14,355)	-	4,824,052	(88,635)	-	1,717	-	(2,887,049)	(84,795)	77,034,970
Total plant and machinery	1,224,126,666	616,465,445	607,661,220	(288,601)	1,766,410	105,522,023	(7,106,779)	(724,042)	(2,173,833)	-	(48,722,061)	(24,620,865)	631,313,471
Industrial equipment	3,962,696	2,902,309	1,060,387	(4,208)	-	471,625	-	-	(2,959)	-	(220,667)	-	1,304,178
Other assets	13,594,218	11,182,225	2,411,994	(22,775)	-	1,470,160	-	-	10,753	-	(1,032,604)	-	2,837,527
Fixed assets in progress	119,888,746	-	119,888,746	-	484,973	76,724,002	-	(450,138)	(4,777,300)	(105,946,015)	-	-	85,924,267
Advances	352,772	-	352,772	-	-	-	-	-	(318,685)	-	-	-	34,087
Total tangible fixed assets	1,476,720,925	670,061,770	806,659,155	(329,939)	2,251,382	189,011,861	(7,195,414)	(1,174,180)	(7,260,307)	(105,946,015)	(52,862,381)	(24,705,660)	798,448,501

In accordance with the principle expressed in the paragraph "Significant Balance Sheet Values" of these Notes to the Accounts, we also point out that in 2016, pursuant to a private deed authenticated by the notary Ms Giuliana Grumetto of Milan, deed no. 12738/12739 of 19/12/2016, the figure of the tangible fixed assets referring to the acquisition of the business unit for the integrated water service of AMAGA Energia e Servizi, or AMAGA S.p.A., which took place on 27 June 2013, was definitively adjusted. Said adjustment amounts to Euro 329,929 and an offset entry has been posted under the payables.

The depreciation rates for tangible fixed assets posted on the financial statements are those applied in the preceding period, shown in the following table. They are reduced by half in the case of plant the use of which commenced during the period.

Depreciation rates of tangible fixed assets	
Industrial buildings	3.5%
Purification systems – civil works	3.5%
Purification systems – electromechanical works	12%
Purification systems – filtering stations	8%
Collectors and flocculation tanks	2.5%
Sewer network and connections	2.5%
Sewage lifting and purification stations	12%
Remote controlled systems	10%
Purification systems	8%
Purification machines	8%
Hydraulic works for purification	2.5%
Purification tanks	4%
Purification plant networks	5%
Water network and connections	5%
Cathodic protection	15%
Lifting and thrusting systems	12%
Wells	2.5%
Tanks	4%
Systems for purification to potable level	8%
Gravity filters	4%
Masonry works	3.5%
Temporary constructions	10%
Metres	10%
Automatic control systems	15%
Automatic washing systems	15%
Special plant	30%
Waterworks houses	12%
Consumption metres	10%

Electrical systems	8%
Sundry small equipment	10%
Generic equipment and plant	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 Euro 516	100%

Most of the above-mentioned tangible and intangible fixed assets are directly used in the integrated water service activities. In which case the unit which generates the cash flows of reference (see OIC no. 9 of December 2016) is defined by the existing concession for the ATO [Ambiti Territoriali Ottimali: areas defined by the Regions for the purpose of the water services] which the assets serve. In other words, it is the total future tariff for the integrated water service of the ATO, together with the final indemnity on termination of the concession (see Reimbursement Value), which allows for recovering the values posted on the financial statements.

In the specific case, this depends on:

- a) the agreement for the assignment of the integrated water service for a term of twenty years (2014-2033) signed in December 2013 and renewed on 29 June 2016 between CAP Holding S.p.A. and the ATO authority of the Province of Milan;
- b) the agreement between the ATO office of the Province of Monza and Brianza and the CAP Group in its capacity as wholesaler in the areas covered by several ATOs, stipulated on 29 June 2016 (downstream of the stipulation of an agreement of 19 May 2016 between the ATO office of the Metropolitan City of Milan and that of Monza and Brianza on 29 June 2016 pursuant to art. 47, paragraph 2, of Regional Law 26/2003), which links the condition of provider, albeit limited to the application of tariffs in the sense of being a wholesaler and as used by AEEGSI [the Electricity, Gas and Water Authority], in the Brianza ATO, to that of Provider in the metropolitan ATO. In particular, this agreement was lastly also formalised by a specific "Wholesaler" agreement of 01 March 2017 signed between Brianzacque S.r.l. and the CAP Group for a term equal to that of the assignment. It may be remembered that a part of the assets physically located in the Monza area (especially the local drinking water distribution networks) is, instead, destined for sale and therefore no longer posted under the fixed assets and no longer the subject of said "wholesaler agreement";
- c) the situations, recognised by regulatory/tariff provisions, with effect as of 01 January 2016 (such as those adopted by the Conference of the Town Councils of the ATOs of the Metropolitan City of Milan of 31 May 2016, the Obligatory and Binding Opinion no. 04, and the successive "Wholesaler" resolution no. 3 of 12 September 2016), for the following activities: - the purification service performed by the CAP purifier in the town of San Colombano al Lambro (an enclave of the Province of Milan in the territory of Lodi) for 3 towns in the province of Lodi (Borghetto Lodigiano, Graffignana and Livraga) for which the main provider is SAL S.r.l.; - the purification service provided for 2 towns of the ATO of Como (Cabiato and Mariano Comense, for very few users in the latter case) by the purifier of Pero in the Province of Milan; - the purification service performed by the plant of Peschiera Borromeo (in the Province of Milan) which also serves the eastern districts of the City of Milan, for which the main provider is MM S.p.A.

The situation specified under letter b) is also accompanied by the fact that the term of the service has definitively been exceeded in the case of certain water service infrastructures of the Milan ATO (in particular, and prevalently, the inter-municipal purification plant of Cassano d'Adda as of 01 January 2016 and the inter-municipal purification plant of Truccazzano as of 28 February 2017), but it is managed by Brianzacque S.r.l. since, under the agreement/private deed of 12 March 2012 between Brianzacque S.r.l. and IDRA Patrimonio S.p.A., on 26 June 2014, after the total spin-off of Idra Patrimonio S.p.A., the latter was replaced by Idra Milano S.r.l. (later incorporated, in 2015, by CAP Holding S.p.A.) for the service of "*presa in carico e gestione dei beni e per il rimborso di costi di esercizio e di investimento*" [undertaking and managing the assets and for the reimbursement of management costs and investments]. For the use of said infrastructures on the part of Brianzacque S.r.l., the CAP Group received a consideration proportioned to the coverage of the amortisation rates and the financial charges that accrued from time to time.

We lastly mention that, outside the Brianza and the Milan ATO, the CAP Group also manages the aqueduct service for the town of Gorla Minore of the Varese ATO. The EGA [the ATO governing board: a board on which all the town councils of the ATO sit, and to which the duties and powers of said town councils as regards the management of the water resources, are transferred] of this ATO (Board of Directors' twenty-year provision no. 37 of 04 August 2016, Prot. no. 3608 of 5 August 2016) had approved "*linee guida per la determinazione dei "valori di subentro" ai sensi dell'art.153 del D.Lgs.152/2006 e la delibera dell'AEEGS 643/2013/IDR*" [guidelines for determining the values for the substitution of one party for another, pursuant to art.153 of Legislative Decree 152/2006 and the AEEGS resolution 643/2013/IDR] (Terminal Value). In the meantime, however, the Regional Administrative Court of Milan, with judgment no. 1781/2016, had annulled the in-house assignment of the integrated water service in the Province of Varese to Alfa S.r.l., a company established by the town councils specifically for that purpose in 2015. With the successive Board of Directors' twenty-year provision no. 50 of 20 October 2016, the Varese EGA nevertheless provided for the assignment of the Integrated Water Service for the provincial water board of Varese to the in-house company Alfa S.r.l. as an urgent and temporary measure.

Certain marginal fixed assets (with a residual value subject to depreciation of Euro 1,261,539 at 31 December 2016) are, however, indirectly used for the integrated water service or for other services:

- a building/warehouse at Casalpusterlengo (Lodi), rented to the company S.A.L. S.r.l. (the Lodi water company) for Euro 704,969;
- building - offices at Rozzano, that the CAP Group rented to third parties on 01 June 2016 (until 31 May 2022) for Euro 556,570.

The main decreases in the tangible fixed assets refer to:

- the write-off of the book value of the assets conveyed with the operation, already mentioned in the Directors' Management Report, of the transfer to Brianzacque S.r.l. (private deed, authenticated by the notary Ferrelli of Milan, deed no. 25010/11072, taking effect as of 01 January 2016, and a successive deed of amendment of 7 November 2016, deed no. 25486/11322, registered by the notary Ferrelli of Milan) for Euro 740,997 gross of the depreciation provision (Euro 724,042 net of said provision). This amount regards the value of the assets that were not included in the deed of 01 January 2016, but which were transferred to Brianzacque S.r.l. with the deed of amendment. The write-off relative to the works in progress amounts to Euro 450,138. The others, included in the deed of 01 January 2016, had already been deducted in 2015 by effect of the reclassification to the current assets;
- the write-off of the book value of the assets transferred to the operation, pursuant to the deed of conferment on Pavia Acque S.c.a.r.l. of 23 December 2016 drawn up by the notary Trotta di Pavia, deed no. 138720, dossier no. 53119, for Euro 15,568,146 gross of the depreciation provision (Euro 7,195,414 net of said provision).
- the write-off of the tangible fixed assets with a residual value of Euro 114,153 (gross of depreciation for Euro 354,882) with reclassification to item B14 of the Income Statement (hedged by a specific provision posted under item B4 of the Balance Sheet liabilities), relating to the demolition of the purification plant known as the "Carpiano" plant;
- reclassification, for Euro 24,705,660 net, to a specific current assets item - in compliance with the provision of OIC no. 16 "tangible fixed assets" of December 2016, paragraphs 79-80 - of certain tangible fixed assets that the CAP Group destined for sale (effectively transferring them on 01 March 2017 to the company Brianzacque S.r.l., within the sphere of the operation referred to in these Notes to the Accounts in the paragraph on "Significant facts occurring after the closure of the period"). The table above shows the consequent reclassification.

The increases in the tangible fixed assets also include assets purchased in relation to the operation, already referred to in the Director's Management Report, for the acquisition of Brianzacque S.r.l. (private deed, authenticated by the notary Ferrelli of Milan, deed no. 25010/11072, taking effect as of 01 January 2016, and a successive deed of amendment of 7 November 2016, deed no. 25486/11322, registered by the notary Ferrelli of Milan) for Euro 1,766,409 for fixed assets in use and Euro 484,973 for works in progress.

We lastly mention that on 22 December 2015, pursuant to a decision of the shareholders' meeting of 25 June 2015, with deed no. 16481, dossier no. 8934 of the notary De Marchi of Milan, the CAP Group bought from the former provider AMGA Legnano S.p.A. full ownership of all the networks (composed of fixed and non-

fixed assets), plant and capital assets relative to the integrated water service of the towns of Arconate, Canegrate, Gorla Minore, Legnano, Magnago, Parabiago, San Giorgio su Legnano, San Vittore Olona, Villa Cortese and Vittuone for a total consideration of Euro 24,500,000 (plus VAT). By effect of this purchase, the relative assets were included in the capital of CAP Holding S.p.A. and on 01 January 2016 the agreement signed in 2011 with said subject, which granted the assets to CAP Holding S.p.A. for use, was terminated. To this regard, it must be noted - in compliance with art. 2427, no. 22-ter, of the Civil Code - that, pursuant to resolution no. 3 of 30 November 2015 of the board of directors of the EGA of the Province of Milan, on 22 December 2015 a rider to the Agreement was signed for the assignment of the integrated water service of the ATO of the Province of Milan stipulated on 20 December 2013, implementing, under art. 27 (then introduced into art. 18.2 of the agreement that was renewed on 29 June 2016), the restriction on the transfer of said assets to the towns on whose territory they are located, when the resulting assets will have been entirely written off (from the regulatory/tariff profile).

B. III. Financial fixed assets

Balance at 31.12.2016	15,357,584
Balance at 31.12.2015	10,293,703
Change	5,063,881

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Equity investments	15,236,386	10,172,505	5,063,881
Receivables	121,198	121,198	0,000
Treasury shares	0,000	0,000	0,000
Total financial fixed assets	15,357,584	10,293,703	5,063,881

B. III. 1. Equity investments

B. III. 1. a) Equity investments in subsidiaries

	Balance at 31.12.2015	Increases	Decreases	Balance at 31.12.2016
Rocca Brivio Sforza S.r.l. - San Giuliano Milanese	1,257,611	431	(529,901)	1,158,651
Total equity investments in subsidiaries	1,257,611	430,941,210	(529,901)	1,158,651

(*) financial statements 2016

Rocca Brivio Sforza in liquidation S.r.l.

The stake in Rocca Brivio Sforza S.r.l. was held by the company T.A.S.M. S.p.A. (incorporated in 2013). During the period the value of the stake increased consequent to the shareholders' agreements and the percentage of the stake (51.036%) of the shareholders' equity of said Rocca Brivio Sforza S.r.l. was written down, on the basis of the results of the draft financial statements at 31 December 2016, proposed to the ordinary shareholders' meeting of Rocca Brivio Sforza S.r.l. in liquidation of 16 March 2017, which the meeting approved.

B. III. 1. b) Equity investments in affiliates

Equity investments in affiliated companies are valued according to the cost method. The value is 0.

Company name and registered office	Share capital	Shareholders' equity	Profit/loss of the period	Stake held	Value
TASM SPA Romania Srl - Romania	582,600			40.00%	-

Exchange rate for Euro = Romanian Leu conversion: 4.53750 (exchange rate at 30 December 2016)

TASM SPA Romania S.r.l.

T.A.S.M. Romania S.r.l. with registered office in Bucharest (Romania), share capital 2,612,500 Romanian LEU (at the exchange rate on 30 December 2016, Euro 575,758) of which 40% is held at 31 December 2016.

The stake in the capital of TASM Romania S.r.l. was transferred to the accounts of CAP Holding S.p.A. by effect of the merger by the incorporation of T.A.S.M. S.p.A. in 2013. On the T.A.S.M. S.p.A. financial statements at 31 December 2012 it was already entirely written off, since it was already presumed that the situation was such as to render the invested value impossible to recover.

Already in 2009 T.A.S.M. S.p.A. had sold a portion its stake in the capital of TASM Romania S.r.l. which fell below the threshold of control, which was the first deed that should have led to the complete disposal of the stake, in execution of an opinion expressed by the T.A.S.M. S.p.A. shareholders.

On 28 November 2014, the court ordered liquidation under bankruptcy of TASM Romania was accepted, and CAP Holding S.p.A. was admitted as a creditor for Euro 850,005.

In September 2015 the Bucharest Bankruptcy Court ordered the opening of the bankruptcy procedure of TASM Romania.

The liquidation procedure is in progress, in the hands of the court appointed Receiver. To this regard, we mention that for TASM Romania S.r.l. under bankruptcy, the Court has adjourned the closure of the procedure until the hearing of 28 April 2017.

B. III. 1 c) Equity investments in holding companies

The CAP Group holds no shares of holding companies, since the shareholders are Town Councils and Provinces (not the Metropolitan City of Milan and/or local bodies of this huge area), nor has it bought or sold any during the period, directly or through trust companies or proxies.

B. III. 1 d) Equity investments in other companies

Equity investments in affiliated companies are valued according to the cost method.

This item has undergone the following changes during the period:

	Value at 31.12.2015	Increases	Decreases	Value at 31.12.2016
Pavia Acque Srl	8,914,894	5,162,841		14,077,735
Total equity investments in other companies	8,914,894		-	14,077,735

	Head office	Corporate purpose	Share capital	Shareholders' equity at 31 December 2014
Pavia acque S.c.a.r.l	Pavia	Assignee of the integrated water service in the province of Pavia	15,048,128	103,818,976

The change in the cost of the stake in 2016 is consequent to the conferment transaction on the part of CAP Holding S.p.A. in favour of the company Pavia Acque S.c.a r.l., on 23 December 2016, registered by the notary Trotta of Pavia, deed no. 138720, dossier no. 53119, already mentioned in these Notes.

Others

Cap Holding S.p.A. also holds 100% of the LIDA Participatory Foundation, with registered office in Assago (Milan) constituted on 31 July 2007, pursuant to artt. 14 and following of the Civil Code (payment of a

provision of Euro 1,000,000 on the part of the former T.A.S.M. S.p.A., incorporated in 2013 into CAP Holding S.p.A.). The Foundation's balance sheet at 31 December 2016 shows a shareholders' equity of Euro 168,505.

B. III. 2. Receivables

B. III. 2. a) Receivables due from subsidiaries

There are none.

B. III. 2. d-bis) Receivables due from others

Receivables due from others at 31 December 2016 amount to Euro 121,198, with no change compared to 2015.

With regard to the content of this item:

- in 2006 a loan of Euro 184,340 was granted to the former subsidiary Capital Acque. Repayment is contemplated in quarterly instalments composed of a fixed amount of the principal sum and a portion of the variable interests. The loan should have been extinguished with the last instalment of 24 January 2013, but due to delayed payments, the residual amount of the loan amounted to Euro 41,135 at 31 December 2013, and it was necessary to activate the credit recovery procedure. In 2013, Euro 41,135 was allocated to the provision for risks;
- a receivable due from others is also included, for Euro 65,530, represented by Euro 22,498 deposited by the incorporated I.A.No.Mi. S.p.A. and Euro 43,032 deposited directly by CAP Holding S.p.A., with the Provincial Treasury of the Milan Section of Cassa Depositi e Prestiti (the national deposits and loans fund) as indemnity for the various properties occupied and/or expropriated for the acquisition of the areas necessary for the construction of plants.

BIII. 4) derivative financial instrument assets.

These amount to zero, as at 01 January 2016.

C. CURRENT ASSETS

C. I. 1. Inventories of raw, subsidiary and consumable materials.

The inventories item is composed of components of electrical and hydraulic parts, electrical pumps for wells, raw materials for purification, consumption metres and consumable materials held in the warehouse at 31 December 2016, for Euro 5,327,121 (Euro 5.804.746 at 31 December 2015).

During the period there was a net decrease of Euro 467,753 influenced to a great extent by the increase in the value of the stocks due to the purchase of metres, necessary for the implementation of the scheduled replacement plan of obsolete metres launched in 2013 and destined to continue in the forthcoming years. Of the increase, Euro 9,872 is due to the purchase of business units.

In accordance with the principle expressed in the paragraph "Significant Balance Sheet Values" of these Notes to the Accounts, we also point out that in 2016, pursuant to private deed authenticated by the notary Ms Giuliana Grumetto of Milan, deed no. 12738/12739 of 19/12/2016, the figure referring to stocks in hand relating to the acquisition of the business units for the integrated water service of AMAGA Energia e Servizi and AMAGA S.p.A., which took place on 27 June 2013, was definitively adjusted. Said adjustment amounts to Euro 26,254 and an offset entry has been posted under the payables.

C.I.3 Works in progress to order.

The item includes Euro 574,818 which refers to the valorisation of the orders in progress for the planning, management and construction of the works for the hydraulic repairs of the Cagnola water source, for the Region of Lombardy, assigned in several steps to the incorporated I.A.No.Mi. S.p.A.

Since the conditions exist, this item is valued according to the percentage of the works completed and on the basis of the contractual payments.

The invoices issued on account are provisionally posted as advances received from clients before completion and acceptance by the client, and only after said completion and acceptance will they be included among the revenues of the period. Said advances amount to Euro 8,528,005 at 31 December 2016 (Euro 8,703,461 at 31 December 2015).

The total of this item on the CAP Holding S.p.A. financial statements, compared to the period which closed at 31 December 2015, shows an increase of Euro 60,946, posted under item A3 of the Income Statement consequent to the completion of stage 3 and the additional activities performed in 2015. The percentage of completion is estimated on the basis of the cost sustained compared to the total costs calculated on the basis of updated estimates.

C.I.6 Fixed assets destined for disposal.

The item includes Euro 26,132,202 representing the valorisation of the fixed assets destined for sale, and therefore classified as current assets, pursuant to the deed of sale of the business unit - notary Ferrelli of Milan, deed no. 25672 of 28 February 2016 – with actual effect as of 01 March 2017.

The following schedule sums up item CI Inventories.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Raw, ancillary and consumable materials	5,327,121	5,804,746	(477,625)
Works in progress to order	574,818	513,872	60,946
Fixed assets destined for sale	26,132,202	11,739,497	14,392,705
Total inventories	32,034,141	18,058,115	13,976,026

C. II. Receivables

Balance at 31.12.2016	315,663,543
Balance at 31.12.2015	300,926,543
Change	14,737,000

	Balance at 31.12.2016	Balance at 31.12.2015	Change
1. trade receivables	246,960,511	237,581,655	9,378,856
2. due from subsidiaries	14,152	246,520	(105,008)
3. due from affiliates	-	-	-
4-bis. tax receivables	22,551,411	18,187,759	4,363,652
4-ter. prepaid taxes	23,159,135	18,731,482	4,427,653
5) due from others	22,850,974	26,179,127	(3,328,153)
Total receivables	315,663,543	300,926,543	14,737,000

C. II. 1. Trade receivables

Trade receivables amount to Euro 246,960,511 (Euro 237,581,655 at 31 December 2015). This item includes receivables from customers and users, net of the credit impairment provision.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
invoices issued and to be issued to domestic users	134,111,566	137,449,023	(3,337,457)
provision for impairment of receivables due from domestic users	(29,311,047)	(31,061,236)	1,750,189
total due from domestic users	104,800,519	106,387,787	(1,587,268)
Invoices issued and to be issued to business users	13,220,695	9,044,392	4,176,303
provision for impairment of receivables due from business users	(3,725,527)	(3,355,697)	(369,830)
total due from business users	9,495,168	5,688,695	3,806,473
invoices issued and to be issued to users	44,105,932	38,068,292	6,037,640
provision for impairment of receivables	(8,738,112)	(9,629,215)	891,103
total trade receivables	35,367,820	28,439,077	6,928,743
invoices to be issued for adjustment	11,781,077	12,457,611	(677)
accrued + adjustment	85,515,927	84,608,485	907
Total trade receivables	246.960.511	237.581.655	9.378.856

Trade receivables refer mainly to “invoices issued and to be issued to civil users”, “invoices issued and to be issued to business users”, “invoices issued and to be issued to customers”, “invoices to be issued for adjustments”.

It is estimated that Euro 92,862,161 of the receivables posted under item C.II.1. will be collectible after 12 months.

C. II. 2. Receivables due from subsidiaries

Receivables due from subsidiaries amount to Euro 141,512 and regard an outstanding and unpaid unsecured interest bearing loan that has not been renewed, collectable on sight and without deferred repayment except pursuant to art. 2467 of the Civil Code, of which Euro 138,100 is the residual principal sum at 31 December 2016 and Euro 3,412 are interests.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
due from Rocca Brivio	141,512	246,520	(105,008)
provision for impairment of receivables	-	-	-
Total receivables due from subsidiaries	141,512	246,520	(105,008)

C. II. 3. Receivables due from affiliates

There are none.

C. II. 4. Receivables due from affiliates

There are none.

C. II. 5. Receivables due from companies under the control of the holding companies

There are none.

C. II. 5-bis. Tax receivables

Tax receivables amount to Euro 22,551,411 at 31 December 2016 (Euro 18,187,759 at 31 December 2015).

The tax receivables essentially comprise:

- VAT credit for Euro 17,557,818, of which a rebate of Euro 13,732,545 has been requested. Euro 732,545 of said rebate was withheld by the Revenue Agency to cover the higher registration duties ascertained in respect of certain business unit purchase deeds and against which appeal has been filed;

- receivables due from the state, amounting to Euro 2,719,952, for direct taxes for the year 2007. Said receivable was registered in 2008 subsequent to a payment made by the incorporated company CAP Gestione, 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;
- receivables due from the state relative to the reimbursement, pursuant to art. 2, paragraph 1-quater, of Decree Law no. 201/2011, converted by 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, amounting to a total of Euro 1,453,533 of Amiacque and Euro 274,942 of CAP Holding;
- other tax receivables for Euro 67,799;
- IRES receivables for Euro 477,366.

Considering the estimated future revenues, the part that can presumably be claimed within 12 months amounts to Euro 16,405,342.

The summary table below shows total receivables due from the state.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
- IRES	477,366	1,309,575	(832,210)
- IRAP	-	1,348,367	(1,348,367)
- Receivables for VAT rebates	13,732,545	4,481,967	9,250,578
- VAT	3,825,273	6,445,577	(2,620,304)
- receivables for electronically paid revenue taxes	67,800	21,724	46,076
- receivables for substitute tax on severance indemnity	-	6,527	(6,527)
- receivables for income tax rebates	4,448,428	4,574,022	(125,594)
Total tax receivables	22,551,411	18,187,759	4,363,653

C. II. 5-ter. Receivables for prepaid taxes

Receivables for prepaid taxes amount to Euro 23,159,135 at 31 December 2016 (Euro 18,731,482 at 31 December 2015).

The following table sums up the composition and movements of this item during the period:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
For connection contributions from users	2,501,960	1,636,525	865,435
For allocation to provisions for law suits pending	974,814	702,783	272,031
For allocation to provisions for other risks	627,897	834,660	(206,763)
For allocation to provisions for risks relating to personnel costs	1,471,342	1,366,007	105,335
For allocation to provisions for amicable settlements	2,076,415	2,219,822	(143,407)
For allocation to provisions for future plant decommissioning costs	1,432,862	1,407,390	25,472
For allocation to provisions for future tank rehabilitation costs	815,148	685,113	130,035
For allocation to provision for impairment of credit exceeding the statutory limit	9,025,065	9,551,698	(526,633)
For allocation to provision for water bonus	478,428		478,428
For allocation for damages from sewer network percolation	1,804,800		1,804,800
For allocation to town council asphalt costs	376,406		376,406
For amortisation of goodwill	69,021	76,623	(7,602)
For non-deducted excess amortisations	249,799	249,799	0,000
for expected loan hedge transactions cash flows	1,255,178	1,062	1,254,116
Total receivables for prepaid taxes	23,159,135	18,731,482	(9,774,729)

Considering the estimated amounts that can be absorbed by future taxable income, the part that can presumably be collected within 12 months amounts to Euro 20,517,713.

C. II. 5-quater. Receivables due from others

Receivables from others amount to Euro 22,850,974 at 31 December 2016; at 31 December 2015 this figure was Euro 26,179,127, showing a total change of Euro -3,328,153.

The item receivables due from others includes *receivables due from public bodies of reference*, the prevalent part of which is comprised of receivables due from the ATOs of the provinces of Milan and Monza-Brianza, amounting to Euro 2,230,571, relating to grants for plants and/or portions of loans to cover expenses relative to projects included in the Hydrological Plans. We mention that grants for Euro 8,406,723 were collected in 2016.

The corresponding receivables due from the ATO of the Province of Pavia, amounting to Euro 265,655, are posted under the sundry receivables inasmuch as the Province of Pavia is not a shareholder of CAP Holding.

The item also includes receivables due from banks for Euro 773,549 (Euro 925,093 at 31 December 2015) of which:

- Euro 117 is represented by interests on administrative deposits held by the State Territorial Accounting Department relating to land expropriation procedures;
- Euro 770,641 is represented by receivables due from the Cassa Depositi e Prestiti for unused loans.
- Euro 2,790 is represented by other receivables.

The item "receivables due from others" also includes "Sundry receivables" for a total of Euro 17,926,741 (Euro 11,763,967 at 31 December 2015), of which:

- Euro 6,384,741 is due from the partly held company Pavia Acque Scarl relative to commercial agreements, which are dealt with at length in the introductory part and which can be broken down at 31 December 2016 as follows;
 - Euro 2,163,948 relates to the agreement of 03 September 2015 by which Pavia Acque s.c.a r.l. entrusted to CAP Holding S.p.A. the task of performing various technical activities relating to the management and routine maintenance of the integrated water service works;
 - Euro 474,612 is due pursuant to the amendment agreement of 12 June 2014 by which Pavia Acque s.c.a r.l. entrusted to CAP Holding S.p.A. the task of performing various technical

activities relating to the operating and routine maintenance of the integrated water service works;

- Euro 213,647 regards the agreement of 11 June 2015 by which Pavia Acque s.c.a r.l. entrusted to CAP Holding S.p.A. the execution of the expansion and renewal works of the aqueduct network in the south west area of the town of Siziano (Pavia);
 - Euro 420,631 regards the conferment of tangible fixed assets on the part of CAP Holding in favour of Pavia Acque;
 - Euro 7,086 results from the reversal of costs sustained proportionately in the interests of the companies adhering to the Water Alliance;
 - Euro 827,762 regards the non-routine maintenance and infrastructure costs of 2015 and 2016;
 - Euro 244,482 represents interests on loans and quotas of the principal sums;
 - Euro 2,032,573 results from the assumption of loans relating to the conferment of 23 December 2016
- receivables due from the former PIL company subsequent to the sale of the business unit of Lodi, equal to Euro 2,073,384 and the relative loans transferred;
 - receivables due from Brianzacque S.r.l subsequent to the first step transfer, for Euro 925,608, referring to the loans assumed;
 - advances to suppliers, guarantee deposits, amounts due from employees and social security institutes, for Euro 1,738,570.
 - sundry receivables due from Amiacque S.r.l. totalling Euro 1,396,890 for advances and guarantee deposits in favour of suppliers and social security institutes.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
due from public bodies of reference	4,380,401	9,215,258	(4,834,857)
provision for impairment of receivables	(229,447)	(259,758)	30,311
<i>total due from public bodies of reference</i>	<i>4,150,954</i>	<i>89,555,00</i>	<i>(4,804,546)</i>
due from banks	773,549	925,093	(151,544)
other receivables	17,926,471	11,763,967	6,162,504
receivables from others for consolidation	-	4,648,567	(4,648,567)
provision for impairment of receivables	-	(114,000)	114,000
provision for impairment of receivables for interests on arrears	-	-	-
<i>total other receivables</i>	<i>17,926,471</i>	<i>16,298,534</i>	<i>1,627,937</i>
Total receivables due from others	22,850,974	26,179,127	(3,328,153)

C. III. Financial assets not classified as fixed assets

There are none.

C. III. 6. Other securities

At 31 December 2016 there are no financial assets not classified as fixed assets.

C. IV. Cash and cash equivalents

This item, which totals Euro 118,789,088, comprises the balances of current accounts opened at various banks for Euro 118,704,415, and the petty cash, revenue stamps and pre-paid credit cards amounting to Euro 29,004 and banker's cheques for Euro 55,669.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Bank and postal deposits	118,704,415	93,856,402	24,848,013
Cheques	55,669	4,386	51,283
Cash and valuables in hand	29,004	34,782	(5,778)
Total cash and cash equivalents	118,789,088	93,895,570	24,893,518

The cash and cash equivalents item includes Euro 8,583,363 on the escrow account in favour of the Bank (Euro 14,476,157 at 31 December 2015) deriving from the loan granted by Intesa Sanpaolo S.p.A. on 01 December 2012 to T.A.S.M. S.p.A., incorporated as of 01 June 2013 into Cap Holding S.p.A., deed no. 21070/9012. Said sums represent lien in favour of Banca Intesa S.p.A. to guarantee the said loan.

Said account is tied to the execution of the expansion works of the purification plant of the town of Assago, phase I of the expansion of the purification plant of Melegnano, the adaptation of the existing line of the purification plant of Rozzano, and works on sewer network plants. The account will be released on presentation of the documentation of the expenses sustained for the execution of the above indicated works. The release of Euro 3,666,389 is expected within twelve months, and of Euro 5,222,979 after twelve months.

The cash and cash equivalents at 31 December 2016 also include Euro 581,251 deposited on two current accounts opened at Banca Nazionale del Lavoro S.p.A., also tied as lien to guarantee two credit facilities granted by the Bank to Cogeser Servizi Idrici S.r.l. This latter transferred a water-works business unit to Cap Holding S.p.A. on 28 June 2012.

D. ACCRUALS AND DEFERRALS

Balance at 31.12.2016	9,038,865
Balance at 31.12.2015	2,031,964
Change	7,006,901

The balance at 31 December 2016 of Euro 9,038,865 is composed exclusively of deferred assets. The deferred assets item includes, in particular, Euro 6,970,186 as an offset entry for the payable due to Cassa Depositi e Prestiti for the commissions on the guarantee for the loan issued by the European Investment Bank covered by said Cassa Depositi e Prestiti. Further details are given in the comments on item D.4 Payables to banks.

LIABILITIES

Total liabilities posted on the Balance Sheet at 31 December 2016 amount to Euro 1,301,626,889 (Euro 1,243,152,805 at 31 December 2015)

They include:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Consolidated shareholders' equity	749,347,552	723,797,352	25,550,200
Provisions for risks and charges	49,771,811	33,875,749	15,896,062
Employee severance indemnity	6,095,397	6,768,529	(673,132)
Payables	345,818,143	324,829,698	20,988,445
Accruals and deferrals	150,593,986	153,881,477	(3,287,491)
Total liabilities	1,301,626,889	1,243,152,805	58,474,084

A. SHAREHOLDERS' EQUITY

The Group's shareholders' equity at 31 December 2016, amounting to Euro 749,347,552 (Euro 723,797,352 at 31 December 2015), held entirely to the Group for the acquisition, in 2014, on the part of CAP of 100% of the capital of Amiacque, is composed of the following:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Share capital	571,381,786	571,381,786	-
Share premium reserve	1,393,862	1,393,862	-
Legal reserve	2,688,880	1,987,604	701,276
Statutory reserves			-
Other reserves:			-
- consolidation reserve	20,206,722	20,206,722	-
- others	119,618,967	106,294,714	13,324,253
Reserve for expected cash flow hedging transactions	(3,674,123)	-	(3,674,123)
Profits (losses) carried forward	8,871,852	2,754,285	6,117,567
Profit (loss) of the period:	29,482,689	20,401,462	9,081,227
Negative reserve for treasury shares in portfolio	(623,083)	(623,083)	-
Total shareholders' equity appertaining to the group	749,347,552	723,797,352	25,550,200

The share capital at 31 December 2016, fully paid up, is composed of 571,381,786 shares with a par value of Euro 1 for a total value of Euro 571,381,786 (Euro 571,381,786 at 31 December 2015).

The consolidation reserve of Euro 20,206,722 derives from the annulment of the stake in the subsidiary AMIACQUE S.r.l. which is posted at cost on the company's financial statement.

Lastly, the following schedule shows the connection between the shareholders' equity and the profit of 2016 of the holding company CAP Holding and the shareholders' equity and the consolidated profit of 2016.

Reconciliation statement between the parent company's profit and shareholders' equity and the consolidated financial statements at	31.12.2016		31.12.2015	
	Shareholders' equity 2016	Profit of the period 2016	Shareholders' equity 2015	Profit of the period 2015
From the financial statements of the period of CAP Holding SpA	709,992,425	19,190,667	695,098,965	14,025,530
From elimination of the book value of the stake:				
Result of AMIACQUE Srl	10,228,023	10,228,023	6,311,588	6,311,588
Consolidation reserve	20,206,722		20,206,722	
From elimination of the effects of transactions between consolidated companies:		63,999		64,344
Profit carried over on the consolidated financial statements	8,856,383		2,738,816	
Gains/losses on infra-group sales of assets	63,999		64,344	
Equity of minority shareholders	-		-	
Shareholders' equity and result of the period on the CAP Holding Spa consolidated financial statements	749,347,552	29,482,689	724,420,435	20,401,462
Shareholders' equity and result of the period ascribable to minority shareholders	-		-	
Shareholders' equity and result of the period ascribable to the CAP Group	749,347,552	29,482,689	724,420,435	20,401,462

The breakdown of the shareholders' equity at 31 December 2016 in relation to the possibility of use of the profit and reserve items, conforming to the content of document no. 28 of the O.I.C. - the Italian Accounting Body - is illustrated in the following table

Nature / Description	Amount 31/12/2016	Possibility of use	Portion available 31/12/2016
Capital	571,381,786	-	-
Share premium reserve (*)	1,393,862	AB	1,393,862
Reserves of profit:			
Legal reserve	2,688,880	B	2,688,880
Reserve pursuant to art. 14 of Law 36/94	79,354,582	indivisible	79,354,582
Other extraordinary reserves	32,256,416	A B C	18,309,080
Negative reserve for treasury shares	(623,083)		
Merger surplus reserve	8,007,969	A B C	8,007,969
Consolidation reserve	20,206,722		
Profit carried forward	8,871,852	A B C	8,871,852
Reserve to cover expected cash flows	(3,674,123)		
Profit of the period	29,482,689	A B C	29,482,689
Total shareholders' equity	749,347,552		148,108,914
Non-distributable portion			82,437,324
Remaining distributable portion			64,671,590
Held by minority shareholders	-		
Total shareholders' equity	749,347,552		

(*) not available for distribution since the amount is lower than the amount required to bring the legal reserve to 1/5 of the share capital

The changes in the various shareholders' equity items occurring in 2016 derive from:

- the profit of 2015 of Euro 20,766,179, the allocation of Euro 701,276 to the legal reserve and of Euro 20,064,903 to other reserves;
- the constitution, in 2016, of item AVII "Reserve for expected hedging transaction cash flows", a reserve prescribed pursuant to the new OIC accounting standards no. 28 and no. 32 of December 2016 (further comments are given *infra*). At 31 December 2016 said reserve amounts to Euro -3,674,123.

B. PROVISIONS FOR RISKS AND CHARGES

Balance at 31.12.2016	49,771,811
Balance at 31.12.2015	33,875,749
Change	15,896,062

These amount to Euro 49,771,811 at 31 December 2016 (Euro 33,875,749 at 31 December 2015). The following table shows the breakdown:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Provisions for taxes	514,270	515,585	(1,315)
Provision for taxes, including deferred taxes	974,720	807,624	167,096
Total provisions for taxes	1,488,990	1,323,209	165,781
Provision for risks relating to personnel costs	361,800	1,065,842	(704,042)
Provisions for lawsuits pending	5,219,275	2,965,025	2,254,250
Provision for out-of-court agreements	8,727,778	9,249,258	(521,480)
Provision for risks relating to request for 2007 tax rebate	2,719,952	2,719,952	-
Provision for other risks	13,716,853	10,891,775	2,825,078
Total provision for other risks	30,745,658	26,891,851	3,853,807
Provision for bill discounts/penalties for social reasons	1,993,452	-	1,993,452
Provision for asphalt expenses	1,334,773	-	1,334,773
Provision for future tax rehabilitation expenses	3,396,451	-	3,396,451
Provision for future plant decommissioning	5,883,186	5,660,689	222,497
Total provision for future expenses	12,607,862	5,660,689	6,947,173
Derivative financial instrument liabilities	4,929,301	-	4,929,301
Total	4,929,301	-	4,929,301
Total provisions for risks and charges	49,771,811	33,875,749	15,896,062

The allocations of major importance in 2016 include:

- an additional allocation to the provision for future expenses for the rehabilitation of the flocculation tanks (environmental rehabilitation), 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. Said allocation, of Euro 541,813, is posted under item B7 of the Income Statement. The allocation derives from the algebraic sum of the allocation of the year, of Euro 1,721,387, and the discounted value of the provision, of Euro 1,179,574, already allocated in preceding years, according to OIC 31 for the provisions for charges that feature forecast long-term expenditure and which derive from a definitive obligation;
- an allocation to the provision for the risk of remedying damages caused by percolation from sewer networks, to cover probable polluted soil reclamation costs in the case of the percolation of effluent from defective sewer networks. Said allocation, of Euro 6,400,000, is posted under item B7 of the Income Statement;
- the allocation to a provision for future "road rehabilitation" expenses. Said allocation, of Euro 1,334,773, is posted under item B7 of the Income Statement. The cost is the best estimate at 31 December 2016 according to the CAP Holding S.p.A. technicians for the road stretches for which, within the same date, the conditions have developed that require the integrated water service provider to take action, in compliance with the provisions of point 2 of resolution no. 5 of the ATO Office of the Metropolitan City of Milan of 25 May 2016. Put briefly: CAP Holding S.p.A. must provide for repairing municipal roads (when defined tolerance margins are exceeded), damaged more than once by works carried out within the sphere of the integrated water service.
- an additional allocation to the provision for future expenses for the decommissioning of buildings. The buildings in question are those in which the head office of the subsidiary Amiacque S.r.l. is housed, located at Via Rimini 34/36, Milan, and Euro 1,020,435 has been allocated under item B13 of the Income Statement. Said buildings will, in fact, be demolished, presumably in the two-year term 2019-2020 and in their place a new building will be erected to be used as the headquarters of the CAP Group. The parent company has concluded an agreement with the subsidiary for the future purchase-sale of the current area and building, thus indirectly assuming the cost of the future demolition. Euro 797,938 of this provision was used in 2016;
- an allocation of Euro 2,000,000 to the provision for "tariff reductions of a social nature", posted under item B13 of the Income Statement. The allocation is consequent to the decision assumed by resolution no. 7 of the Conference of the town councils of the ATO of the Metropolitan City of 31/05/2016, to approve the "*regolamento per la concessione di agevolazioni tariffarie a carattere sociale gruppo CAP*" [CAP Group regulations for granting tariff reductions of a social nature]. The amount allocated at the

Conference was Euro 2,000,000, of which amount Euro 6,548 was used in the period. The amount that has not yet been used can be used until 30/04/2017, pursuant to a decision in that sense taken by the Board of Directors of the EGA of the Metropolitan City of Milan by Resolution no. 4 of 22/12/2016. The procedure was implemented towards the end of 2016.

CAP Holding S.p.A. took avail of the faculty pursuant to point no. 34 of OIC no. 31 of December 2016, to discount the provision for future rehabilitation of the flocculation tanks, already entered in the accounts at 01 January 2016, posting the difference in respect of the lower value of the original entry as a smaller allocation of the period.

This item also includes Euro 4,929,301, posted at 31 December 2016, in application of the new art. 2426, point 11-bis, of the Civil Code, as amended by Legislative Decree no. 139/2015, relating to the fair value of the derivative financial instrument liabilities. See also the paragraph on derivatives *infra*.

C. EMPLOYEE SEVERANCE INDEMNITY PROVISION

The provision totals Euro 6,095,397 at 31 December 2016 (Euro 6,768,529 at 31 December 2015).

	Value at 31.12.2015	Allocations/revaluations	Utilisations	Other changes	Total change	Value at 31.12.2016
Severance indemnity provision for managers/white collars	6,768,529	112,017	(820,581)	35,432	(673,132)	6,095,397
Severance indemnity provision	6,768,529	112,017	(820,581)	35,432	(673,132)	6,095,397

The item "utilisations" includes the decreases in the provision occurring during the period as specified below:

- Euro 19,194 relative to the transfer of employees subsequent to the transaction for the conveyance of the business unit to Brianzacque S.r.l.;
- Euro 799,628 due to utilisations for advances and indemnities paid out in the period to retiring or resigning personnel or personnel transferred to other companies of the Group;
- Euro 1,759 relative to the payment of substitute tax for 2016 .

The item "other changes" shows an increase in the provision for Euro 35,432, resulting from:

- an increase of Euro 38,311 due to the purchase of the Brianzacque business unit;
- a decrease (adjustment to the provision at 31/12/2015) of Euro 2,878.

The allocations, of Euro 112,117, ensue from the revaluation of the provision for the period 2016.

D. PAYABLES

Balance at 31.12.2016	345,818,143
Balance at 31.12.2015	324,829,698
Change	20,988,445

	Balance at 31.12.2016	Balance at 31.12.2015	Change
1. Bonds	5,185,200	5,925,940	(740,740)
4. Payables to banks	119,869,766	97,066,503	22,803,263
6. Advances	19,791,272	20,345,594	(554,322)
7. Trade payables	80,244,318	64,821,252	15,423,066
9. Payables to subsidiaries	304,966	3,295	301,671
10. Payables to affiliates	-	-	-
11. Payables to holding companies	-	-	-
12. Tax payables	3,246,936	3,104,861	142,075
13. Payables to pension funds and social security institutes	2,644,321	2,134,143	510,178
14. Other payables	114,531,364	131,428,110	(16,896,746)
Total payables	345,818,143	324,829,698	20,988,445

D. 1. Bonds

This item refers to the bond issue (ISIN code IT0003853568) of Euro 20,000,000 placed by an underwriting commitment in 2005 on the part of Banca per la Finanza alle Opere Pubbliche S.p.A. (now Intesa Sanpaolo S.p.A.), maturing in 2019. There are no bonds maturing after 5 years. The bond is at variable interest rate accruing, on each occasion, at the 6-month Euribor rate plus a spread of 0.4. Redemption is in six-monthly instalments at constant percentages of the principal sum.

The bonds can be traded on the ExtraMOT PRO segment of the ExtraMOT market managed by Borsa Italiana S.p.A. as of 22 July 2016, subsequent to the application for admission of 30 June 2016.

At 31 December 2016 the residual principal, at nominal value, amounted to Euro 5,185,200. At 31 December 2015 the residual principal, at nominal value, amounted to Euro 5,925,940. The interests accrued for 2016 amounted to Euro 12,889.

The instalment relative to the second half of 2016 (Euro 740,740 of the principal and interest of Euro 5,185) was debited on 02 January 2017 due to bank business days (31 December 2016 fell on a Saturday). The principal sum falling due on 31 December 2016 is therefore still included under item D1, whereas the interests are classified under the deferred liabilities.

The amount falling due after 12 months amounts, at nominal value, to Euro 3,703,720. All redemption instalments fall due within 5 years.

D. 4. Payables to banks

Payables to banks at 31 December 2016 for Euro 119,869,765 refer to mortgages taken out for the construction of new plant or for the renewal of existing plant. At 31 December 2015 they totalled Euro 97,066,503.

The following table details the payables due to banks:

PAYABLES TO BANKS	Balance at 31.12.2015	Balance at 31.12.2016	due within the period	due after the period	of which, due after 5 years
Cassa depositi e prestiti mortgages	22,003,510	19,628,915	4,656,172	14,972,743	255,158
Intesa san paolo mortgages	30,193,735	25,849,651	1,707,993	24,141,658	16,353,718
Banca nazionale del lavoro mortgages	5,847,616	5,254,352	724,989	4,529,364	2,076,923
Monte dei paschi di siena mortgages	4,497,258	3,967,152	548,285	3,418,867	1,374,905
Finlombarda spa loans	873,887	944,518	97,114	847,404	458,944
European Investment Bank loans	28,000,000	52,000,000	0	52,000,000	4,1430,004
Payable to Cassa Depositi e Prestiti as guarantee on EIB loan	0	6,970,186	818,513	6,151,673	3,039,035
Banca Popolare di Milano loan	5,529,360	5,218,488	326,630	4,891,858	3,411,417
UBI loan	121,137	36,503	36,503	0,000	0
TOTAL	97,066,503	119,869,765	8,916,199	110,953,567	68,400,104

At 31 December 2016 there are no current account payables.

The payables falling due after 12 months amount to Euro 110,953,567. Those falling due after 5 years amount to Euro 68,400,104.

For certain payables due to banks included in this item and which are repaid in periodic instalments, that falling due at the end of 2016 was debited on 02 January 2017 due to bank business days (31 December 2016 fell on a Saturday). The principle sums of said payables total Euro 2,571,826 and the nominal value of the interests totals Euro 522,089. The principal sum at 31 December 2016 is therefore posted under item D1, whereas the interests are classified under the deferred liabilities.

We mention that the payables to banks include a loan from Monte dei Paschi Siena S.p.A. signed on 14 December 2011 by the company T.A.S.M. S.p.A. (then merged into CAP Holding S.p.A. by merger on 22 May 2013, deed no. 23262, dossier no. 10176, notary Ferrelli of Milan), originally of Euro 2,000,000, with

repayment instalments from December 2012 to December 2022, which is guaranteed by a mortgage, for Euro 4,000,000, on a property unit in Rozzano (sheet 15, parcel 995, sub-parcel 701, category E3, at Via dell'Ecologia, 8), on which a purification plant owned by the former T.A.S.M., now CAP Holding S.p.A., is situated (notarial deed of 06 March 2012, deed no. 22358/9707, notary Ferrelli of Milan). The nominal value of the residual debt of this loan at 31 December 2016 amounts to Euro 1,279,367.

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 incorporated into CAP Holding S.p.A. by merger deed of 22 May 2013, deed no. 23262, dossier no.10176, notary Ferrelli of Milan), originally for Euro 16,000,000, with repayments from 01 January 2013 until 30 November 2029. The value of said loan was credited on a special tied account as collateral in favour of the Bank and it will therefore be unavailable to the company financed until the Bank releases it subsequent to the progress of the expenses financed. The nominal value of the residual debt of said loan at 31 December 2016 amounts to Euro 13,490,262.

The payables to banks at 31 December 2016 also include:

- two separate loans for a nominal total of Euro 869,737 granted by BNL to the then Cogeser Servizi Idrici S.r.l., later acquired by Cap Holding S.p.A. pursuant to the sale of the business unit on 28 June 2012. Said loan is guaranteed by a lien on the sums deposited on two current accounts opened at the same bank (Euro 581,251 deposited on 31 December 2016).
- a loan with a nominal value of Euro 2,006,386 granted by Monte dei Paschi di Siena, taken over in 2013 by Amiacque S.r.l. with the acquisition of the AMAGA business unit together with the head office in Abbiategrosso, which was purchased with the loan in question. To guarantee the loan, a mortgage was taken out on the property in Abbiategrosso. Under the conditions of the loan, it must be repaid in quarterly instalments with the debit of interests calculated at the variable 3-month Euribor rate on the basis of a 360-day year increased by a spread of 0.85%. The expiry of the repayment plan is set at 01 September 2029.

We also mention that the payables due to banks also include the residual debt for the principal of:

- portions of loans transferred with the conferment to Pavia Acque S.c.a r.l. of the business unit pursuant to art. 2560 of the Civil Code (deeds of 15 July 2008 and of 23 December 2016) of which a novation has not been possible, a residual debt for a nominal value at 31 December 2016 of Euro 1,651,519, as well as a receivable due from Pavia Acque S.r.l. for a nominal sum of Euro 2,217,100 representing the nominal value of the residual amount of the receivable, posted under item C.II.5 of the assets;
- portions of loans transferred pursuant to partial spin-off to Patrimoniales Idrice Lodigiana S.r.l. (deed of 28 May 2014) for a residual nominal value of Euro 1,874,836, not yet novated and a nominal value of Euro 2,031,179 of a receivable, posted under item C.II.1 of the assets, due from Patrimoniales Idrice Lodigiana (the company P.I.L. S.r.l. was incorporated into S.A.L. Società Acqua Lodigiana, S.r.l. by deed no. 94891, dossier no. 24276 of 14/12/15, notary Mattea of Lodi);
- portions of loans transferred with the sale of the business unit to the company Brianzacque S.r.l. (pursuant to private deed, authenticated by the notary Ferrelli of Milan, deed no. 25010/11072, taking effect as of 01 January 2016, and a successive deed of amendment of 07 November 2016, deed no. 25486/11322, notary Ferrelli of Milan) for the residual nominal amount of Euro 925,608, not yet novated, posted as a receivable due from Brianzacque S.r.l. under item C.II.5 of the assets.

The payables to banks also include those due to the European Investment Bank (EIB). In fact, EIB granted Cap Holding S.p.A. a credit line for a maximum principal sum of Euro 70 million on 13 October 2014, to co-finance an important part, amounting to Euro 189 million, of the integrated water service works of the 2014-2017 investment plans.

The loan is issued by the Bank in instalments, the final date of the availability being 31 August 2017.

The EIB credit line is backed by a guarantee of Euro 80.5 million issued directly to EIB by a third party guarantor bank, for which CAP Holding S.p.A. must pay a commission calculated on the principal guaranteed/paid out. The loan is also backed by the transfer to the EIB, in October 2014, of the right of CAP Holding S.p.A. to the payment of a portion of the residual value of the assets pursuant to the concession of the integrated water service (for a counter value of Euro 122.5 million).

The amount of the guarantee will be reduced in proportion to the reduction of the debt.

To guarantee correct representation of this item, a payable of Euro 6,970,186 due to Cassa Depositi e Prestiti has been posted on the financial statements at 31 December 2016, being the total charge of the commissions on the guarantee due to the guarantor bank, calculated in proportion to the actual amounts withdrawn on the EIB credit line, paid periodically until the expiry of the guaranteed loan.

An item for this payable is posted under the deferred assets to offset the item posted on the Income Statement of the relative period.

The following instalments have been issued up to 31 December 2016:

- I. a first issue of Euro 18,000,000 in May 2015, which will be repaid in constant (fixed rate) six-monthly instalments from June 2019 until December 2029;
- II. 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;
- III. a first issue of Euro 12,000,000 in May 2016, which will be repaid at constant (fixed rate) six-monthly instalments from June 2020 until December 2030;
- IV. a second issue of Euro 12,000,000 in July 2016, which will be repaid in constant (fixed rate) six-monthly instalments from December 2020 until June 2031;

Altogether, at 31 December 2016, the payable towards EIB amounts to a nominal sum of Euro 52,000,000. At the amortised cost, it amounts to Euro 52,000,000 at 31 December 2016.

The following table details the payables due to banks broken down according to the year of repayment:

LENDER	NET VALUE IN EURO	PAYABLE AT 31.12.2016	REPAYMENT DATE
Cassa Depositi e Prestiti (*)	5,962,312	280,877	2016
Intesa Sanpaolo (former OPI)	25,822,845	-	2016
UBI Banca	700,000	36,503	2017
Cassa Depositi e Prestiti (*)	3,313,881	445,508	2017
Monte dei Paschi di Siena	85,000	2,028	2017
Cassa Depositi e Prestiti (*)	6,368,584	1,208,502	2018
Banca Nazionale del Lavoro	1,500,000	394,737	2018
Monte dei Paschi di Siena	320,000	68,435	2018
Cassa Depositi e Prestiti (*)	25,740,681	6,364,094	2019
Monte dei Paschi di Siena	336,000	79,013	2019
Cassa Depositi e Prestiti (*)	9,855,562	3,049,377	2020
Monte dei Paschi di Siena	2,135,828	531,922	2020
Banca Nazionale del Lavoro	950,000	475,000	2020
Cassa Depositi e Prestiti (*)	18,638,893	6,839,683	2021
Cassa Depositi e Prestiti (*)	2,148,461	1,440,874	2022
Monte dei Paschi di Siena	2,000,000	1,279,367	2022
Finlombarda	1,554,000	776,772	2026
Finlombarda	167,747	167,747	2026
Intesa Sanpaolo (former OPI)	20,000,000	12,359,389	2026
Banca Nazionale del Lavoro	6,000,000	4,384,615	2026
Banca Popolare di Milano	6,106,924	5,218,488	2028
Monte dei Paschi di Siena	3,000,000	2,006,386	2029
Intesa Sanpaolo (former BIIS)	16,000,000	13,490,262	2029
European Investment Bank	18,000,000	18,000,000	2029
European Investment Bank	10,000,000	10,000,000	2030
European Investment Bank	12,000,000	12,000,000	2030
European Investment Bank	12,000,000	12,000,000	2031
Cassa Depositi e Prestiti (**)	7,789,561	6,970,186	2031
TOTAL	218,496,279	119,869,765	

(*) the item includes several positions

(**) as mentioned above, this is the payable to Cassa Depositi e Prestiti representing total charges linked to the commissions on the guarantee backing the EIB loan covered by said Cassa.

D. 6. Advances

- Advances, which amount to Euro 19,791,272 at 31 December 2016 (Euro 20,345,594 at 31 December 2015), regard:
 - o advances posted on the CAP Holding S.p.A. financial statements, amounting to Euro 19,118,693, relating to works in progress pursuant to orders from private entities and public bodies and the Region of Lombardy, the latter being a long-term assignment for the rehabilitation of the Cagnola water source for Euro 8,528,006. Further information relating to said "Cagnola" operation is given in the preceding paragraph on works in progress to order for third parties.
 - o advances posted on the Amiacque S.r.l. financial statements, amounting to Euro 672,579, received from customers for network extension and connection works still in progress at 31 December 2016.

D. 7. Trade payables

Trade payables, which amount to Euro 80,244,318 (Euro 64,821,252 at 31 December 2015), regard ordinary payables accrued for costs sustained for the Group's core business operations and/or investments. Of the said amount, Euro 26,711,723 is for invoices already received and Euro 53,532,595 is for invoices not yet received.

A part of the same, of Euro 69,283, falls due after 12 months.

D. 9. Payables due to subsidiaries

Payables to subsidiaries, which amount to Euro 304,966 (Euro 3,295 at 31 December 2015), are in favour of Rocca Brivio Sforza S.r.l. in liquidation.

D. 10. Payables due to affiliates

At 31 December 2016, as at 31 December 2015, there are no payables due to affiliated companies.

D.11. Payables due to holding companies

At 31 December 2016 there are no payables due to holding companies.

D 11-bis Payables to companies under the control of the holding companies

At 31 December 2016 there are no payables due to companies under the control of the holding companies.

D. 12. Tax payables

Tax payables amount to Euro 3,246,936 at 31 December 2016 (Euro 3,104,861 at 31 December 2015), detail of which is given in the following table:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Taxes withheld on salaries employee/director	1,051,270	1,002,959	48,311
IRAP payables	332,250	-	332,250
IRES payables	1,854,042	2,090,808	(236,766)
Other tax payables	7,384	7,332	52,000
Income tax payables	-	-	-
Other payables	1,990	3,762	(1,772)
Total payables	3,246,936	3,104,861	142,075

They all fall due within 12 months.

D. 13. Payables to welfare and social security institutes

This item amounts to Euro 2,644,321 at 31 December 2016 (Euro 2,134,143 at 31 December 2015). It comprises amounts due to welfare and social security institutes for contributions, and charges to be paid in the successive period.

They all fall due within 12 months.

D. 14. Other payables

Other payables amount to Euro 114,531,364 at 31 December 2016 (Euro 131,428,110 at 31 December 2015). Detail is given below:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
due to public bodies of reference	13,959,927	23,051,664	(9,091,738)
due to public bodies of reference for assumption of transferred loans	4,344,354	5,140,158	(795,804)
to ATO MI and MB for assumption of loans	25,505,143	22,194,431	3,310,712
to companies and consortia for considerations/contributions	5,497,626	14,675,781	(9,178,155)
to companies for provider's quota	8,937,370	11,650,167	(2,712,797)
to employees and directors	3,262,393	4,591,797	(1,329,404)
to others for elimination of payables/receivables to/from Amiacque	495,817	329,119	166,698
Guarantee deposits from users and customers	39,810,987	41,334,911	(1,523,924)
payables to customers for connection contributions and other	8,488,829	3,991,814	4,497,016
other payables	4,228,918	4,468,268	(239,350)
Total other payables	114,531,364	131,428,110	(16,896,746)

The item "payables to public bodies of reference", which amounts to Euro 13,959,927, includes:

- payables relative to the sewer system and to purification processes, due to the town councils that have managed the services themselves, and the amount corresponds to that effectively already invoiced to the users. The total amount of Euro 5,648,205 is recognised to the town councils and paid periodically on the basis of the amounts effectively collected.
- Euro 3,325,525 represents the amount due to local authorities that own networks and plants and which manage the same themselves (so-called "non-conforming management").
- Euro 830,158 represents the amounts already invoiced to users. In 2013 two agreements disciplining the debt-credit positions were stipulated with the ATO Offices of the provinces of Milan and of Monza and Brianza, under which payment schemes based on six-monthly instalments expiring on 30 June 2018 were established for the amount due at 31 December 2012. In both cases the payment of further amounts, which will fall due subsequent to the collection on the part of the users, will take place in the manner already set out in the agreement previously signed with the former ATO of the province of Milan
- a payable of Euro 4,156,039 existing at 31 December 2016 essentially represents the concession fee for the integrated water service the assets of which are owned by town councils, proportioned to the periodic amount of the loan instalments to be repaid to the town councils, and for the works requested of the same.

The payable to the ATO for debt assumption corresponds to the loan taken out by the Province of Milan from the 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. assumed in 2013. In 2016, subsequent to the reciprocal transactions between business units and the company Brianzacque S.r.l., CAP Holding S.p.A. has assumed an additional portion of the loan for Euro 5,738,816. At 31 December 2016 said payable amounts to Euro 25,505,143.

Of this loan that CAP Holding S.p.A. has assumed, the amount falling due after 12 months totals Euro 23,865,831, and Euro 16,769,241 falls due after five years.

In addition to the payables to the ATO that CAP Holding S.p.A. has taken over, there are other loans and/or financing that have been assumed, prevalently subsequent to contributions in nature conferred on CAP Holding S.p.A. (or its assignors, by CAP Gestione S.p.A. on CAP Impianti S.p.A., on its companies incorporated in 2013) of the assets of the water service on the part of EELL, now a shareholder, for a value at 31 December 2016 of Euro 1,643,756. Of these loans assumed, the amount falling due after 12 months totals Euro 1,298,567, whereas the amount falling due after five years totals Euro 279,439.

We lastly mention that the CAP Holding S.p.A. items posted in 2015 include a payable for the assumption of a loan from Cassa Depositi e Prestiti, ref. no 4430124, pursuant to agreements signed by the then Idra Patrimonio S.p.A. to finance the so-called "Idra Fanghi" plant (a plant sold in 2015 by Idra Milano S.r.l). Said payable fell to CAP Holding S.p.A. by effect of the incorporation of Idra Milano S.r.l. in 2015. The value at 31 December 2016 is Euro 2,700,598. The part of this payable falling due after 12 months amounts to Euro 2,410,470; whereas that falling due after five years amounts to Euro 1,120,199.

Payables to consortia are represented by:

- "Payables to companies and consortia for considerations" to remunerate sewer and purification activities, amounting to Euro 3,492,970. They are amounts payable to companies that provide sewer and purification services that operate in towns in which Amiacque supplies the aqueduct service.
- "Payables to the Villoresi rehabilitation consortium" amounting to Euro 2,004,656, deriving from the collection of the contributions prescribed by regional legislation that Amiacque has included on the water bills.

"Payables to companies for the provider's percentage" include the residual payables of the provider's percentage to be paid to the companies for the amounts invoiced within 31 December 2016, amounting to Euro 8,937,370. The payables are settled on the basis of the amounts actually collected.

Payables to employees and directors amount to Euro 3,262,393, of which Euro 1,992,479 is posted on the AMIACQUE S.r.l. financial statements and Euro 1,339,914 is posted on the CAP Holding S.p.A. financial statements. The mainly represent payables for fees and salaries relating to 2016 (e.g. in lieu of holiday, production bonuses, etc.).

The item "payables to other subsequent to the elimination of payables/receivables due to/from Amiacque", amounts to Euro 495,817 and are payables due to third parties.

The item "guarantee deposits from users and customers" amounts to Euro 39,810,987, to be considered as falling due after 12 months.

The item "payables to customers for connection grants" amounts to Euro 8,488,829.

The item "Other payables", for Euro 4,228,918, include, among other things, payables to trade unions, and to the compensation fund of the electrical sector for the compensatory grant applied to the tariffs of the integrated water service (Euro 3,021,937). The item also includes the payables for the use and crossing of public land and the advances due to the Region and the Province on loans.

E. ACCRUALS AND DEFERRALS

Balance at 31.12.2016	150,593,986
Balance at 31.12.2015	153,881,477
Change	(3,287,491)

The value of this item at 31 December 2016 is Euro 150,593,986 (Euro 153,881,477 at 31 December 2015) and it comprises:

- Euro 22,208,106 for non-recoverable grants for plant expenses issued by the Region of Lombardy, with the restriction of using the funds specifically for the construction of new plant, and contributions from private entities for network extension works;
- Euro 26,980,251 deriving from the registration according to the accruals principle of the total charges that will be generated by four Interest Rate Swap transactions, three concluded with Banca Intesa Infrastrutture e Sviluppo S.p.A., and one with BNP Paribas, during the several years of their duration. The deferrals falling due within 12 months amount to Euro 4,767,432, whereas those falling due after the next period amount to Euro 22,212,820 and those falling due after 5 years amount to Euro 662,084. Additional comments are given further below herein;
- Euro 94,012,508 for grants received for plant works and recognised by the ATO of the province of Milan for the execution of sewer and purification works;
- Euro 2,907,587 for grants for works on plant pursuant to Decree 3/2006 of the ATO Authority of the Province of Milan;
- Euro 2,220,976 for grants from private subjects for connections;
- Euro 620,456 for grants for network extensions;
- Euro 64,765 for the accrued expenditure of the 1st six-monthly repayment instalment of 2017 on the loan of a nominal amount of Euro 16 million from Intesa Sanpaolo, with repayment instalments at 31 May and 30 November;

- Euro 14,365 for the accrued expenditure of the 1st six-monthly repayment instalment of 2017 on the loan of a nominal amount of Euro 6 million from BNL S.p.A. (former Idra Patrimonio S.r.l.) with repayment instalments at 16 May and 16 November;
- a deferred liability of Euro 1,500 towards the EIB for commissions on the amount not issued;
- Euro 150,891 for other deferred liabilities.

Of the values posted under the accrued expense and deferred liabilities, Euro 818,728 is ascribable to the Amiacque S.r.l. financial statements, the difference to CAP Holding S.p.A.

- deferred liabilities of Euro 49,878 mainly represented by the portion of the costs relative to the period 2016 of the insurance premiums covering users for hidden leaks, which will be paid in 2017;
- deferred liabilities of Euro 768,850 represented by contributions received from users for the completed execution of aqueduct and sewer connections which will be posted under the revenues in successive periods in connection with the amortisation of the relative assets.

Information on the overall amount of commitments, guarantees and potential liabilities

Pursuant to art. 2427, paragraph 1, point no.16, the main commitments and the amount of the guarantees provided are listed below:

Liabilities for sureties for Euro 15,094,763, of which:

- Euro 7,235,392 represents guarantees issued by banks in favour of various subjects;
- Euro 7,759,371 for insurance sureties, of which Euro 6,733,109 in the interests of Cap Holding per for the agreements on the assignment of the integrated water services, in favour of the ATO Authorities of Milan and of Monza and Brianza, and of which Euro 1,026,262 is in favour of Amiacque to guarantee the VAT rebate request of 2012;
- Euro 100,000 for guarantees issued by CAP Holding S.p.A. in favour of Banca Popolare di Milano in the interests of Rocca Brivio Sforza in liquidation S.r.l. for the issue of a bank loan.

Commitments for Euro 64,904,783, of which:

- Euro 38,700,694 represents the residual loan repayment instalments due to local bodies in the period 2017-2033 for the use of the networks and plant that they own (Euro 33,262,495 of which will fall due after 12 months);
- Euro 26,102,095 is the estimated amount of the interest expense which will be paid to lenders in the period successive to 01/01/2017, on loans taken out and/or assumed and to be repaid within the closure of the period;
- Euro 101,994 due to Rocca Brivio Sforza S.r.l. as the residual amount to be contributed to the principal pursuant to a shareholders' agreement signed on 15/07/2005;
- obligations towards third parties for Euro 6,725,800, of which:
 - Euro 160,833 for past obligations deriving from the conferment on Pavia Acque S.r.l. of the business unit pursuant to art. 2560 of the Civil Code (deed of conferment of 15 July 2008);
 - Euro 1,831,759 for past obligations deriving from the conferment on Pavia Acque S.r.l. of the business unit pursuant to art. 2560 of the Civil Code (deed of conferment of 2016);
 - Euro 4,733,209 for past obligations deriving from the spin-off of Idra Patrimonio S.p.A. to the benefit of Idra Milano S.r.l. (this latter incorporated into CAP Holding S.p.A. in 2015) and Brianzacque S.r.l.

The concession of the use of plant owned by local authorities for Euro 183,267,530, relative to integrated water service networks, collectors and systems used by the GAP Group.

Instalments falling due on leasing agreements for Euro 117,313.

DERIVATIVE FINANCIAL INSTRUMENTS – INTEREST RATE SWAPS

The CAP Group, during the years 2006 and 2007, entered into certain Interest Rate Swap agreements (three with Banca Innovazione Infrastrutture e Sviluppo and one with BNP Paribas), and in 2013 the incorporated company T.A.M. S.p.A. also entered into an interest rate swap agreement (with Monte dei Paschi) and in 2015 it acquired a sixth from the incorporated company Idra Milano S.r.l. (of which Banca Nazionale del Lavoro S.p.A. is the counterparty).

type of derivative contract	multi-phase IRS with MPS	interest rate swap with Intesa	interest rate swap with Intesa	interest rate swap with Intesa	interest rate swap with BNP Paribas	interest rate swap with BNL
	1	2	3	4	5	6
contract date	14/06/2006	17/02/2006	21/06/2006	11/07/2006	22/01/2008	16/05/2011
purpose	interest rate	loan hedging	loan hedging	loan hedging	loan hedging	interest rate

	hedging					hedging
contract number	72399	602170669	606210341 (13079114)	607120274 (12049552)	10706142	5963433
notional value	1,626,816	55,313,163	22,972,885	20,000,000	19,389,639	6,000,000
existing principal	523,732	12,461,771	0	4,444,460	12,359,389	4,384,615
settlement date	31/12/2020	31/12/2021	31/12/2016	31/12/2019	31/12/2026	16/05/2026
underlying financial risk					variability of interest rates	
mark to market	-55,574	-25,216,338	0	-3,892,523	-2,667,477	-77,716
asset/liability covered	MPS loan	Cassa Depositi e Prestiti loans	loan from Intesa (formerly Banca OPI 2002)	bond	loan from Intesa (formerly Banca OPI 2006)	loan from BNL, formerly Idra Patrimonio
Type of derivative contract	multi-phase IRS with MPS	interest rate swap with Intesa	interest rate swap with Intesa	interest rate swap with Intesa	interest rate swap with BNP Paribas	interest rate swap with BNL

(*) N.B. the existence of the floor option on the interest rates determines, for the last four instalments, the possibility of collecting a periodic sum of Euro 300,000.

They all refer to underlying liabilities of a financial type.

The first position (acquired from the company TAM S.p.A. subsequent to the incorporation into CAP Holding S.p.A. in 2013) is a pure hedge against the risk of interest rate variations.

The sixth position (acquired from the company IDRA Milano S.r.l. - which had in turn succeeded IDRA Patrimonio S.p.A., by the partial spin-off in 2014 - subsequent to the incorporation in 2015) is a hedge (at least partial) against the risk of interest rate variations.

The others are duration swaps, i.e. they are financial instruments created for the purpose of transforming and standardising, in terms of current value, debt repayment schemes.

For position no. 3, the natural extinction date falls on 31 December 2016.

By their dynamics, duration swaps generally transform the distribution of the underlying instalments over a period of time. In particular, in the case of fixed interest rate loans (the major part of the underlying loans), they had the purpose of mitigating the rates of the first years in exchange for a progressive increase in said rates as the expiry date of the loan approaches. Transformation on the payment dates in the implementation of duration swaps is not achieved free of charge: the bank which is counterparty to the swap applies a spread in its favour on the interest rate curve used for the remodelling of the instalment plan. Said spread is the bank's remuneration.

In other words, in general, a duration swap is similar to a loan which, under the risk conditions mentioned in the Directors' Management Report of the period in which it was signed, allows the CAP Group to obtain a saving in terms of the repayment of the principal and interests on the first repayment dates, with a higher disbursement in the later repayment dates.

Except for swap no. 5, for the last years, and if the situation contemplated by a floating rate clause comes to pass (with reference to the trend of a Euribor rate) in the period from 31 December 2024 to 31 December 2026, will the Company benefit from a positive overall theoretic cash flow up to a maximum sum of Euro 1,200,000 (which allows the CAP Group the possibility of benefiting from a theoretic decrease in rates), however, considering that this is a component which will be either zero or collected by the Company, there seems to be no risk in respect of cash flows.

For the swap listed under no. 4 (relating to the variable rate bond, ISIN code IT0003853568, issued by the CAP Group, on one side the CAP Group must pay a predetermined repayment instalment which increases over time, and on the other side the bank must pay the same portion of the principal and the same portion of interests (net of a spread) contemplated by the underlying bond.

The bank has allowed the CAP Group to limit the interest rate risk, but at the same time it does not allow the Group, during the term of the contract, to benefit from possible reductions in the variable interest rate to which the underlying liability is indexed.

The accounting of the swaps takes into account OIC no. 32 of December 2016, i.e. the concept of the fair value of the instrument.

IRS (interest rate swap) no. 1, stipulated by the former TAM S.p.A., and IRS no. 6, stipulated by the former Ibra Patrimonio S.p.A., to limit the risk of variations in the interest rate of the loan, are posted under the assets (when positive) or the liabilities (when negative - in particular on the Balance Sheet under item B3 - derivative financial instrument liabilities) according to the fair value, and an offset entry is posted under item AVII - Reserve for expected hedging transaction cash flows.

For the duration swaps, in view of the specific nature described above and acknowledging the negative mark to market value:

1. on one hand the criteria and principles of previous periods have been followed. This is to say that the already known total burden of the contract is posted according to the accruals method (known as the negative delta between the incoming and outgoing cash flows) on the Income Statement, for the entire duration of the swap (proportionately).
2. on the other hand, the difference between the mark to market of the instrument at 31 December 2016 taking into account the deferred tax effect, and the value already posted, pursuant to point 1 above, at the same date under the Deferred Liabilities, is posted under item AVII - Reserve for expected hedging transaction cash flows, with an offset entry under the Balance Sheet item B3) derivative financial instrument liabilities.

Consequently the algebraic sum of the amounts entered under the aforesaid three balance sheet items corresponds to the mark to market of the instrument, taking into account the tax effect.

Also for 2015, the said item has not been adjusted taking avail of the possibility of exclusion inasmuch as being a cost.

ANALYSIS OF INCOME STATEMENT ITEMS

A. PRODUCTION VALUE

Balance at 31.12.2016	304,109,386
Balance at 31.12.2015	268,844,179
Change	35,265,207

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

Production value is Euro 304,109,386.

This derives from:

A. 1. Revenues from sales and services

Revenues from sales and services ascribable to the CAP Group at 31 December 2016 amount to Euro 260,000,502 (Euro 239,693,513 at 31 December 2015).

In 2015 the item amounted to Euro 239,693,513. To more clearly represent certain income and revenue items of 2015 classified under A.5, they have been reclassified under A.1 at Euro 770,795 as shown in the following table:

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
A.1) Revenues from sales and services	238,922,718	239,693,513	770,795
Item total	238,922,718	239,693,513	770,795
- item of provenance:			
A.5 a) Other revenues and income	770,795	-	(770,795)
Reclassified total	239,693,513	239,693,513	-

They mainly comprise income from tariffs.

It may be remembered that as of 01 January 2014, for the ATO coinciding with the former Province of Milan (excluding the capital city), the full tariff of the integrated water service was charged to the provider CAP Holding S.p.A. (with the stipulation of the twenty year agreement for the assignment of the integrated water service on 20 December 2013 between CAP Holding S.p.A. and the ATO Office of the Province of Milan, with effect from 01 January 2014 to 31 December 2033).

For the Brianza ATO, it may be remembered that, as a natural consequence of the current industrial and hydrogeological situation, the provider of certain areas of the territory of Monza, especially for purification and also some parts (captation and input) of the aqueduct service, the ATO of the Province of Milan is and will remain the sole provider.

As explained in more detail in the Director's Management Report, for the activities performed by CAP Holding S.p.A. the tariffs are prevalently controlled, as of 2016, by the EGA with competence in this context acting as "wholesaler" (in the sense indicated in Annex A of the AEEGSI resolution no. 664/2015/R/IDR of 28 December 2015 for the "*approvazione del metodo tariffario idrico per il secondo periodo regolatorio MTI – 2*" [approval of the water tariff method for the second regulatory period MTI – 2]).

On this point, in May 2016, the EGA of the Metropolitan City of Milan and that of the Province of Monza and Brianza entered into an "*Accordo di regolazione delle aree di interambito della Città metropolitana di Milano e della Provincia di Monza e Brianza in merito alla gestione del servizio, alla programmazione degli investimenti e alla definizione di politiche tariffarie coerenti*" [agreement for disciplining the management of the service, the programming of investments and the definition of coherent tariff policies for the inter-ATOs of the Metropolitan City of Milan and of the Province of Monza and Brianza], with a duration until 31 December 203. Said agreement contemplated, among other things, under paragraph 5 of art. 5. that "*Ciascun EGA procederà quindi alla predisposizione della tariffa per il proprio gestore del SII e per le sue singole prestazioni di Gestore grossista verso gli altri ATO*" [each EGA would therefore proceed to define the tariff for its own integrated water service provider and for the single activities of the provider-wholesaler performed for the other ATO] And, under paragraph 7 of the same article, that: "*L'EGA ricevente inserirà comunque i costi relativi al gestore Grossista nella tariffa del proprio gestore*" [The receiving EGA would, in any case, include the costs of the provider-wholesaler in the tariff of its own provider].

Successively, on 29 June 2016, CAP Holding S.p.A. stipulated with the EGA of Monza and Brianza, a specific "*Convenzione tra Ufficio d'Ambito della Provincia di Monza e Brianza e in qualità di grossista nelle zone di interambito*" [agreement between the ATO Office of the Province of Monza and Brianza and, in the role of wholesaler in the inter-ATOs] for the same term as the agreement in force between CAP Holding S.p.A. and the ATO of the Metropolitan City of Milan. Under art. 5, paragraph 1, it rules, among other things, that: "*La tariffa spettante a CAP Holding, con riguardo ai servizi resi, verrà definita alla luce delle pertinenti disposizioni tariffarie dettate dall'Autorità per l'Energia Elettrica il Gas e il Sistema Idrico, con l'obiettivo di garantire il principio del pieno riconoscimento degli investimenti realizzati e dei costi sostenuti dalla medesima CAP Holding e finalizzati all'erogazione dei servizi all'ingrosso, concordati con gli EGA interessati, per la durata almeno necessaria a consentire a CAP Holding il recupero del costo degli investimenti stessi.*" [The tariff due to CAP Holding, for the services rendered, will be defined in the light of the pertinent tariff provisions dictated by the Electrical Energy Gas and Water Authority in order to guarantee the principle of the full recognition of the investments made and the costs sustained by CAP Holding aimed at the wholesale provision of the service, agreed with the EGA concerned, for at least as long as necessary to allow CAP Holding to recover the costs of its investments]. Under paragraph 2 of the same art. 5, it is established, among other things, that: "*Agli obblighi di predisposizione tariffaria, stanti le attuali disposizioni tariffarie, provvederà l'ATO Città Metropolitana di Milano*" [In view of the present tariff provisions, the ATO of the Metropolitan City of Milan will meet the obligations of the tariff rules].

Given all the above, the AEEGSI (Electrical Energy Gas and Water Authority):

- with resolution no. n. 503/2016/r/idr of 15 September 2016 approved the specific regulatory scheme, bearing the tariff provisions for the period 2016-2019, proposed by the ATO office of the Metropolitan City of Milan;
- with resolution no. 523/2016/r/idr of 22 September 2016, approved the tariff provisions for the period 2016-2019, proposed for certain providers operating in the ATO of Monza and Brianza, approving, among other things the wholesale aqueduct and purification tariffs of CAP Holding S.p.A. in the ATO of the Province of Monza and Brianza, confirming the tariff scheme proposed by the ATO of the

Metropolitan City of Milan and on which the ATO of Monza and Brianza expressed a favourable opinion, as contemplated under art. 16 of AEEGSI resolution no. 656/2015.

Resolution no. 3 of 12 September 2016 of the EGA of Milan (the Conferences of the town councils of the ATO of the Metropolitan City of Milan) has, among other things, defined the le *“Determinazioni tariffarie effettuate dall’Ufficio d’Ambito dell’ex ATO Città di Milano e dall’Ufficio d’Ambito della Provincia di Lodi in relazione all’attività di “grossista” dei rispettivi Gestori del SII (MM S.p.A. e SAL S.r.l.) svolte sul territorio dell’ATO Città Metropolitana di Milano.”* [Tariff schemes adopted by the ATO office of the former ATO of the City of Milan and by the ATO Office of the Province of Lodi for the activity of “wholesaler” of the respective providers of the integrated water service (MM S.p.A. and SAL S.r.l.) carried out on the territory of the ATO of the Metropolitan City of Milan].

Resolution no. 4 of 31 May 2016 of the EGA of Milan (the Conference of town councils of the ATO of the Metropolitan City of Milan, “Approval of tariffs, AEEGSI resolution no. 664/2015/R/Idr - regulatory period 2016 - 2019, etc.”), has, among other things, approved the V.R.G. [guaranteed wholesaler's revenues] for CAP Holding S.p.A. as well as for the integrated water services for the ATO of the Metropolitan City of Milan, also for the service of wholesaler of the purification service for the ATO of Monza and Brianza, therefore for the activities of aqueduct services wholesaler for the ATO of Monza-Brianza, then for the service of "Purification wholesaler for the ATO of the City of Milan", therefore for the service of purification wholesaler for the ATO of Lodi, and lastly for the service of purification wholesaler for the ATO of Como.

All the above means that as of 01 January 2016, for the activities performed as a “Wholesaler Provider” by CAP Holding S.p.A., the position as main wholesaler for the various ATOs for which the aforesaid activities are performed represents a right held by CAP Holding S.p.A. to receive from said ATOs a regulated fee (a sort of wholesaler's V.R.G.), and no longer, as happened until 31 December 2015 (when the aqueduct was, unlike the other segments of the service, managed by another “subject”), as the recipient of a specific portion of the tariff (the right to receive the specific portion of the tariff, for "purification" rather than for “sewage activities”, that the Provider of the aqueduct services received after having included them in the “invoices/bills” sent to the customers in the specific district concerned).

For more complete understanding of this “relationship” it is also worth noting that the risk of non-collection (temporary or definitive) now bears only on the main Provider. Few providers (especially in the towns of the Monza area) are still provisionally "disciplined" as in preceding years.

Symmetrically, the CAP Group must recognise to the subjects qualified as “Wholesalers”, for the activities that they perform for the “metropolitan” district, a regulated fee and cannot act in their favour with mere “tariff sharing”. In turn, the VRG of said Wholesalers are an element of the VRG of the Provider CAP Holding S.p.A.

With regard to accounting, this means that said fees, collectable and payable, as of 01 January 2016, are, within the sphere of the CAP Holding S.p.A. Group, respectively direct revenues and costs of the parent company.

Before 2016, the payable fees were treated as “tariff portions to be shared”, i.e. merely as items of the Balance Sheet liabilities (due to third parties) that the CAP Group posted, after issuing the invoice/bill, with an offset item under the trade receivables.

i) Revenues from sales and services in the ATO of the Metropolitan City of Milan.

With regard to regulated revenues of the ATO of the Metropolitan City of Milan, except for the capital city, what is indicated above holds firm, i.e. resolution no. 503/2016/r/idr of 15 September 2016, has *approved the specific regulatory scheme, bearing the tariff provisions for the period 2016-2019, proposed by the ATO office of the Metropolitan City of Milan*, transmitted on 13 June 2016, by the ATO Office of the Metropolitan City of Milan.

The tariff scheme of reference for 2016 is the so-called MTI-2, introduced by AEEGSI resolution no. 664/2015/R/idr of 28 December 2015, which covers the period 2016-2019 (with a two-year tariff review for the years 2018-2019).

For this ATO, therefore, the revenue for 2016 has been determined on the basis of the rule of guaranteed revenues (“V.R.G”) due to the Provider CAP Holding S.p.A. recognised by the AEEGSI.

Overall, the revenues of the integrated water service tariff of the ATO of the Province of Milan, determined according to the said VRG, amount to Euro 220,179,707 for 2016. In addition to these, there are also RCEE [Energy Efficiency Control Report] tariff adjustments relating to 2013 for Euro 793,027: this is the increased recognition on the tariff of electricity costs which derives from two aspects; acceptance on the part of the Monza-Brianza ATO and the Metropolitan City of Milan ATO of the request made by CAP for the recognition of a higher average cost (€/kwh) than that proposed in the AEEGSI tool and recognition of the effective consumptions in 2013 compared to those included in the 2015 tariff, which were consumptions prior to the final count.

Thus the revenues of 2016 also included those tariff components which, by effect of art. 29 of the Annex of resolution 664/2015/R/Idr, refer to activities and therefore to costs considered "external", sustained in 2015, but which will be subject to adjustment on the occasion of the regulation of tariffs for 2017 (specifically under the items "contribution paid to AEEGSI" and "local charges", and an estimate for electricity).

On the basis of the same mechanism, which most obviously reflects at regulatory level the "guaranteed revenue" logic adopted for the integrated water service tariff, the portion of revenues (and hence receivables) which, already recognized in the VRG for 2016, has not been materially billed for fuel consumption in 2016, but will be in subsequent years (so-called volatility and / or price shift effect) is also withheld on the 2016 accounts.

The same holds firm for receivables for invoices still to be issued at 31 December 2016, resulting from the VRG for the financial years 2012 and 2013 (based on the Transit Tariff Method (MTT) pursuant to AEEGSI resolution no. 585/2012/R/IDR, MTT) and for the financial years 2014 and 2015 (based on the Tariff Method of the first regulatory period 2012-2015, pursuant to AEEGSI resolution 643/2013/R/IDR, MTI).

Part of the above revenues are invoiced, as shown in the paragraph "Transactions with Related Parties", by the subsidiary Amiacque S.r.l.

The total amount of income from tariffs in the same Province also includes the tariffs relating to the town of Corsico (Milan) where the subject that bills the purification and sewage service is not the subsidiary Amiacque S.r.l. but the company Metropolitan Milanese S.p.A., for Euro 1,710,646.

The revenues reported here for 2016 include the New Investments Fund component, for a gross amount of Euro 11,239,833. This amount is part of the revenue recognized to the Provider and is destined to finance all the investments it has to make in compliance with the ATO Plan, with the exception of a part, precisely Euro 2,000,000, destined for tariff concessions for social purposes.

ii) Revenues from sales and services in the Monza Brianza ATOs.

With regard to regulated revenues of the Monza and Brianza ATO, the above also holds firm, i.e. with resolution no. 523/2016/r/idr of 22 September 2016, the AEEGSI approved the tariff provisions for the period 2016-2019, proposed for certain providers operating in the ATO of Monza and Brianza, approving, among other things, the aqueduct wholesaler and the purification wholesaler tariffs of CAP Holding S.p.A. in the ATO of the Province of Monza and Brianza, confirming the tariff scheme proposed by the ATO of the Metropolitan City of Milan and on which the ATO of Monza and Brianza expressed a favourable opinion as contemplated under art. 16 of AEEGSI resolution no. 656/2015.

Also for the Monza and Brianza ATO the tariff method of reference is the so-called MTI-2, introduced by AEEGSI resolution no. 664/2015/R/idr of 28 December 2015, which covers the period 2016-2019 (with a two-year tariff review for the years 2018-2019).

Also for the Monza-Brianza ATO the considerations expressed in the paragraph on the ATO of the Province of Milan hold firm, regarding:

- the regulatory adjustments of the period relative to the external costs of 2016, which will be formalised in the VRG for 2018;
- the entry under the revenues (and therefore also under the receivables) of what has already been recognised in the VRG for 2016 but was not actually charged on the 2016 consumption bills.

Overall, the revenues of the integrated water service tariff of the Province of Monza and Brianza, determined according to the said VRG, amount to Euro 10,296,873 for 2016.

The revenues reported here for 2016 include the New Investments Fund component of Euro 1,658,174.

The tariff resolutions no. 503/2016/r/ldr of 15 September 2016 and no. 523/2016/r/ldr of 22 September 2016, were both based, for that matter, on the presumption that between the CAP Holding S.p.A. Group and Brianzacque S.r.l certain business units would be sold in 2016 relating to certain towns in the North-East of the Province of Milan and the South-East of the Brianza area (transactions which took place with effect as of 01 March 2017), so that some "corrections" had to be made in the revenues due to CAP Holding S.p.A. for 2016 in respect of the VRG approved as a wholesalers' VRG.

In fact, with resolution 502/2014/R/ldr which approved the 2014-2015 tariff updating for the Province of Monza and Brianza, the AEEGSI had redefined the 2012-2013 adjustments for 2012-2015 due to CAP Holding S.p.A. without acknowledging the validity of the calculation procedure adopted by the governing body of the Province of Monza and Brianza. This led to a loss for CAP Holding S.p.A. of approximately Euro 613 thousand posted on the 2014 financial statements. To this regard an appeal was lodged by the ATO of Monza and Brianza and CAP Holding SpA, and subsequent to AEEGSI resolution no. 523/2016/R/dr which approved the consequent the tariff proposed by the Governing body of the ATO of the Province of Monza and Brianza, CAP Holding S.p.A. was recognised that portion of the tariff, amounting to Euro 1,949,890, which could then be registered as a contingent asset in the 2016 accounts. For Amiacque S.r.l. the amount is Euro 1,588,791 of which 263,519 regards the Control Report Vol 2013 and Euro 1,325,272 relating to the RCEE 2013.

iii) Revenues from sales and services in the ATOs of the Province of Pavia

For the Pavia ATO, the entire tariff as of 01 January 2014 is due to the companies of the consortium Pavia Acque S.c.a.r.l. pursuant to the agreement assigning the service signed by said companies and the Pavia ATO Office on 20 December 2013.

Therefore the CAP Holding S.p.A. Group no longer has any income from tariffs for that ATO. However, since CAP Holding S.p.A., as a member of the said consortium, has been appointed to operate various infrastructures in various towns of the Pavia area (which service it provides through its subsidiary Amiacque S.r.l.), it posts revenues on its accounts arising from the prices recognised to the same by Pavia Acque S.c.a.r.l. for said industrial activities. For 2016 they amounted to Euro 2,377,596 (Euro 3,440,312 in 2015).

Always for the Pavia ATO, CAP Holding S.p.A. includes in its revenues of the period an amount received for the use on the part of Pavia Acque S.c.a.r.l. of certain infrastructures owned by the former, at a value equal to the book depreciation of said assets plus the costs for the financial charges it pays for certain loans. For 2016 this figure amounted to Euro 653,324 (Euro 757,794 in 2015).

This last sum will no longer be received as of 2017, due to the deed of the conferment of said infrastructures signed on 23. December 2016, notary Trotta of Pavia, deed no. 138720, dossier no. 53119.

All together revenues for activities performed in the Pavia ATO amount to Euro 3,870,919.

iv) Revenues from sales and services in other ATOs

The remaining incomes posted under item A1, relate to minor ATOs and/or situations:

- for the Varese ATO, the tariff due to CAP Holding S.p.A. for Gorla Minore, of Euro 88,024, as its portion of the tariff, and Euro 138,850 for Amiacque S.r.l. We mention again that the activity performed for the town of Castellanza (Varese), however, is included in the V.R.G. of the Metropolitan City of Milan.
- for the Como ATO, solely for the town of Cabiato and some users in Mariano Comense, the tariff due to CAP Holding S.p.A. for purification, Euro 167,908 for the former and Euro 17,253 for the latter (wholesaler's "VRG" income); (*)
- for the City of Milan, where the main provider is MM S.p.A., the tariff due to CAP Holding S.p.A. for purification for the eastern districts at the purification plant of Peschiera Borromeo, Euro 4,191,105 (the wholesaler's "VRG" income); (*)
- for the Lodi ATO, where the main provider is SAL S.r.l., the tariff due to CAP Holding S.p.A. for purification for the towns of Borghetto Lodigiano, Graffignana and Livraga, by means of the CAP Holding S.p.A. purification plant in the town of San Colombano al Lambro (an enclave of the Province of Milan in the area of Lodi) for Euro 375,248 (the wholesaler's "VRG" income);

Lastly the revenues also include Euro 1,105,530 pursuant to the agreement/private deed of 12 March 2012 between Brianzacque S.r.l. and IDRA Patrimonio S.p.A., for "accepting and managing assets and for reimbursement of overheads and of investments". The assets in question are located in the ATO of the Metropolitan City of Milan, but they partially also serve the Monza and Brianza ATO. The respective income in 2015 was Euro 3,733,176. Between 2016 and 2015 this income fell consequent to the acquisition on the part of the CAP Group, as of 01 January 2016, of business units of the "Cassano purifier" from Brianzacque S.r.l.

(*) For these managements in 2015, CAP Holding S.p.A. was entitled to a consideration recognised by Amiacque S.r.l. for its use of the works of CAP Holding S.p.A. for the treatment of sewage discharged into CAP Holding S.p.A. plants. Amiacque S.r.l., instead, received the corresponding tariffs.

The other revenues also include metre rentals for Euro 787,912.

In addition Amiacque S.r.l. has posted revenues under the item "Other revenues from sales and services" which include the revenues from the disposal of sludge and wastes carried out at the purification plants at Robecco sul Naviglio and at Turbigio (Euro 89,329), the remuneration for the activity of invoicing the users for the company that manages the sewer and purification services (Euro 267,396) and other revenues for services and activities supplied to users (Euro 134,529).

A.3. Changes in works in progress to order

The total Euro 60,946 (Euro 4,431,297 in 2015) consequent to the completion of stage 2-4 of the pluriannual order for the creation of the Cagnola water source commissioned by the Region of Lombardy.

A.4. Increases in fixed assets for internal works

In 2016 the increases in fixed assets for internal works amount to Euro 27,896,052 (Euro 15,910,449 in 2015), and they regard:

- the capitalisation of the costs of personnel on commissioned jobs, with capital expenditure for Euro 3,313,445;
- Euro 24,582,607, for the reclassification for the purposes of consolidation, of the revenues of Amiacque for non-routine maintenance commissioned (and then capitalised) by CAP.

A. 5. Other revenues and earnings

The item "Other revenues and income" includes the other income from the Company's core business, that cannot be posted under the item Revenues for sales and services. The value at 31 December 2016 is Euro 16,151,886.

In 2015 the above figure totalled Euro 17,671,541 (adjusted pursuant to the amendments introduced by Legislative Decree no. 139/2015), due to the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed, amounts to Euro 665,846.

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
A.5 Other revenues and income	18,079,499	17,413,653	(665,846)
Item total	18,079,499	17,413,653	(665,846)
- item of provenance:			
A.1) Revenues from sales and services	(770,795)	-	770,795
E.20) Extraordinary income and charges	104,949	-	(104,949)
total reclassifications	(665,846)	-	665,846
Reclassified total	17,413,653	17,413,653	-

Breakdown by macro-items is given below:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Sundry	6,775,431	10,352,053	(35,766,229)
Considerations	8,756,877	7,061,600	1,695,277
contributions to operating expenses	619,578	257,861	361,717
Total other revenues and income	16,151,886	17,671,514	(1,519,628)

The revenues include:

- "Insurance premiums to cover leaks": these include the premiums for insurance effective in 2016 paid by users that adhere to the insurance proposed by Amiacque to cover risks deriving from hidden leaks downstream of the metre, for Euro 91,852;
- "Other revenues and income": this item includes revenues ascertained by Amiacque S.r.l. for fees debited on the bills, for laboratory analyses, the issue of green certificates and for other income of the period connected with the provision of the service for Euro 519,359;
- The item "rentals and leases" for Euro 134,976, which includes the income for the rental of the building/warehouse at Casalpusterlengo (Lodi) to the tenant, namely the company S.A.L. S.r.l. (Società Acque Lodigiane), for Euro 116,559, and of the head office of Rozzano (Milan) rented to the company Confservizi Cispel Lombardia, for Euro 18,417;
- revenues for the installation of aerials, for Euro 493,248;
- penalties to suppliers and customers, for Euro 494,774;
- reimbursements for Euro 276,352;
- contingencies for Euro 2,430,333.

The item "Considerations" includes:

- Euro 2,316,342 for expansion/connection works requested by private subjects and by town councils which have been carried out by CAP Holding S.p.A., which were carried out in preceding periods mainly by Amiacque S.r.l.;
- Euro 4,951,445 for the annual quota of the ATO contribution to plants in service; the ATO contributions are posted under deferred liabilities and used at the moment of the start-up of the plants for which the amortisation has been registered;
- Euro 1,489,080 for plant functioning grants; this is an annual percentage of the income
- from the plant functioning grants received from the Region and of the portion of the rediscounted network extension grants.

The grants paid by private subjects for financing network extension works, excluding those deducted from primary urbanisation charges, and the grants for aqueduct and sewer connections, are rediscounted. They are therefore posted under the revenues when they enter into service, when their amortisation also begins, as in the case of plant contributions.

More specifically:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Rental fees received	628,224	673,096	(44,872)
Penalties from suppliers and customers	494,774	29,076	465,698
Insurance premiums to cover losses	91,852	238,717	(146,865)
Compensation for damages and other reimbursements	276,352	560,792	(284,440)
Reimbursement for personnel on transfer	24,179	1,083,847	(1,059,668)
Tariff adjustments	-	-	-
Other revenues and income	2,829,717	5,894,856	(3,065,139)
contingencies	-	-	-
Payments from companies for services invoiced by cap	-	785,857	(785,857)
other contingencies	2,430,333	1,085,812	1,344,521
Considerations for the execution of works	-	-	-
Total	6,775,431	10,352,053	(3,576,622)
Considerations			
Considerations from private subjects and town councils	2,316,342	887,411	1,428,931
Grants from ATOs	4,951,455	4,575,137	376,318
Capital grants	1,489,080	1,599,052	(109,972)
Total	8,756,877	7,061,600	1,695,277
contributions to operating expenses	619,578	257,861	361,717
Total	619,578	257,861	361,717
Total other revenues and income	16,151,886	17,671,514	(1,519,628)

B. PRODUCTION COSTS

Balance at 31.12.2016	252,666,349
Balance at 31.12.2015	226,669,529
Change	25,996,820

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

The value of the *Production costs*, amounting to Euro 252,666,349 at 31 December 2016, derives from:

B. 6. Costs for raw, ancillary and consumable materials and goods

The costs for raw, ancillary and consumable materials and goods amount to a total of Euro 11,054,300 at 31 December 2016 (Euro 10,105,459 in 2015).

For the sake of the more precise representation of certain items of the sundry management costs of 2015, classified under item B.1 in 2015, said items, which total Euro 1,979, have been reclassified to item B.6 as shown in the following table:

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
B.6 Raw, ancillary and consumable materials and goods	(10,103,479)	(10,105,459)	1,979
Item total	(10,107,252)	(10,105,459)	1,979
- item of provenance:			
B.14) Sundry operating costs	(1,979)	-	(1,979)
total reclassifications	(1,979)	-	(1,979)

Reclassified total	(10,109,232)	(10,105,459)	-
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Breakdown:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Consumable materials	648,233	731,050	(82,817)
Consumable materials for safety in the workplace	382,801	582,939	(200,138)
Electrical and hydraulic components	1,377,498	2,226,166	(848,668)
Metres	2,363,314	1,966,908	396,406
Materials destined for works	228,339	2,832,592	(2,604,253)
Potable water filters and raw materials for rendering water potable	411,305	489,522	(78,217)
Electrical pumps	4,739,667	275,585	4,464,082
Fuels and combustibles	541,876	681,083	(139,207)
Wholesale water provisioning	361,267	319,614	41,653
Total costs for raw, ancillary and consumption materials and goods	11,054,300	10,105,459	948,841

B. 7. Costs for services

Ascertained costs for services amount to Euro 108,985,768 at 31 December 2016 (Euro 82,145,701 in 2015).

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Works financed by private and public subjects	18,862,662	11,498,723	7,363,939
Estimates and projects financed by CAP Holding (not included in the investments plan)	-	-	-
routine maintenance	11,599,903	2	11,597,894
work on plants and waterworks houses	80	569	(489)
Demolition of tanks	971	137	(136)
Costs for industrial services	43,077,800	48,822,444	(5,744,644)
Total costs for industrial services	73,620,972	61,028,796	12,592,176
Other administrative, general and commercial costs	35,364,796	21,116,905	14,247,891
Total other administrative, general and commercial costs	35,364,796	21,116,905	14,247,891
Total costs for services	108,985,768	82,145,701	26,840,067

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, for Euro 912,985, that have now been suppressed as shown in the table:

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
B.7) Costs for services - other services	(81,232,716)	(82,145,701)	912,985
Item total	(81,232,716)	(82,145,701)	912,985
- item of provenance:			
B.14) Sundry operating costs	(911,546)	-	(911,546)
E.21) Extraordinary charges	(1,439)	-	(1,439)
total reclassifications	(912,985)	-	(912,985)
Reclassified total	(82,145,701)	(82,145,701)	-

The breakdown of industrial services is given below

Costs for industrial services	Balance at 31.12.2016	Balance at 31.12.2015	Change
Electricity	32,071,008	32,632,190	(561,182)
Works financed by private and public subjects	-	-	-
Estimates and projects financed by CAP Holding (not included in the investments plan)	18,862,662	10,874,244	7,988,418
work on plants and waterworks houses	79,637	569,017	(489,380)
Demolition of tanks	971	136,603	(135,632)
Routine maintenance	11,599,903	8,091,451	3,508,452
Non-routine maintenance	-	-	-
expenses for disposal of sludge and wastes	4,900,315	4,635,767	264,548
Regeneration with active carbons	1,465,206	1,499,178	(33,972)
sundry industrial services	4,393,583	2,590,346	1,803,237
Maintenance of equipment at offices and warehouses	-	-	-
Maintenance and servicing of vehicles (contractual expenses for business unit mgmt/personnel on transfer)	247,688	-	247,688
Internal consumptions	-	-	-
Total costs for industrial services	73,620,972	61,028,796	12,592,176

Costs for administrative, general and sales costs amount to Euro 35,364,796 and are detailed in the following schedule:

Costs for general administrative services	Balance at 31.12.2016	Balance at 31.12.2015	Change
Board of Directors' costs and fees	264,858	270,292	(5,434)
Board of Statutory Auditors' fees	135,902	200,326	(64,424)
charges for corporate bodies	-	-	-
supervisory body's fee	75,312	80,310	(4,998)
Remuneration for coordinated and continuous collaboration contracts	26,437	353,772	(327,335)
Specialist consultancy fees	2,111,410	2,063,085	48,325
Maintenance of head office, hw, sw, equipment, etc.	2,157,528	1,294,447	863,081
Surveys and mapping of sewer networks	15,332	3,780	11,552
Sundry other services	1,520,151	1,395,422	124,729
Personnel	1,820,962	1,373,118	447,844
Service agreements	111,082	394,987	(283,905)
Cleaning and surveillance expenses	842,322	1,120,277	(277,955)
telephony expenses	577,006	721,834	(144,828)
utility bills	2,276,731	2,259,029	17,702
insurances	2,401,679	1,868,941	532,738
Bank and postal deposits	434,046	390,052	43,994
other services.	812,067	1,156,499	(344,432)
allocations to provisions for future expenses	8,276,586	2,854,638	5,421,948
Wholesaler's purification contract costs	8,781,489	-	8,781,489
Company hospitality expenses (*)	1,009,220	1,207,320	(198,100)
Management of other offices	1,714,677	2,108,776	(394,100)
Grand total	35,364,796	21,116,905	14,247,891

(*) in 2015 third parties were invoices for hospitality expenses, for Euro 339,665

This item includes:

- the allocation to a provision for future "road rehabilitation" expenses, amounting to Euro 1,334,772. The cost is the best estimate at 31 December 2016 according to the CAP Holding S.p.A. technicians for the road stretches for which, within the same date, the conditions have developed that require the integrated water service provider to take action, in compliance with the provisions of point 2 of resolution no. 5 of 24 May 2016 of the ATO office of the Metropolitan City of Milan. In other words, CAP Holding S.p.A. must provide for repairing municipal roads (when defined tolerance margins are exceeded), that have been damaged more than once by works carried out within the sphere of the integrated water service;
- the allocation to a provision for future environmental reclamation expenses, amounting to Euro 541,813 (flocculation tanks);
- costs sustained for the Wholesalers' agreement relative to purification, for Euro 8,781,488;
- an allocation to the provision for risks relative to decontamination in the case of percolation from the sewer networks, to cover probable soil reclamation costs in the case of pollution caused by the percolation of effluent from imperfect sewer networks. This allocation amounts to Euro 6,400,000.

B. 8. Use of third parties' assets

At 31 December 2016, this item amounts to a total of Euro 12,275,805 (Euro 17,413,430 in 2015).

For the sake of the more precise representation of certain items of the sundry management costs, classified under item B.14 in 2015, said items, which total Euro 34,813, have been reclassified to item B.8 as shown in the following table:

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
B.8) Use of the assets owned by third parties	(17,378,618)	(17,413,431)	34,813
Item total	(17,378,618)	(17,413,431)	34,813
- item of provenance:			
B.14) Sundry operating costs	(34,813)	-	(34,813)
total reclassifications	(34,813)	-	(34,813)
Reclassified total	(17,413,431)	(17,413,431)	-

The cost in 2016 regards: concession fees, the rental fee of the head office premises, the costs for software licences and for the hire of office equipment and vehicles.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Rental and licence fees	1,496,577	1,442,481	54,096
Fees for use of plants	-	-	-
Repayments of loans and concession fees	6,679,485	11,881,448	(5,201,963)
fee for use of well and crossings	1,779,511	1,136,160	643,351
Hire	2,296,958	2,918,528	(621,570)
Negative contingencies	23,274	34,813	(11,539)
Total costs for the use of property of third parties	12,275,805	17,413,430	(5,137,625)

The consideration for the use of the water service plants that the town councils allow CAP Holding S.p.A. to use (for an amount equal to the annual instalment of the loans taken out by the same to finance the works in question), totals Euro 6,679,485. The difference also includes the concession fees paid to the previous providers, subsequent to agreements for taking over the management of the integrated water service assets on the part of Cap Holding.

Rental charges include the costs for hiring cars and company PCs.

B. 9. Personnel costs

In 2015, this item amounted to Euro 8,670,796, and is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, for Euro 251,258, that have now been suppressed as shown in the table below:

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
B.9) Personnel costs	(43,715,094)	(43,966,352)	251,258
Item total	(43,715,094)	(43,966,352)	251,258
- item of provenance:			
B.14) Sundry operating costs	(58,748)	(58,748)	
E.21) Extraordinary charges	(192,510)	(192,510)	
total reclassifications	(251,258)	-	(251,258)
Reclassified total	(43,966,352)	(43,966,352)	-

These regard, pursuant to labour agreements and the laws in force, salaries paid to personnel, allocations to the severance indemnity provision, ancillary costs for personnel and the Company's portion of the welfare and insurance contributions.

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Salaries and wages	30,952,709	30,604,015	348,694
Social security burden	9,903,493	9,964,325	(60,832)
Severance indemnity	2,079,879	2,023,537	56,342
Retirement benefits	238,949	219,568	19,381
Other costs	633,845	1,154,908	(521,063)
Total costs for personnel	43,808,875	43,966,353	(157,478)

B. 10. Depreciation, amortisation and value impairment

This item comprises:

Depreciation, amortisation and impairment	Balance at 31.12.2016	Balance at 31.12.2015	Change
Amortisation of intangible fixed assets	1,607,485	1,916,874	(309,389)
Depreciation of tangible fixed assets	52,862,381	48,203,780	4,658,601
Credit impairment	7,313,491	10,568,730	(3,255,239)
Total depreciation, amortisation and impairment	61,783,357	60,689,384	1,093,973

B.11 Change in raw material inventories

The change in the period in raw material inventories is negative, at minus Euro 467,753 (Euro 446,083 in 2015), consequent to a decrease in warehoused stocks.

B. 12. Allocations for risks

In 2016 allocations were made for Euro 1,721,951, of which:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Allocations for labour lawsuits pending	178,369	46,000	132,369
Allocations to other provisions and risks	-	427,471	(427,471)
Allocation to provision for other lawsuits pending	1,543,582	375,218	1,168,364
For allocation to provisions for amicable settlements	-	1,360,115	(1,360,115)
Total allocations for risks	1,721,951	2,208,803	(486,852)

B. 13. Other allocations

These total Euro 2,336,650. Of the other allocations in 2016, we mention:

- an additional allocation of Euro 336,650 to the provision for future expenses for the decommissioning of buildings. The buildings in question are those in which the head office of the subsidiary Amiacque S.r.l. are housed, located at Via Rimini 34/36, Milan, for which Euro 1,020,435 has been allocated, net of what was already allocated in 2015 for the Genzone plant conferred on Paviacque, posted under item B13 of the Income Statement. Said buildings will, in fact, be demolished, presumably in the two-year term 201-2020 and in their place a new building will be erected to be used as the headquarters of the CAP Group. The parent company has concluded an agreement with the subsidiary for the future purchase-sale of the current area and building, thus indirectly assuming the cost of the future demolition;
- an allocation to a provision for future expenses of the tariff quota for new investments, for the part destined for granting tariff concessions for social purposes. This is consequent to the decision assumed by resolution no. 7 of 31 May 2016 of the Conference of the town councils of the ATO of the Metropolitan City of Milan, to approve the del “*regolamento per la concessione di agevolazioni tariffarie a carattere sociale gruppo CAP*” [CAP Group regulations for granting tariff reductions of a social nature]. Euro 2,000,000 has been allocated for this purpose. Said allocation of Euro 2,000,000 is equal to the portion unused in 2016. The amount that has not yet been used can be used until 30/04/2017, pursuant to a decision in that sense taken by the Board of Directors of the EGA of the Metropolitan City of Milan with Resolution no. 4 of 22 December 2016. The procedure was implemented towards the end of 2016.

In 2015 this item amounted to Euro 1,915,689

B. 14. Sundry operating costs

This residual item of the production costs includes negative income components that cannot be classified under the above mentioned items.

The amount at 31 December 2016 was Euro 10,231,890 (Euro 8,670,793 in 2015).

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
B.14) Sundry operating costs	(7,384,345)	(8,670,793)	1,286,448
Item total	(7,384,345)	(8,670,793)	(1,286,448)
- item of provenance:			
B.6 Raw, ancillary and consumable materials and goods		1,979	(1,979)
B.7) Costs for services - other services		911,546	(911,546)
B.8) Use of the assets owned by third parties		34,813	(34,813)
B.9) Personnel costs		59,079	(59,079)
E.21) Extraordinary charges	(2,293,865)		2,293,865
total reclassifications	(1,286,448)	1,007,417	1,286,448
Reclassified total	(8,670,793)	(8,670,793)	-

The amounts of major importance include:

- expenses for indirect duties and taxes, of Euro 1,013,177;
- expenses for running the ATO Authority and the AEEGSI, for Euro 1,143,319;
- regulatory adjustments for the years 2014-2015, for Euro 3,927,046
- other contingencies for Euro 2,962,511.

In 2016, as in 2015, no amount was allocated (in 2014, however, Euro 5,264,706 was allocated) for recognition of the property rights of town councils to the assets under concession (art. 27 of Legislative Decree no. 285/92). On this point, the Directors' Management Report gives suitable comments.

A detailed summary of the sundry charges is given below:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
Association subscriptions	136,189	90,582	45,607
Books magazines and newspapers	21,057	21,919	(862)
Costs for invoicing commissions	-	-	-
Fees for use of public land	-	-	-
Losses on receivables	41,008	11,701	29,307
Taxes and duties	1,013,177	1,211,624	(198,447)
Fees for recognition of public property rights	-	-	-
Expenses for ATO-AEEG running costs	1,143,319	1,007,422	135,897
socially useful charity donations	20,350	20,490	(140)
crossing fees and costs	-	-	-
Sanctions and fines	12,569	36,986	84,583
expense reimbursements to third parties	565,412	407,649	157,763
Sundry rights	40,534	75,315	(34,781)
Other sundry management costs	210,745	966,323	(755,578)
Capital losses on fixed assets	28,973	2,074,877	(2,045,904)
negative contingencies on VRG adjustments	3,927,046	1,060,443	2,866,603
Other negative contingencies	2,962,511	1,685,790	1,276,721
Consolidation entries	-	(328)	328
Total other sundry management costs	10,231,890	8,670,793	1,561,097

DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A - B)

The difference between production value and costs at 31 December 2016 is positive for Euro 51,443,037 (Euro 42,174,650 in 2015).

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

C) FINANCIAL INCOME AND CHARGES

The balance of the financial income and charges amounts to a negative total of minus Euro 4,815,396 (Euro 4,006,406 in 2015).

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

The other financial income at 31 December 2016 totals Euro 3,056,267 and mainly regards interests on outstanding bills and interests for deferred payment arrangements granted to users.

At 31 December 2016, the financial charges amount to the negative figure of minus Euro 7,871,663.

As required by art. 38, paragraph 2, letter I), of Legislative Decree no. 127 of 09 April 1991, the breakdown of interests and other financial charges, according to type such as bonds, bank payables and others, is shown below:

Financial charges	Balance at 31.12.2016	Balance at 31.12.2015	Change
Subsidiaries/holding companies	-	27,646	(27,646)
Debenture loans	11,434	27,411	(15,977)
Bank loans and mortgages	4,699,664	4,812,730	(113,066)
Swaps (to banks)	1,423,241	1,413,951	9,290
Assumption of business units	455,293	136,722	318,571
Other	1,282,031	211,216	1,070,815
Total financial charges	7,871,663	6,629,676	1,241,987

In 2016, as in 2015, no financial charges for technical fixed assets have been capitalised.

D. VALUE ADJUSTMENTS ON FINANCIAL ASSETS

The shareholding in Rocca Brivio Sforza in liquidation has been written down to Euro 529,901 (Euro 1,122,841 in 2015).

RESULT BEFORE TAXES

The before tax result of the financial period at 31 December 2016 amounts to Euro 46,097,740 (Euro 37,045,303 for 2015).

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

E. 20. Income tax for the period, current, deferred and pre-paid

Consolidated taxes for the period amount to a total of Euro 16,615,051 (Euro 16,643,341 in 2015).

The above figure, as for 2015, is the result of adjustment pursuant to the amendments introduced by Legislative Decree no. 139/2015, for the reclassification of certain components posted on the Financial Statements of 2015 under items E of the Income Statement, that have now been suppressed.

Item reclassified	Value at 31.12.2015	Reclassified value at 31.12.2015	Change
E.20 Current, deferred and pre-paid income tax for the period	(16,527,357)	(16,643,841)	116,484
Item total	(16,527,357)	(16,643,841)	116,484
- item of provenance:			
E.21 Extraordinary charges	(116,484)	-	(116,484)
total reclassifications	(116,484)	-	(116,484)
Reclassified total	(16,643,841)	(16,643,841)	-

Current taxes result from the application of IRAP and IRES pursuant to the laws in force.

Net prepaid taxes, as indicated in the following schedule, represent the difference between prepaid taxes - calculated on the temporary differences between the burden according to tax regulations and the burden bearing on the profit of the year under the Civil Code - and the reabsorption of the amounts allocated in previous years that are pertinent to the financial period 2016. They are posted under the item Prepaid taxes of the receivables, as contemplated by Legislative Decree 6/2003.

Prepaid taxes are posted if they can reasonably be recovered in future periods. It is estimated that future taxable incomes will allow for such recovery.

They derive from:

	Balance at 31.12.2016	Balance at 31.12.2015	Change
IRES	16,531,140	15,326,559	1,204,581
IRAP	3,243,184	2,961,654	281,530
Compensated prepaid taxes of previous periods	2,796,233	1,262,090	1,534,143
Prepaid taxes of the period	(5,968,709)	(2,893,788)	(3,074,921)
Compensated deferred taxes of previous periods	(188,320)	(77,304)	(111,016)
Deferred taxes of the period	424,498	(21,990)	446,488
taxes of previous periods	(222,975)	86,620	(309,595)
Total taxes for the period	16,615,051	16,643,841	(28,790)

21. Profit of the period

The net profit of the period amounts to a total of Euro 29,482,689 entirely held by the Group.

CASH FLOW STATEMENT

The schedule is presented in accordance with OIC no. 10 of 22 December 2016. We mention, with reference to the schedule for 2015, that certain items have been reclassified (mainly in the section regarding the financial flow of loans and investments), for the sake of clearer understanding.

In fact, for simplicity:

- the change in payables for investments has remained included in the changes in trade payables;
- the single balances (investments, debts assumed, etc.) include the effect of the disposal/acquisition of business units (see the Notes to the Accounts). For 2015 this also applied to the effect of the IDRA MI merger.

The schedule is presented in accordance with OIC no. 10 of 22 December 2016.

In addition to the information given, we also show below the changes ensuing from the acquisition of business units in 2016:

Item	Euro
Intangible fixed assets	584,506
Tangible fixed assets	1,666,876
Inventories	16,907
Guarantee deposits	2,082
Trade receivables	10,365,525
Other receivables	323,211
Severance indemnity provision	38,311
Financial liabilities	
Trade payables	1,396,663
Other payables	135,621
Deferred liabilities	763,856
Balance at	10,624,654

The changes ensuing from the disposal of business units in 2016 is shown in the following table:

Item	Euro
Intangible fixed assets	448,483
Tangible fixed assets	12,505,579

Inventories	-
Trade receivables	7,271,126
Other receivables	359,455
Severance indemnity provision	30,639
Financial liabilities	1,992,670
Trade payables	
Other payables	3,142,244
Deferred liabilities	1,383,033
Balance at	14,036,058

SCHEDULES AND COMPLEMENTARY INFORMATION:

Number of employees

	In service at 31.12.2015	Recruitment	Resignations s/dismissals	In service at 31.12.2016
Managers	13	1	3	11
Middle managers	31	2	9	24
Level 8	38	5	1	42
Level 7	48	3	3	48
Level 6	94	18	4	108
Level 5	119	7	11	115
Level 4	176	12	14	174
Level 3	159	19	8	170
Level 2	106	6	10	102
Level 1	3	0	0	3
Total middle managers, clerks and blue collars	774	72	60	786
Temporary employees	45	27	40	32
Total employees in service	832	100	103	829

The General Director of Cap Holding took office on 01 June 2010 pursuant to art. 19, paragraph 5, of Presidential Decree 465 of 1997.

Fees for corporate bodies

In accordance with the requirements of art. 38, letters o and o-septies) of Legislative Decree no. 127 of 09 April 1991, the following costs are detailed below:

	Value at 31.12.2016	Value at 31.12.2015	Change
- Board of Directors' fees	248,352	250,232	(1,880)
- Board of Statutory Auditors' fees	135,902	200,326	(64,424)
- Fees of the certifying auditor of the accounts	52,179	34,940	17,239
Total	436,433	485,498	(49,065)

The Group has mandated the company BDO Italia S.p.A. to carry out the legal audit of the Company's

accounts for the period 2016 - 2018, pursuant to art. 13 of Legislative Decree no. 39/2010 and art. 2409-bis of the Civil Code.

The fee paid for the legal audit carried out in 2016 amounts to Euro 30,014 plus VAT.

No other payments have been made to BDO Italia S.p.A. in 2016.

Significant events occurring after the closure of the period

Pursuant to no. 22-quarter of paragraph 1 of art. 2427 of the Civil Code, we inform you that:

- A. by private deed, authenticated by the notary Ferrelli of Milan (deed no. 25673), of 28 February 2017, entered on the Companies Register on 10 March 2017, with effect as from 01 March 2017, Brianzacque S.r.l., provider of the integrated water service of the Province of Monza and Brianza, has purchased the business unit for the industrial/commercial activities performed for several towns in the north-east part of the Province of Milan and in the south-east part of the Province of Monza and Brianza. In detail, the service involves the purification of waste waters carried out by the centralised purification plant of Truccazzano, for the towns of Bellinzago Lombardo, Bussero, Gessate, Gorgonzola, Liscate, Melzo, Pessano con Bornago, Pozzuolo Martesana, Truccazzano, Vignate and Cambiago, all in the Province of Milan, and Bellusco, Agrate Brianza, Caponago, Cavenago di Brianza, Mezzago and Ornago, all in the Province of Monza and Brianza;
- B. by private deed, authenticated by the notary Ferrelli of Milan (deed no. 25672), of 28 February 2017, entered on the Companies Register on 10 March 2017 and with effect as of 01 March 2017, the business unit or the industrial/commercial activities performed for several towns in the south-east area of the Province of Monza and Brianza have been sold to Brianzacque S.r.l., the provider of the integrated water service of the Province of Monza and Brianza. In detail, the sale regards the aqueduct activities, except for the management of the main captation networks/backbones, for the towns of Aicurzio, Bellusco, Brugherio, Burago di Molgora, Busnago, Camparada, Caponago, Cavenago di Brianza, Concorezzo, Cornate d'Adda, Lesmo, Mezzago, Ornago, Roncello, Sulbiate, Besana Brianza, Briosco, Veduggio con Colzano, Bernareggio, Carnate, Correzzana, Renate, Ronco Briantino, Triuggio, Usmate Velate and Vedano al Lambro, all in the Province of Monza and Brianza, as well as the management of the sewer system for the town of Brugherio, also in the Province of Monza and Brianza.
- C. By private deed of 22 December 2016 authenticated by the notary Anna Ferrelli of Milan, deed no. 25572, dossier no. 11367, Amiacque S.r.l. bought the business unit for the industrial/commercial activities performed for the Town Council of Arluno (Milan) from the company Acqua Potabili S.p.A. with effect as of 01 January 2017.

Regarding the transactions under points A and C, we report that the purchase price of the business units (A) amounts to Euro 8,585,754, and that of the sale of the business units (B) amounts to Euro 34,453,030.

Said transactions, as those already referred to as STEP 1 in the paragraph "business trend in 2016" of the Directors' Management Report, fall within the sphere of a broader "obligatory" reorganisation of the integrated water service in the border territories and/or for plants (specifically purification plants) "astride", the ATO of the Metropolitan City of Milan and the ATO of Monza, in compliance with the provisions of the respective ATO governing bodies.

The transactions under point C have led to the CAP Group being charged a purchase price for the business units amounting to Euro 368,991.

No other significant events have occurred after the close of the period.

The Chairman of the Board of Directors
Mr Alessandro Russo



CAP Holding S.p.A.

Report on the consolidated financial statements

as of December 31^t, 2016

Independent auditor's report pursuant to art. 14 of legislative decree dated January 27, 2010 n° .39

To the shareholders of
CAP Holding S.p.A.

Report of the consolidated financial statements

We have audited the accompanying consolidated financial statements of CAP Holding S.p.A. and its subsidiaries (the CAP Group), which comprise the balance sheet as of December 31, 2016, the statement of income and the cash flow statement and related explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in compliance with the Italian regulations and accounting principles governing financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to art. 11 of Legislative Decree NO. 39/2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of risks of material misstatement of consolidated the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view, in order to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of CAP Group as at December 31, 2016, and of the result of its operations and its cash flows for the year then ended in accordance with the Italian regulations and accounting principles governing financial statements.

Report on compliance with other laws and regulation

Opinion on the consistency of the consolidated financial statements with the report on operations

We have performed the procedures required by auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations,

which is the responsibility of the directors of CAP Holding S.p.A., with the consolidated financial statements of CAP Group as of December 31, 2016.

In our opinion the report on operations is consistent with the consolidated financial statements of CAP Group as of December 31, 2016.

Milan, May 12 2017

BDO Italia S.p.A.

Signed by

Carlo Consonni

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.



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