Consolidated financial statements of the CAP Group as of 31 December 2017

Contents

Dear Shareholders,

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

On a consistent basis with the strategic and binding guidelines decided by the Shareholders' meeting held on 1 June 2017, the report deals with the activities of the CAP Group carried out in 2017 for the three spheres of intervention identified, in observance of the VISION indicated by the common shareholders during the meeting held on 26 June 2015, and in particular:

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

2017 was the year for the Group in which, further to the Article of Association amendment which took place during the shareholders' meeting held on 10 February 2017, the process towards so-called "Circular Economy" supplementary activities commenced and the process for changing the business structure was achieved by means of the opening up to regulated financial markets as from 2 August 2017, with the consequent amendment of the reference accounting standards and the imposition of principles of greater transparency and information.

2017 was also the year in which, for the majority of the geographic area handled, activities for more fully analysing the knowledge of the managed infrastructures, the state of their maintenance, the impact which the same may produce on the environment and the requirements which this knowledge determines, was accomplished.

The very recent legislation brought by ARERA (see references further on) on the Technical quality and the response of the Group demonstrated the soundness of the planning and the correct vision in the management, as from 2016, of the so-called Rainwater but, by contrast, also confirmed the significant infrastructural needs which would be necessary for the adaptation of the area to climate change as well as for the renewal - also for the purpose of the best preservation of the environment - of the treatment plants, which will be affected by profound measures in the concession period.

Group presentation

The CAP Group is one of the leading Italian operators (in terms of inhabitants served and cubic m raised) among the so-called "mono-utility" operators (or rather operators which do not carry out other significant industrial activities) operating in the Integrated Water Service, with a customer base as of 31 December 2017 of around 2.2 million resident inhabitants served in addition to the individuals who normally work in one of the most industrialised and productive areas in Italy.

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

The Group therefore sits among the most important Italian players, as emerges from the table below: (Source: **Utilitatis Foundation - Blue Book 2017**)

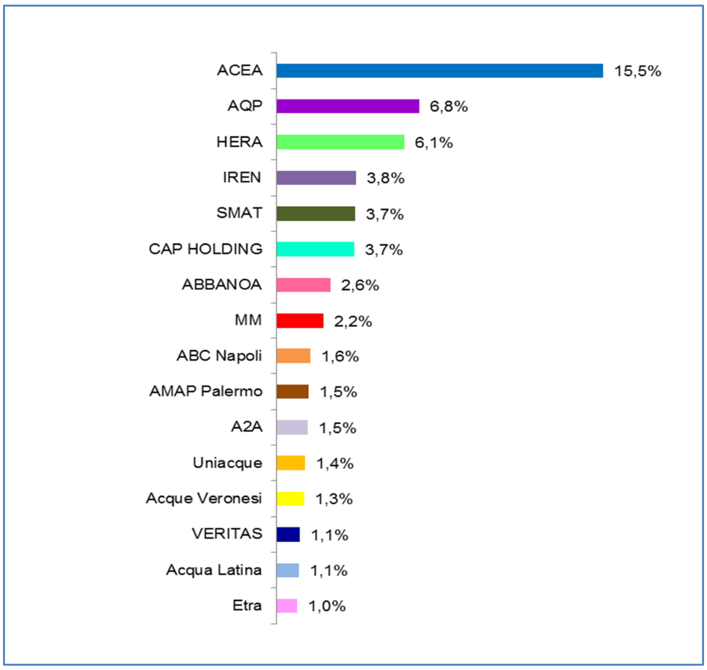
The CAP Group includes the Parent Company, CAP Holding S.p.A., and the following companies:

Company Headquarters Share Capital

- AMIACQUE S.r.l., Milan, Italy, total share capital of € 23,667,606.16 owned for € 23,667,606.16, equal to 100.00% as of 31 December 2017 (unchanged with respect to 31 December 2016), subject to management and co-ordination activities;

- Rocca Brivio Sforza S.r.l., San Giuliano Milanese, in liquidation as from 21 April 2015, total share capital € 53,100.00, owned for € 27,100.12 holdings, equal to 51.04%, as of 31 December 2017 (equal to that held as of 31 December 2016 and to-date unchanged).

Market share out of Italian population



With regard to the scope of consolidation, only AMIACQUE S.r.l. is consolidated with CAP Holding S.p.A., it being deemed that with regard to Rocca Brivio S.r.l. in liquidation (whose corporate purpose involves the "safeguarding and valorisation of the historic monumental complex of Rocca Brivio"), pursuant to IFRS 10 it is not believed that Cap Holding S.p.A. has effective control due to the lack of essential rights which assign the power to manage the significant activities of the investee company so as to influence the returns on the same. With regard to the presentation of the Balance Sheet and Income Statement figures of the subsidiary company, please see the explanatory notes included in the financial statements.

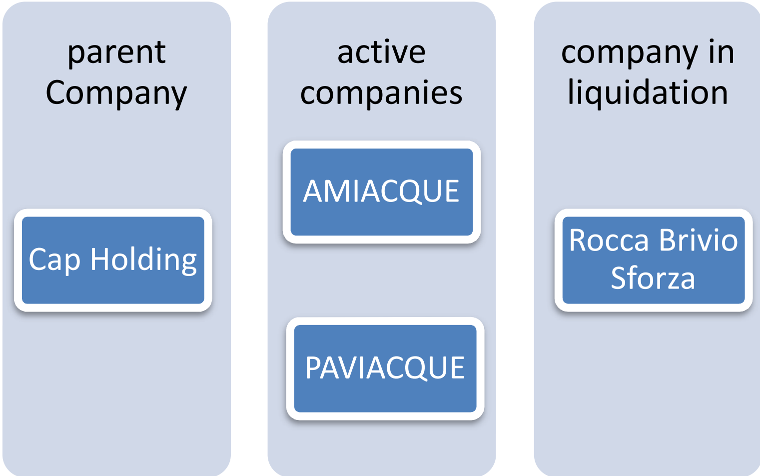
CAP Holding S.p.A. also holds equity investments in the following companies:

- PAVIA Acque S.c.a.r.l. with headquarters in Pavia, total share capital € 15,048,128, owned for € 1,519,861, equal to 10.1%, as of 31 December 2017 (equal to that held as of 31 December 2016).

CAP Holding S.p.A. also participates in the network agreement "*Water Alliance* – Acque di Lombardia", with legal status pursuant to and for the purposes of Article 3, sections 4 *ter et seq.* of Italian Decree Law No. 5 dated 10 February 2009, converted into Italian Law No. 33 dated 9 April 2009 as added to and amended, enrolled in the Milan Companies' Register under No. 2115513 on 24 February 2017, with headquarters in Assago (MI), total share capital of € 170,180.00 fully paid-in, owned for € 39,476.00, equal to 23.2% as at 31 December 2017. Some information on the Water Alliance is presented further on.

CAP Holding S.p.A. held an investment in T.A.S.M. Romania S.r.l. with headquarters in Bucharest (Romania), share capital Romanian LEU 2,612,500 (at the exchange rate as of 31 December 2016, Euro 575,757.57) of which 40% was held at 31 December 2016 and has been in bankruptcy liquidation since 28 November 2014. In this connection, it is disclosed that the Bucharest Court by means of sentence dated 13 October 2017, arranged the closure of the bankruptcy proceedings and the cancellation of the company from the Bucharest companies' register: the sentence was not appealed, therefore the company has been definitively wound up.

The diagram shows the current equity investment of the Group in companies as of 31 December 2017:



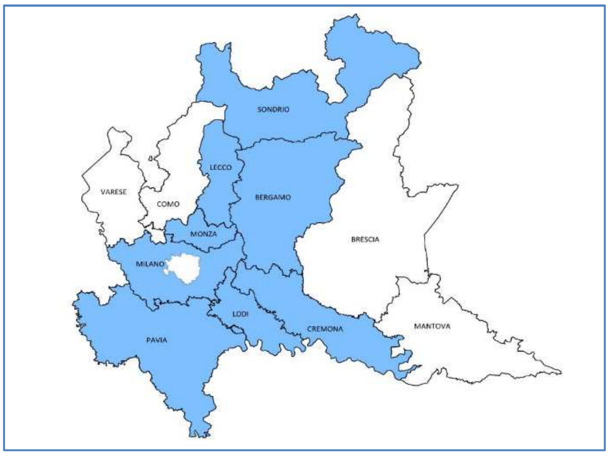
Cap Holding S.p.A. is also the sole member of the LIDA Investment Foundation, with headquarters in Assago (Milan) established on 31 July 2007, pursuant to Articles 14 *et seq.* of the Italian Civil Code (payment by way of endowment fund of € 1,000,000 by the former founder T.A.S.M. S.p.A., absorbed in 2013 within CAP Holding S.p.A.). The Foundation's balance sheet at 31 December 2017 shows residual cash and cash equivalents for € 55,150, an indication of operations which are becoming less and less.

CAP Holding's shareholders' meeting, in the session on 1 June 2017, left open making decisions with regard to the activities of the Foundation, as an instrument for the development of research activities.

During 2017 the same was assigned a grant by the CARIPLO Foundation for a project entitled "*Blu Lab, Blu Factory e Blue Studies* - research and development activities, installation of a drinking water analysis laboratory, business incubator and co-working space for start-ups, researchers and businesses; didactic and seminar activities and study and convention activities on water aspects" for € 100 thousand.

Role of the Operator

The CAP Group proposes itself as the promoter of collaboration with certain in-house companies from Lombardy, creating a network of companies (known as "Water Alliance - Acque di Lombardia") which has the purpose of improving the performance and the services provided to the user and of defending the role of the public management of the water resource.

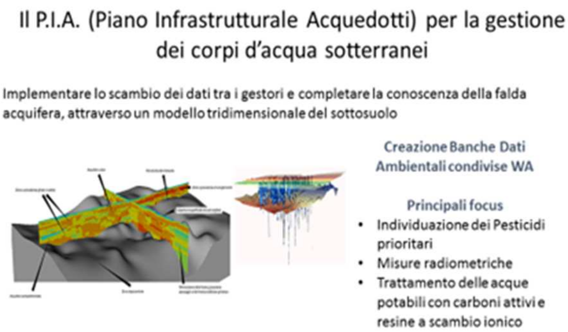


The companies involved (by means of deed dated 4 November 2015) are Brianzacque S.r.l., Lario Reti Holding S.p.A., Padania Acque S.p.A. of Cremona, Pavia Acque s.c.a.r.l., S.Ec.Am S.p.A. of Sondrio, Società Acqua Lodigiana (SAL) S.r.l. of Lodi, Uniacque S.p.A. of Bergamo, companies which, together with the CAP Group, guarantee the water services for around 5.5 million inhabitants, equal to over 50% of the population resident in Lombardy, each year disbursing more than 500 million cubic metres of water, with over 27 thousand km of water mains and 2,758 wells.

In order to give greater operating autonomy to the network agreement, by means of deed dated 20 January 2017 volume No. 22.444, file No. 6.780 of the

Notary Public Ninci of Milan, the CAP Group entered into, together with the afore-mentioned other 7 Lombard public companies of the IWS, the "Representation pact for the promotion and development of the public management of the Water Alliance - Acque di Lombardia integrated water service", creating a so-called network-party. Conferrals of endowment capital to the "Network" were made during 2017. The network agreement - similar to that which takes place in Piedmont - becomes an instrument for stimulating the economic efficiency (e.g. tenders for the purchase of energy and consumables), creating organised synergies (inter-company network offices), aligning operating instruments (Aqueduct Infrastructural Plan), etc.

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



The following deeds have also been entered into with Brianzacque S.r.l.:

- Network agreement entered into on 8 July 2016 for services regarding Information Technology until 30 June 2021;
- Network agreement entered into on 8 July 2016 for services regarding Industrial Users Management until 30 June 2021.

Agreements with the following have also been entered into or are being entered into:
Lario Reti for GIS € 35,000.00
Uniacque for GIS € 52,235.91
SAL GIS € 27,543.76
BRIANZACQUE GIS: € 120,000
Paviacque for GIS agreement being entered into, for a total of € 30,000
For a total of envisaged annual fees of around € 234,779.67 (excluding the agreement being entered into with Paviacque).
In conclusion, the CAP Group participates in the Italian sector association Utilitalia with headquarters in Rome, as well as the international association Aqua Publica Europea (APE) with headquarters in Brussels (Belgium).

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

The Social Commitment

The role of public company which manages a communal and precious asset such as water in favour of the general public, assigns the CAP Group an inalienable duty in the promotion of a culture of sustainability with regard to the management, consumption and use of the resource which it has the honour to administer.

The promotion of responsible conduct in the consumption of water, the valorisation of the network water and its defence starting from the monitoring and protection of the groundwater, are only a few examples of the objectives which the CAP group sets itself annually.

The sustainability within the CAP Group affects the company strategies and policies interacting, consequently, with all the sphere of the business management. This becomes clear in the dedication to dialogue and the reporting of the results to the stakeholders and in the definition of the values, principles and objectives which guide the business plan and affect the management incentive system.

The approach, developed by the CAP Group over the years in a systematic manner, takes on the form of governance of the sustainability made up of the Corporate Social Responsibility (CSR) unit and the Ethics & Compliance Unit which are both on the staff of the Chief Executive Officer of the Parent Company and operate in collaboration with senior Management.

Amongst its main duties, the CSR unit has that of working alongside the Group structures for an adequate consideration, in the development of the business, the social and environmental aspects, and of furthering and spreading the culture of sustainability by means of drawing up the sustainability report, the realisation of projects on corporate social responsibility and initiatives for involving the stakeholders, both internal and external.

The user satisfaction analysis which is carried out, upon the express request of the related ATO (waste and water regulatory authority), each year, falls within the Group's social role.
In pursuit of the on-going improvement of the service and the satisfaction of its customers, the CAP Group activated a qualitative survey in 2017, with the support of a specialised outside company, via targeted interviews and the creation of 4 focus groups with the involvement of a sample of user resident in the Municipalities served by CAP.

This report on operations does not contain the non-financial declaration which, in accordance with Article 5 of Italian Legislative Decree No. 254 dated 30 December 2016 represents a separate document and is presented separately from this report according to the publication system envisaged by said Article 5.

Operating Performance in 2017

The operating performance is illustrated in relation to the scenario of the sector of activities, the integrated water service, in which the CAP Group operated. The following sections therefore provide a number of comments, in particular on the innovations, which regard to said sector.

Overall scenario of the Water Sector.

General overview – the Consolidation Act regarding publicly owned companies

The water service, like the other public services, was affected in 2016 by the enforcement of Italian Legislative Decree No. 175 dated 19 August 2016 "Consolidation Act regarding publicly owned companies" (TUSP - published in the Italian Official Gazette No. 210 dated 8 September 2016).[1] By means of Italian Legislative Decree No. 100 dated 16 June 2017, the text of the TUSP then underwent an initial series of amendments.

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

The logic according to which the companies subject to the control of the Authorities which govern trading "on the market" are by their very nature already more restricted with respect to the others (and

[1] A second legislative decree of interest, that on local public services, has not yet been issued

consequently less obliged to observe the more typical legislative restrictions of the “public circle”), is a principle which underlies numerous legislation over the years.

In this connection, it is recalled that - as per the resolution of the Strategic Policy Committee dated 10 June 2016 - the Company undertook action in 2016 so as to endow itself, also with a view to diversification, with financial instruments on organised markets so as to deal with the financial requirement necessary for supporting the consistent amount of investments envisaged in the Business Plan of the CAP Group, maintaining the entirely public nature of the company.

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

Further following up the above, the resolution of the extraordinary shareholders’ meeting of the Parent Company held on 1 June 2017, authorised the issue of a non-convertible Bond to be issued by the Company by 31 December 2017, for a maximum amount in terms of principal of € 40,000,000.00 with the possibility of permitting its trading on the organised market of a European Union nation.

The bond (ISIN: XS1656754873) was issued, subscribed and admitted to listing on 2 August 2017 on the Main Securities Market of the Irish Stock Exchange (ISE Dublin). It is pointed out that the transaction was concluded within a period of 12 months as from the date of enforcement of Italian Legislative Decree No. 175/2016 (see Article 26.5 of said decree).

Further to this issue, CAP Holding S.p.A. has from 1 August 2017 been qualifiable as a public interest entity pursuant to Article 16 of Italian Legislative Decree No. 39 dated 27 January 2010 and therefore subject, amongst other aspects, to precise supervisory obligations on the financial disclosure process, on the effectiveness of the internal control and audit and risk management systems.

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

With regard to the official audit, see the subsequent comments.

The transaction represents a debut for the CAP Group on the international bond market and did not require any guarantee by the shareholders. The proceeds obtained are intended to be used to finance the investments of the integrated water service. Since it is not convertible, it does not alter the public ownership nature of the Group in any way.

Article 26.1 of Italian Legislative Decree No. 175/2016 envisages that the publicly controlled companies already established at the time the decree came into force adapt their articles of association to the provisions of the same by the deadline of 31 July 2017.

Despite the fact that the company - as per the afore-mentioned decision of the Strategic Policy Committee dated 7 October 2016 - is not subject to the obligations as per the afore-mentioned Legislative Decree it was deemed useful to proceed with the amendment of the Articles of Association merely by way of observance of and in compliance with Italian Legislative Decree No. 175/2016.

The shareholders’ meeting of CAP Holding S.p.A. on 10 February 2017 consequently took steps to amend certain clauses of the Articles of Association.

Italian Legislative Decree No. 175/2016 also envisaged, in Article 24, that by 30 September 2017, each public administration authority must carry out by means of justified provision the recognition of all the equity investments held as of the date of enforcement of said decree, identifying those which must be disposed of. This also concerned the public administration authorities which are shareholders of CAP Holding S.p.A..

No public administration authority which is a shareholder of CAP Holding S.p.A. decided in the sense of "disposal", with the exception of the municipal authorities of Nova Milanese (MB) and Vedano al Lambro (MB), holders respectively of 1,763,547 and 256,279 shares and the only municipal authorities in the Monza area affected by interconnections so-called Minors.

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

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

Here it is anticipated that, deeming the decision of the two municipal authorities not to be consistent with the interscope management model, CAP Holding S.p.A. appealed, by means of deed dated 30 November 2017, to the Lombardy Administrative Court so as to obtain the cancellation thereof. The equity investments of the two municipal authorities have not yet been disposed of and the same, as per the provisions of Article 24 of Italian Legislative Decree No. 175/2016, at the time of drafting of this report are shareholders, for all purposes, of CAP.

Both the EGA (area governance body) of the Metropolitan City of Milan and the Monza and Brianza EGA decided to appeal against the decision of the two municipal authorities.

Italian legislation

The water sector is highly regulated, in particular by the measures of the sector Authority, the ARERA (Energy Networks and Environmental Regulation Authority, formerly the AEGGSI)[2] by virtue of the powers granted by means of Italian Decree Law No. 201/11, converted into Italian Law No. 214/11, also with regard to water services.

With regard to **the tariff aspect** you are reminded that the Italian legislator recently introduced the aspects of the social tariff for the integrated water service, summed up in Article 60 of Italian Law No. 221/2015 (so-called Environmental Connection).

In accordance with the afore-mentioned article, Italian Presidential Decree dated 13 October 2016 was issued which, amongst other aspects, establishes (Art. 1) that "the minimum quantity of vital water necessary for satisfying the essential "needs" is fixed as 50 litres per inhabitant a day" and contains provisions concerning the facilitated tariff (Art. 2), as well as envisages (Art. 3) the establishment of a water bonus for all the resident domestic users, or household units, whose conditions of economic hardship have been ascertained. The implementing measures are delegated to ARERA which in 2017 launched, along the above "social" intervention lines, various measures.

First and foremost by means of resolution No. 897/2017/R/idr dated 21 December 2017, it approved - as per Article 3.1 of the Italian Presidential Decree dated 13 October 2016 - the integrated version of the

[2] By means of the publication in the Italian Official Gazette dated 29 December 2017 of the 2018 Forecast Budget Law (Italian Law No. 205 dated 27 December 2017), which assigned the Authority regulation duties also in the waste sector, the Electricity, gas and water system authority (AEGGSI) became ARERA, Energy Networks and Environmental Regulation Authority.

applicative formalities of the water social bonus for the supply of water to domestic users facing economic hardship.

The measure involves a sort of "discount"[3] on the bill (and in some cases, a reduction of the overdue amount), for the resident domestic users recognised as facing economic hardship, further to request made to their Municipal Authority and subsequent admission or otherwise (together with that relating to the electricity and/or gas social bonus) to the measure. The bonus is funded by the introduction as from 1 January 2018 of specific tariff component (UI3)
In the event it is not entirely used by the Operator for the bonuses disbursed, it is paid to the Cassa per i Servizi Energetici e Ambientali. The latter intervenes, in the event of disbursements greater than the UI3 collected, disbursing the difference to the Operator.

As envisaged by Article 8 of Enclosure A) to the resolution No. 897/2017/R/idr dated 21 December 2017, the governance Body of the geographically competent Area, also in agreement with the operator, can guarantee the maintenance of the local improvement facilitations to supplement the water social bonus.

Pending the ARERA water bonus, the EGA of the Metropolitan City and the CAP Group had already applied their "water bonus" system which will be mentioned herein.

Another point which, at least partly, links up to the "social tariff", is represented by the ARERA Resolution No. 665/2017/R/idr dated 28 September 2017, by means of which provisions were provided concerning the criteria for the definition of the tariff structure applied to the users of the integrated water service (Water service fees integrated act - TICSI).

This regulation from 2018 introduces the need to review the various types of customer of the integrated water system (from domestic user to non-domestic users), a well as the tariff structuring criteria at least as from the last billing cycle of 2018.

This structuring mainly involves the separation of the fee applied to the domestic users envisaging, for each of the aqueduct, sewerage and treatment services, a "variable components proportional to the consumption (by cubic metres) and - limited to the aqueduct service - modulated by consumer bracket, as well as a "fixed" component which - generally - reflect the charges pertaining to the safety of the procurements. In detail, the "variable" component for the aqueduct service must be determined by "consumption bracket" on the basis of per capita quantities, in relation to the number of components of the resident domestic users (even if the effective numerousness will be defined by 1 January 2022).

Again along the social lines of the ARERA measure, the document for consultation No. 603/2017/r/idr dated 3 August 2017 is also posed, by means of which the Authority has worked on the formation of the directives for the adoption of procedures for containing the payment arrears in the integrated water system (further to the mandate received by means of another Italian Presidential Decree dated 29 August 2016: "provisions concerning the containment of the payment arrears in the integrated water service", in execution of Italian Law No. 221 dated 28 December 2015, so-called environmental link - Article 61.1). Among the points of interest of the regulatory measure there will be activities such as the

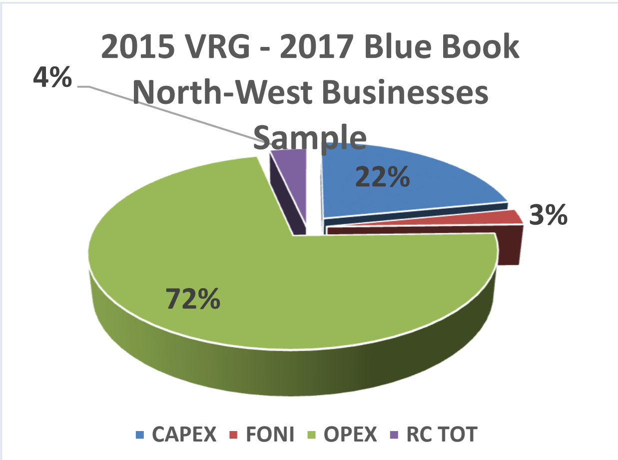
[3] The bonus is calculated applying the facilitated tariff to the essential quantity of water, having taken into account the numerousness of the household.

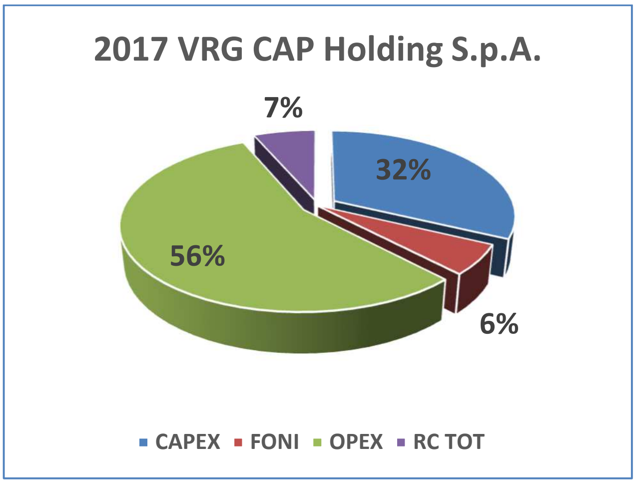
placement in default procedures, the timescales and methods by means of which it is possible to achieve the suspension of the supply vis-à-vis users in arrears who cannot be disconnected, etc.

Alongside the "social" interpretation of the tariff as above, there is also - naturally - the approval of the tariff method. The Method introduced by the A.E.E.G.S.I. (entitled Transitory Method for 2012-2013, MTI-1 for 2014-2015, and MTI-2 for 2016-2019) is based on the principle of the Full Cost Recovering and is constructed first and foremost on the determination of two essential parameters: the Restriction Acknowledged to the Revenues of the Operator (VRG) and the invested regulatory capital (RAB).

The latter Method (MTI-2) was adopted by the AEEGSI by means of resolution No. 664/2015/R/idr of 28 December 2015 and covers the period 2016-2019 (with a two-year tariff review for the years 2018-2019). Like the previous ones it is based on the principle of the Full Cost Recovering and is constructed first and foremost on the determination of two essential parameters: the Restriction Acknowledged to the Revenues of the Operator (VRG) and the invested regulatory capital (RAB).

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





* The VRG of the wholesale operators were also considered in the calculation of the 2017 VRG of CAP Holding

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

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

The recognised opex are separated into endogenous (in other words those which would be dependent also on the entrepreneurial choices of the Operator, and therefore "possible to make efficient") and exogenous costs which can be up-dated (and in some cases which can be adjusted ex post), mainly relating to the purchase costs of the raw material, the electricity and the fees.

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

Other appeals are still pending, presented by the various operators, including that presented by CAP Holding S.p.A. by the Lombardy administrative court against AEEGSI resolution No. 643/2013/R/Idr (so-called MTI) pending the fixing of the hearing on the merits and that presented, again by CAP Holding, to the Council of State against resolution AEEGSI 585/2012/R/IDR (so-called MTT), also pending the merits.

Linked to the tariff aspects, also the fulfilments which ARERA imposes on the operators with regard to the disaggregation of costs and revenues of the service (so-called "accounts unbundling") are complex and pervasive.[4]

With regard to the aspects **of the quality** of the service, it should be mentioned that ARERA, by means of resolution No. 917/2017/R/idr dated 27 December 2017 <<Regulation of the technical quality of the integrated water service or of each of the individual services it is made up of (RQTI)>>, defined minimum technical quality levels and objectives in the integrated water service, by means of the introduction of: i) specific standards to be guaranteed in the services provided to the individual user, ii) general standards which describe the technical supply conditions of the service, iii) prerequisites, which represent the necessary conditions for admittance to the incentive mechanism associated with the general standards.[5]

The measure (regarding the **"technical"** quality) closes the intervention cycle on the "quality" of ARERA, already playing a leading role in resolution No. 655/2015/R/idr dated 23 December 2015 (text supplemented for the regulation of the **"contractual"** quality of the Integrated Water Service or rather of each of the individual services it is made up of (RQSII).

Regional legislation

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[4] In March 2016, the Authority resolved the amendments to the TIUC (Accounts Unbundling Integrated Act) necessary for the integration of the same with the provisions concerning accounting separation for the water sector (Resolution No. 137/2016/R/idr). By means of communication dated 13 June 2017 - Collation of the separate annual accounts for 2016, the collation of data for 2016 was launched.

[5] In order to give an idea of the, non-irrelevant, impact on the operators, the following glimpse on the measure is provided:

- the quality standards which ARERA placed under observation include: indicators of percentage water losses, maximum time for the activation of the emergency replacement service in the event of suspension of the drinking water service, incidence of ordinances declaring that the water is not drinkable, frequency of flooding and/or spillage from sewers, control of the overflow discharge system, percentage of sludge disposal in landfills, quality of the treated water;
- the operators are obliged to constantly monitor the technical quality data necessary for the determination of the standards and their periodic communication.
- the pertinent EGA checks and validates the data forwarded by the operators, and annually communicates the data necessary for the calculation of the standards to the Authority, according to the timescales and formalities established by the latter.

The measure concludes with a technical quality incentive measure; it is structured in rewarding or penalising factors to be assigned in relation to the performances of the operators.

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

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

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

- the territorial spheres of application, differentiated in relation to the level of hydraulic criticality of the catchment areas of the receiving waterways;
- the admissible flow limits to the discharge in the receiving body;
- the flow calculation methods;
- the minimum requirements to be adopted in the planning stage for new measures or renovations.

Organisational performance

In the Metropolitan City of Milan

2017 was the fourth year (from 1 January 2014 to 31 December 2033) that the CAP Group was entrusted the entire integrated water service within the sphere of the former Province of Milan, deriving:

- from the in-depth industrial restructuring process (via a merger process between the management companies present throughout the area which took place in 2013[6], which then had a further transformation in 2015[7]);
- from the expansion of the activities in favour of the Municipal Authorities of the Province of Milan, started in 2010 and which ended in 2013 (overrun of self-managed operations and acquisitions of numerous business segments from former operators).

During 2016 and at the start of 2017 this process passed through a number of additional transformations represented by the acquisition of business segments of other operators (Brianzacque S.r.l., Acque Potabili S.r.l.).

[6] Tutela Ambientale del Magentino S.p.A. (T.A.M. S.p.A.), Tutela Ambientale Sud Milanese S.p.A. (T.A.S.M. S.p.A.), Infrastrutture Acque Nord Milano S.p.A. (I.A.No.Mi. S.p.A., the latter with a significant presence also in the province of Monza and Brianza), managers in the sense as per Regional Law No. 26/2003, incorporated in CAP Holding S.p.A. as a result of the merger deed, signed on 22 May 2013 and effective as from 1 June 2013.

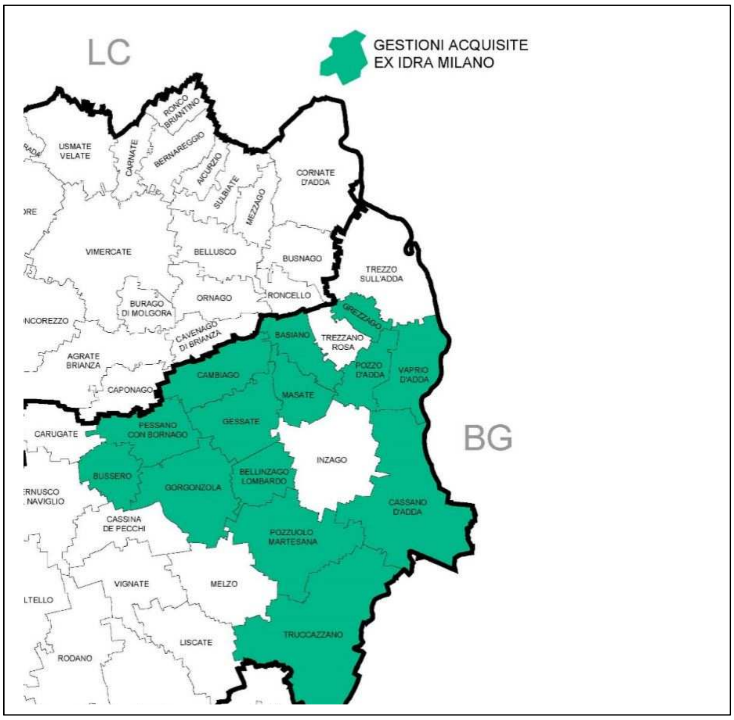
[7] See herein with regard to Idra Milano S.r.l. for the North East Milan area. With regard to the Legnano area, you are by contrast reminded that on 22 December 2015, pursuant to a decision of the shareholders' meeting of 25 June 2015, with deed No. 16481, dossier No. 8934 of the Notary Public De Marchi of Milan, CAP Holding S.p.A. 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). As a result of this purchase, the relative assets are included in the capital of CAP Holding S.p.A.. Due to this transaction, as from 1 January 2016 the agreement signed in 2011 with said party, which granted the assets to CAP Holding S.p.A. for use and which the latter therefore already managed for years, was terminated.

In detail, after the acquisition of the ownership of the infrastructures of the North East Milan area in 2015 due to the incorporation of Idra Milano S.r.l.[8], the acquisition of the "management" of the same was also completed. The latter in fact as of 31 December 2015 emerged as still under Brianzacque S.r.l. (which Idra had years ago granted the use of the infrastructures in question to along with the management of the integrated water service in the Monza and Brianza sphere).

And in fact subsequently by means of private deed, authenticated by the Notary Public Ferrelli of Milan (volume No. 25010/11072), dated 28 February 2017, enrolled in the Companies Register on 12 January 2016 (followed by supplementary deed dated 7 November 2016, volume No. 25486/11322 of the Notary Public Ferrelli of Milan), with effect as from 1 January 2016 the business segment pertaining to the activities of the water system carried out for the various Municipalities of the north east Milan area and the south east Monza and Brianza area (aqueduct for the municipalities of Gessate (Mi), Gorgonzola (Mi), Pessano Con Bornago (Mi), intermunicipal treatment care of the centralised plant known as "Cassano d'Adda"), was acquired from Brianzacque S.r.l., provider of the integrated water service of the Province of Monza and Brianza.[9]

After that transaction, just the treatment plant known as Truccazzano, serving - amongst others - 11 metropolitan municipalities and 6 in the Brianza area, remained under the management of Brianzacque S.r.l., in the geographic area of the former Province of Milan.

In the first few months of 2017, this plant management was also absorbed subject to the entering into of a private deed, authenticated by the Notary Public Ferrelli of Milan, volume No. 25673/11428 dated 28 February 2017, enrolled in the Companies Register on 17 March 2017 (followed by private supplementary deed, authenticated by the Notary Public Ferrelli of Milan, volume No. 26191/11715 dated 18 December 2017), by means of which as from 1 March 2017 the business segment pertaining to the integrated water services carried out for various Municipalities in the north east Milan area and the south east Monza and Brianza areas was purchased from Brianzacque S.r.l., provider of the integrated water service of the Province of Monza and Brianza. In detail, this

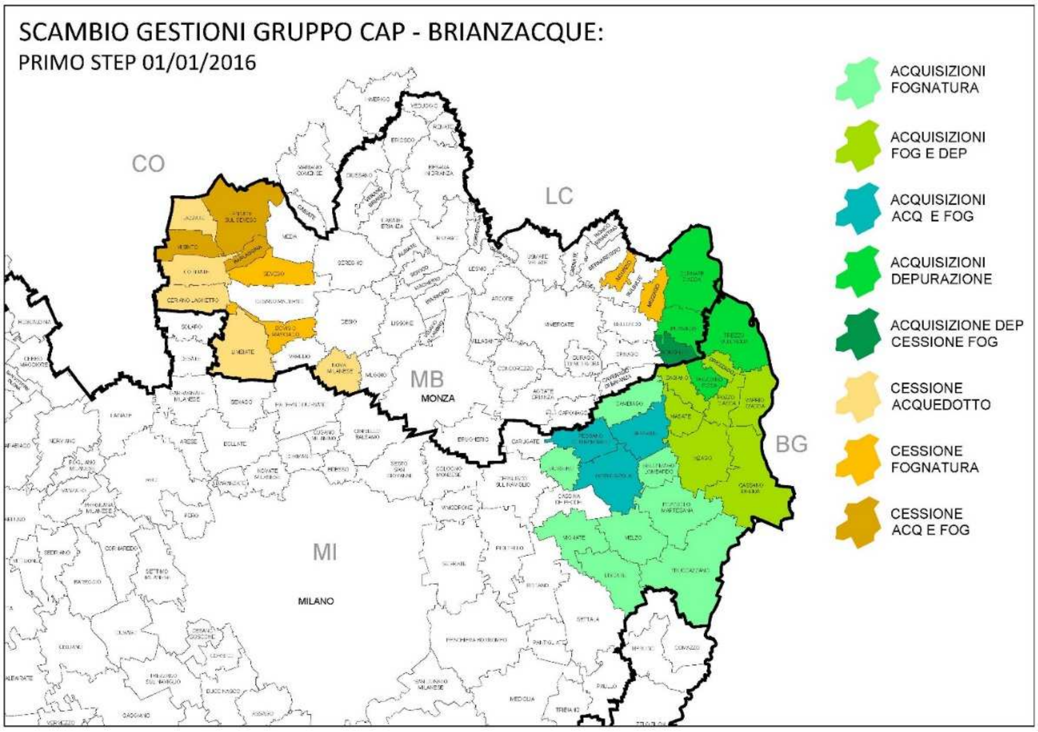


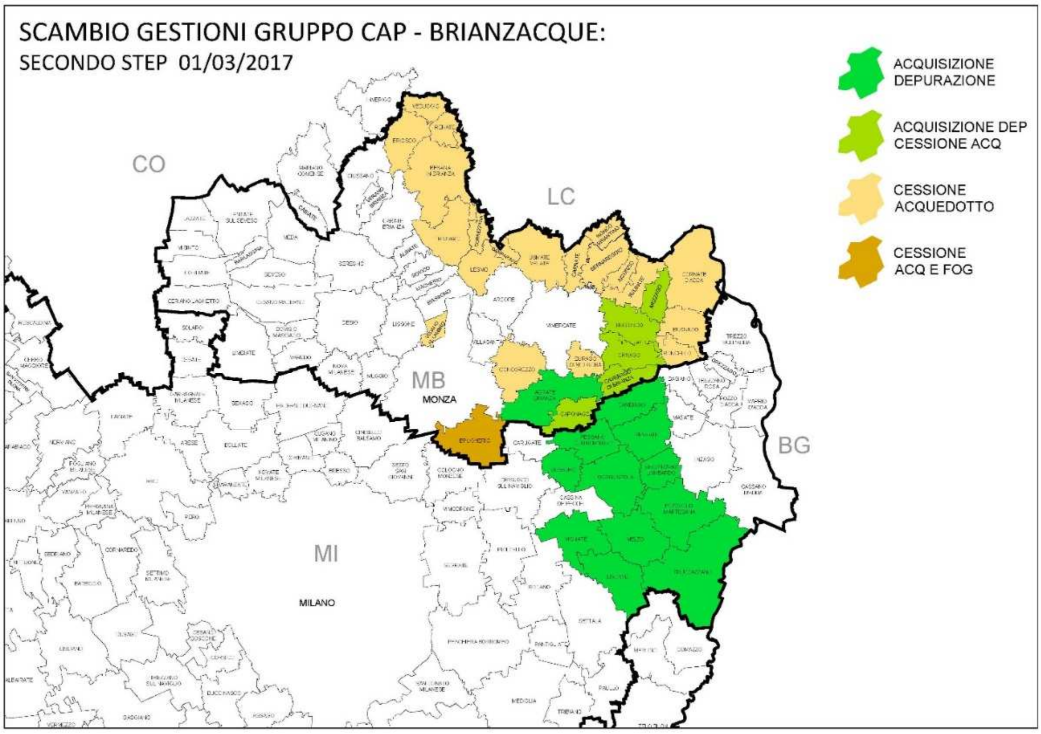
[8] The only company which was not straightaway incorporated by Idra Patrimonio S.p.A., with headquarters in Vimercate (MB), owner of treatment, sewer and also aqueduct infrastructures, in the north east area of the Province of Milan and in part that of Monza and Brianza, in the meantime affected by a total spin-off in favour of Brianzacque S.r.l. and Idra Milano S.r.l., concluded only on 26 June 2014. In conclusion, the "Milan" tranche resulting from the spin-off, precisely Idra Milano S.r.l., on 27 April 2015 was incorporated in CAP Holding S.p.A., by means of deed under volume No. 394979, file No. 87627, of the Notary Public Pietro Sormani of Milan, with legal applicability as from 1 May 2015 and accounting applicability as from 1 January 2015.

[9] Serving the municipalities of Cassano D'Adda (Mi); Inzago (Mi); Masate (Mi); Basiano (Mi); Pozzo D'Adda (Mi); Trezzano Rosa (Mi); Vaprio Adda (Mi); Grezzago (Mi); Trezzo D'Adda (Mi); Cornate D'Adda (Mb); Busnago (Mb) and Roncello (Mb), sewerage system for the municipalities of Cassano d'Adda (Mi); Inzago (Mi); Masate (Mi); Basiano (Mi); Pozzo D'Adda (Mi); Vaprio Adda (Mi); Grezzago (Mi); Cambiago (Mi); Bellinzago Lombardo (Mi); Pozzuolo Martesana (Mi); Truccazzano (Mi); Liscate (Mi); Melzo (Mi); Vignate (Mi); Bussero (Mi); Gessate (Mi); Gorgonzola (Mi); and Pessano con Bornago (Mi)).

involves the treatment of the waste water carried out by means of the Truccazzono centralised treatment plant.[10]

With the extension in 2017 of the business activities to the reference perimeter envisaged by the Assignment Agreement, it was possible to also avail of greater awareness of the risks and the possible impacts, also of an environmental nature. Account was taken of this in the formation of the 2017 annual financial statements.





[10] This involves the metropolitan municipalities of Bellinzago Lombardo (MI), Bussero (MI), Gessate (MI), Gorgonzola (MI), Liscate (MI), Melzo (MI), Pessano con Bornago (MI), Pozzuolo Martesana (MI), Truccazzano (MI), Vignate (MI),) and Cambiago (MI). Besides the metropolitan municipalities, the treatment plant serves another 6 municipalities in the Monza area.

The following still remain active as of 31 December 2017 in the district of the former Province of Milan:

- the "de facto" operator Metropolitana Milanese S.p.A. (for the aqueduct of the Municipality of Corsico) in relation to which a request for intervention was sent to the Metropolitan City of Milan ATO for the purpose of furthering the regularisation of the management set-up of the aqueduct service in the Municipality of Corsico.

Furthermore, a number of very modest portions of area remain in relation to which the treatment service is carried out by non-sphere plants. These involve "wholesaler" situations, recognised by the Conference of the Municipalities of the Metropolitan City of Milan ATO held on 12 September 2016 with resolution No. 3, in which the operators of other areas (or their portions) carry out the following services:

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

You are reminded that for the Municipality of Castellanza (VA), included in the Metropolitan City of Milan ATO (previously it was included in the tariff defined for CAP by the Varese ATO), this involves management (aqueduct, treatment and sewerage system) at this point also to be considered "in terms of tariffing" metropolitan (see resolution of the Board of Directors of the EGA of the Metropolitan City of Milan dated 31 May 2016- Enclosure A).

The CAP Group is therefore the sole operator of the Integrated Water Service in the geographic sphere of the former Province of Milan, set up according to the "*in house*" management model of the public concern, in compliance with the conditions required by the resolution of the Provincial Council and by the Conference of Mayors of the related area on 11 October 2012.

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

The bases for the transfer of the business segment relating mainly to the commercial activities from Amiacque S.r.l. to CAP Holding S.p.A. were laid in 2017, thus overcoming a specific exception permitted by the Agreement for the entrusting of the Water Service (Article 3.7).
The operator undertook - as from 1 January 2018 - the billing activities, thereby responding to the request of the local Area Authority due to the overcoming of the possibility as per the article indicated above deemed exceptional.

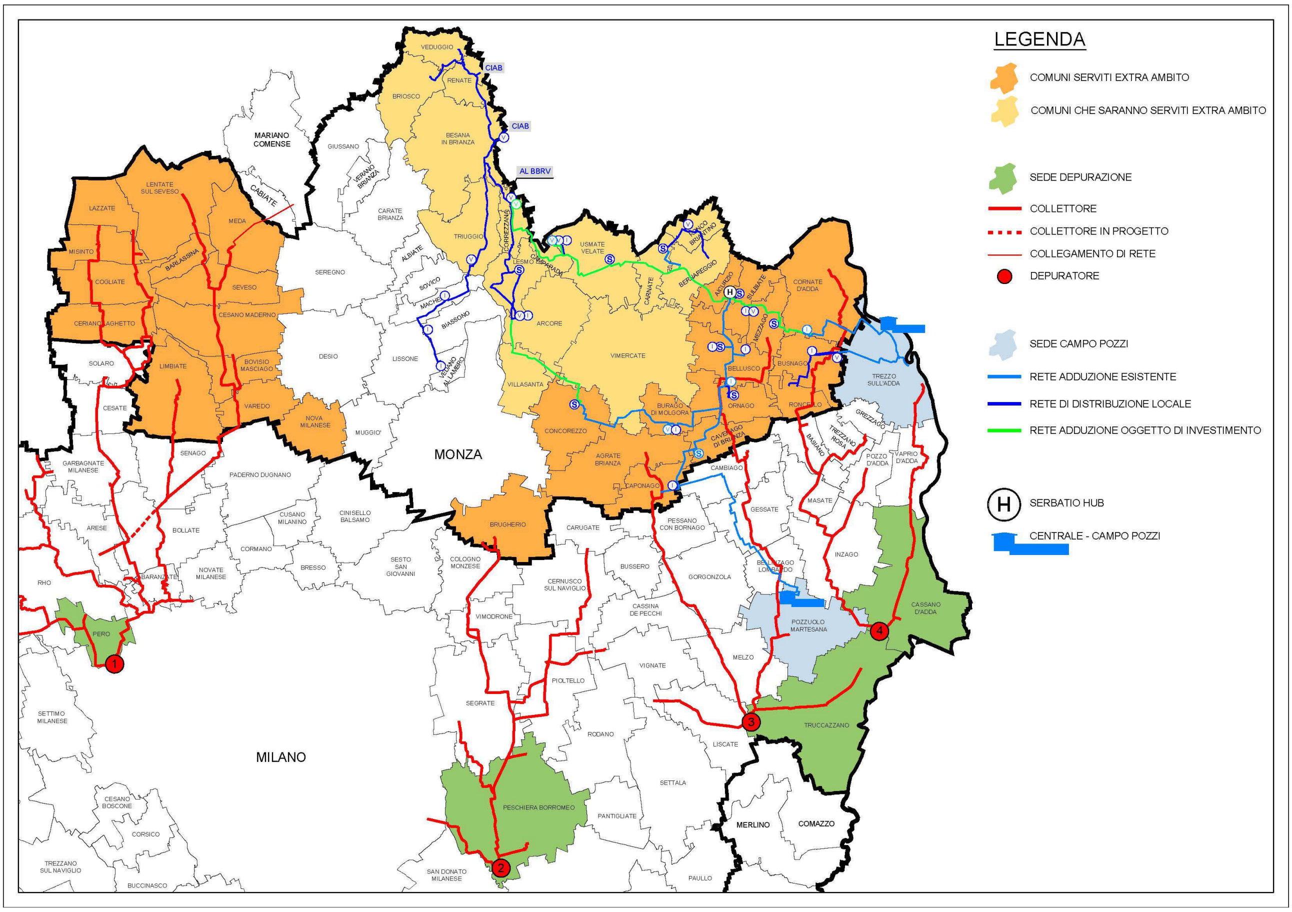
The transfer is consistent with the internal organisational changes necessary further to the introduction of the new tariff framework effective as from 30 June 2018.

In the province of Monza.

As of 31 December 2017 the CAP Group is the operator of the aqueduct service (limited to collection and large-scale transportation), sewerage service (limited to large-scale drainage) and treatment service in part of the Monza area.

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

The numerous interconnections present between the Milan and Brianza areas are shown below:



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

As already commented on in the section relating to the "Metropolitan City" the CAP Group took over the management - as from 1 January 2016 (after a private deed, authenticated by the Notary Public Ferrelli of Milan - volume No. 25010/11072 dated 28 December 2015, registered care of the Companies' Register on 11 January 2016 and subsequent supplementary/adjusting deed dated 7 November 2016, volume No. 25486/11322 of the Notary Public Ferrelli of Milan) of the segments of the treatment service carried out care of the centralised plant known as " Cassano d'Adda"[6] and, then, with effect as from 1 March 2017 (subject to private deed authenticated by the Notary Public Ferrelli of Milan, volume No. 25673/11428, dated 28 February 2017, registered care of the Companies' Register on 17 March 2017, followed by supplementary private deed, authenticated by the Notary Public Ferrelli of Milan, volume No. 26191/11715 dated 18 December 2017) for the purchase of the business segment from Brianzacque S.r.l., the segments of the treatment services carried out care of the centralised plant known as "Truccazzano"[7].

At the same time (by means of private deed, authenticated by the Notary Public Ferrelli of Milan, volume No. 25009/11071 dated 1 January 2016 and subsequent adjusting deed dated 7 November 2016, volume No. 25485/11322 of the Notary Public Ferrelli of Milan), the CAP Group transferred the management to Brianzacque S.r.l., as from 1 January 2016, of the segment of the aqueduct and sewerage service for the various Brianza municipalities[8], as well as from 1 March 2017 (subject to private deed

[6] For the Monza municipalities of Cornate D'Adda, Busnago and Roncello.

[7] For the Monza municipalities of Bellusco, Agrate Brianza, Caponago, Cavenago di Brianza, Mezzago and Ornago.

[8] Aqueduct for the Monza municipalities of Lazzate, Misinto, Cogliate, Barlassina, Lentate sul Seveso, Ceriano Laghetto "former Brollo", Limbiate "former Brollo and otherwise", Nova Milanese; sewerage system for the Monza

authenticated by the Notary Public Ferrelli of Milan, volume No. 25672/11427, dated 28 February 2017, registered care of the Companies' Register on 17 March 2017 for the transfer of the business segment, followed by supplementary private deed, authenticated by the Notary Public Ferrelli of Milan, volume No. 26190/11714 dated 18 December 2017) along with the aqueduct management, with the exception of the management of the large-scale transportation/backbone networks, for the numerous other municipalities in the Monza Area

The above transactions saw the participation of both the parent company and Amiacque S.r.l. in the transfer in question. The overall price of the transaction for the Group was agreed as around € 14 million for the 1st STEP and around € 28.8 million for the 2nd STEP (after the adjustment).

The CAP Group carries out activities for the Monza shareholder municipalities (drainage, treatment and wholesale aqueduct collection and transportation) which contribute towards forming the integrated water service as defined by Italian Legislative Decree No. 152/2006 as amended and added to and, as a consequence, production activities of a general interest service, considering that the afore-mentioned fold also includes the creation and management of networks and plants functional for the performance of said services.

Thus is strict compliance with the planning acts undertaken by the related EGAs. The Area Office of the Metropolitan City of Milan, in fact, on 29 June 2016 entered into the inter-area agreement pursuant to Article 47.2 of the Regional Law No. 26/2003, with the corresponding area Governance Body of the Province of Monza and Brianza.

Downstream from the signing of this agreement, steps were taken on 29 June 2016 for the formal agreement between the CAP Group and the ATO Office of the Province of Monza and Brianza, which disciplines the performance of the activities of the former, via the role of "wholesale" operator (according to the ARERA sense of the word).

Amongst other aspects, the deed envisages that the "wholesale" relationship between the CAP Group and Brianzacque S.r.l. is disciplined by a specific agreement, subsequently signed between the afore-mentioned parties on 28 February 2017 with a duration equal to the Agreement outstanding between CAP Holding and the Metropolitan City of Milan ATO.

In the province of Pavia

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

It should also be recalled that the parent company on 15 July 2008 with deed authenticated by the Notary Public Antonio Trotta, volume No. 124403/42999, conferred to Pavia Acque S.c.a.r.l business segments relative to the water networks of various municipalities in the Pavia area.

Said conferral was followed in 2016 (by means of deed dated 23 December 2016 filed with the deeds of the Notary Public Trotta volume No. 138720, file No. 53119, with a view to strengthening the capital of Pavia Acque S.c.a.r.l.) by a second conferral for a net value of € 5,451,715.

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municipalities of Barlassina, Lentate sul Seveso, Aicurzio, Mezzago, Roncello, Bovisio Masciago, Misinto, and Seveso.

An additional conferral, for € 315,078 concerning the amounts receivable which the CAP Group was owed by Pavia Acque S.c.a.r.l., was carried out (subject to expert appraisal carried out on 30 September 2017 by the expert appraiser Ms. Maria Angela Zenoni, sworn on 15 December 2017 by means of certifying report drawn up under the hands and seal of the Notary Public, volume No. 139957, Notary Public Trotta of Pavia) with document - private deed - dated 1 February 2018 authenticated by the Notary Public A. Trotta of Pavia under volume No. 140125/54193.

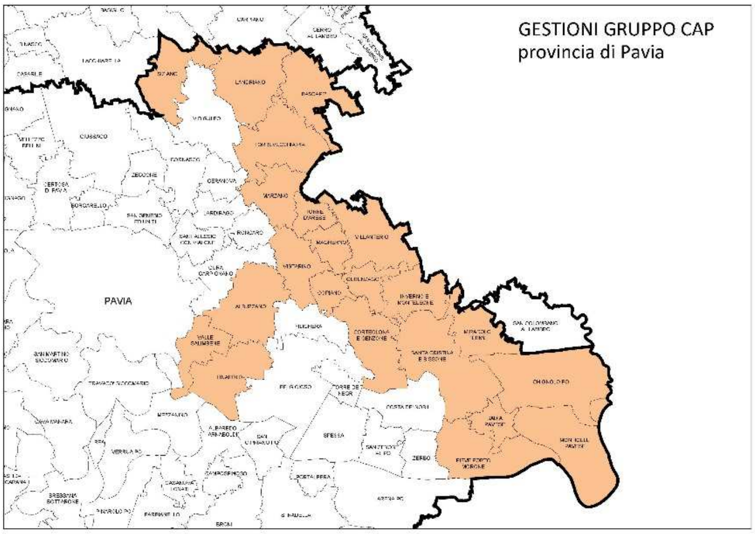
Both the conferrals have been allocated to the “target” capital reserve under the equity of Pavia Acque S.c.a.r.l.

Said reserve (like those created by virtue of the conferral mentioned several times dated 15 July 2008 - for a total of € 7,394,894 - and in accordance with the matters envisaged by Pavia Acque s.c.a r.l. shareholders' meeting held on 22 December 2016) will not be available for distribution or for capital increases (unless only and exclusively for the case envisaged by Article 11.5 of the current articles of association of Pavia Acque s.c.a r.l.) and will be afforded the maximum protection possible against any losses for the period and/or other management events that the Company may sustain.

If PAVIA ACQUA 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.

The transaction also meant that as from 2017, the dealings which the CAP Group has with Pavia Acque S.c.a.r.l., for its use of the networks and plant owned by CAP Holding S.p.A., ceased to exist.

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



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

Other areas

The CAP Group is present in certain other areas where it acts, via the role of “wholesaler” recognised by the EGA of the Metropolitan City of Milan as from 1 January 2016 by virtue of the resolution of the Board of Directors of said EGA No. 1 dated 31 May 2016 - Enclosure A. This involves:
- the treatment service performed by the CAP treatment plant in the municipality of San Colombano al Lambro (an enclave of the Metropolitan City of Milan in the area of Lodi) for 3 municipalities in the province of Lodi (Borghetto Lodigiano, Graffignana and Livraga) for which the main provider is SAL S.r.l.;
- the treatment service provided for 2 municipalities of the ATO of Como (Cabiate and Mariano Comense, for very few users in the latter case) by the treatment plant of Pero in the area of the Metropolitan City of Milan;

- the treatment service performed by the Peschiera Borromeo plant (located in the Metropolitan City of Milan) which also serves the eastern districts of the City of Milan, for which the main provider is MM S.p.A.

The CAP Group also manages the aqueduct service for the Municipality of Gorla Minore belonging to the Varese ATO. The EGA [the ATO governing board: a board on which all the municipal authorities of the ATO sit, and to which the duties and powers of said municipal authorities as regards the management of the water resources, are transferred] of this ATO (Board of Directors' twenty- year provision No. 37 of 4 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 AEEGSI 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 municipal authorities specifically for that purpose in 2015. The Council of State, in the chambers meeting on 19 January 2017, upheld the precautionary instance proposed, among others, by ALFA S.r.l. and, accordingly, suspended the executive nature of the sentence of the Lombardy Regional Administrative Court challenged.

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

Summary of the organisational plan.

In 2013, via a series of extraordinary transactions which took place, a business enterprise (the CAP Group) took on form which previously did not exist (2013 was the first consolidated accounting period).

In 2014, this new business enterprise completed the final exit, from an equity standpoint, but also with regard to social composition, from the Lodi area and received the formal twenty-year assignment of the integrated water services for the area of the former Province of Milan (provincial capital excluded).

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

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

At the same time, the rationalisation process throughout the Pavia area was completed, with a second and final conferral, after that in 2008, of water infrastructures.

Beyond the “extraordinary” and governance and corporate architecture aspects, the CAP Group has maintained the focus on the internal organisational elements, at a time of very heavy changes induced precisely by the changes already commented on.

Certain aspects will be examined below, also useful for analysing the policy of the company with regard to risk management.

Measurement of the business crisis risk (Article 6.2 of Italian Legislative Decree No. 175/2016)

The indicators suitable for predictively reporting the risk in question are presented to the shareholders in a specific report, pointing out that these indicators do not indicated situations of risk. The other indications as per section 3 of the afore-mentioned article can be found within this report.

Internal Control and Risk Management System

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

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

- provisions which concern each individual Group company in its entirety: Articles of Association, Organisational, Management and Control Model pursuant to Italian Legislative Decree No. 231/2001, Code of Ethics, Anti-corruption Plan, etc. For greater analysis on these aspects please see the subsequent sections in this report: “Organisational, Management and Control Mode pursuant to Italian Legislative Decree No. 231/01”; “Organisational Model consistent with the prevention of corruption Italian Law No. 190/2012”; “Fulfilments regarding transparency”; “Internal Audit and checking of the internal control system”.
- more strictly operational procedures/instructions which discipline the business processes, the individual activities and the related controls.

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

1) the dissemination of the controls to all the levels of the organisational structure, on a consistent basis with the operational responsibilities entrusted and, where possible, foreseeing a sufficient separation between the operating functions and the control ones, paying attention to avoid situations of conflict of interests in the assignment of the responsibilities;
2) The sustainability of the controls over time, so that their performance is integrated and compatible with the operating needs.
The structure of the CAP Group’s Internal Control System envisages controls at the level of entities which operate transversally with respect to the reference entity (Group/ individual company) and controls at process level.

The Internal Control System is also called upon to:

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

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

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

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

The Internal Control System also involves:
- the Board of Directors - which is reserved the powers regarding the policies and the internal control of the Company and (with regard to the Board of Directors of the parent company) of the Group (e.g. the power to define the policies of the internal control system, as well as periodically check the suitability and effective functioning of the same, ensuring that the main business risks are identified and handled adequately and that the controls necessary for monitoring the performance of the Company exist);
- the Internal Audit unit whose head reports hierarchically to the Board of Directors, also responsible for the Prevention of Corruption and Transparency;
- the Board of Statutory Auditors which oversees (by means of inspection and control activities) the observance of the law, the articles of association and the principles of correct administration and which, specifically, must assess the suitability of the organisational, administrative and accounting set-up and oversee its effective functioning;
- The parent company's Internal Control Committee (coinciding with the Board of Statutory Auditors of the same) which oversees a series of aspects which pertain to the internal and external controls system for bodies of public interest, in particular with regard to: financial disclosure process; efficacy of the internal control, internal audit, if applicable, and risk management systems; legal audit of the annual and consolidated accounts; independence of the official auditor or auditing firm. In order to strengthen the prerogatives of the committee it is also envisaged that the auditor submits a report to this body on the fundamental questions emerging at the time of the official audit, especially with regard to the shortfalls detected in the internal control system, which have repercussions on the financial disclosure process.

Integrated Quality Management System – Sustainability Report and Environmental Accounts

The CAP Group has adopted a Policy for Quality, the Environment, Safety, the Ethical Commitment and energy efficiency which is achieved by means of an Integrated Management System certified by independent third parties.

The company certifications relate to the quality, environment, health and safety in the workplace and corporate social responsibility systems which are joined by the accreditation, in compliance with the ISO/IEC 17025 standard, for the waste water laboratories of Pero, Peschiera Borromeo and Robecco and for the Drinking Water Laboratories in Milan.

In 2017, the OHSAS 18001 certification and the ISO 14001 certification were adapted to the respective 2015 edition standards and were extended to all the premises and business processes.

The accreditation of the laboratories is the result of greater importance for the Group in line with the extraordinary commitment undertake with the adoption, first case in Italy, of the Water Safety Plan, or rather of a no longer reactive, but proactive method in the safeguarding and protection of the water resource and the health of the citizens.

The accreditation bears witness to the quality level of the work of the Lab, checking the compliance of its management system and of its skills with internally recognised legislative requirements, as well as mandatory legislative rules.

CAP Holding is also ISO 22000 certified for the management of the waterworks houses.

During 2017, the CAP Group obtained the Declaration of verification of the inventory of greenhouse gas emissions according to the ISO 14064-1:2012 standard for the emission data relating to 2016.
The CAP Group continues to pay the utmost attention to the improvement and development of the Group's integrated management systems.

Once again for 2017, the CAP Group has drawn up the Sustainability Report and the Environmental Accounts, with the aim of accurately and transparently divulging the activities and the services in the economic, social and environment sphere of the company.

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

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

The afore-mentioned documents have been constantly up-dated to acknowledge the legislative amendments introduced by the legislator (Italian Law No. 68/2015 so-called offences against the environment and Italian Law No. 69/2015 so-called offences against the Public Administration Authorities and false accounting) and reviewed with the aim of harmonising at Group level the processes and procedures, in observance of the autonomies of the two companies.
Furthermore, the Code of Ethics supplemented with specific conduct-related duties of the employees has been approved for the purpose of preventing corruption (ANAC decision No. 12/2015).

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

CAP Holding S.p.A. has adopted a single document with the aim of structuring an efficient management system designed to respond to corruption confirming CAP Holding S.p.A.'s commitment to act correctly and with integrity in transactions and work relationships.
To the first two Annexes, already adopted by the company, the Anti-corruption policy has been drawn up as new; it defines the values, principles and responsibilities which the CAP Group complies with regarding the fight against corruption. This Policy was designed in observance of the current applicable provisions including Italian Law No. 190/2012, Italian Legislative Decree No. 231/01 and the UNI ISO 37001:2016 Management system, with the objective of prohibiting any form of corruption, direct or indirect, active or passive, which involves not only public officials but also private parties.

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

On 23 June 2014, each management body of the afore-mentioned companies approved the "Three-year corruption prevention plan", pursuant to Italian Law No. 190/2012, and the "Three-year programme for transparency and integrity", pursuant to Italian Legislative Decree No. 33/2013.
In compliance with ANAC decision No. 831/2016 and the new discipline introduced by Italian Legislative Decree No. 97/2016 the afore-mentioned documents were up-dated and the Boards of Directors of both companies, in the sessions held on 30 January 2018 and 31 January 2018, approved the up-date of the Three-year corruption prevention and transparency plans - years 2018 – 2020.

On 22 February 2017, the Italian Antitrust Authority (AGCM) renewed the legality rating pursuant to Italian

Decree Law No. 1/2012, converted into Italian Law No. 62/2012 for CAP Holding S.p.A., with the acknowledgement of a maximum score of 3 stars.

Fulfilments regarding transparency

The CAP Group considers transparency to be a fundamental instrument for the prevention of corruption and for the efficiency/effectiveness of the administrative action.
In line with the principle of administrative transparency, the CAP Group has equipped itself with an internal policy aimed at characterising each administrative procedure according to transparency and accessibility criteria.

On the Group's corporate website www.gruppocap.it a specific section has been established, entitled "Transparent company", in which all the information whose publication is mandatory in accordance with current pertinent legislative provisions is published, including the composition and fees of the management and audit body, organisation, entrusting of work, services and supplies, collaboration and consulting appointments, executive appointments, grants and aid, investee companies, etc..
The Three-year corruption prevention and transparency plan of CAP Holding S.p.A. and Amiacque S.r.l. is published in the "Transparent company" section of the corporate website.

Internal Audit and checking of the internal control system

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

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

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

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

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

Economic performance

The consolidated financial statements of the CAP Group, accompanied by this report, illustrate the accounting data relating to 2016 and that of the financial statements closing as of 31 December 2017, presented on the basis of the application of the International Financial Reporting Standards (IFRS) adopted by the European Union.

The adoption of the IAS/IFRS accounting standards was approved by CAP Holding S.p.A.'s Board of Directors in the meeting held on 26 June 2017 (with regard to the condition precedent, which then manifested on 2 August 2017, of the effective admission of the stock to trading on the Main Securities Market of the Irish Stock Exchange of a bond for € 40 million issued by CAP Holding S.p.A. itself).

In order to contribute towards providing a key to the comparison between the figures for 2017 and those for 2016, you are reminded (see above the section on the organisational performance for greater details) that in 2017 there were a number of adjustments to the area scope:

- as from 1 March 2017, the segments of the treatment service carried out care of the centralised plant known as "Truccazzano" past from management under Brianzacque S.r.l. to the CAP Group;
- as from 1 March 2017, the management and the ownership of aqueducts for numerous Monza municipalities passed from the CAP Group to Brianzacque S.r.l., with the exception of the management of the large-scale transportation/backbone networks.

In conclusion, the above highlights to non-immediacy of the comparison of 2017 with 2016.

Profit & Loss CAP Group - IFRS	31 Dec. 2017	31 Dec. 2016	Change
Total revenues and other income	335,510,644	346,723,441	-3.2%
Total costs	(288,186,580)	(298,677,418)	-3.5%
Operating result (EBIT)	47,324,064	48,046,024	-1.5%
Financial income	4,224,132	3,560,435	18.6%
Financial expense	(8,495,476)	(8,586,405)	-1.1%
Result before taxes	43,052,720	43,020,054	0.1%
Taxation	(12,810,400)	(16,151,345)	-20.7%
Net result for the year	30,242,319	26,868,709	12.6%

Account was taken of the IFRS reclassification in the above table, for the purpose of compilation of the 2016 column, as well as for the comments which follow.

The table discloses a net operating result (EBIT) which represents around +14% of total revenues of the CAP group (similar to the approximately +14% in the previous year) and a partial absorption of margins by the financial area.

Total revenues of the final value for 2017 decreased with respect to those in 2016 (-3%) and mainly reflect the effects of the drop in revenues from sales and services (see the matters already mentioned above regarding the partial disengagement in the Monza area), only in part offset by the increase in the items "revenues for work under concession" and "other revenues and income".

The total of the costs for 2017, by contrast, decreased by -4% compared with 2016. The main reasons for the reduction include the partial disengagement, as for the sales revenues, from the Monza area and the minor amount of the item "Amortisation, depreciation, provisions and writedowns".

Here we wish to make clear an aspect of particular importance: the so-called FONI component contributes to the revenues for the year, in other words the portion of tariff whose use is restricted to "investments and/or for tariff facilitations for social uses and/or other purposes decided by the area governance Body".

The portion acknowledged to the CAP Group, for just the area of the province of Milan, for this purpose and for 2017 amounts to:

(€)	FONI 2017
Gross of taxation	11,723,599

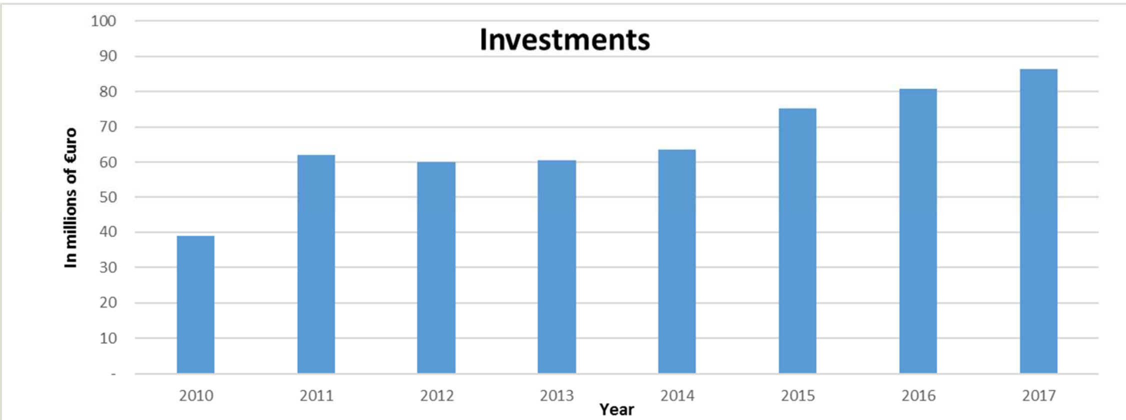
Net of taxation[11]	7,049,609

(Note: € 1,405,676 is added due to the wholesaler tariff arranged for 2017 gross of the tax effect).

In a simplified manner, these are financial means ascertained in the financial statements of the CAP Group, which must remain used in the same, and in relation to which the Operator must demonstrate to the Electricity, Gas and Water Systems Authority, the use which will be made over time.

Without entering into complex technical details on the calculation and reporting methods for tariff purposes (which take into account the amounts effectively collected, the investments made, the tax burden supported, etc.), it is pointed out that, with reference to the Area of the Metropolitan City of Milan, the EGA - in accordance with the company - has decided to include in the tariff the entire amount emerging for each year in the tariff calculation, allocating the amount of € 2 million per annum (using € 40,900 in 2017) to the funding of tariff concessions in favour of households who are in difficult socio-economic conditions; the remaining part has been allocated to support an important investment endeavour implemented by the Operator.

For the five-year period 2012 - 2017, the portion of the entire FONI component intended for investment was used for the development of the investments.



In particular, it is easy to note from the Diagram below how the amount of the investments has risen in continuation, recently by around 5%, for overall average annual growth of around 6% (on 2011 basis).

In this sense, also from an equity standpoint, the balance represented by the FONI component must appropriately remain employed in the Group's shareholders' equity, if in fact it has already been used. A choice also confirmed in the proposal to up-date the Business Plan for the 2015-2020 period approved by the shareholders' meeting held on 26 June 2015 which, furthermore, as a binding decision for future years, decided to reinvest all the management balances generated in new and increasingly greater investments and in improvements to the service.

Total Revenues of the Group.

Total Revenues of the CAP Group in 2017 were

[11] The AEEGSI resolution No. 664/2015/R/IDR dated 28 December 2015 "approval of the water tariff method for the second regulatory period 2016-2019 MTI – 2" disciplines in section 21.1 of Enclosure A the adjustment of the Foni component by the tax effect considering a parametric percentage of 27.5%, also like the Model for the previous period (AEEGSI resolution No. 643/2013/R/IDR dated 27 December 2013).

In Euro	31 Dec. 2017	31 Dec. 2016
Revenues	237,902,149	260,061,449
Increases for Internal Work	3,950,626	-
Revenues for work on assets under concession	75,403,902	77,893,122
Other revenues and income	18,253,966	8,768,871
Total revenues and other income	**335,510,644**	**346,723,441**

Some details follow:

The Revenues

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

Their amount (€ 237,902,149) decreased by -8% compared with 2016 (€ 260,061,499) due to the joint effect of the decrease in all the revenues.

In particular, for the metropolitan and Brianza areas, during 2017 tariffs were applied in accordance with the water tariff method for the 2016-2019 regulation period, resolved by the Electricity, Gas and Water Service Authority (as from 2018 the Regulation Authority for Energy Networks and Environment), by means of the ARERA resolution No. 664/2015/R/IDR dated 28 December 2015 ("MTI – 2").

In the municipalities of the Metropolitan City of Milan, the following were applied by the subsidiary company Amiacque S.r.l., as from:
- 1 January 2017, the tariffs published in BURL No. 1 dated 4 January 2017 approved by the Regulation Authority for Energy Networks and Environment by means of resolution No. 503/2016/R/idr dated 15 September 2016.

You are reminded that, again by means of resolution No. 503/2016/R/idr dated 15 September 2016, the Regulation Authority for Energy Networks and Environment approved the tariff convergence process, launched by the Area Office of the Metropolitan City of Milan, in accordance with the matters envisaged by Article 37 of Enclosure A of the ARERA resolution No. 664/2015/R/IDR, with the objective of reaching a single tariff sphere, coinciding with the scope of activities of the Operator CAP Holding S.p.A, on the ATO Metropolitan City of Milan. The tariffs published in BURL No. 1 dated 4 January 2017 were determined in compliance with the tariff standardisation process mentioned above.

It is recalled that the Regulation Authority for Energy Networks and Environment by means of resolution No. 503/2016/R/idr dated 15 September 2016 formally approved the values of the ϑ multiplier drawn up by the Area Office of the Metropolitan City of Milan, arranging for the related operations the tariff up-date, for the period 2016-2019, determined in accordance with Article 6 of Enclosure *A*, of resolution No. 664/2015/R/IDR (ϑ equal to 1.060 for 2016; ϑ equal to 1.096 for 2017; ϑ equal to 1.096 for 2018 and ϑ equal to 1.096 for 2019).

On 28 February 2017, a second deed was entered into for the reciprocal transfer of business segments between the companies of the CAP Group and Brianzacque S.r.l., applicable as from 1 March 2017, which led to a reciprocal exchange of municipal areas managed for the purpose of taking back each operator into the geographic area of strict entrustment competence (respectively Metropolitan City of Milan for the CAP Group and the Province of Monza Brianza for Brianzacque S.r.l.).

In accordance with the matters indicated above, the tariff arrangement for the second regulatory period was formulated by the EGAs of the Metropolitan City of Milan and the Province of Monza Brianza adopting the matters established by section 7.2 of Enclosure A of the resolution No. 664/2015, which envisages that “in the event of merger between two or more operators of the Integrated Water Service” or merger agreements to be finalised in the year of tariff determination, the application of a sole tariff multiplier is permitted, calculated in the basis of the economic and scale variables referring to all the operations, net of the transactions between the same operators”.

Therefore, a single regulatory scheme was adopted for the IWS operator for the area, taken from the “merger” of the two previous operations of CAP Holding S.p.A and Brianzacque S.r.l., originally identified for the MTI.

The permanence in any event of activities for the wholesale of services by CAP Holding S.p.A. provided via its plants located in the area of the Metropolitan City of Milan ATO and which supplies aqueduct and treatment services to operators operating in the adjacent geographic areas, has led the competent EGAs to envisaged the application of the matters established in Article 16.3 of the outline agreement approved by means of resolution No. 656/2015/R/IDR, which states that “if a wholesaler provides services to different operators, operating in a plurality of ATOs, the EGA in whose area the plant is located sees to the tariff arrangement obligations, subject to the opinion, to been provided within 30 days, of the competent EGA for the operator served”.

Therefore, by means of a method partially different with respect to that carried out at the time of the determination of the tariffs using the MTI (years 2014-2015), the tariff method for the second regulatory period (MTi-2) envisages that the EGA in whose area the plant falls as shared for the service vis-à-vis other adjacent areas sees to the arrangement obligations, in close discussion by the EGA which receives the service, and approval obligations for the wholesale tariff, reserving the task for seeing to the issuance of the above opinion for the EGA receiving the service for its approval of the tariff on the area it is responsible for.

Therefore, the Metropolitan City of Milan EGA has operated in this sense, arranging the tariffs also for the operations as wholesaler of the CAP Group vis-à-vis the adjacent City of Milan ATOs (treatment), subsequently incorporated in said Metropolitan City of Milan ATO, Como ATO (treatment, Lodi ATO (treatment) and Monza Brianza ATO (aqueduct and treatment).

The Regulation Authority for Energy Networks and Environment formally approved the values of the multiplier for the Wholesale operations, in particular:

- by means of resolution No. 523/2016/R/idr dated 22 September 2016 it approved the values of the ϑ multiplier for the CAP Group as Wholesale treatment operator and Wholesale aqueduct operator in the area of the Province of Monza and Brianza arranging for the related operations the tariff up-date, for the 2016-2019 period, determined in accordance with Article 6 of Enclosure A, of resolution No. 664/2015/R/IDR (for the Wholesale aqueduct operator: ϑ equal to 1.000 for 2016; ϑ equal to 1.031 for 2017; ϑ equal to 1.110 for 2018 and ϑ equal to 1.113 for 2019; while for the Wholesale treatment operator: ϑ equal to 1.000 for 2016; ϑ equal to 0.921 for 2017; ϑ equal to 0,930 for 2018 and ϑ equal to 0.963 for 2019);
- by means of resolution No. 588/2016/R/idr dated 6 October 2016 it formally approved the values of the ϑ multiplier for the CAP Group as Wholesale treatment operator in the Lodi area, arranging for the related operations the tariff up-date, for the period 2016-2019, determined in accordance with Article 6 of Enclosure A, of resolution No. 664/2015/R/IDR (ϑ equal to 1 for 2016; ϑ equal to 1.032 for 2017; ϑ equal to 1.065 for 2018 and ϑ equal to 1.099 for 2019);
- by means of resolution No. 72/2017/R/idr dated 16 February 2016 it formally approved the values of the ϑ multiplier for the CAP Group as Wholesale treatment operator in the Como area, arranging for the related operations the tariff up-date, for the period 2016-2019, determined in accordance with Article 6 of Enclosure A, of resolution No. 664/2015/R/IDR (ϑ equal to 1 for 2016; ϑ equal to 0.933 for 2017; ϑ equal to 0.968 for 2018 and ϑ equal to 1.012 for 2019).

The tariff multiplier of CAP Holding S.p.A. as Wholesale treatment operator in the area of the former City of Milan was established by the EGA of the Metropolitan City of Milan and approved by means of

mandatory and binding opinion No. 4 by the Conference of the Municipalities on 31 May 2016 (ϑ equal to 1 for 2016; ϑ equal to 0.726 for 2017; ϑ equal to 0.714 for 2018 and ϑ equal to 0.753 for 2019).
The components considered in the mechanism of the regulatory adjustments include that on the so-called "volumes".

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

The portion of VRG for 2017 which therefore was not billed in 2017 due to this mechanism will be recovered as from the 2019 VRG.

Article 29 of the Enclosure to resolution No. 664/2015/R/IDR identifies other "exogenous" cost items destined to be recovered, in particular mention is made of those of greatest interest:

- Rc_{EE}^{a} Defined as the deviation between the component covering the electricity costs envisaged in the VRG and that effectively due. In this case, it is indicated that AEEGSI subjects the recovery of the expense for the energy bill to streamlining, establishing an average parametric electricity supply price as the reference base for the calculation of the deviation.
- Rc_{Other}^{a} component which contains items such as the contribution paid to the electricity, gas and water systems Authority, the local charges which include the taxes and levies paid to local bodies.
- Rc^{a} component which contains the recovery of the deviation between the components covering the wholesale costs of the second previous year (a-2) and the costs effectively due.

The mechanism described above replicates that already contemplated in the previous resolution No. 643/2013/R/IDR dated 27 December 2014 (method for 2014-2015), and even earlier that defined by means of resolution No. 585/2012/R/idr (MTT tariff method for 2012-2013), creating a *continuum* over time of the tariff logic followed.

The matters stated already provide initial evidence of the portion of the 2019 VRG designated to restore costs incurred and not covered by the tariff, or to recover revenues lacking due to "volumes".

The conclusion of the matters narrated above is that with the ARERA tariff methods, a "guaranteed logic" method has been entered into defined at the time of approval of the tariff and function of various economic cost elements (operative and capital related). Albeit with a certain simplification one can say that part of guaranteed revenues for 2017 which has not been requested in billing to the user in 2017, may be recovered with the 2019 tariffs.

The value of the tariff quotas, operator and wholesaler, due to the CAP group amounts in total to € 234,036,635 (€ 260,000,502 in 2016).

The comparison with the revenue for 2017 discloses a decrease in the revenue from tariffs of € 25,963,866, equal to -10.0%, compared with 2016 mainly due to the matters already illustrated above.

The breakdown of the tariff revenues by Province, the Wholesale revenues and the out-of-period amounts for tariffs included in the income statement item Revenues follows.

Tariff revenues	31 Dec. 2017	31 Dec. 2016
Province of Milan	216,581,772	235,547,708
Province of Monza and Brianza	13,742,798	13,036,167
City of Milan	3,113,098	4,191,105

Province of Lodi	371,421	366,734
Province of Pavia	0	3,870,919
Others	227,547	2,987,869
Total	**234,036,636**	**260,000,502**

Furthermore, with regard to the area of Pavia and Monza the additional revenues by way of the provision of services carried out in favour of the operators of those areas, or by way of payment for the use of the infrastructures owned by the CAP Group used by those areas (on this point recall the matters already mentioned in the section "organisational performance" with regard to the conferral to Pavia Acque s.c.a r.l. at the end of 2016 and, with regard to the Monza area, the transaction for the purchase of the business segment relating to the Truccazzano plant in the first few months of 2017), as per the table below:

Revenues for use of infrastructures and sundry	31 Dec. 2017	31 Dec. 2016
Province of Monza and Brianza	184,255	1,105,530
Province of Pavia	2,617,751	3,870,919
Total	**2,802,005**	**4,976,449**

(*) the former Idra revenues are income for the use of the former Idra Milano S.r.l. plants, for € 184,255 located in the ATO of the Metropolitan City of Milan, partially also serving the Monza and Brianza ATO.

The revenues from "BA" dropped due to the transfer by Brianzacque S.r.l. relating to the second step.

Revenues for work on assets under concession

Revenues for work on assets under concession amount to € 75,403,902 for the year ended 31 December 2017. They amounted to € 77,893,122 in 2016. These revenues correspond, in accordance with IFRIC 12, to the work realised on the assets under concession owned by the Group and used by the same for its core activities.

Other revenues and income

Other revenues and income for the year ended as of 31 December 2017 amounted to € 18,253,966. They amounted to € 8,768,871 in 2016. The main components include:

- reimbursements for personnel seconded for € 1,594,779;
- revenues for grants amounting to € 1,255,564;
- gratuitous acquisition of a sewage collector for € 4,445,346 recorded in the accounts of CAP Holding S.p.A..

These include the amount of € 4,445,346 recorded in the accounts of the CAP Group as a result of the gratuitous acquisition of a sewage collector. In this connection please see the following section investments.

The total costs of the CAP Group

As permitted by IAS 1 (Presentation of financial statements), the CAP Group presents an income statement which illustrates the analysis of the costs by means of a classification based on the nature of the same.

In 2017 the CAP Group reported total costs for € 288,186,580, down with respect to 2016 (€ 298,677,418) by around -4%.

The following table shows some details:

CAP Group - costs	31 Dec. 2017	31 Dec. 2016	Change
Costs for raw and consumable materials and goods for resale	12,800,537	11,522,053	11%
Costs for services	128,792,628	122,441,148	5%
Costs for work on assets under concession	45,905,201	49,997,070	-8%
Personnel costs	42,181,308	43,718,490	-4%
Amortisation, depreciation, provisions and write-downs	49,470,476	60,766,768	-19%
Other operating costs	9,036,430	10,231,889	-12%
Total costs	**288,186,580**	**298,677,418**	-4%

This is mainly due to the change in the items amortisation and depreciation, provisions and write-downs.

Costs for services

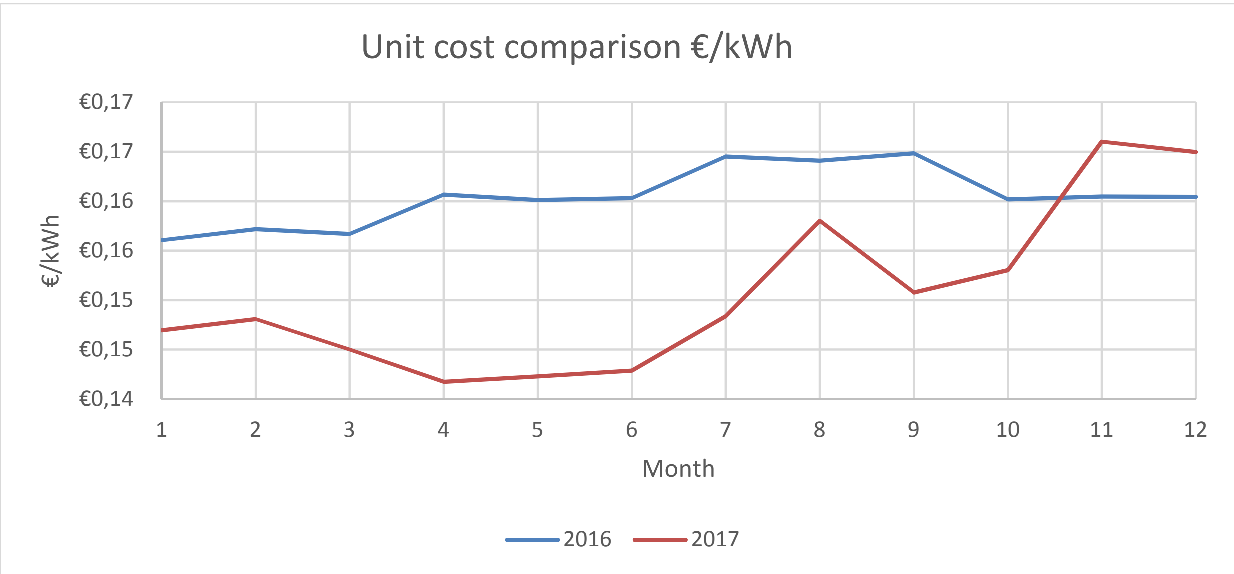
Costs for services amounted in 2017 to € 128,792,628 compared with a figure of € 122,441,148 in 2016.

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

The cost of **electricity** came to € 29.3 million and was down slightly with regard to 2016 (€ 32.0 million) (-9%).

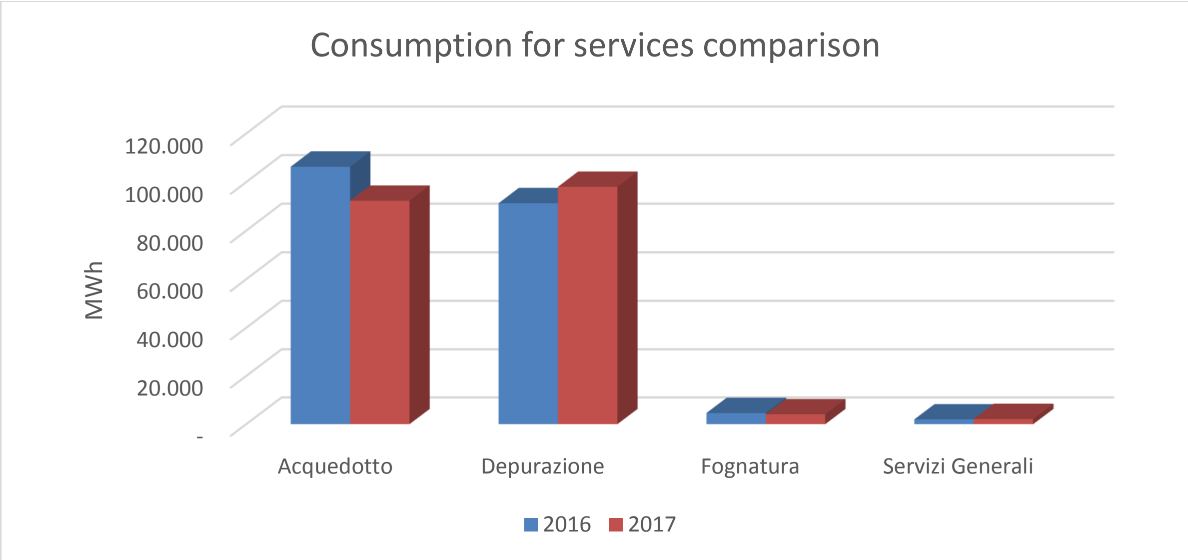
The reduction in the total cost (-9%) is due to:

- reduction in the unit costs by 5%, obtained by means of the new purchase price for energy. In the presence of this reduction, indication is however made of an increase in the cost of energy in the 3rd quarter, caused by the necessary cancellation of the fixed price agreement with the supplier in 2017 and the start of the new variable price agreement with a replacement supplier, which reduced the positive effect of the procurement strategy;



- reduction in energy consumption of 4% due to:
    - ✓ energy efficiency measures which led to the achievement of the company objective for 2017 (decrease in energy consumption with respect to 2014 of 4% for the aqueduct service and 3% for the treatment service);

- ✓ change in the geographic and functional scope;
  - treatment segment acquisition of the Truccazzano plant, revamping of plants with the addition of new energy-intensive sections (+7% with respect to 2016);
  - aqueduct segment overall reduction in consumption due to the disposals of business segments (Brianzacque step 2) (-15% compared with 2016).

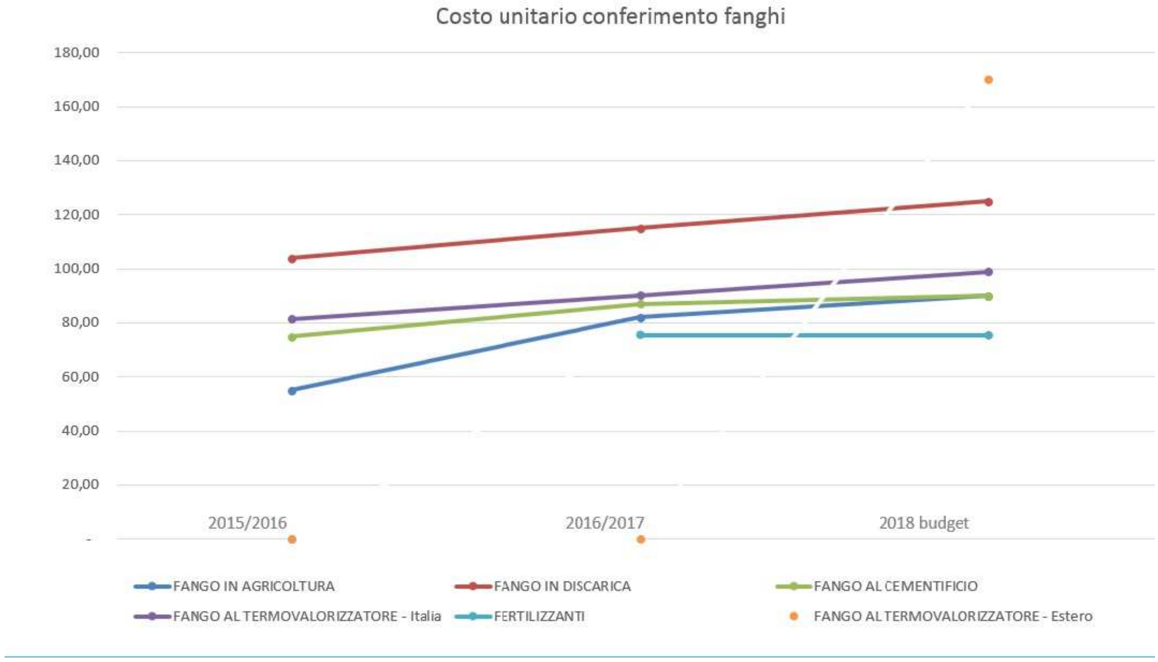


As mentioned above due to the mechanism as per Article 29 <<Adjustment components included in the VRG>> of the MTI-2 and in particular of the therein envisaged adjustment of the component Rc_{EE}^{a} , the change in the cost of electricity registered in 2017 will lead to a containment of the tariff progression for 2019.

In 2017 there was thus:

- a decrease in ordinary maintenance costs of € 1.5 million (€ 10,116,020 in 2017 vs € 11,599,903 in 2016) in the presence of an increase in the extraordinary maintenance items;
- a slight increase in the costs for sludge/waste disposal (third item in the table) of € 0.3 million (+5.7% compared with 2015) mainly due to the additional average disposals costs (in 2017 € 4,900,315 was spent compared with € 4,900,315 spent in 2016) in addition to an increase in the volumes to be disposed of further to the undertaking of the management of the Truccazzano treatment plant and the completion of the revamping measures on other plants (mainly Assago and Robecco sul Naviglio).

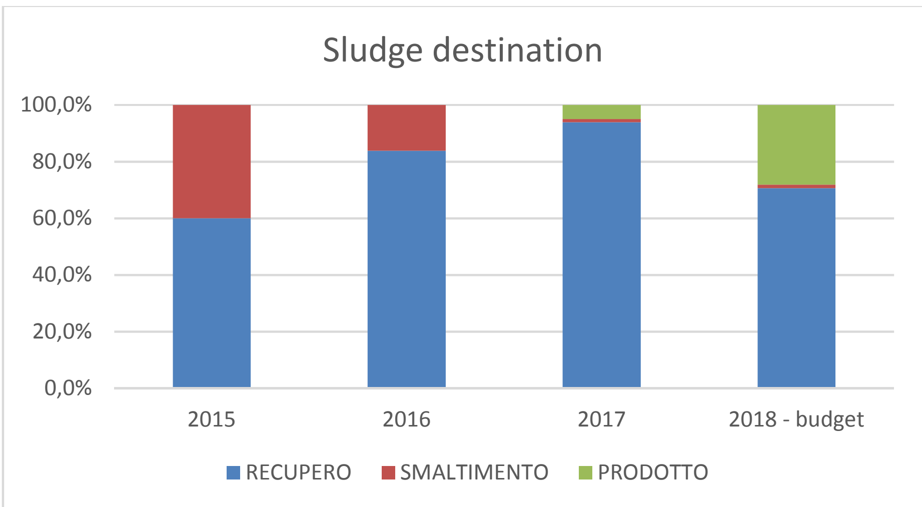
The market externalities and the legislative uncertainties are **however leading in general to a rise in conferral costs.**



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

With regard to sludge, the following are especially mentioned:

1. The optimisation of the drying plant, in terms of increase of the availability of the plant, care of the San Giuliano site, reducing the emission of sludge into the environment.
2. An accurate handling made it possible to launche a sludge valorisation process.
    a. As from 2016, steps were taken to redefine the recovery/disposal strategies with the aim of **cancelling out disposal activities in landfills** and encouraging the recovery of nutrients and resources in agriculture.
    b. During July 2016, further to negative external effects which affected the market of recovery in agriculture, action was implemented aimed **at increasing the thermal recovery** (cement works/external waste-to-energy plant) and the **valorisation of the «high quality» sludge as a fertilising product** (compost and correctives).
    c. As from 2017 we have obtained percentages of disposal in landfills < 1.5% (class A indicator M5 technical quality ARERA).

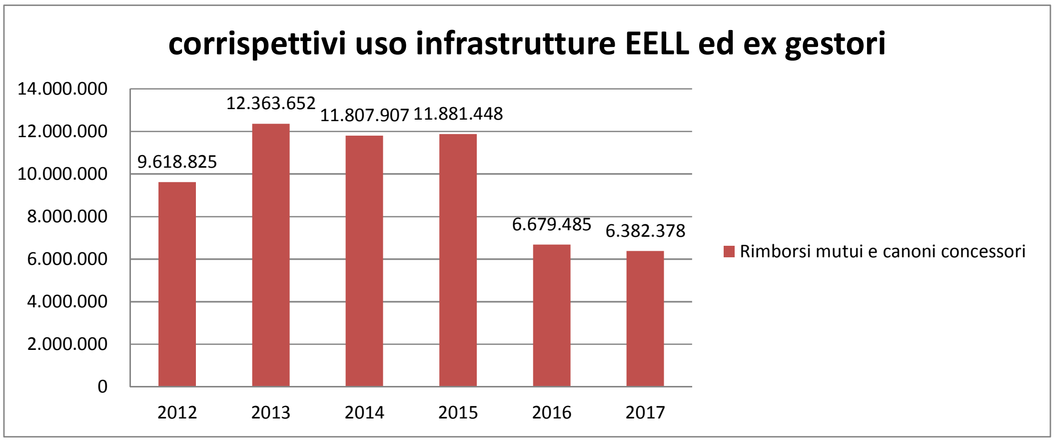


Another significant item of costs for services is the cost recognised for the use of the infrastructures and/or assets of third parties, thus additionally made up.

Costs for use of third party assets	31 Dec. 2017	31 Dec. 2016
Rental and licence fees	1,737,072	1,496,577
Repayments of loans and concession fees	6,382,378	6,679,485
fee for use of well and crossings	1,935,163	1,779,511
Hiring	2,145,941	2,296,958
Out-of-period expense	9,460	23,274
Other sundry management costs	1,992	0
Total costs for use of third party assets	**12,212,005**	**12,275,805**

The main portion is represented by the annual fee paid to the EE.LL.'s for the use of the infrastructures they own and parameterised to the annual repayment instalments of the mortgage loans taken out by the same for the construction of said infrastructures.
The balance of € 6,382,378 (€ 6,679,485 in 2016) also includes the fees paid to the former operators for the use of the respective infrastructures when they remained owned by the same, on the basis of the amount agreed conventionally.
The trend of this cost over the last few years follows.

FEES FOR USE OF EELL AND FORMER OPERATOR INFRASTRUCTURES



The item initially saw a considerable increase, gradually as CAP Holding S.p.A. surmounted the operations "self-managed" and/or "non-compliant throughout the area.
It is destined to decrease gradually as the repayment plans of the underlying loans progress.

The item costs for services also includes, in accordance with IAS 37 (Provisions, potential liabilities and assets), the provisions:

- for environmental reclamation and recovery relating to the sedimentation soil of the treatment plants, for € 23,206,911 further to the assessment, which only become possible in 2017, of what the most reasonably expected conditions will be of the land underlying in particular the pre-treatment and anaerobic digestion sections at the end of the useful life, as well as the estimate of the charges necessary for eliminating the contamination which statistically presents itself.
- 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. This provision amounts to € 1,054,155.

- an additional 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. This provision amounts to € 956.900 for 2017.
- for future "road rehabilitation" expenses pertaining to 2017, amounting to € 400,260 (€ 1,334,773 in 2016). The liability is the best estimate at 31 December 2017 according to the CAP Group technicians for the road stretches for which, by 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.

A breakdown of the cost item relating the **directors and statutory auditors** follows, included in the item "services" of the Group

Fees for corporate bodies	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017
Bord of Directors' fees	248,352	253,129
Bord of Statutory Auditors'fees	135,902	135,653
Total Fees	**384,254**	**388,782**

Costs for work on assets under concession

Costs for work on assets under concession amount to € 45,905,201 for the year ended 31 December 2017 and represent the changes relating to the work carried out on the assets under concession. Capitalised internal costs are recognised by nature within the specific income statement items. They amounted to € 49,997,070 in 2016.

The item personnel costs (€ 42,181,308 in 2017, compared with € 43,718,490 in 2016) underwent a decrease of – 3.5%.

This slight decrease, partly thanks to rationalisation and containment policies on the personnel costs developed over time, disclosed essential maintenance of these costs with respect to 2016.

The personnel in service as of 31 December 2017 care of the Parent Company increased with respect to 31 December 2016 by 4 units, for a total of 198 employees.

The personnel in service as of 31 December 2017 care of AMIACQUE decreased with respect to 31 December 2016 by 20 units, for a total of 615 employees.

Overall, for the group employees number as of 31 December 2017 came to 813 (a decrease of 16 - 829 as of 31 December 2016).

Personnel costs, as will be more fully clarified further on, represented 12.6% of total revenues, therefore under the limit which the shareholders' meeting held on 26 June 2015 laid down (20%) for the year 2015-2020.

The containment limit of the cost fixed by the shareholders' meeting therefore remains active also if the company is no longer subject to the restrictions as per Italian Legislative Decree No. 175/2016. The incentive policies for the internal staff which promote the company remain within the afore-mentioned limit.

Amortisation, depreciation, provisions and write-downs

The item, € 49,470,476, compared with € 60,766,768 in 2016, reported a decrease of 19%.

This item includes:

1. the adjustment of the provisions for liabilities deemed probable (€ 1,402,191);
2. the provision to allowances for doubtful receivables (€ 2,670,856);
3. amortisation and depreciation of assets under concession, tangible and intangible assets (€ 40,574,750).

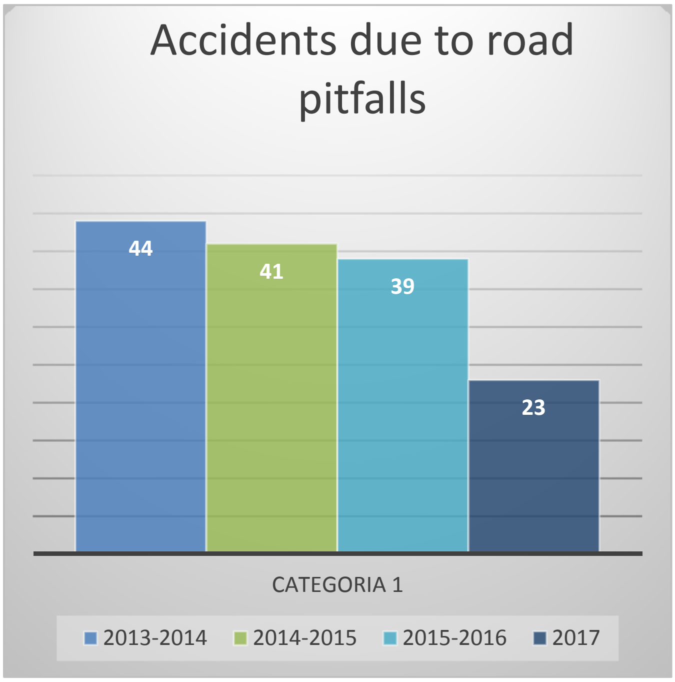
Other operating costs

A last item of due importance is that of other operating costs whose value (€ 9,036,430) was down slightly with respect to 2016 (€ 10,231,889).
The item other operating costs includes:

- the allocation to provisions for future expenses of the FONI tariff quota for the part destined for granting tariff concessions for social purposes. The allocation is consequent to the decision adopted by means of resolution No. 7 of the Conference of the Metropolitan City ATO Municipal authorities dated 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 assigned in 2016 came to € 2,000,000, of which € 772,550.00 assigned through 2017 with € 1,227,450.00 to be assigned. With regard to 2017, the amount which has this assignment is confirmed as € 2,000,000 of which € 40,900.00 assigned as of 31 December 2017 and € 1,959,100.00 to be assigned. The amount not yet assigned referring to 2016 and 2017 can be used until 30 June 2018, pursuant to a decision in that sense adopted by the Board of Directors of the EGA of the Metropolitan City of Milan by means of Resolution No. 4 dated 30 January 2018;
- The allocation to provisions for future expenses for the disposal of buildings, which currently house the head offices of the subsidiary Amiacque S.r.l., located at Via Rimini 34/36, Milan, for Euro 1,020,435. Said buildings will, in fact, be demolished, presumably in the two-year period 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 acquired the ownership of the area and the current buildings in the first few months of 2018, thus undertaking - indirectly and essentially - also the liability for the future demolition.

Of importance in the item “other operating costs” are also the **other charges paid to local authorities** (EGA functioning expenses, state fees, COSAP/ TOSAP, IMU, etc.).

Once again in 2017, the Company took steps to limit the damages to asphalt caused by its activities which in 2017 involved 139,385 sq.m. (in 2016 163,507 sq.m. and in 2015 133,840 sq.m.) of resurfacing measures affected by numerous accurate measures, disclosing a cost (see the item “services”) of € 1,881,705.



The above - in compliance with the spirit of the Highway Code - led to safety measures for numerous roads with a consequent reduction in the number of accidents due to road hazards attributable to the company.

The latest trend registered saw these charges/complaints drop from 41 in the period from July 2014 to July 2015, to 39 in the period July 2015 to July 2016 to 23 (currently being checked so as to ascertain the effective responsibility of the CAP group in the claim).

Net operating result

The net operating result for 2017 amounted to € + 47,324,064, just under that for 2016 amounting to € + 48,046,024.

Financial income and expense and writedown of equity investments

The difference between financial income and expense and writedown of equity investments for 2017 amounted to € -4,271,344, slightly better than that for 2016 amounting to € -5,025,970.

Taxation

Income taxes amounted in total to € 12,810.400 (€ 16,151,345 in 2016).

Net result for the year

The balance for the year amounted to € 30,242,320 (€ 26,868,709 in 2016, € 20,401,462 in 2015, € 7,232,900 in 2014 and € 12,620,485 in 2013[9]) in line with the other water service operators with similar dimensions.

The financial result ratios

In order to permit an analysis of the balance sheet and financial structure and the operating results and in particular for the analysis of the profitability of the operations as well as the conditions of financial equilibrium, the following ratios have been presented, compared with those presented for 2016.

[9] The balances referring to years prior to 2016 refer to financial statements drawn up according to the Italian GAAP standards.

Parameter	Notes	2017	2016 IFRS
Equity capital	Consolidated shareholders' equity	777,148,904	745,562,113
Fixed assets	Total non-current assets	823,912,202	756,756,849
Consolidated liabilities	Total non-current liabilities	341,498,798	261,922,977
Current liabilities	Total current liabilities	140,474,243	169,929,733
Loan liabilities	Current and non-current financial payables due to banks and other providers of finance	200,699,998	156,947,727
Current assets	Current assets	435,209,743	420,657,972
Immediate + deferred liquidity		174,219,180	118,789,088
Net capital employed	Total assets - current liabilities (arithmetic average for year)	1,063,066,395	1,049,545,225

PROFITABILITY INDICATORS	2017	2016 IFRS
GROSS OPERATING MARGIN (EBITDA)	96,794,540	108,812,791
OPERATING RESULT (EBIT)	47,324,064	48,046,024
GROSS RESULT	43,052,720	43,020,054
NET RESULT	30,242,319	26,868,709
SALES REVENUES	237,902,149	260,061,449

PROFITABILITY RATIOS		2017	2016 IFRS
NET ROE	Net result / Shareholders’ equity	3.9%	3.6%
GROSS ROE	Gross result / Shareholders’ equity	5.5%	5.8%
ROI	Operating result / (Invested capital - consolidated liabilities)	4.5%	4.6%
ROS	Operating result / Sales revenues	19.9%	18.5%

FIXED ASSET FUNDING INDICATORS		2017	2016 IFRS
FIXED ASSETS TO EQUITY CAPITAL MARGIN	Shareholders’ equity - Fixed assets	(46,763,298)	(11,194,737)
FIXED ASSETS TO EQUITY CAPITAL RATIO	Shareholders’ equity / Fixed assets	94.3%	98.5%
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/LONG-TERM DEBT MARGIN	(Shareholders’ equity + Consolidated liabilities) - Fixed assets	341,498,798	261,922,977
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/LONG-TERM DEBT RATIO	(Shareholders’ equity + Consolidated liabilities) /Fixed assets	135.8%	133.1%

LOAN STRUCTURES RATIOS		2017	2016 IFRS
TOTAL DEBT RATIO	(Consolidated liabilities + Current liabilities)/Shareholders’ equity	62.0%	57.9%
FINANCIAL DEBT RATIO	Funding liabilities / Shareholders’ equity	25.8%	21.1%

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

The trend in the structure of the loans confirms increasing financial exposure.

SOLVENCY INDICATORS	Notes	2017	2016 IFRS
ASSET COVER MARGIN	Current assets - Current liabilities	294,735,500	250,728,239
ASSET COVER RATIO	Current assets / Current liabilities	310%	248%
CASH MANAGEMENT MARGIN	(Deferred liquidity + Immediate liquidity) - Current liabilities	33,744,937	-51,140,645
CASH MANAGEMENT RATIO	(Deferred liquidity + Immediate liquidity) / Current liabilities	124%	70%

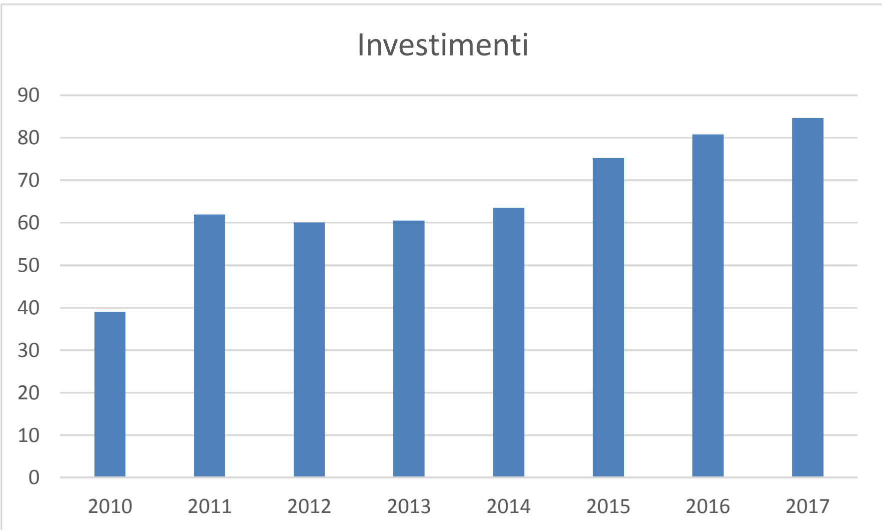
The solvency ratios disclose a ratio greater than one between short-term assets and liabilities.

The Group's investments

Investments in technical, tangible and intangible fixed assets, registered by the Group in 2017 amounted to € 84,623,580 (€ 80,760,064 in 2016, € 78,301,805 in 2015 and € 63,539,506 in 2104).[10]

All the investments mentioned above were created by the CAP Group, with the exception of the amount of € 4,445,346 recorded in the accounts of the Group as a result of the gratuitous acquisition of a sewage collector constructed by Expo 2015 S.p.a. as part of the "Work on the infrastructures preparatory for the realisation and setting up of the 2015 EXPO plant Site" project.
The acquisition gave rise to the correlated recognition in the item "Other revenues and income" of the associated out-of-period income. In greater detail, it is associated with the disposal and demolition of a collector belonging to the Group in 2015. At the time, the CAP Group recognised a cost in the income statement for € 1,973,983 due to the reversal from the fixed assets of the residual value.

	2017 investments	2017 business segment acquisition	2017 total
Parent Company	83,406,642	1,819,045	85,225,687
Amiacque SRL	1,216,938	14,257	1,231,195
Group Total	84,623,579	1,833,302	86,456,881



[10] Amounts understood to be net of those acquired by means of transactions for the purchase of business segments and/or "universal nature of assets constructed and already used by former operators"

Also the amount invested per inhabitant indicator reported a value of € 45.4, despite it being still distant from the European average of € 80/100 per inhabitant, in the presence however of an average tariff € 4 per cubic metre higher.
Specifically, note how the amount of the investments divided by that of the inhabitants (estimated as around 1.9 million) per year, has disclosed a figure of 45.4.
In order to highlight the positive trend, you are reminded that this ratio was 20.5 in 2010, 33.1 in 2014, 41 in 2015 and 42.5 in 2016.

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

You are reminded that the investments, within the organisational logic of the Group, are mainly seen to by the Parent Company, which undertakes the most complex part (in general public works, works management and safety projects).

As in 2016, an impressive effort in terms of planning and realisation (settled) is evident again in 2017.

With regard to tenders, during 2017 so-called outline agreements were implemented for the construction of water networks and sewage mains, the realisation of surface groundwater wells, restoration of suspended aqueduct reservoirs, maintenance measures in treatment plants and adaptation and/or enhancement of the flocculation tanks and measures involving CIPP technologies for the improvement of the sewage mains and aqueduct networks.

The trend was therefore important and can be summarised as follows:

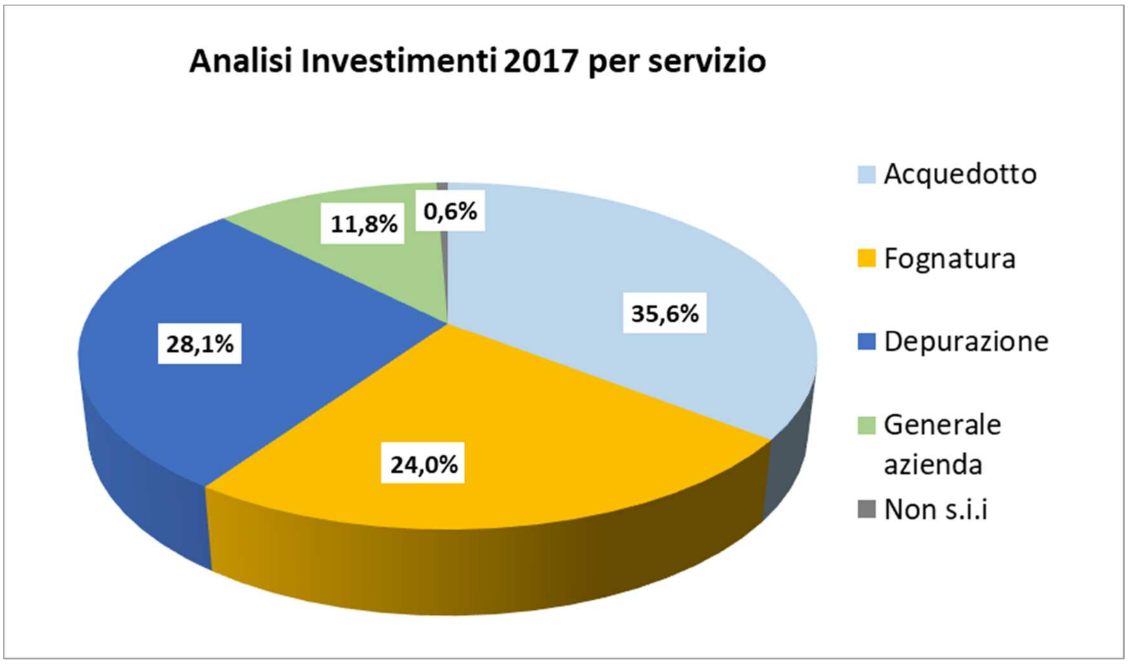
tendered:	77,500,000 (*of which 59,000,000 for the AQs*)	(14,800,000 in 2016)
planned:	53,806,868	(52,122,000 in 2016)
completed:	49,200,000	(49,600,000 in 2016)

The activities directed at the investments also disclose the following indicators:

Number of measures on which CRE has been issued or tested & inspected in 2017: 19 (140 in 2016)
Number of measures planned in 2017: 93 (146 in 2016)
Number of measures awarded/entrusted in 2017: 53 (65 in 2016)
Number of detrimental terminations: 0 (0 in 2016)
Number of measures underway as of 31 Dec. 2017: 111 (98 in 2016)

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

AQUEDUCT	SEWERAGE	WASTE WATER TREATMENT	GENERAL COMPANY	OTHER WATER ASSETS	TOTAL
30,085,599	20,323,789	23,749,250	9,965,051	499,891	84,623,580



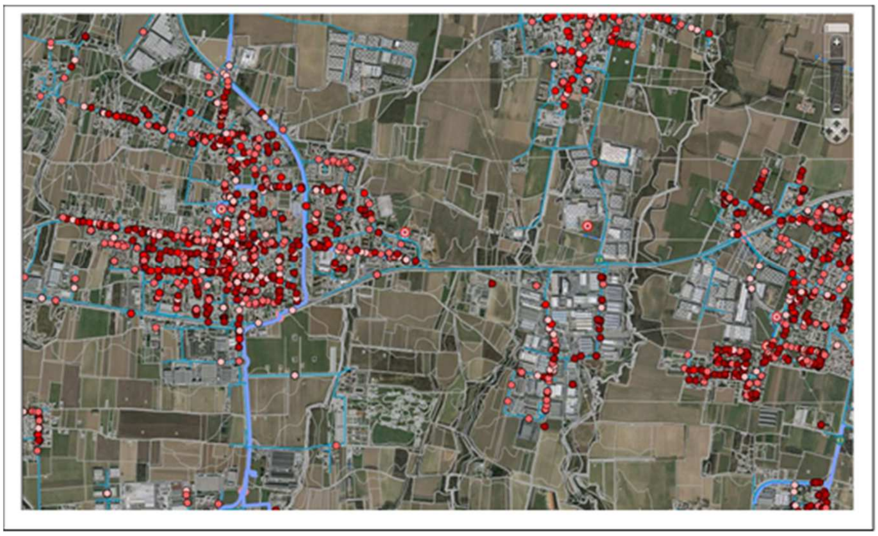
The general company investments mainly refer to the completion of projects aimed an energy saving, Information Technology and extraordinary maintenance of premises; the investments not pertaining to the integrated water service, by contrast, mainly refer to the construction of waterworks houses and surface groundwater wells.

The company not only invests in water infrastructures, but also in works whose purpose is to achieve a saving for the municipalities in the use on non-drinking water and, consequently, a correct use of the water resource.

The so-called surface groundwater wells fall under these investments, whose installation involves an annual saving of over € 600 thousand for the shareholder entities.

In 2017, within the sphere of the "Water losses detection, recovery and monitoring plan", also envisaged in the investments plan of the agreement for the entrusting of the integrated water services in the municipalities of the province of the Milan ATO, the CAP Group developed the following activities:

- Replacement of 34.330 old meters (+60% compared to 2015);
- 1,287 km of network subject to loss detection (within the sphere of the Milan ATO), of which 309 km of network subject to loss detection using advanced analysis based on calibrated hydraulic modelling with pressure and flow rate data originating from remote control;



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

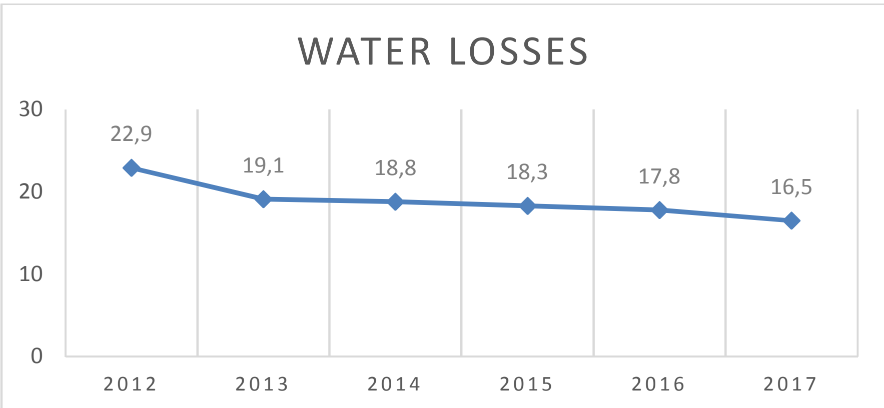
- Improve the global efficiency of the distribution network by means of division into district policies;
- Ensure equity and correctness in the measurement.

In detail the project for the replacement of old meters envisages a commitment of € 13.6 million for the replacement of obsolete meters to be carried out in the period 2015 – 2019, continuing the related campaign started in 2015, which has led to the reporting of a value of replaced meters (excluding Smart Metering) of € 4,207,010.77 (+16% compared with 2016 € 3,622,261.81).

The index of the real water losses (calculated according to the IWA method) is equal to 16.51%; it is constantly falling as can be seen in the table below.

The figure of the water losses is well under the Italian average (32% figure for 2014) and directed towards the objective of the average of certain European countries including Germany, where the network losses are equal to 6.5%, England and Wales with 15.5%, France with 20.9% (source: CENSIS 2014).

The reduction is the result of joint policies aimed at both the change of the measuring instruments (in line with the guidelines provided by AEEGSI by means of the consultation document No. 42/2016/R/IDR "Regulation of the measurement services within the sphere of the Integrated Water Service in the second regulatory period") and the prompt intervention policies described above which in individual SACs (closed aqueduct systems) have identified areas for the advanced analysis of the action carried out.



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

- the unification of the 4 remote control systems in a single supervision centre connected with the company Databases;

- the extension of the remote-controlled aqueduct plants from 210 to 267 with the inclusion of 57 new remote control stations;
- the integration in the system of 80 waterworks houses;
- the installation of two points for the on-going quality control of the chemical-physical parameters of the water.

During 2017, another 106 aqueduct plants were integrated in the remote control system, which pass from local management to remote management with the possibility of modifying the remote functioning parameters, in addition to 59 interconnection measurers between aqueducts, 13 network water withdrawal points for the washing of the sewage pipes and 4 new measuring points on the sewage collectors.

At present therefore 525 Aqueduct plants are remote-controlled out of a total of 581 (figures registered in DIM).

Overall situation as of 31 Dec. 2017		
	Number remote-controlled	**Total number of plants**
MB	5	7
MI	510	564
VA	10	10
Total	**525**	**581**

The system also presently monitors the functioning of 180 sewage pumping stations, 70 spillways, 31 treatment plants and 141 Waterworks houses.

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

a) Surmounting of EU infractions
Risks linked to the EU infraction No. 2009/2034-C85 and No. 2014/2059 (in pre-trial) and the dispute procedure

On 31 December 2015 the deadline envisaged by the European Union expired for adapting the treatment networks and plants and sorting out the EU infraction, disciplined by directive 91/271/EEC (assimilated by Italy by means of Italian Legislative Decree No. 152/2006, so-called Environment Code). The directive arises for the protection of the environment and makes it possible to emit the waste produced only after the treatments which remove the pollutants.

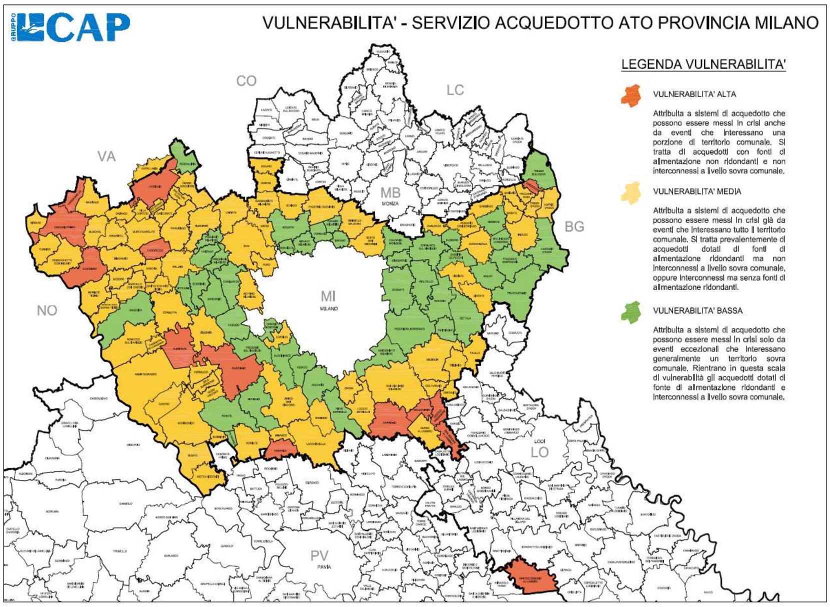
The acquisition over the last few years by the CAP Group of many operations first self-managed or "non-compliant" operations from a subjective standpoint of the previous operator, has led to an increase in measures which has to be carried out by the deadline of 2015 so as to comply with the infraction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

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

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

It should also be pointed out that the problematic aspects revealed by the European Commission during the opinion on Proc. No. 2014/2059 on observance of the abatement efficiency (75%) of nitrogen (N) and phosphorus (P) are subject to regional monitoring; what is more, the Lombardy Regional Authority in co-ordination with the Po Basin Authority launched a specific study into the hydro-morphological features of the Lombardy area with respect to the Padano water basin so to more correctly identify the reference parameters with regard to the so-called "nutrients" for the purpose of compliance with Directive 271/2001.

b) Availability and quality of the resource



The investments in quality of the resource confirm themselves to be important in the Group strategy since they are functional for the following objectives:

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

The measures aimed at the reduction of the risk associated with the vulnerability of the resource also include those relating to the construction of the Plants and the related aqueduct Backbones (e.g. Trezzo sull'Adda backbone and Cornaredo backbone).

With reference to the reduction of the load of the contaminants introduced into the distribution network, in 2017 the Aqueduct Management Division maintained and implemented the plan for the reduction of the concentration values of the chemical parameters introduced into the distribution network. Specifically, the plan envisages the monitoring of the analytical weighted average introduced into the distribution network of the municipalities served, for the total solvent parameters TCE+PCE, Chrome and Nitrates.

Even if the Chrome parameter has always been under the legal limits, the company decided back in 2016 to fix a further limit, or rather no more than 50% of the maximum legal limit.

Accordingly, during 2017 seventeen Chrome treatment plants were created, all of which active by July 2017, date envisaged by the department of health for the enforcement of the new limits for hexavalent chrome, subsequently deferred until 31 December 2018 (postponement not considered necessary for the company)

The above measures remain consistent with the company policy of implementing the Water Safety Plan which forces the operators to no longer content themselves with guaranteeing water within the legal limits, but pushes them towards continual improvement policies.

c) Quality of the environment

To comply with the fulfilments envisaged by European legislation regarding the protection of “sensitive areas”, to which the entire Po basin belongs, the CAP Group has over the last few years already launched a plan of measures on the treatment plants aimed at reducing the so-called “nutrients” such as nitrogen (N) and phosphorus (P) whose uncontrolled discharge leads (as in the past it led to in the Adriatic sea) to phenomena of eutrophication of the water.

In detail, these measures (in the main already underway, others being finalised or planned) are focused on the plants with potential greater than 10,000 AE (around three quarters of all the treatment plants managed) and in detail: Assago, Bresso, Canegrate, Pero, Peschiera Borromeo, Robecco sul Naviglio, Rozzano, Sesto San Giovanni, Bareggio, Locate Triulzi, San Giuliano Est, Trezzano sul Naviglio, Turbigo, Abbiategrasso, Basiglio, Binasco, Calvignasco, Dresano, Gaggiano (provincial capital), Lacchiarella, Melegnano, Parabiago, San Giuliano Ovest and Settala.

The enhancement measures on the treatment plants has since 2013 led to the decisive improvement in the quality of the waste water both in terms of compliance of the performances and in terms of the average values on Ntot and Ptot.

Treatment plants	**Non-compliant samples**
% change compared to 2013	**-38%**

	Average compliances and nitrogen and phosphorus	
	Ntot	**Ptot**
355,380	73.1%	66.7%
2017	92.6%	92.6%

With regard to the Rescaldina plant the hypothesis of abandonment with the conferral of the waste water to the Parabiago treatment plant is being studied, for which the necessary upgrading via a new collector will be envisaged.

With regard to the San Colombano al Lambro treatment plant, now structurally obsolete, the planning of the complete plant engineering and functional renovation is envisaged.

Note that with regard to the Peschiera Borromeo treatment plant, with a potential of over 500,000 AE and a plant engineering singularity since it is structured with one of the two treatment lines dedicated to the city of Milan (east zone), a specific general study has been launched on the plant/process engineering configuration supplemented by detailed analysis on the contributions and the loads generated by the tributary agglomeration, a study entrusted to Milan Polytechnic.

The objective set is a general process engineering review, both on the water lines and on sludge lines, as well as a hydraulic review on the entire conferring network with particular regard to the checking of the functioning of the spillways and the intermediate accumulation reservoirs.

The measures planned in the following Municipalities are data identified as priority to be handled for the containment of the so-called “sewage losses” (both due to intrusion of parasite water and in emission due to structural instability of the pipes):

- Assago;
- Cisliano;
- Settala.

In continuation of the action activated with the aim of pursuing the objective of sorting out the problematics associated with the handling of the rainwater, with the aim of reducing the contribution of the same to the urban sewage mains and therefore the treatment plants, the design of the Ossana flocculation tanks has concluded, along with the recovery plans for Villastanza and San Giorgio su Legnano. This recovery work was contracted out and performed in 2017.

Again on the subject of sustainable management of the rainwater the following is also recalled:
- The project was drawn up and the environmental requalification work awarded for the area of the former Carpiano treatment plant, via the creation of a first rain reservoir completed underground and located within the area on which the treatment plant sits.
- The project was drawn up and the environmental requalification work awarded for the area of the former Paullo treatment plant, via the creation of a first rain reservoir completed underground and located within the area on which the treatment plant sits. In the meantime during 2017, steps were taken to demolish the existing constructions of the former treatment plant and implement the waste disposal and reclamation measures for the area;
- Environmental adaptation of the area of the former Varedo treatment plant with recovery of the oxidation and secondary sedimentation tanks used as first rain reservoirs with a useful volume of 16,000 m3 serving the incoming collector of the former Varedo treatment plant. In 2017, the cover of the reservoir was created and hydraulic and electromechanical work started on the new reservoir.

In conclusion, the sites where the “flood hide” project is to be implemented have been identified, or better a pre-feasibility study on the use of the minor water network for the lamination of the urban outflows in the area of the CAP group. Within the sphere of sorting out the flooding problems during heavy rainfall with the realisation of first rain and dispersing reservoirs both in the municipality of Vittuone and Sedriano, with the collaboration of the Faculty of agriculture, watercourses have been identified which in synergy with the mentioned construction can flocculate a greater volume of rainwater.

Personnel and the work environment

With regard to the information pertaining to the environment and the personnel required by section 1 *bis* of Article 40 of Italian Legislative Decree No. 127/91, it is disclosed that:

- no deaths in the workplace took place, nor charges have been made with regard to occupational diseases affecting employees or former employees or lawsuits concerning mobbing, in relation to which responsibility of the company has been definitively ascertained;
- no damages were caused to the environment, for which the company has been definitively declared guilty, nor any sanctions for fines have been inflicted on the company for environmental offences or damages;
- an accident took place on 17 January 2017, which led to serious injuries for a worker involved in treatment care of the Peschiera Borromeo plant. Investigations by the legal authorities are underway with regard to the accident in question.

With regard to organisational development measures, the main action adopted in 2017 is illustrated below:

Within the sphere of the process for consolidation of the policy and co-ordination activities of CAP Holding - which holds the twenty-year concession for managing the Integrated Water Service in the reference area - 2017 was also characterised by internal reorganisation measures aimed at making the management of said service more effective and efficient, with a view to ongoing improvement, focusing on a greater enhancement of the units of the Parent Company.

For the purpose of enhancing and implementing the existing action already finalised to maximise the culture of safety in the workplace, steps were taken to reunite - under a single structure reporting directly to the General Management of the Parent Company - the offices which have been assigned safety functions at the worksites and in the workplaces.

Analysis of the trend in the number of personnel

The personnel in service as of 31 December 2017 numbered 813 employees.
The most significant changes registered in the costs for the year concern:
- 47 incoming employees for the activation of selections pursuant to the current Regulation of Recruitment;
- 2 outgoing employees due to transfer of contracts with Pavia Acque;
- 25 outgoing employees due to terminations of employment contracts;
- 14 outgoing employees due to achieving the retirement requisites;
- 30 outgoing employees due to transfer of the Brianza Acque business segment;
- 8 incoming employees due to acquisitions of business segments (6 from Brianza Acque and 2 from Acque Potabili).

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

With regard to the analysis of the incidence of personnel costs on the value of production, you are reminded that the shareholders' meeting held on 26 June 2015 fixed the following limits:

	2015	**2016**	**2017**
% INCIDENCE PERSONNEL COSTS/TOTAL COSTS	19.50%	17.34%	14.64%
% INCIDENCE PERSONNEL COSTS/TOTAL REVENUES	16.27%	14.41%	12.57%

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

Among other costs linked to the management of the personnel indication is made of:
- total investments for personnel training activities amounting to **€ 155,853** for a total of **22,264 hours** of training with the involvement of **855 employees** (inclusive of turnover), of which on aspects of safety in the workplace **€ 39,474** fora total of **9,188** hours with the involvement of **786 employees.**

Incentive systems adopted

With regard to the incentive systems applied for 2017 it is disclosed that:
- pursuant to Article 9 of the Consolidated Gas Water CCNL (collective labour agreement), the result bonus project was adopted valid for the three-year period 2016/2019;
- within the sphere of the company policy for developing the responsibilities which aims to turn to account the professional aspects and the individual skills of the management personnel, the individual incentive policy instrument was enhanced, launched in 2014, aimed at recognising and rewarding with a logic of greater favour the achievement of the business targets and the execution of better performances.

As of 31 December 2017, the CAP Group was in line with the provisions envisaged by Italian Law No. 68/69, Provisions for right to work of the disabled, having entered into with the Milan Provincial Authority, on 27 May 2016, an intercompany agreement for the employment induction of individuals with disabilities pursuant to Article 11 of Italian Law No. 68/99 in favour of Groups of Companies as defined by Article 31 of Italian Decree Law No. 276/2003.

The incentive resources must not mean that the personnel cost exceeds the limit of 20% of the general costs referred to above.

Research and development activities

In continuity with the guidelines launched in previous years, the Group has further increased - also in collaboration with other operators in the sector - research and development activities aimed at acquiring specific know-how on technologies serving the integrated water cycle.

The CAP Group carries out innovation activities, operating at various level or rather:

1. After the positive experimentation of smart metering in the Municipality of Magenta during 2016-2017, the transformation took place in 2017 of 10,000 mechanical meters into remotely readable meters otherwise known as smart meters and, subsequently, the replacement of 42,000 meters whose validity is running out with new smart meters being the objective for 2018; a further 75,000 points will follow these in the subsequent 24 months. At the end of 2017, a good 16 municipalities were equipped with smart technology. At the same time, additional remote-reading technologies were selected for the hour profiling of the top customers of the group with the purpose of rendering the metering of the consumption more precise and frequent.
   The extensive Smart Metering project was evolved even further with the innovative definition and subsequent implementation of the experimentation using drones specifically designed by means of nanotechnologies to capture the signals emitted by smart meters.
2. The streamlining activities for the management of the aqueducts, by means of the application of the IWA methods for the control of the losses and with experimental measures for various technologies continued in 2017. Demanding analysis activities were carried out on the performances of the water networks to obtain the optimisation of the pressures, the creation of pressure zones and districts for the reduction and the monitoring of the losses as well as for the definition of the baseline, the indicators and the other technical elements necessary to improve the management of the water system and the monitoring of their performance over time. A tender was also awarded for the service for the hydraulic monitoring of the aqueduct, the division into districts of the network, the analysis of and search for water losses.
3. The energy analysis on water and waste water treatment plants was increased, including the comparison between the CAP method and the findings of the European ENERWATER project.
4. Supporting the Water Safety Plan, the PIA (Aqueduct Infrastructural Plan) project also concerned the planning and completion of a specific quality monitoring network for underground water, via the installation of latest generation environmental sensors (multi-parametric and spectrometric sensors, plus continual analysers), which when fully operational (start of 2018) will make it possible to constantly monitor a satisfactory number of physical-chemical and chemical parameters of the raw water (up to 16 at the same time) withdrawn from 60 different wells managed by the CAP Group.
5. The activities for participation in national and European research calls for tender were intensified.
   In particular, within the sphere of the REGIONAL OPERATING PROGRAMME 2014-2020 - OBJECTIVE: INVESTMENTS IN FAVOUR OF GROWTH AND EMPLOYMENT", jointly financed with FESR, and the CALL FOR THE ACTIVATION OF AN EXPERIMENTAL PROCESS AIMED AT THE DEFINITION OF THE AGREEMENTS FOR RESEARCH, DEVELOPMENT AND INNOVATION, the CAP Group presented the PerFORM WATER 2030 - Platform for Integrated Operation Research and Management of Public Water towards 2030 project, of which it is Lead Company, with 8 industrial partners, 2 Universities and 1 Research Body, emerging as being awarded with the related funding. The project, lasting 30 months, will conclude in 2020;
6. The agreements and collaboration with universities and research bodies - such as La Sapienza, Milan Polytechnic, Università degli Studi di Milano Bicocca - with particular reference to the aspects relating to isotopic analysis, disposal and analysis of sludge, the process modelling, the study of the flows pertaining to the treatment plants and the treatment capacities according to innovative methods, the reduction of energy consumption and the advanced removal of emerging pollutants continued and were increased.
7. The implementation of the Water safety plan (WSP). The first Italian example of development, on a hydrogeological basin scale, of a safety plan for the water distributed by the public

aqueducts managed by the CAP Group, with the active involvement of the work group of the main stakeholders, including ATS, ARPA, Regione Lombardia, ATO, etc. The WSP arose under the form of a research agreement with the Istituto Superiore della Sanità (Italian health board), with the function of scientific and procedural support, but on an absolutely voluntary basis, since the PSAs will become mandatory only as from 2018. 2017 saw the launch of the implementation stage for the experimental WSP of the Legnano SAC whose implementation was concluded in 2016. SAC is an anacronym for Sistema Acquedottistico Controllato (Controlled Aqueduct System) and represents the physical study entity for the progressive implementation of the WSP throughout the area of the Metropolitan City of Milan according to a five-year programme.

8. The Aqueduct Infrastructures Project, entitled PIA, continued the development and implementation activities in 2017, finalising the following tools and making them completely functional and usable:

- 3D numeric flow model at basin scale. Developed thanks to the use of the FeFlow specialist software, and aided by the support of POLIMI, it was completed this year, as per schedule, and as from 2018 will therefore be available for a complete series of action also of a predictive, but above else, operational nature.
- Decision Support System. Developed via an advanced use of the GIS instruments, in the form of multilayer analysis of the data, it was completed during 2017, and as from next year will represent an additional support instrument for the sustainable management of the underground water resources. Essentially this involves weighted analysis of several descriptive indices, whose purpose is that of providing a summary index of the risk and the capacity of use of the underground water system.
- Publication of layers in the Company WEBGIS "Acque di Lombardia". The company WEBGIS represents a natural outlet or better still the natural repository of all the output produced and which can be produced via the PIA. To-date, 18 main layers and more than 150 specific layers have been activated, divided up by theme. This is the first prestigious "graphic database", which is continuously up-dated and expanded.

Furthermore, the CAP Group has been involved for some time in the development of a vast and complex policy for the recovery of the nutrients which, also via synergies with the separate waste collection cycle, makes it possible to recovery material from sludge, organic material and in general the production cycle. In this connection, the CAP Group has activated dealings with Universities (Verona University and the Università Politecnica delle Marche) for the development and implementation of the existing and innovative technologies, such as the bio-refinery, characteristics of the new treatment plants.
During 2017, the definition was concluded of the next techniques and streamlining policies for the valorisation of the co-products of the treatment processes, the energy efficiency and the requalification of the plants. The activities envisaged by the Masterplan were also launched, for the circular management of the waste water by means of the first implementing extract of the measures envisaged and regarding the Sesto San Giovanni plant.
In particular, company policy addressed the following perspectives:

- product perspective;
- resource perspective;
- management perspective.

Furthermore, the following projects continued in 2017:

- Pilot experimentation for the production of biomethane from anaerobic digestion of treatment sludge care of the Bresso plant. The activities were implemented by means of the installation of different technologies and with support of the CNR-IIA (for the assessment of the compliance with the European and Italian standards) and with FCA (for the validation of automotive use).
  This experimentation led at the end of 2017 to the awarding of a tender for the installation of a biomethane production unit on a plant scale;
- Activities for the agronomic valorisation of the treatment sludge in terms of product and not waste logic. Innovative production activities were launched for fertilisers care of the Peschiera Borromeo

treatment plant which were implemented with phase 1 (from sludge to biosulphate) and will continue with phase 2 (from sludge to biocarbonate);

- The project for the construction of a bio-refinery care of the Sesto San Giovanni plant so as to deal with the externalities of the sludge disposal and recovery market and with a view to industrial symbiosis continued during 2017 by means of the drawing up an economic technical feasibility project, in view of the subsequent preliminary planning, and a Life Cycle Assessment study was carried out for evaluating the categories of impact and various scenarios relating to the implementation of the plant engineering solution.

One of the Company's strong points is without doubt the GIS system now extended, after Monza and Bergamo, also to Uniacque, Lario Reti Holding and Società Acqua Lodigiana, respectively operators in the provinces of Lecco and Lodi.

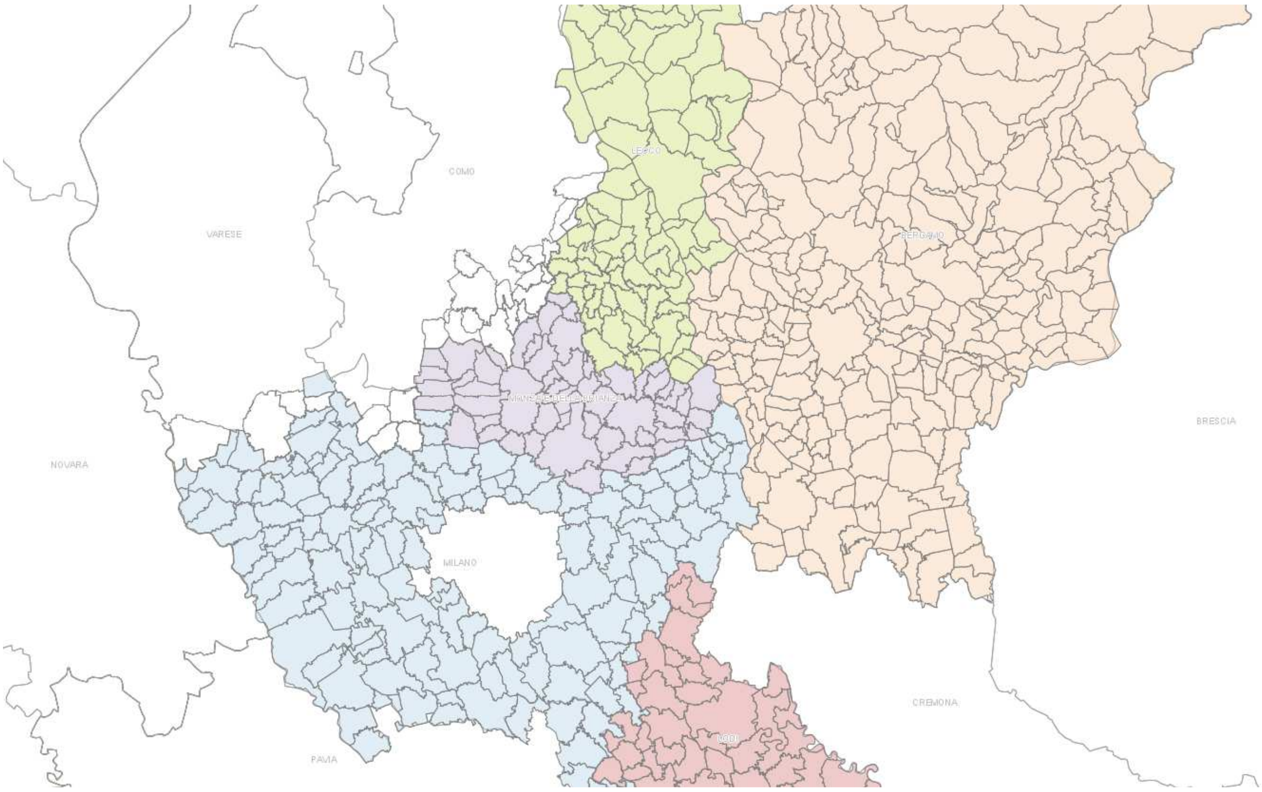
On the basis of these conditions, the integrated system has for all purposes become a system used 80% by the founders of Water Alliance with the consequent creation of a new concept of GIS/WEBGIS: The regional water Webgis – https://webgis.acquedilombardia.it

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

Real time	Controllo centralizzato	Condivisione dei dati	Riduzione delle ridondanze
Indipendenza dalla struttura dei dati	Accesso diretto ai dati	Sicurezza	Versatilità

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

132 aqueduct municipalities included in the Metropolitan City of Milan system;



17,622 km of aqueduct network included in the system;
16,130 km of sewer mains included in the system;
Storm drain maintenance service: the system inclusion of the critical areas and cleaning maps for 2013/2014/2015/2016/2017 have been included, up-dated in real time;
Industrial sewers surveyed viewable in WebGIS, inclusive of the sewers in the Brianza area;
371,221 chamber specifications of the sewer mains which can be interrogated dynamically via system;
8,089 inspection videos included in the system;
1,682 well specifications included in the system;
6,131 sewerage mains sewers included in the system.

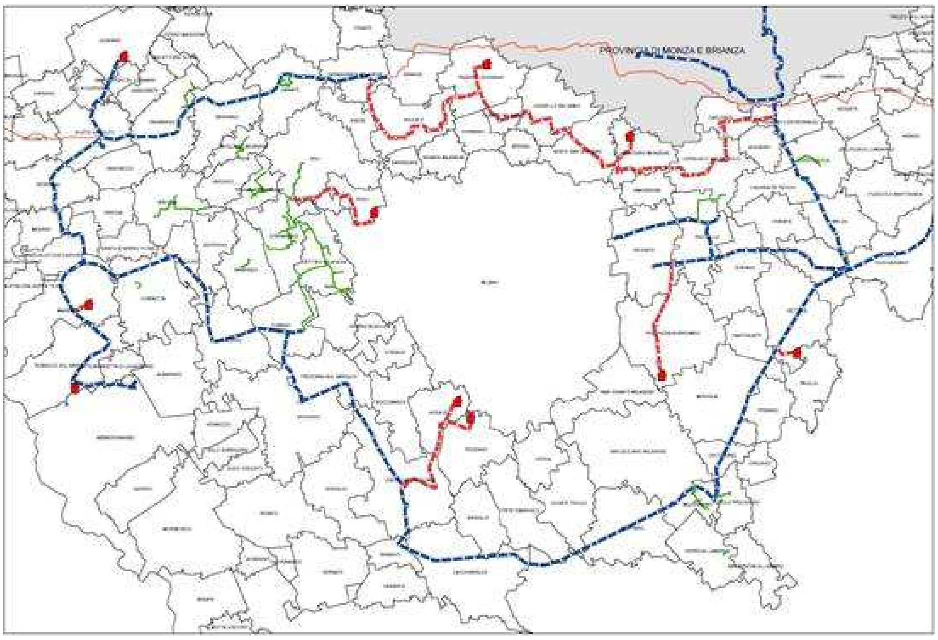
Numerous agreements with the Lombardy Regional Authority and other Italian operators make the platform one of the most advanced both at Italian and international level.
In conclusion, it is disclosed how, in a tangible manner, the project is for all purposes a virtuous example of sharing economy and that it has permitted 4 operators of the integrated water cycle to avoid long timescales and costs for the launch of software by now fundamental for the management of the service

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

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

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

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



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

In December 2017, further to the work brought forward during the entire space of the year, the project was preliminarily completed with the reaching of the main offices of the Group and the activation of the first 3 operational offices with an Opex saving already of € 43.700.

Outlook for business activities

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

As from 1 January 2014, the tariff earnings, although collected by the subsidiary company AMIACQUE S.r.l., by virtue of an agreement, authorised by the agreement for the entrusting of the IWS, become entirely CAP Holding S.p.A.'s. The collection activities of AMIACQUE S.r.l. will cease as from 2018 further to the transfer to CAP Holding S.p.A. of the business segment relating to the handling of dealings with the users. The remaining dealings with AMIACQUE S.r.l. are essentially the supply of services, disciplined by specific Intercompany agreements.

With regard to 2018, the budget of the CAP Group is presented, as examined and approved by the BoD of CAP Holding in January 2018, which discloses the following trend:

(In units of Euro)	2018
Revenues and other income	331,576,572
Costs	(282,237,008)
Operating result (EBIT)	49,339,564
Financial income (expense)	(5,651,471)
Result before taxes	43,688,093
Income taxes for the year	(12,840,895)
Result for the year	30,847,198

You are hereby reminded of the matters already commented on in relation to the operating performance concerning the FONI tariff component and its intended use. The above trend also presupposes the total reuse of the management balances indicated, as well as that relating to 2017, in-house.

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

It is reasonable to presume that, despite the uncertainty linked to any "future" event, the deviations cannot reasonably be such as to determine considerable decreases in the tariff income for the Group.

Management of the financial risks.

Within the sphere of the performance of its activities the CAP Group finds itself exposed to certain financial risks such as the interest rate risk, the liquidity risk and the credit/counterparty risk.

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

(a) Interest Rate Risk

The portion of financial indebtedness which has a floating rate is however somewhat contained. As of 31 December 2017 it amounted in total to € 15,459,898, equal to around 9% of the total indebtedness outstanding as of 31 December 2017.

As of the same date part of this indebtedness, as of 31 December 2017 € 4,297,387, at floating rate, is accompanied by non-speculative purely hedging interest rate swap agreements.

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

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

(b) Liquidity risk

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

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

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

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

The parent company in particular has since 2013 adopted a regulation for the use of the liquidity which excludes investments in high-risk financial assets Please see the explanatory notes with regard to the loans existing as of the year end date.

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

The facilities for liquidity amount as of 31 December 2017 to € 18.5 million and none have yet been used.

As from June 2014, with the need of defining internal procedures aimed at optimising the allocation of the total financial resources at CAP Group level and endowing itself with a sole direction in the financial field for the purpose of rendering the financial operations of the entire group more efficient and rational, a sweeping cash pooling agreement was entered into between CAP Holding S.p.A. and Amiacque S.r.l., or rather an agreement for the centralisation of the handling of the liquidity, also operative for 2017 and 2018 (until 29 June 2018).

(c) Credit risk

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

The main credit risks for the CAP Group derive from the trade receivables from the supply of the integrated water services, collected by the Group or by other companies (Operators of other ATOs, where CAP Holding S.p.A. is the "wholesale operator").
With regard to the connection with the company Amiacque S.r.l., appointed as from 2014 with the collection of the tariff, disclosure has already been provided in this report with regard to the direct undertaking, by CAP Holding S.p.A., as from 1 January 2018, of the utility management activities (and those involving billing and invoicing the related tariffs).

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

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

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

(d) Covenants and Negative pledges and similar.

Part of the CAP Group's indebtedness as of 31 December 2017 derives from loan agreements or from bonds which, in line with similar market transactions, envisage a number of restrictions and commitments for the Group. These include the commitment not to grant, unless within pre-established limits, to future financial backers encumbrances on its assets (negative pledge), change of control, pari passu and cross default clauses. A number of restrictive clauses are also envisaged on the accomplishment of specific extraordinary transactions and on the disposal of assets. Financial covenants are also envisaged, as more fully detailed in the notes, the possible non-observance of the which may lead to the operation of the acceleration clause to the detriment of the company.

Use of financial instruments

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).

They all refer to underlying liabilities of a financial type.

In detail, the CAP Group has entered into six Interest Rate Swap (IRS) agreements which can be listed in terms of timing as follows:

1. 17 February 2006: IRS for a nominal € 55,313,163 (in repayment) and maturity on 31 December 2021;
2. 14 June 2006: IRS for a nominal € 1,626,816 (in repayment) and maturity on 31 December 2020;
3. 11 July 2006: IRS for a nominal € 20,000,000 (in repayment) and maturity on 31 December 2019;
4. 2 November 2007: IRS for a nominal € 20,000,000 (in repayment) and maturity on 31 December 2026;
5. 16 May 2011 (agreement entered into by Idra Patrimonio S.p.A. which CAP Holding took over further to the merger of Idra Milano S.r.l. which took place in 2015): IRS for a nominal € 6,000,000 (in repayment) and maturity on 16 May 2026.

While the second and fifth of the positions are pure (and at least partial) hedges with respect to the interest rate fluctuation risk, the others are duration swaps, i.e. they are financial instruments created for the purpose of transforming and standardising, in terms of current value, debt repayment schemes.

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

Transformation on the payment dates in the implementation of 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 at the time when it was entered into, also due to the uncertainty linked to the tariffs, allowed CAP Holding to obtain a saving in terms of the repayment of the principal and interest on the first repayment dates, with a higher disbursement on the later repayment dates.

The swaps listed from numbers 1 to 4 are characterised by the exchange of fixed amounts over time (the underlying amounts are at fixed rates and the swaps are in fixed instalments).

With the sole exception of swap No. 4 which, 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 € 1,200,000 (which allows CAP the possibility of benefiting from a theoretic decrease in rates).

For the swap listed under No. 3 (relating to a variable rate bond, on one hand CAP Holding S.p.A. must pay a predetermined repayment instalment which increases over time, and on the other hand the bank must pay the same portion of the principal and the same portion of interest (net of a spread) contemplated by the underlying bond.

The bank has allowed CAP Holding S.p.A 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.

type of derivative contract	multi-phase IRS with MPS	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
contract date	14 June 2006	17 February 2006	11 July2006	22 January 2008	16 May 2011
Purpose	rate hedging	loan hedging	loan hedging	loan hedging	rate hedging
contract number	72399	602170669	607120274 (12049552)	10706142	5963433
notional value	1,626,816	55,313,163	20,000,000	19,389,639	6,000,000
existing principal	398,801	9,463,278	2,962,980	11,372,979	3,923,077
Maturity	31 December 2020	31 December 2021	31 December 2019	31 December 2026	16 May 2026
underlying financial risk				Change in interest rates	
mark to market	(32,764)	(22,516,624)	(2,764,238)	(2,196,035)	(61,263)
asset/liability hedging	MPS loan	cassa depositi e prestiti mortgages	bond issue	Intesa loan (formerly Banca OPI 2006)	BNL loan former 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 BNP Paribas	interest rate swap with BNL

It is possible to add that:

- significant concentrations of liquidity risk do not exist;
- risks linked to the exchange rate trend do not exist;
- significant risks linked to the interest rate trend do not exist;
- the trend in the prices of the services provided is linked to the tariffs and the Tariff Method established by the Authority for Electricity, Natural Gas and the Water System (AEEGSI)

The Chairman of the Board of Directors
Mr. Alessandro Russo

FINANCIAL STATEMENT SCHEDULES AS OF 31 December 2017

Statement of financial position

in €uro	Notes	31/12/2017	31/12/2016
ASSETS			
Non-current assets			
Rights on assets under concession	*7.1*	711,689,516	662,602,283
Other intangible assets	*7.2*	13,422,852	12,295,167
Tangible fixed assets	*7.3*	11,253,735	13,714,620
Prepaid tax assets	*7.4*	26,426,937	22,649,552
Other receivables and other non-current financial assets	*7.5*	61,119,162	45,495,229
Total non-current assets		**823,912,202**	**756,756,850**
Current assets			
Trade receivables	*7.6*	232,560,400	245,531,141
Inventories	*7.7*	5,578,442	5,327,121
Contract w ork in progress	*7.8*	662,42	574,818
Cash and cash equivalents	*7.9*	170,710,140	113,566,109
Other receivables and other current financial assets	*7.10*	25,698,341	29,526,581
Total current assets		**435,209,743**	**394,525,770**
Non-current assets intended for sale	*7.11*	**-**	26,132,202
TOTAL ASSETS		**1,259,121,945**	**1,177,414,823**
SHAREHOLDERS' EQUITY			
Share capital	*7.12*	571,381,786	571,381,786
Other reserves	*7.12*	176,514,126	148,300,945
FTA reserve	*7.12*	-989,327	-989,327
Net result for the year	*7.12*	30,242,319	26,868,709
Total consolidated shareholders' equity		**777,148,904**	**745,562,113**
LIABILITIES			
Non-current liabilities			
Provision for risks and charges	*7.13*	65,335,525	43,752,730
Employee Benefits	*7.14*	6,011,193	6,307,087
Deferred tax liabilities	*7.4*	-	-
Non-current payables due to banks and other providers of finance	*7.15*	177,010,034	146,552,636
Other non-current payables	*7.16*	93,142,046	65,310,524
Total non-current liabilities		**341,498,798**	**261,922,977**
Current liabilities			
Trade payables	*7.17*	72,777,648	80,447,455
Current payables due to banks and other providers of finance	*7.15*	23,689,965	10,395,091
Other current payables	*7.18*	44,006,630	74,736,602
Total current liabilities		**140,474,243**	**165,579,148**
Non-current liabilities intended for sale	*7.19*	-	4,350,585
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,259,121,945**	**1,177,414,823**

Statement of comprehensive income

In €uro	Notes	31/12/2017	31/12/2016
Revenues	*8.1*	237,902,149	260,061,449
Increases for internal w ork	*8.2*	3,950,626	-
Revenues for w ork on assets under concession	*8.3*	75,403,902	77,893,122
Other revenues and income	*8.4*	18,253,966	8,768,871
Total revenues and other income		**335,510,644**	**346,723,441**
Costs for raw and consumable materials and goods for resale	*8.5*	(12,800,537)	(11,522,053)
Costs for services	*8.6*	(128,792,628)	(122,441,148)
Costs for w ork on assets under concession	*8.7*	(45,905,201)	(49,997,070)
Personnel costs	*8.8*	(42,181,308)	(43,718,490)
Amortisation, depreciation, provisions and w rite-dow ns	*8.9*	(49,470,476)	(60,766,768)
Other operating costs	*8.10*	(9,036,430)	(10,231,889)
Total costs		**(288,186,580)**	**(298,677,418)**
Operating result		**47,324,064**	**48,046,024**
Financial income	*8.11*	4,224,132	3,560,435
Financial expense	*8.11*	(8,495,476)	(8,586,405)
Pre-tax result		**43,052,720**	**43,020,054**
Taxation	*8.12*	(12,810,400)	(16,151,345)
Net result for the year (A)		**30,242,319**	**26,868,709**
Components of the statement of comprehensive income w hich w ill not be subsequently reclassified in the income statement			
Actuarial gains/(losses) for employee benefits		41,942	(182,132)
Tax effect on actuarial gains/(losses) for employee benefits		(10,066)	43,703
Components of the statement of comprehensive income w hich w ill be subsequently reclassified in the income statement			
Fair value change deriving from cash flow hedge (IRS)		-	810,773
Tax effect on fair value change deriving from cash flow hedge		-	(194,586)
Total components of the statement of comprehensive income, net of tax effect (B)		**31,876**	**477,758**
Total comprehensive income for the year (A)+(B)		**30,274,196**	**27,346,467**

Cash flow statement

CASH FLOW STATEMENT CAP HOLDING SPA YEAR (*)		2017		2016	
Schedule No. 1: Operating cash flow determined using the indirect method					
A. Cash flows deriving from operating activities (indirect method)					
	Profit (loss) of the period	30,242,319		26,868,709	
	Income taxes	12,810,400		16,151,940	
	Interest expense/(interest income)	4,271,344		4,815,397	
	(Dividends)	0		0	
	Capital (gains)/losses deriving from disposal of assets	-4,887		163,974	
	1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/loss in disposal		**47,319,177**		**48,000,020**
Adjustment for non-monetary elements which have not had a matching balance under net working capit					
	Allowances to provisions	31,066,514		17,145,360	
	Write-downs of fixed assets	40,806,524		49,394,676	
	Write-downs for impairment losses	21,794		529,901	
	Other adjustments for non-monetary elements	(11,246,275)		74,984	
	2. Cash flow before changes in NWC		**60,648,557**		**67,144,921**
Changes in net working capital					
	Decrease/(increase) in inventories	-338,922		12,156,176	
	Decrease/(increase) in amounts due from customers	44,602,103		(11,484,716)	
	Increase/(decrease) in amounts due to suppliers	(16,556,584)		2,854,085	
	Decrease/(increase) in accrued income and prepaid expenses	0			
	Increase/(decrease) in accrued expenses and deferred income	0			
	Other changes in net working capital	239,409			
	3. Cash flow after changes in NWC		**27,946,006**		**3,525,546**
Other adjustments					
	Interest collected/(paid)	(2,253,669)		(4,815,396)	
	(Income taxes paid)	(18,525,727)		(18,619,288)	
	Dividends collected	0		0	
	Use of provisions	(5,221,257)		(4,635,128)	
	4. Cash flow after other adjustments		**(26,000,654)**		**(28,069,812)**
	Cash flow of income management (A)		**109,913,085**		**90,600,675**
B. Cash flow deriving from investment activities					
Technical fixed assets					
	(Investments)	(81,360,788)		(82,652,779)	
	Realisation price of divestments	2,683,853		8,680,888	
Financial fixed assets					
	(Investments)	(17,049,891)		424,237	
	Realisation price of divestments	0		0	
Current financial assets					
	(Investments)	0		(9,002,759)	
	Realisation price of divestments	867,272		641,927	
	Cash flow from investment activities (B)		**(94,859,554)**		**(81,908,485)**
B. Cash flow deriving from financing activities					
Loan capital					
	Increase (decrease) in short-term payables to banks				
	Loans taken out	60,786,214		36,876,749	
	Loans repaid	(18,695,715)		(14,657,402)	
Shareholders' equity					
	Share capital increase against payment	0		0	
	Sale (purchases) of own shares	0		0	
	Dividends (and interim dividend payments) paid	0			
	Cash flow from financing activities (C)		**42,090,498**		**22,219,347**
Increase (decrease) in liquid funds (a ± b ± c)					
	Cash and cash equivalents as of 1 January	**113,566,109**		**82,654,572**	
	Liquid funds as of 31 December	**170,710,140**		**113,566,109**	
	Change	**57,144,031**		**30,911,537**	

(*) *for the sake of simplicity the change in payables for investments has remained included in the change in trade payables*

the individual balances (investments, debts take over, shareholders' equity increase, etc.) include the effect of the disposal/acquisition of business units (see the Notes to the Accounts).

Changes in shareholders’ equity

	Share capital	FTA reserve	Cash Flow Hedge reserve	Other reserves	Net result	Total
Shareholders’ equity 31 Dec. 2016	**571,381,786**	**-989,327**	**(3,674,123)**	**151,975,068**	**26,868,709**	**745,562,113**
Net result	-	-		26,868,709	(26,868,709)	-
Fair value change deriving from cash flow hedge, net of tax effect	-	-	988,226	-	-	988,226
Actuarial gains/(losses) for employee benefits net of tax effect	-	-	-	143,522	-	143,522
Other changes *	-	-	-	212,724		212,724
Profit (loss) for the year	-	-			30,242,319	30,242,319
Shareholders’ equity 31 Dec. 2017	**571,381,786**	**-989,327**	**(2,685,897)**	**179,200,023**	**30,242,319**	**777,148,904**

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

1. General information

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

The Company and its subsidiaries (jointly the “Group”) operate in the water services sector and it is one of the leading Italian operators (in terms of inhabitants served and cubic m raised) among the so-called “mono-utility” operators (or rather operators which do not carry out other significant industrial activities).

The company is entirely publicly owned: its shareholding structure as of 31 December 2017 is solely made up of local entities served by the Company in observance of the Agreement referred to below.

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

These consolidated financial statements were approved by the Company’s Board of Directors on 19 April 2018.

2. Summary of the Accounting Standards

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

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

These consolidated financial statements of CAP Holding S.p.A. have therefore been drawn up for the first time in accordance with the “EU IFRS”. The balances for the previous year ended as of 31 December 2016 (originally calculated according to the accounting standards issued by the Italian Accounting Body) presented for comparative purposes, have been recalculated according to the new accounting standards. With regard to the analysis of this recalculation and the effects of the transition to the IFRS, please see the section “First-time application of the IFRS”. The Consolidated financial statements are compared with those for the previous year and are made up of the statement of financial position, the statement of comprehensive income, the cash flow statement, the statement of changes in consolidated shareholders’ equity, as well as these explanatory notes and are accompanied by the directors’ report on operations.

The Consolidated financial statements include the consolidated statement of financial position as of 31 December 2017 and 31 December 2016, the consolidated statement of comprehensive income, the consolidated cash flow statement and the statement of changes in consolidated shareholders’ equity for the year ended 31 December 2017 and the related explanatory notes.
The EU IFRS include all the “International Financial Reporting Standards”, all the ”International Accounting Standards” (IAS), all the interpretations of the “International Reporting Interpretations Committee” (IFRIC), previously know as the “Standing Interpretations Committee” (SIC) which, as of the

date of closure of the consolidated financial statements, were subject to approval by the European Union according to the procedure envisaged by Regulation (EU) No. 1606/2002 of the European Parliament and by the European Council on 19 July 2002.

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

Indicated below are the financial statement schedules and the related recognition criteria adopted by the Group, within the sphere of the options envisaged by IAS 1 - Presentation of the financial statements:

- the consolidated statement of financial position was drawn up classifying the assets and the liabilities according to the "current/non-current" approach;

- the consolidated statement of comprehensive income - whose presentation of the costs is carried out on the basis of the nature of the same - includes both the result for the year and the other changes in the shareholders' equity items attributable to transactions not entered into with the Company's shareholders;

- the consolidated cash flow statement has been drawn up stating the cash flows deriving from the operating activities according to the "indirect method".

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

2.2 Scope of consolidation and consolidation criteria

These Consolidated financial statements include the balance sheet as of 31 December 2017 and 31 December 2016 and the income statements for the year ended 31 December 2017 of the Company and the subsidiaries, approved by the respective management bodies. The list of the companies consolidated line-by-line by the Group as of 31 December 2017 is presented below:

- AMIACQUE S.r.l., total share capital of € 23,667,606.16, owned for € 23,667,606.16, equal to 100.00% as of 31 December 2017 (equal to that held as of 31 December 2016 and to-date unchanged).

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

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

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

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

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

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

It is hereby disclosed that with regard to the subsidiary Rocca Brivio Sforza in liquidazione S.r.l., with registered offices in Via Vivaio 6, 20122 Milan (MI), Italy, total share capital of € 53,100 held as of 31 December 2016 for € 27,100, equal to 51.04% of the holdings, the same has not been consolidated since pursuant to IFRS 10 it is not believed that Cap Holding S.p.A. has effective control due to the lack of essential rights which assign the power to manage the significant activities of the investee company so as to influence the returns on the same. With regard to the presentation of the Balance Sheet and Income Statement figures of the subsidiary company as of 31 December 2017, please see the explanatory notes point 7.5 included in these financial statements.

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

- the assets, liabilities, expenses and income of the subsidiaries are consolidated line-by-line, assigning the minority shareholders, if applicable, the portion of shareholders' equity and the net result for the period due to them; these portions are indicated separately within the sphere of the shareholders' equity and the income statement;

- the business combination transactions by virtue of which control is acquired over an entity are recognised, in accordance with the provisions contained in IFRS 3 - Business combinations, according to the acquisition method. The acquisition cost is represented by the fair value as of the date of acquisition of the assets disposed of, the liabilities undertaken and the equities issued. The identifiable assets acquired the liabilities and the potential liabilities undertaken are recognised at the related current value as of the date of acquisition, with the exception of the deferred tax assets and liabilities, the assets and liabilities for employee benefits and the assets destined to be disposed of which are recognised on the basis of the related reference accounting standards. The difference between the acquisition cost and the fair value of the assets and liabilities acquired, if positive, is recognised under the intangible assets as goodwill, or, if negative, after having rechecked the correct measurement of the fair values of the assets and liabilities acquired and the acquisition cost is recognised directly in the income statement, as income. The charges accessory to the transaction are booked to the income statement at the time they are incurred;

- the acquisition cost also includes the potential consideration, recognised at fair value as of the date control is acquired. Subsequent fair value changes are recognised in the income statement or statement of comprehensive income if the potential consideration is a financial asset or liability. Potential considerations classified as shareholders' equity are not recalculated and the subsequent discharge is recognised directly under shareholders' equity;

- the portions of shareholders' equity and profit pertaining to the minority shareholders are recognised in specific financial statement items; they can be measured at fair value or in proportion to the minority holding in the identifiable assets of the entity acquired. The choice of the measurement method is carried out transaction by transaction. If the combination transactions via which control is acquired take place in several stages, the Group recalculates the interest holding which it previously held in the entity acquired entity at the respective fair value as of the acquisition date and recognises an emerging gain or loss in the income statement;

- the changes in the interest holding of a subsidiary which do not represent an acquisition or a loss of control are treated as equity transactions; therefore, for subsequent acquisitions following the acquisition of control and for the partial disposals of subsidiaries without loss of control, any positive or negative difference between the acquisition cost/disposal price and the corresponding portion of shareholders' equity recorded in the accounts is recorded directly under the Group's shareholders' equity;

- in the event that the partial disposals of subsidiaries lead to the loss of control, the equity investment maintained is adjusted to the related fair value and the revaluation contributes to the formulation of the capital gain (loss) deriving from the transaction;

- the significant gains and losses, including the related tax effects, deriving from transactions carried out between companies consolidated line-by-line and not yet realised vis-à-vis third parties, are eliminated. The credit and debt transactions, the costs and the revenues, as well as the financial income and expense are also eliminated, if significant.

2.3 Accounting standards

The most significant accounting principles and standards used for the preparation of these Consolidated financial statements are briefly described below.

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

Properties, plant and machinery

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

The charges incurred for maintenance and repairs of an ordinary and/or cyclical nature are directly booked to the income statement in the year they are incurred. The capitalisation of the costs inherent to the expansion, modernisation or improvement of the structural elements owned or used by third parties, is carried out exclusively within the limits in which the same comply with the requirements for being separately classified as assets or part of an asset applying the component approach.
The tangible fixed assets are depreciated systematically each year on a straight-line basis with reference to the economic-technical rates determined in relation to the estimated residual useful life of the assets. The depreciation rates for the various categories of properties, plant and machinery are listed as follows:

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

The depreciation starts when the assets is available for use taking into account the effective moment when this condition manifests.

Intangible assets

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

(a) Rights on assets under concession (IFRIC 12 - Service concession arrangements)

The "Rights on assets under concession" represent the right of the Group to use the assets under concession of the Integrated Water Service (so-called method of the intangible asset) in consideration of the costs incurred for the design and construction of the asset with the obligations to return the same at the end of the concession.

The value corresponds to the fair value of the design and construction activities increased by the capitalised financial expense, in observance of the requirements envisaged by IAS 23, during the construction phase. The fair value of the construction services of the Integrated Water Service is determined on the basis of the costs effectively incurred. The logic for determining the fair value stems from the fact that the concession holder must apply the matters envisaged by section 12 of IAS 18 and therefore if the fair value of the service received (in the specific case the right to exploit the assets) cannot be determined reliably, the revenue is calculated on the basis of the fair value of the construction services carried out.

The assets for construction services underway as of the period end date of the financial statements are measured on the basis of the work stage of completion in accordance with IAS 11 and this measurement is recognised in the income statement item "Revenues for work on assets under concession". The assets under concession are amortised over the duration of the concession on the basis of the methods by means of which the company will obtain the future economic benefits deriving from the use of said assets.

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

(b) Other intangible assets

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

<u>Reduction in value of the Tangible and Intangible Assets (impairment test)</u>

As of each reference date of the financial statements a check is carried out aimed at ascertaining whether there are indicators that the tangible and intangible assets may have suffered a reduction in value (impairment). For such purposes, both internal and external sources of information are considered.

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

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

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

A loss in value (impairment) is recognised if the book value of the assets, or of the related CGU to which the same is assigned, is higher than its recoverable value. The CGU value reductions are booked first of all to decrease the book value of any goodwill assigned to the same and, then, to decrease the other assets, in proportion to their book value and within the limits of the related recoverable value. If the reasons for a write-down previously made cease to apply, the book value of the assets is reinstated with booking to the income statement, within the limits of the net book value that the asset in question would have had if the write-down had not been made and the related amortisation had been applied.

Trade Receivables and other Current and non-Current receivables

The trade receivables and other financial assets are initially recognised at fair value and subsequently measured at amortised cost on the basis of the effective interest rate method. The trade receivables and the other financial assets are included under the current assets, with the exception of those with a contractual maturity of more than twelve months with respect to the balance sheet date, which are classified under non-current assets.

The impairment losses on receivables are booked to the financial statements when objective evidence is discovered that the Group will not be able to recover the receivable due from the counterparty on the basis of the contractual terms. Objective evidence includes events such as:

- significant financial difficulties of the debtor;
- legal disputes open with the debtor relating to receivables;
- probability that the debtor is declared bankrupt or that other financial restructuring procedures are initiated.

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

The financial assets, relating to non-derivative financial instruments, with fixed or determinable payments and fixed maturity, which the Group has the intention and capacity to hold until maturity are classified as “held until maturity financial assets”. These assets are valued according to the amortised cost method, using the effective interest rate approach, adjusted in the event of impairment. In the event of impairment losses, the same standards described above in relation to loans and receivables apply.

Equity investments

Equity investment in subsidiary, jointly-controlled, associated and other companies, not classified as held for sale, are measured at purchase cost possibly reduced in the presence of impairment losses, converted into Euro at the historical exchange rates if referring to equity investments in foreign companies whose financial statements are drawn up in currency other than the Euro.
The cost is reinstated in subsequent years if the reasons which led to the write-downs cease to apply.
The reductions and the value writebacks are booked to the income statement.
The other available-for-sale assets, including equity investments in other companies representing available-for-sale financial assets, are measured at fair value, if determinable, and the gains and losses deriving from changes in the fair value are booked directly to the other components of comprehensive income (loss) until these are disposed of or have undergone an impairment loss; at that moment, the other components of comprehensive income (loss) previously recognised under shareholders’ equity are booked to the income statement for the period. The other unlisted equity investments classified under “available-for-sale financial assets” for which the fair value cannot be determined reliably are valued at

adjusted cost for the impairments to be booked to consolidated income statement, according to the matters laid down by IAS 39.

Inventories

Inventories are stated at purchase cost, determined using the weighted average cost method, or the realisable value determined on the basis of the market trend, whichever is the lower.
Obsolete and slow-moving inventories are valued in relation to their possibility of use or realisation by means of the establishment of a specific provision, recorded to directly decrease the corresponding asset item.

Contract work in progress

Contract work in progress is recognised using the work stage of completion method in relation to the job costs incurred as of the year end date.

Cash and cash equivalents

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

Financial liabilities, Trade and Other payables

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

Derivative financial instruments

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

On a consistent basis with the matters established by IAS 39, derivative financial instruments can be recognised according to the methods established for hedge accounting only when:

- at the start of the hedge, the formal designation and the documentation of said hedging relationship exists;
- it is presumed that the hedge is highly effective;
- the efficacy can be reliably measured;
- said hedge is highly effective during the various accounting periods for which it is designated.

When the derivative instruments have the features for being recognised under hedge accounting, the following accounting treatment is applied:

- if the derivatives hedge the risk of change in the fair value of the assets or liabilities subject to hedging (fair value hedge; e.g. hedging of the variability of the fair value of assets/liabilities at fixed rate), the derivatives are recognised at fair value with the booking of the effects to the income statement; on a consistent basis, the assets or liabilities subject to hedge are adjusted so as to reflect the fair value changes associated with the hedged risk;

- and the derivatives hedge the risk of change in the cash flows of the assets or liabilities subject to hedge (cash flow hedge; e.g. hedging of the variability of the cash flows of assets/liabilities due to fluctuations in the interest rates), the fair value changes are initially recognised under shareholders' equity and subsequently booked to the income statement on a consistent basis with the economic effects produced by the hedged transaction.

If hedge accounting cannot be applied, the gains or the losses deriving from the valuation at fair value of the derivative instrument are booked immediately to the income statement.

Conversion of transactions denominated in currency other than the reporting currency

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

Own shares

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

Employee Benefits

The short-term benefits are represented by wages, salaries, related social security charges, indemnities replacing holiday entitlement and incentives paid under the form on bonuses payable in the twelve months as from the financial statement date. These benefits are recognised as components of the personnel costs in the period in which the working activities were provided.
The benefits subsequent to the termination of the employment relationship are divided into two types: plans with defined contribution and plans with defined benefits.

- In the defined contribution plans, the contribution charges are booked to the income statement when they are incurred, on the basis of the related nominal value.

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

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

As from 1 January 2007, the so-called 2007 finance law and the related implementing decrees introduced significant changes to the discipline of the TFR, including the choice of the workers with regard to assignment of their accrued TFR. In detail, the new TFR flows can be assigned by the worker to pension schemes chosen beforehand or maintained in-house. In the event of assignment to external pension schemes, the company is required only to pay over a defined contribution to the chosen fund, and as from that date the newly accrued portions are defined contribution plans in nature not subject to actuarial valuation.

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

Provisions for risks and charges

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

Grants and contributions

The grants and contributions obtained for investments in plant, both from public bodies and private third parties, are recognised at fair value when there is the reasonable certainty that they will be received and the envisaged conditions will be observed.
The water connection contributions are recognised under other non-current liabilities and released to the income statement over the duration of the investments to which they refer, if linked to an investment, and recognised in full as income if linked to pertinent costs.
Operating grants (granted for the purpose of providing immediate financial aid to the company or as compensation for the costs and the losses incurred in a previous accounting period) are recognised in full in the income statement at the time the recognition conditions are satisfied.

Assets, Liabilities, Operations disposed of

The assets and operations disposed of classified as held for sale have been measured in observance of the following two phases:

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

Revenue recognition

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

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

Costs for the purchase of goods and provision of services

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

Taxation

Current taxes are calculated on the basis of the taxable income for the period, applying the tax rates in force as of the balance sheet date.

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

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

2.4 Recently issued accounting standards

The accounting standards and amendments issued by the IASB, not approved by the European Union or approved but not yet applicable to these Consolidated financial statements, are indicated in the following table:

	EU approved	Date of effect
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	Yes	Financial periods starting as of 01 January 2017
Amendments to IAS 7: Disclosure Initiative	Yes	Financial periods starting as of 01 January 2017
Amendments to IFRS 12: Disclosure of Interest in Other Entities	Yes	Financial periods starting as of 01 January 2017
IFRS 9 Financial Instruments	Yes	Financial periods starting as of 1 January 2018
IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15: Effective date of IFRS 15	Yes	Financial periods starting as of 1 January 2018
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No	Not determined
IFRS 16 Leases	Yes	Financial periods starting as of 01 January 2019
Clarifications to IFRS 15 Revenue from Contracts with customers	Yes	Financial periods starting as of 1 January 2018
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	No	Financial periods starting as of 1 January 2018
IFRS 1 First-time Adoption of International Financial Reporting Standards	No	Financial periods starting as of 1 January 2018
IAS 28 Investments in Associates and Joint Ventures	No	Financial periods starting as of 1 January 2018
Amendments to IAS 40 Investment Property: Transfers of Investment Property	No	Financial periods starting as of 1 January 2018
IFRIC Interpretation 22 Foreign Currency Transaction and Advance Consideration	No	Financial periods starting as of 1 January 2018

3. Management of the financial risks

Within the sphere of the performance of its activities the Group finds itself exposed to certain financial risks such as the interest rate risk, the liquidity risk and the credit/counterparty risk.
The financial risks to which the Group is exposed and the formalities by means of which they are managed are listed in greater details below.

(a) Interest Rate Risk

The portion of financial indebtedness which has a floating rate is however somewhat contained. As of 31 December 2017 it amounted in total to € 15,473,414, equal to around 8% of the total indebtedness outstanding as of 31 December 2017.

As of the same date part of this indebtedness, € 4,308,519, at floating rate, is accompanied by non-speculative purely hedging interest rate swap agreements.

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

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

(b) Liquidity risk

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

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

As of 31 December 2017 the deposits care of banks satisfy the liquidity requirements.

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

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

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

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

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

Loans	Amount disbursed	Repayable within 12 months	Repayable between 12 months and 5 years	Repayable beyond 5 years	Total Repayable beyond 12 months	Total residual principal at 31 Dec. 2017
Due to banks	244,763,610	15,417,223	64,650,670	76,783,709	141,434,378	156,851,602

(in €)

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

The facilities for liquidity amount as of 31 December 2017 to € 18,500,000 million and none have yet been used.

(c) Credit risk

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

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

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

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

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

(d) Price risk

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

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

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

4. The Business as a going concern

The financial statements of the Cap Group as of 31 December 2017 have been prepared under the assumption that the business is a going concern.

5. Estimates and assumptions

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

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

(a) Amortisation and depreciation of intangible and tangible assets

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

(b) Residual value at the end of the Concession

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

(c) Write-down/Writeback of fixed assets

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

(d) Prepaid tax assets

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

(e) Provisions for risks and charges

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

(f) Allowance for doubtful receivables

The allowance for doubtful receivables reflects the estimates relating to the losses on the receivables portfolio. The provisions for the expected losses express the estimate of the credit risk which arises from past experience for similar receivables, from the analysis of the past due amounts (current and past) of the losses and the collections, and in conclusion from the monitoring of the performance of the current and forecast economic conditions of the reference markets.

(g) Measurement of the derivative financial instruments

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

Financial assets and liabilities by category

A classification of the financial assets and liabilities by category as of 31 December 2017 follows:

In €uro	Financial assets and liabilities at fair value with change to OCI	Loans and receivables/payables at face value	Available-for-sale financial assets	Financial assets/liabilities at amortised cost	Total
ASSETS					
Other non-current assets	-	76,821,415	-	10,724,684	**87,546,099**
Trade receivables	-	232,560,400	-	-	**232,560,400**
Cash and cash equivalents	-	170,710,140	-	-	**170,710,140**
Other current assets	-	25,698,341	-	-	**25,698,341**
LIABILITIES					
Non-current financial liabilities	21,272,479	105,068,025	-	50,669,530	**177,010,034**
Other non-current liabilities	-	93,142,046	-	-	**93,142,046**
Trade payables	-	72,777,648	-	-	**72,777,648**
Current financial liabilities	6,183,643	9,928,603	-	7,577,719	**23,689,965**
Other current liabilities	-	44,006,630	-	-	**44,006,630**

Financial instruments

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

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

The following table summarises the assets and liabilities which are measured at fair value as of 31 December 2017, on the basis of the level which reflects the inputs used to determine the fair value.

	As of 31 December 2017		
In €uro	Level 1	Level 2	Level 3
Financial instruments		27.456.122	

The CAP Group, during the years 2006 and 2007, entered into certain Interest Rate Swap agreements; specifically, insofar as still existing as of 31 December 2017, two with Banca Innovazione Infrastrutture e Sviluppo and one with BNP Paribas. During 2013, it acquired an additional one from the absorbed company T.A.M. S.p.A. of which Monte dei Paschi is the counterparty. In conclusion, in 2015 it acquired a fifth from the absorbed company Idra Milano S.r.l., of which Banca Nazionale del Lavoro S.p.A. is the counterparty.

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

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

6. Disclosure by operating segments

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

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

Management has identified the following operating segments:

- Integrated Water Service (SII): it includes the integrated water services mainly for the population of the city of Milan;

The monitoring of the operating segments takes place on the basis of: i) revenues; ii) EBITDA and iii) EBIT.
The EBITDA is defined as the net profit/loss the year, adjusted by the following items: i) taxation; ii) c) financial income and expense; iii) amortisation and depreciation, write-downs and provisions. The EBIT is defined as the net profit/loss the year, adjusted by the following items: i) taxation and ii) financial income and expense.

7. Notes to the consolidated statement of financial position

7.1. Rights on assets under concession

The change in the item “Rights on assets under concession” for the period 1 January 2017 to 31 December 2017 is presented below:

In €uro	Balance at 31 Dec. 2016	Increases	Decreases	account transfers	Amortisation	Grants and contributions	acquisition of business segments	Sub-total	balance at 31 Dec. 2017
Rights on assets under concession functioning	571,875,503	77,115,228	(651,722)	11,087,241	(29,756,625)	(5,268,254)	1,811,536	626,212,907	626,212,907
Rights on assets under concession underway	90,726,779	77,774,663	(77,336,911)	(5,695,430)	-	-	7,509	85,476,608	85,476,608
Rights on assets under concession	**662,602,282**	**154,889,890**	**(77,988,633)**	**5,391,810**	**(29,756,625)**	**(5,268,254)**	**1,819,045**	**711,689,516**	**711,689,516**

In accordance with IFRIC 12, rights on assets under concession for € 711,689,516 as of 31 December 2017 and € 662,602,282 as of 1 January 2016 were recognised. These rights are amortised on a straight-line basis over the duration of the concession, and then destined to be assigned to the assignor on conclusion of the concession.

The item “Rights on assets under concession” is stated net of the operating grants for plant amounting to € 5,268,254. The investments for 2017 amount to € 77,774,663.

Impairment test on rights on assets under concession

The Group has carried out an impairment test for the purpose of assessing the existence of any permanent impairment losses with reference to the amounts recognised under rights of assets under concession.

The test takes place by mean of comparing the book or carrying value of the assets or the Group of assets making up the cash flow generating units (C.G.U.) with the recoverable value of the same provided by the higher between the fair value (net of any sales charges) and the value of the net cash flows discounted back which it is envisaged will be produced by the assets or the Group of assets making up the C.G.U. (value in use)

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

For the purposes of the impairment test, the Group has determined a single CGU coinciding with the Integrated Water Service (SII) operating segment.
The cash flow discounting back rate (WACC) used, which reflects the market valuations of the cost of money and the specific risks of the sector of activities and the geographic area of reference, is equal to 3.3%.

The impairment test carried out did not highlight any permanent impairment losses with reference to the amounts recognised under rights on assets under concession for 2017 and, consequently, no write-downs of these assets were carried out.

7.2. Other intangible assets

The change in the item "Other intangible assets" for the period 31 December 2016 to 31 December 2017 is presented below:

In €uro	Balance at 31 Dec. 2016	Consolidation	Increases	Decreases	Transfer to BA	Account transfers	Amortisation	Balance at 31 Dec. 2017
Other intangible assets	12,295,167	685,166	2,410,355	(82,175)	13,543	69,42	(1,968,623)	13,422,852
Other intangible assets	**12,295,167**	**685,166**	**2,410,355**	**(82,175)**	**13,543**	**69,42**	**(1,968,623)**	**13,422,852**

The amount totalling € 13,422,852 includes the recognition in the accounts of the purchase value of the business segment
of Genia, which took place on 1 July 2011, for a value of € 5,813,250, subsequently revised at the time of adjustment as € 5,698,014, which was increased by € 1,654,770 further to the
absorption in 2013 of T.A.S.M. S.p.A. The agreement entered into between Genia S.p.A., transferor, and CAP Holding S.p.A., Amiacque S.r.l. and T.A.S.M. S.p.A., purchasers, envisaged that the ownership of the assets remains with Genia S.p.A. The purchase value has been recognised with open balances and is amortised on a straight-line basis with reference to the rates referable to the underlying asset.

The amount totalling € 5,363,904 also includes the costs for the Oracle software (ERP) not yet completed for € 4,988,285 and work on the head office for € 342,245.

7.3. Properties, plant and machinery

The tangible fixed assets as of 31 December 2017 amount to € 11,253,735, disclosing a difference with respect to the balance as of 31 December 2016 of € 13,714,620.

In €uro	Balance at 31 Dec. 2016	Consolidation	Increases	acquisition from BA	Decreases	transfer to BA	IAS reclassification s/account transfer	Depreciation	Destined for sale	Balance at 31 Dec. 2017
Tangible assets	13,714,620	(7,604,431)	5,396,250	14,257	(318,214)	(2,688,377)	4,759,004	(2,019,373)	529,021	11,253,735
Tangible assets	**13,714,620**	**(7,604,431)**	**5,396,250**	**14,257**	**(318,214)**	**(2,688,377)**	**4,759,004**	**(2,019,373)**	**529,021**	**11,253,735**

Other fixed assets owned by the Company for a book value as of 31 December 2017 amounting to € 1,453,343 have been given for use to unrelated parties: these include, in particular, the Casalpusterlengo (LO) warehouse, rented to the company SAL S.r.l., contractor for the management of the integrated water service in the Province of Lodi (contract renewed until 31 December 2021), with headquarters in Rozzano (MI), which as from 1 June 2016 was leased to third parties (until 31 May 2022). The related fees are parameterised to the ISTAT.

7.4. Prepaid tax assets

The breakdown of the item "Prepaid tax assets" for the period from 31 December 2016 until 31 December 2017 is presented below:

PREPAID TAXES	Balance at 31 Dec. 2016	IAS adjustment	Increases	Decreases	Balance at 31 Dec. 2017
For connection contributions from use	2,129,029		687,485	(292,868)	2,523,646
For amortisation of goodwill	58,670			(6,525)	52,145
For write-down of receivables exceedi	9,025,064		643,444	(2,350,006)	7,318,503
For provision for risks on personnel c	1,190,959				1,190,959
For provisions for lawsuits pending	1,242,774		386,206	(229,667)	1,399,313
For provisions for amicable settlemen	2,076,415			(771,921)	1,304,494
For provisions for other risks	324,960		196,479	(79,980)	441,458
For provision for plant decommission	1,432,862		-	(291,699)	1,141,163
For provision for future tank decontan	815,148		252,997		1,068,145
For provision for treatment plant area			5,569,659		5,569,659
For provision for water bonus	478,428		480	(184,231)	774,198
For provision for damages from sewer	1,536,000		229,656		1,765,656
For provision for environmental dama	263,716				263,716
For provision for municipal asphalt c	320,345		96,063	(266,199)	150,209
For provision for expected financial h	1,255,178			(337,314)	917,864
For provision for sundry charges	44,398			(3,943)	40,455
For provision for un-deducted excess a	212,595				212,595
For default interest payable not paid.	234		6	(234)	6
Allocations for adjustments IAS 1 Jan. 2017		680,095			680,095
TOTAL IRES (company earnings' tax)	**22,406,776**	**680,095**	**8,541,994**	**(4,814,586)**	**26,814,279**
For connection contributions from use	372,932		120,31	(51,239)	442,003
For provision for sundry charges	7,011			(690)	6,321
For amortisation of goodwill	10,352			(1,142)	9,21
For provision for water bonus			135,485		135,485
For provision for future tank decontamination costs			186,925		186,925
For provision for treatment plant area			974,69		974,69
For provision for damages from sewer	268,8		40,19		308,99
For provision for municipal asphalt c	56,06		16,811	(46,598)	26,274
For provision for un-deducted excess a	37,204				37,204
For provisions for other risks	-		34,384		34,384
TOTAL IRAP (regional business tax)	**752,359**	**-**	**1,508,795**	**-99,669**	**2,161,486**
TOTAL PREPAID TAXES	**23,159,136**	**680,095**	**10,050,789**	**(4,914,254)**	**28,975,765**
DEFERRED TAXES					
For fiscal amortisation	(681,269)	3,013	(1,484,252)	94,225	(2,049,047)
For default interest receivable to be cc	(416,546)		(237,188)	242,811	(410,923)
Allocations for adjustments IAS 1 Jan. 2017		(88,852)			(88,852)
TOTAL DEFERRED TAX LIABILITIES	**(1,097,815)**	**(91,865)**	**(1,721,440)**	**337,036**	**(2,548,821)**
TOTAL PREPAID TAXES	22,061,321	588,23	8,329,349	(4,577,219)	26,426,944

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

Amounts receivable as of 31 December 2017 for prepaid taxes, offset by deferred tax liabilities, amount to € 26,426,937.

The Group envisages having future taxable income capable of absorbing the prepaid taxes recognised.

7.5. Other non-current assets

The item "Other non-current assets" as of 31 December 2017 refers to:

In €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Equity investments in companies	15,236,387	15,254,069	17,681
Receivables due from subsidiaries	0	282	282
Other receivables	3,514,763	13,307,638	9,792,874
Tax receivables	16,408,341	16,832,372	424,031
Accrued income and prepaid expenses	779,733	8,591,838	7,812,105
Bank and postal deposits	5,222,979	3,509,040	(1,713,939)
Guarantee deposits	1,596,123	1,816,819	220,696
Amounts due from social security and welfare institutions	125,48	125,48	0
Amounts due from companies with minority investments	1,314,397	474,631	(839,766)
Financial receivables	121,197	80,063	(41,135)
Other current financial receivables	1,175,828	1,126,931	(48,898)
Total Other non-current receivables and other financial assets	**45,495,229**	**61,119,162**	**15,623,933**

The change in 2017 with regard to the equity investments held in the entities Pavia Acqua S.c. a r.l., Rocca Brivio Sforza S.r.l. in liquidation, Water Alliance – Acque di Lombardia, contract for network of companies with legal status, follows:

In €uro	Balance at 31 Dec. 2016	Increases	Decreases	Balance at 31 Dec. 2017
Pavia Acque S.c.a r.l.	14,077,735	-	-	14,077,735
Rocca Brivio Sforza S.r.l.	1,158,652	-	-	1,158,652
Water Alliance – Acque di Lombardia	-	39,476	(21,794)	17,682
Equity investments	**15,236,387**	**39,476**	**(21,794)**	**15,254,069**

Subsequent to 31 December 2017, the Group arranged a conferral of € 315,078 in favour of Pavia Acque S.c.a.r.l. relating to the receivables which the CAP Group was owed by said company, by means of deed dated 1 February 2018.

The equity investment in Water Alliance – Acque di Lombardia was recognised during the year due to the transaction for the conferral of the endowment capital finalised on 20 January 2017. The total endowment fund of Water Alliance – Acque di Lombardia comes to € 170,180 fully paid-in, held by the Company for € 39,476, equal to 23.2% as of 31 December 2017.

The equity investment in Rocca Brivio Sforza S.r.l. in liquidation derives from the absorption in 2013 of the company T.A.S.M. S.p.A. within CAP Holding S.p.A. During the year, the value of the equity investment did not undergo any changes; the percentage held is equal to 51.036% of the shareholders' equity of said Rocca Brivio Sforza S.r.l..

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

It is hereby disclosed that in accordance with IFRS 10 the company has not been consolidated because it is not believed that the Group has effective control due to the possession by the parent company of essential rights which assign the power to manage the significant activities of the investee company so as to influence the returns on the same.

With regard to the sub-item "sundry receivables", these are portions of receivables whose collectability was estimated as beyond 12 months on 2016, and relating to:

- € 12,826,361 due from Brianzacque srl for the transfer of the steps I and II;
- € 481,276 due from SAL SRL, the Lodi area water company, for the deferral of the receivables.

With regard to the sub-item "financial receivables", these are portions of receivables whose collectability was estimated as beyond 12 months in 2016, and relating to:

- the former subsidiary Capital Acque. 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 floating-rate interest. The loan should have been extinguished with the last instalment on 24 January 2013, but due to delayed payments, the residual amount of the loan amounted to Euro 41,135 as of 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. The entire amount was settled in 2017;
- € 80,063 represented by deposits made for € 22,498 by the absorbed company I.A.No.Mi. S.p.A. and € 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.

With regard to prepaid expenses, the item includes an amount for € 8,805,148 recognised as a matching balance to the payable due to Cassa Depositi e Prestiti S.p.A. for the guarantee commission on the loan granted by the European Investment Bank backed by said Cassa Depositi e Prestiti.

7.6. Trade receivables

The breakdown of the item "Trade receivables" as of 31 December 2017 and 31 December 2016 is presented below:

In €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Receivables from users for bills to be issued			
Receivables for ARERA 2012-2013 regulatory adjustments, 2019 portion	25,480,710	20,355,917	(5,124,794)
Receivables for 2014-2017 regulatory adjustments, 2019 portion	59,489,653	81,820,533	22,330,881
(allowance for doubtful receivables)	(763,331)	-	763,331
receivables from users			
receivables from civil/production users	157,203,242	114,187,168	(43,016,074)
(allowance for doubtful receivables)	(33,036,574)	(27,592,303)	5,444,270
Receivables from other operators			
Receivables from other operators (where CAP is wholesaler)	25,910,701	35,865,140	9,954,439
(allowance for doubtful receivables)	(3,865,378)	(3,709,401)	155,977
receivables from public bodies			
receivables from public bodies	1,221,455	957,849	(263,606)
(allowance for doubtful receivables)	(255,095)	(255,095)	0
Other trade receivables			
Receivables from other customers	18,763,398	15,050,972	(3,712,426)
(allowance for doubtful receivables from other customers)	(4,617,640)	(4,120,380)	497,26
Total trade receivables	**245,531,141**	**232,560,400**	**(12,970,741)**

Trade receivables mainly refer to amounts set aside for invoices issued and to be issued to civil, production users and other customers. The balance also includes the amounts set aside for invoices to be issued deriving from tariff adjustments. The portion of said receivables which it is believed is collectable beyond 12 months is shown in the item Other non-current assets (see section 7.5).

7.7. Inventories

The breakdown of the item “Inventories” as of 31 December 2017 and 31 December 2016 is presented below:

INVENTORIES	Balance at 31 Dec. 2016	Change during the period	Changes Acquisition of Business Segments	Balance at 31 Dec. 2017
Raw, ancillary and consumable materials	5,327,121	219,211	32,109	5,578,441
Total inventories	5,327,121	219,211	32,109	5,578,441

The inventories item is composed of components of electrical and hydraulic parts, electrical pumps for wells, raw materials for purification, metres and other consumable materials held in the warehouse at 31 December 2017.

7.8. Contract work in progress

The item amounting to € 662,420 includes the value of the contracts for work in progress, inherent to the planning, works management and construction of the works for the hydraulic repairs of the Cagnola water source, on behalf of the Lombardy regional authority, entrusted to the absorbed company I.A.No.Mi. S.p.A.
As of 31 December 2017, the Company has not received any advance payment.
The amount as of 31 December 2017 represents the gross value of the stage of completion of said contract.
7.9. Cash and cash equivalents

The breakdown of the item “cash and cash equivalents” as of 31 December 2017 and 31 December 2016 is presented below:

In €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Bank and postal deposits	113,481,436	170,663,561	57,182,125
Cheques	55,669	27,38	(28,289)
Cash and equivalents on hand	29,005	19,198	(9,806)
Total liquid funds	**113,566,109**	**170,710,140**	**57,144,031**

Cash and cash equivalents include the current portion of the accounts restricted in favour of the credit institute Banca Intesa San Paolo S.p.A. equal to € 1,135,955 (€ 3,66,389 as of 31 December 2016) deriving from the disbursement made on 1 December 2012 to T.A.S.M. S.p.A., absorbed as from 1 June 2013 within Cap Holding S.p.A..

The amount refers specifically to the special-purpose loan relating 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 same item as of 31 December 2017 also includes the amount of € 270,549 being the current portion of the current accounts opened at Banca Nazionale del Lavoro S.p.A. afforded as pledge to guarantee two credit facilities granted by the Bank to Cogeser Servizi Idrici S.r.l. This latter transferred a water business segment to Cap Holding S.p.A. on 28 June 2012.

7.10. Other current assets

The breakdown of the item “Other current assets” as of 31 December 2017 and 31 December 2016 is presented below:

Other current receivables	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Due from third parties			
Receivables for VAT/tax rebates	6,143,069	12,266,392	6,123,323
Receivables from companies with minority investments	5,070,344	4,560,024	(510,320)
Receivables for operating grants	3,132,488	2,617,814	(514,675)
Receivables for disposal of Brianza Acque business segment due beyond 12 months	3,989,589	2,194,614	(1,794,975)
Receivables from municipalities for work and/or services	1,754,561	1,238,741	(515,819)
Receivables from banks	7,447,392	1,207,536	(6,239,857)
Advances to Public Bodies	165,823	165,823	0
Receivables from social security and welfare institutions	6,713	12,64	5,927
Receivables from employees	10,254	37,141	26,886
Others	517,402	527,704	10,302
Accrued income and prepaid expenses	1,288,946	869,914	(419,032)
Total	**29,526,581**	**25,698,341**	**(3,828,240)**

The tax receivable essentially comprises the VAT credit for € 12,266,392.

The receivables due from third parties amount to € 12,562,036 as of 31 December 2017, the breakdown of which is presented in the above table.

7.11 Available-for-sale assets

The item as of 31 December 2017 presented zero balance. As of 31 December 2016 it comprises the value equal to € 26,132,202 relating to the valorisation of the fixed assets destined for sale by the Group to the company Brianzacque S.r.l., by virtue of the deed for the transfer of business segments with real effect as from 1 March 2017, pertaining to the industrial/commercial activities carried out for various Municipal Authorities in the south-east Monza and Brianza area.

7.12. Shareholders' equity

Share capital

The Company's share capital is made up of 571,381,786 ordinary shares with a par value of € 1 each, fully subscribed and paid-in.

Reserves

The change in the shareholders' equity reserves is shown in the schedules of these financial statements.

7.13. Provisions for risks and charges

The change in the item "Provisions for risks and charges" for the period 31 December 2016 - 31 December 2017 is illustrated below:

in €uro	Balance at 31 Dec. 2016	Provision	adjustment/reversals	Utilisation	Balance at 31 Dec. 2017
Provision for risks for future losses	1,328,524	-	(333,252)	-	**995,272**
Provision for risks relating to personnel costs	4,788,991	-	-	-	**4,788,991**
Provisions for lawsuits pending	5,581,075	1,402,191	(454,238)	(293,042)	**6,235,986**
Provision for out-of-court agreements	8,727,778	-	(3,216,337)	-	**5,511,441**
Provision for risks relating to request for 2007 tax rebate	2,719,952	-	-	-	**2,719,952**
Provision for other risks	75,044	-	-	(48,247)	**26,797**
Provision for taxation	399,21	-	-	-	**399,21**
Total provision for other risks	**23,620,573**	**1,402,191**	**(4,003,827)**	**(341,289)**	**20,677,649**
Provision for bill discounts for social reasons	1,993,452	2,000,000	-	(767,629)	3,225,823
Provision for environmental damage from sewers	1,124,295	-	-	-	1,124,295
Provision for asphalt expenses	1,334,773	400,26	(397,718)	(711,749)	625,566
Provision for future tank rehabilitation expenses	3,396,450	1,054,155	-	-	4,450,606
Provision for treatment plant areas decontamination	-	23,206,911	-	-	23,206,911
Provision percolation damage decontamination	6,400,000	956,9	-	-	7,356,900
Provision for future plant decommissioning	5,883,186	1,020,436	(2,124,444)	(111,403)	4,667,775
Total provision for future expenses	**20,132,156**	**28,638,662**	**(2,522,162)**	**(1,590,780)**	**44,657,876**
Total provisions for risks and charges	**43,752,729**	**30,040,853**	**(6,525,989)**	**(1,932,069)**	**65,335,525**

Some notes on the most important provisions as of 31 December 2017 follow:

- provision for future expenses for the rehabilitation of the flocculation tanks (environmental rehabilitation). It was established in view of the termination of the life cycle of said tanks with consequent re-naturalisation and recovery of the areas occupied, for which it is necessary to remedy any environmental damages potentially due to percolation into the ground;
- 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. Said buildings will, in fact, be demolished, presumably in the two-year period 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.
- provision for “tariff reductions of a social nature”. The allocation is consequent to the decision adopted by means of resolution No. 7 of the Conference of the Metropolitan City ATO Municipal authorities dated 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] and extension to 2017 of the WATER BONUS recently by mean of resolution No. 11 dated 30 January 2018. With regard to 2017, the amount which has this assignment is confirmed as € 2,000,000 of which € 40,900 assigned as of 31 December 2017 and € 1,959,100 to be assigned.
- provision for environmental reclamation and recovery relating to the sedimentation soil of the treatment plants, for € 23,206,911 further to the assessment, which only become possible in 2017, of what the most reasonably expected conditions will be of the land underlying in particular the pre-treatment and anaerobic digestion sections at the end of the useful life, as well as the estimate of the charges necessary for eliminating the contamination which statistically presents itself;
- provisions for risks on personnel costs: these include the allocations made for requests presented by INPS for the settlement of the payments of certain types of contributions. No further amounts have been provided, since the provision was deemed suitable with respect to the amount of the tax demands served by INPS, in relation to which the related legal proceedings are still pending before the Court of Appeal competent geographically and before the Supreme Court of Cassation;
- risk provision for 2007 tax rebate: this includes the amount provided in 2008 for the recognition in the accounts of an amount receivable for the same amount due to the Tax Authorities, represented by taxes (IRES - company earnings’ tax and IRAP - regional business tax) paid and not due and the related interest and reduced sanctions, paid on 30 September 2008 by the absorbed company CAP Gestione, and requested for rebate by means of application as per Article 38 of Italian Presidential Decree No. 602/1973, presented on 11 May 2009 care of the Italian Inland Revenue Agency, and subsequent appeal to the Milan Provincial Tax Commission, rejected by means of sentence No. 78/47/12. This sentence was challenged before the regional Tax Commission which, by means of sentence No. 110/28/13, deposited on 19 September 2013, declared the appeal as inadmissible. Amiacque therefore decided to challenge sentence No. 110/28/13 by means of petition for revocation. In the presence of rejection of the same, the

decision was made to appeal to the Supreme Court of Cassation. At the same time, an appeal is therefore pending with the Supreme Court of Cassation on the merits of the case.

7.14. Employee Benefits

The change in the item “Employee benefits” for the period 31 December 2016 to 31 December 2017 is presented below:

in €uro	Balance at 31 Dec. 2016	Disposal/Acquisition of business segments	Provisions	Uses	Financial expense	Actuarial gains (losses)	Other changes	Total changes	Balance at 31 Dec. 2017
Employee Benefits	6,307,088	(207,639)	110,509	(466,753)	57,036	(41,942)	252,896	(295,894)	6,011,194
Total Employee Benefits	**6,307,088**	**(207,639)**	**110,509**	**(466,753)**	**57,036**	**(41,942)**	**252,896**	**(295,894)**	**6,011,194**

The provision for employee leaving indemnities acknowledges the effects of the discounting back according to the matters required by IAS 19.

A breakdown of the economic and demographic assumptions used for the purposes of the actuarial valuations is presented below:

Inflation rate	1,5%
Discount rate	0,88%
Annual frequency Advances/Leavers	1,50%

7.15. Current and non-current financial liabilities

The breakdown of the items “Current financial liabilities” and “Non-current financial liabilities” as of 31 December 2017 and 31 December 2016 is presented below:

in €uro	As of 31 December 2017		As of 31 December 2016	
Current and non-current financial liabilities	Current portion	Non-current portion	Current portion	Non-current portion
Cassa depositi e prestiti mortgages	4,404,825	8,293,474	4,656,169	14,972,745
Intesa san paolo mortgages	1,858,138	22,334,375	1,707,993	24,129,224
Banca nazionale del lavoro mortgages	872,100	3,672,650	724,989	4,529,364
Due to Banca Popolare di Milano	500	-	-	-
Monte dei paschi di siena mortgages	556,437	2,862,358	548,285	3,418,867
Finlombarda spa loans	97,115	750,289	97,114	847,404
Banca Popolare di Milano mortgages	342,621	4,545,449	326,033	4,888,099
UBI Banca mortgages	-	-	36.503	-
European Investment Bank loans	-	70,000,000	-	52,000,000
Due to Cassa Depositi e Prestiti as guarantee on EIB loan	1,101,844	7,703,305	818,513	6,151,673
2005 Bond issue	2.224.139	1.481.500	1.481.480	3.703.720
2017 Bond issue	6.048.791	34.093.970	-	-
Due to banks for derivatives	6,183,643	21,272,479	-	31,909,553
TOTAL	**23,690,153**	**177,009,848**	**10,397,080**	**146,550,649**

The information on bank mortgage loans, EIB loans and bond issues are summarised in the table:

in €uro	Maturity	Total	Due within one year	Due between 2-5 years	Due beyond 5 years
BANCA INTESA OPI 2006	2026	11,362,534	1,033,087	4,667,513	5,661,936
EIB (I tranche)	2029	18,000,000	-	6,316,999	11,683,001
EIB (II tranche)	2030	10,000,000	-	3,037,682	6,962,318
EIB (III tranche)	2030	12,000,000	-	3,175,094	8,824,906
EIB (IV tranche)	2031	12,000,000	-	2,659,165	9,340,835
EIB (IV tranche)	2032	18,000,000	-	2,327,635	15,672,365
2005 Bond issue	2019	3,705,639	2,224,139	1,481,500	
2017 Bond issue	2024	40,142,760	6,048,791	22,693,600	11,400,369
BANCA INTESA EX TASM	2029	12,829,979	825,052	3,528,469	8,476,458
BNL (COGESER) 1.5	2018	239,729	239,729	-	-
BNL (COGESER) 0.950	2020	370,811	159,7	211,111	-
BNL (IDRA merger)	2026	3,934,209	472,67	1,846,154	1,615,385
MPS	2022	1,083,838	210,59	873,248	-
MPS	2019	52,938	26,337	26,601	-
MPS OOPE	2020	374,31	124,148	250,162	-
MPS	2018	34,329	34,329	-	-
MPS	2020	19,495	7,625	11,87	-
MPS	2029	1,853,884	153,408	621,665	1,078,811
Banca Popolare di Milano (former Banca di Legnano)	2028	4,888,070	342,621	1,553,507	2,991,942
Finlombarda	2026	135,795	15,976	63,904	55,916
Finlombarda	2026	711,608	81,139	324,556	305,913
Cdp	2031	12,698,299	4,404,825	8,293,474	-
TOTAL LOANS		**164,438,227**	**16,404,166**	**63,963,909**	**84,070,155**

Bank mortgage loans

We mention that the payables to banks include a loan from Monte dei Paschi Siena S.p.A. taken out on 14 December 2011 by the company T.A.S.M. S.p.A (then merged into CAP Holding S.p.A. by merger deed on 22 May 2013, volume No. 23262, file No. 10176, Notary Public Ferrelli of Milan), originally for € 2,000,000, with repayment instalments from December 2012 to December 2022, which is guaranteed by a mortgage, for € 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 treatment plant owned by the former T.A.S.M., now CAP Holding S.p.A., is situated (notarial deed dated 6 March 2012, volume No. 22358/9707, Notary Public Ferrelli of Milan). The nominal value of the residual debt of this loan at 31 December 2017 amounts to € 1,083,838.

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 dated 22 May 2013, volume No. 23262, file No. 10176, Notary Public Ferrelli of Milan), originally for € 16,000,000, with repayments from 1 January 2013 until 30 November 2029. The value of 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 balance of the afore-mentioned account has been recognised in item 7.5. The nominal value of the residual debt of said loan at 31 December 2017 amounts to € 12,829,979.

The payables to banks at 31 December 2017 also include:

- Two separate loans for a nominal total of € 610,541 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 loans are guaranteed by a lien on the sums deposited on two current accounts opened at the same bank (€ 306,165 deposited on 31 December 2017, of which in item 7.9 for € 270,549 and item 7.5 for € 35,616).

- A loan with a nominal value of € 1,853,884 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 Abbiategrasso, which was acquired with the loan in question. To guarantee the loan, a mortgage was taken out on the property in Abbiategrasso. The expiry of the repayment plan is set at 1 September 2029.

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

- portions of mortgage loans transferred with the conferral to Pavia Acque S.c.a r.l. of the business segment pursuant to Article 2560 of the Italian Civil Code (deeds dated 15 July 2008 and of 23 December 2016) of which a novation has not been possible, for a residual debt at nominal value at 31 December 2017 of € 1,471,587, and the recognition of the receivable due to Pavia Acque S.r.l. in the assets for a sum of € 1,684,906 representing the nominal value of the residual amount as of 31 December 2017;
- portions of loans transferred pursuant to partial spin-off to Patrimoniale Idrica Lodigiana S.r.l. (deed dated 28 May 2014) for a residual nominal value of € 1,398,310, not yet novated and the recognition under the assets of the receivable due vis-à-vis Patrimoniale Idrica Lodigiana for a nominal € 1,553,734 (the company P.I.L. S.r.l. volume No. 94891, file No. 24276 dated 14 December 2015, Notary Public Mattea of Lodi) was incorporated into S.A.L. Società Acqua Lodigiana, S.r.l.);
- portions of loans transferred with the sale of the business unit to the company Brianzacque S.r.l. for the residual nominal amount of Euro 1,119,790, not yet novated and the recognition under the assets of the receivable due vis-à-vis Brianzacque S.r.l., for € 1,119,865 as of 31 December 2017. The difference between the two items relates to the portion of the floating rate interest relating to the instalments falling due on 31 December 2017 for the bond partly transferred to the same.

Payable to Cassa Depositi e Prestiti as guarantee on EIB loan

The item, amounting to € 8,805,148 as of 31 December 2017, relates to the total charge linked to the guarantee commission due to the guarantor bank, calculated in proportion to the actual drawdowns on the guaranteed EIB loan, paid periodically until the expiry of the same guaranteed loan.

This payable is recognised as a matching balance to the item Other current and non-current assets (See Notes 7.5 and 7.10) which follows the booking to the income statement on an accruals basis.

EIB loan

With regard to the amount due to the European Investment Bank, the tranches disbursed up until 31 December 2017 were:

- an initial disbursement of € 18,000,000 in May 2015, which will be repaid in straight-line (fixed rate) six-monthly instalments from June 2019 until December 2029;
- a second disbursement of € 10,000,000 in November 2015, which will be repaid in straight-line (fixed rate) six-monthly instalments from December 2019 until June 2030;
- a third disbursement of € 12,000,000 in May 2016, which will be repaid in straight-line (fixed rate) six-monthly instalments from June 2020 until December 2030;
- a fourth disbursement of € 12,000,000 in July 2016, which will be repaid in straight-line (fixed rate) six- monthly instalments from December 2020 until June 2031;
- a fifth disbursement of € 18,000,000 in July 2017, which will be repaid in straight-line (fixed rate) six- monthly instalments from December 2021 until June 2032.

Altogether, at 31 December 2017, the payable due to EIB amounts to a nominal sum of € 70,000,000.
The bond issues

The item refers to:
- € 3,705,639 for the bond issue (ISIN code IT0003853568) for a nominal € 20,000,000 placed by an underwriting commitment in 2005 by 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 are traded on the ExtraMOT PRO segment of the ExtraMOT market managed by Borsa Italiana S.p.A.

as from 22 July 2016. The interest accrued for 2017 amounted to € 5,704; of this, € 806 has been recharged to the companies SAL, Pavia Acque and Brianzacque. The instalment relating to the second half of 2017 (Euro 740,740 in principal and Euro 2,593 in interest) was debited on 2 January 2018 due to bank business days.

The principal portion in question as of 31 December 2017 is therefore still included under the item "Current financial liabilities", whereas the interest portion was recognised as increasing the financial liability, due within 12 months.

- € 40,142,760 for the bond issue (ISIN No. XS1656754873), for a nominal € 40,000,000 admitted for listing and traded on the organised market of the Irish Stock Exchange on 2 August 2017. The bond was fully subscribed by institutional investors. Interest accrues on the Bonds, which have a 7-year duration (maturity August 2024), payable on an annual basis (first expiry in August 2018) at a fixed rate of 1.98%. The principal is reimbursed according to a repayment plan with straight-line principal payments, without prejudice in any event to the hypotheses of early repayment disciplined by the Bond regulations.

  The charges incurred by the Company for obtaining the bond issue were initially recognised as reducing the financial liability and subsequently recognised in the income statement using the amortised cost approach in accordance with the matters envisaged by IAS 39.

  At 31 December 2017, the residual principal, at nominal value, amounted to € 40,000,000; at amortised cost it amounts to € 39,746,760. The interest portion pertaining to 2017 was recognised as increasing the financial liability, due within 12 months, for € 396,000.

  The portion due within 12 months amounts to € 6,048,791; the portion due beyond 12 months totals € 22,693,600; the portion due beyond 5 years comes to € 11,400,369.

The IAS fair value derivative

Reference is made to the matters already indicated in section 5, "derivative financial instruments". As of 31 December 2017, the value of the derivatives amounted to € 27,456,122, broken down as follows:

type of derivative contract	multi-phase IRS with MPS	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
contract date	14 June 2006	17 February 2006	11 July2006	22 January 2008	16 May 2011
Purpose	rate hedging	loan hedging	loan hedging	loan hedging	rate hedging
contract number	72399	602170669	607120274 (12049552)	10706142	5963433
notional value	1,626,816	55,313,163	20,000,000	19,389,639	6,000,000
existing principal	398,801	9,463,278	2,962,980	11,372,979	3,923,077
Maturity	31 December 2020	31 December 2021	31 December 2019	31 December 2026	16 May 2026
underlying financial risk				Change in interest rates	
mark to market	(32,764)	(22,516,624)	(2,764,238)	(2,196,035)	(61,263)
asset/liability hedging	MPS loan	cassa depositi e prestiti mortgages	bond issue	Intesa loan (formerly Banca OPI 2006)	BNL loan former 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 BNP Paribas	interest rate swap with BNL

Accessory charges on loans

The charges incurred by the Group for obtaining bank loans were initially recognised as reducing the financial liabilities and subsequently recognised in the income statement using the amortised cost approach in accordance with the matters envisaged by IAS 39.

7.16. Other non-current liabilities

The breakdown of the item "Other non-current liabilities" as of 31 December 2017 and 31 December 2016 is presented below:

Other non-current liabilities	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
For taxation provision:			
Taxation provision	115,058	927,477	812,419
Total non-current liabilities for taxation provision	115,058	927,477	812,419
For payables to municipalities for other services:			
Payables to municipalities for services and other	308,88	528,97	220,09
Total non-current liabilities for payables to municipalities	308,88	528,97	220,09
For payables to others tariff quotas			
payables to local authorities for tariff quotas	-	4,169,524	4,169,524
Payables to EGA for tariff quotas write-off law	-	1,106,959	1,106,959
Payables to companies and consortiums for tariff quotas	-	2,350,851	2,350,851
Payables to Villoresi consortium for decontamination contribution on bill	-	1,815,038	1,815,038
Payables to companies for operator quota	-	44,371	44,371
Payables to companies for quota documents to be received	-	471,682	471,682
Total payables to others for tariff quotas	0	9,958,425	9,958,425
For payables for contributions			
Payables for ert.nert connection contributions and other third party financed projects	4,877,254	5,373,707	496,453
Payables for ato/region contributions on lic	-	9,956,458	9,956,458
Total non-current liabilities for contributions	4,877,254	15,330,165	10,452,911
Due from third parties:			
Deferred income for contributions/connections, etc.	1,883,090	4,653,419	2,770,329
Loans taken over	27,574,869	25,386,028	(2,188,841)
Guarantee deposits vis-à-vis users and customers	30,419,345	35,727,883	5,308,538
Other non-current payables	132,025	629,679	497,654
Total non-current liabilities vis-à-vis others	60,009,329	66,397,009	6,387,679
TOTAL	**65,310,522**	**93,142,046**	**27,831,525**

Another significant sub-item is represented by amounts due to users for the utility guarantee deposits of the integrated water services, for € 35,727,883.

€ 4,653,419 refers to deferred income for contributions/connections, etc. and includes the portion of contributions received from users for the completion of aqueduct and sewer connections which will be posted under the revenues in periods after 31 December 2018 in connection with the depreciation of the related assets.

In conclusion, with regard to the loans undertaken, € 25,386,028, this involves the portions due beyond 12 months, for:

- Euro 22,169,746 for the payable to the ATO for debt assumption corresponding 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. took over in 2013. The portion due beyond 5 years amounts to € 12,898,052;
- € 1,108,371 for other assumptions of mortgages and/or financial loans, transactions which mainly took place further to the conferrals in kind in CAP Holding S.p.A. (or its assignors, by CAP Gestione S.p.A. to CAP Impianti S.p.A., to its companies incorporated in 2013) of the assets of the water service by EELL, now a shareholder. The portion due beyond 5 years amounts to € 287,476;

- € 2,107,911 for a debt, recognised in 2015, for the assumption of a loan from Cassa Depositi e Prestiti, ref. No 4430124, pursuant to agreements entered into 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.I. in 2015. The portion due beyond 5 years amounts to € 762,352.

The portions of these payables due to the undertaking of loans due within 12 months is stated in the item “other current liabilities”.

7.17. Trade payables

The item includes the payables relating to the normal performance of the Group’s commercial activities, relating to supplies of goods, fixed assets and services for € 72,777,548. As of 31 December 2017, there were no payables with a residual duration of more than 5 years in the financial statements.

7.18. Other current liabilities

The breakdown of the item “Other current liabilities” as of 31 December 2017 and 31 December 2016 is presented below:

in €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Due from minority companies			
payables from minority companies	8,931	45,032	36,1
	8,931	**45,032**	**36,1**
Due from others for tariff quotas			
payables to local authorities for tariff quotas	8,973,730	-	(8,973,730)
Payables to EGA for tariff quotas write-off law	830,159	-	(830,159)
Payables to companies and consortiums for tariff quotas	3,492,970	-	(3,492,970)
Payables to Villoresi consortium for decontamination contribution on bill	2,004,656	-	(2,004,656)
Payables to companies for operator quota	44,371	-	(44,371)
Payables to companies for quota documents to be received	8,892,999	-	(8,892,999)
	24,238,885	**-**	**(24,238,885)**
for connection contributions (aqueduct/sewers)			
payables for aqueduct connection contributions	2,876,796	3,060,146	183,35
payables for sewer connection contributions	734,779	1,359,222	624,443
	3,611,575	**4,419,368**	**807,793**
due to municipalities for services and other:			
Payables to municipalities for services and other	1,583,378	912,723	(670,656)
Payables to municipalities for bills to be received	2,186,675	1,186,798	(999,877)
	3,770,053	**2,099,521**	**(1,670,533)**
Due to third parties			
Guarantee deposits vis-à-vis customers	(180,705)	(7,459)	173,246
Advances	9,049,639	16,814,789	7,765,150
Advances from municipalities for services and other	1,446,986	1,571,050	124,064
Advances on ato Mi/Lombardy region contract contributions	8,622,068	8,622,068	0
payables to the Region and the Province for advances on loans	108,345	108,345	0
Other payables to users	3,341,087	0	(3,341,087)
other payables to employees	5,122,343	4,228,529	(893,814)
Short-term loans taken over	2,274,629	2,290,632	16,003
Tax payables	2,909,433	1,371,628	(1,537,805)
Payables to social security and welfare institutions	1,121,875	1,381,565	259,69
Other liabilities	9,291,457	1,061,563	(8,229,894)
	43,107,157	**37,442,711**	**(5,664,446)**
Total Other current liabilities	**74,736,602**	**44,006,631**	**(30,729,970)**

With regard to comments on the sub-items “for tariff portions” as well as utility guarantee deposits, reference is made to the matters already indicated in section 7.16 where the portions due beyond 12 months of said liabilities are indicated.

Advances amounted to € 10,099,055 as of 31 December 2017 and mainly regard advance payments for work in progress commissioned by private entities and public bodies (€ 1,571,050) and the Lombardy Regional Authority (€ 8,622,068).

Within this amount, € 8,528,005 refers to the long-term contract “repair of the Cagnola water source”. Since these are advance payments, steps have not been taken to deduct the value of the contract work in progress (€ 87,601) from the total amount of the advances.

The short-term portions of loan assumptions represent the sums due within 12 months of the loans taken over, already commented on in greater detail in the item “other current liabilities”, section 7.16.

The above table illustrated the breakdowns of the amounts by individual item.

7.19 Available-for-sale liabilities

See the disclosure provided in Note 7.11 within these financial statements.

8. Notes to the consolidated statement of comprehensive income

8.1 Revenues

As of 31 December 2017, revenues amounted to € 237,902,149; below indication is made of the revenues generated in relation to the sales and the provision of services carried out during 2016 divided up by the main Area Authorities.

The Revenues recognised in the financial statements mainly comprise:

- Revenues from sales and services for the ATO of the Metropolitan City of Milan.

  The revenues for the integrated water service tariffs of the ATO of the Province of Milan, determined according to the VRG, amounted to Euro 216,006,594..

  With regard to regulated revenues of the ATO of the Metropolitan City of Milan, except for the provincial capital, it is hereby indicated that by means of resolution No. 503/2016/r/idr dated 15 September 2016, the Authority for Electricity, gas and the Water System (AEEGSI, now ARERA) approved the regulatory scheme, containing the tariff provisions for the period 2016-2019.

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

- Revenues from sales and services in the Monza Brianza ATOs.

  With regard to regulated revenues of the Monza and Brianza ATO, by means of resolution No. 523/2016/r/idr dated 22 September 2016, the Authority for Electricity, gas and the Water System (AEEGSI, now ARERA) took steps to “approve 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 treatment 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 Article 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 dated 28 December 2015, which covers the period 2016-2019 (with a two-year tariff review for the years 2018-2019).

Overall, the revenues for the tariffs of the integrated water service tariff of the Province of Monza and Brianza, determined according to the said VRG, amounted to Euro 1,792,631 for 2017.

These must be joined by € 184,255 for the fee for use of infrastructures paid by Brianzacque for the use of the Truccazzano treatment plant until 28 February 2017, date of transfer of the second step.

- Revenues from sales and services for the Pavia ATO

  For the Pavia ATO, the entire tariff as of 1 January 2014 is due to the consortium company Pavia Acque S.c.a.r.l. pursuant to the agreement assigning the service entered into by said companies and the Pavia ATO Office on 20 December 2013.

  Therefore the Group has no income from tariffs for that ATO. The parent company CAP Holding S.p.A., as a member of the consortium, has been appointed to operate various infrastructures in various municipalities of the Pavia area, consequently recognising an amount under its revenues arising from the prices acknowledged to the same by Pavia Acque S.c.a r.l.. With regard to 2017, revenues amounted to € 2,547,005 (running and maintenance of plants) and € 70,745 represented the balance of the payment from the Municipality of Siziano (upgrading and renovation of the aqueduct network).

  Again with regard to the Pavia ATO, up until 2016 the Group included in its revenues for the period an amount received for the use by 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. With regard to 2016, these revenues amounted to around € 653,000. In 2017, this item presented a zero balance due to the conferral to that company of the equity assets of the Group by means of deed dated 23 December 2016.

These are joined by those of AMIACQUE; € 571,177 in tariff revenues and € 281,338 for sludge disposal and other revenues.

8.2 Increases for internal work

The balance amounts to € 3,950,626. This concerns staff hours capitalised on investment orders.

8.3 Revenues for work on assets under concession

Revenues for work on assets under concession amounted to € 75,403,902 for the year ended 31 December 2017. These revenues correspond, in accordance with IFRIC 12, to the work realised on the assets under concession owned by the company and used by the same for its core activities.

8.4. Other revenues and income

The breakdown of the item “Other revenues and income” for the year ended 31 December 2017 is presented below:

in €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Sundry			
Rental fees received	628,224	525,027	(103,197)
Penalties from suppliers and customers	494,774	477,178	(17,596)
Insurance premiums to cover losses	91,852	137,5	45,648
Compensation for damages and other reimbursements	276,352	390,104	113,752
Reimbursement for personnel on transfer	24,179	-	(24,179)
Other revenues and income	2,829,717	11,788,633	8,958,916
Other out-od-period amounts and contingencies	2,430,333	3,122,367	692,034
	6,775,431	**16,440,809**	**9,665,378**
Operating grants			
Operating grants	620,556	554,025	(66,531)
	620,556	**554,025**	**(66,531)**
Considerations			
Considerations from private parties and municipal authorities	1,372,884	1,259,132	(113,752)
	1,372,884	**1,259,132**	**(113,752)**
Total other revenues and income	**8,768,871**	**18,253,967**	**9,485,095**

8.5. Costs for raw and consumable materials and goods for resale

The breakdown of the item “Costs for raw and consumable materials and goods for resale” for the year ended 31 December 2017 is presented below:

in €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Consumable materials	648,233	680,491	32,258
Consumable materials for safety in the workplace	382,801	394,592	11,791
Electrical and hydraulic components	1,377,498	1,242,673	(134,825)
Consumption metres	2,363,314	1,484,114	(879,201)
Materials destined for works	4,739,667	7,966,422	3,226,755
Potable water filters and raw materials for rendering water potable	411,305	818	(410,487)
Electrical pumps	228,339	332,654	104,315
Fuels and combustibles	541,876	662,842	120,966
Wholesale water provisioning	361,267	255,142	(106,125)
Change in inventories	467,753	(219,211)	(686,964)
Total costs for raw and consumable materials and goods	**11,522,053**	**12,800,537**	**1,278,484**

This item mainly includes the costs for the purchase of consumables and maintenance for the Integrated Water Service.

8.6. Costs for services

The breakdown of the item “Costs for services” for the year ended 31 December 2017 is presented below:

In €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Works financed by private parties and public bodies	18,862,662	22,440,959	3,578,297
Routine maintenance	11,599,903	10,116,020	(1,483,883)
Work on plant and waterworks houses	79,637	48,845	(30,793)
Demolition of tanks	971	41,191	40,22
Costs for industrial services	43,077,800	40,540,627	(2,537,173)
Total cost for industrial services	**73,620,972**	**73,187,642**	**(433,331)**
Allocation to provision for future expenses	9,456,160	25,618,226	16,162,066
Other administrative, general and commercial costs	27,088,210	17,774,756	(9,313,454)
Total other administrative, general, commercial costs and provisions	**36,544,370**	**43,392,982**	**6,848,612**
Rental and licence fees	1,496,577	1,737,072	240,495
Repayments of loans and concession fees	6,679,485	6,382,378	(297,107)
fee for use of well and crossings	1,779,511	1,935,163	155,652
Hiring	2,296,958	2,145,941	(151,017)
Out-of-period expense	23,275	9,46	(13,815)
Other sundry operating expense		1,992	1,992
Total costs for use of third party assets	**12,275,806**	**12,212,005**	**(63,801)**
Total costs for services	**122,441,148**	**128,792,628**	**6,351,480**

The item *"Allocation to provision for future expenses"* also includes the annual allocations to provisions for risks and charges for € 25,618,226. Of this amount, € 23,206,911 relates to the formation of a provision for environmental reclamation and recovery relating to the sedimentation soil of the treatment plants, further to the assessment, which only became possible in 2017, of what the most reasonably expected conditions will be of the land underlying in particular the pre-treatment and anaerobic digestion sections at the end of the useful life, as well as the estimate of the charges necessary for eliminating the contamination which statistically presents itself.

8.7. Costs for work on assets under concession

Costs for work on assets under concession amount to € 45,905,201 for the year ended 31 December 2017 and represent the changes relating to the work carried out on the assets under concession by third parties. Capitalised internal costs are recognised by nature within the specific income statement items. The item is linked to the revenues for assets under concession for € 75,403,902. The difference concerns the consolidation entry for the work carried out by Amiacque for the parent company.

8.8. Personnel costs

The breakdown of the item "Personnel costs" for the year ended 31 December 2017 is presented below:

in €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Salaries and wages	30,952,709	29,758,592	(1,194,117)
Social security charges	9,903,493	9,390,103	(513,390)
Employee severance indemnity	1,989,494	2,009,928	20,434
Retirement benefits	238,949	246,936	7,987
Other costs	633,845	775,749	141,904
Total costs for personnel	**43,718,490**	**42,181,308**	**(1,537,182)**

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

Level	On workforce as of 31 Dec. 2016	Recruits	Leavers	On workforce as of 31 Dec. 2017
Executives				
Permanent contracts	3	0	2	1
Term contracts	8	0	1	7
Total	**11**	**0**	**3**	**8**
Personnel with fixed-term contracts / apprenticeships				
Middle managers	24	6	2	28
Level 8	42	7	5	44
Level 7	48	4	7	45
Level 6	108	11	15	104
Level 5	115	14	12	117
Level 4	174	19	22	171
Level 3	170	10	28	152
Level 2	102	0	15	87
Level 1	3	0	0	3
Total permanent contracts	**786**	**71**	**106**	**751**
Total term contracts	**32**	**33**	**11**	**54**
Total Employees	**829**	**104**	**120**	**813**

8.9 Amortisation, depreciation, write-downs and provisions

The breakdown of the item “Amortisation, depreciation, write-downs and provisions” for the year ended 31 December 2017 is presented below:

Amortisation, depreciation and write-downs	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Amortisation/depreciation	49,394,676	40,574,750	(8,819,926)
Provisions of Bad debts	7,313,491	4,467,874	(2,845,617)
Total depreciation, amortisation and write-downs	**56,708,167**	**45,042,624**	**(11,665,543)**
Provisions	4,058,601	4,427,852	369,251
Total provisions	**4,058,601**	**4,427,852**	**369,251**
Total depreciation, amortisation and write-downs	**60,766,768**	**49,470,476**	**(11,296,292)**

The amount relating to other provisions, € 4,427,852, mainly refers to:

- The allocation to provisions for future expenses of the tariff quota for new investments (FoNI), for the part destined for granting tariff concessions for social purposes and consequent to the decision adopted by resolution No. 7 dated 31 May 2016 of the Conference of the municipal authorities of the ATO of the Metropolitan City of Milan. The allocation is equal to Euro 2,000,000.
- Adjustment of the provision for risks for € 2,427,852.

The provision to the allowance for doubtful receivables amounted to Euro 4,467,874 and was made taking into account the age and the estimated realisable value of the amounts due from customers, in accordance with the criteria already adopted in previous years. It was quantified on the basis of the results of the debt recovery activities and the trend of certain past data relating to the user base, such as - for example - the closures of the contracts and the submitting to bankruptcy proceedings.

8.10 Other operating costs

The breakdown of the item “Other operating costs” for the year ended 31 December 2017 is presented below:

in €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Membership fees	136,189	166,349	30,16
Books magazines and newspapers	21,057	20,538	(519)
Losses on receivables	41,008	17,237	(23,771)
Taxes and duties	1,013,177	2,279,093	1,265,916
Expenses for ATO-AEEG running costs	1,143,319	947,556	(195,763)
Socially useful charity donations	20,35	28,455	8,105
Fines and penalties	121,569	182,02	60,451
Expense reimbursements to third parties	565,412	119,186	(446,226)
Sundry rights	40,534	44,469	3,936
Other sundry operating expense	210,745	262,218	51,473
Capital losses on fixed assets	28,973	65	(28,908)
Negative contingencies on VRG adjustments	3,927,046	-	(3,927,046)
Other out-of-period amounts/contingencies	2,962,511	4,969,243	2,006,732
Total sundry operating expense	**10,231,890**	**9,036,430**	**(1,195,460)**

8.11. Financial income and expense

The balance of the financial income and expense amounts to a negative total of € -4,271,344. Financial income as of 31 December 2017 totalled € 4,224,132 and mainly regards default interest on outstanding bills and interest for deferred payment arrangements granted to users.

As of 31 December 2017, the financial expense amounted to € 8,495,476.

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

In €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
Bonds	11,434	400,898	389,464
Bank loans and mortgages	4,699,664	3,927,319	(772,345)
Swaps	1,423,241	1,266,092	(157,149)
Undertaking of business units	455,293	1,123,990	668,697
Other	1,996,772	1,777,177	(219,595)
Total financial expense	**8,586,404**	**8,495,476**	**(90,928)**

The amounts indicated above are shown gross of the financial effect linked to the discounting back of Trade receivables and payables carried out in accordance with IAS 39, amounting to € 14,310.

8.12. Taxation

The breakdown of the item “Taxation” for the year ended 31 December 2017 is presented below:

In €uro	Balance at 31 Dec. 2016	Balance at 31 Dec. 2017	Change
- IRES	16,531,140	13,875,422	(2,655,718)
- IRAP	3,243,184	3,396,158	152,974
Resumption of previous years' prepaid taxes	2,796,233	4,576,941	1,780,708
Prepaid taxes for the year	(6,648,804)	(10,050,789)	(3,401,985)
resumption of previous years' deferred taxes	(188,319)	(271,671)	(83,352)
Deferred taxes for the year	640,885	1,656,080	1,015,195
Previous years' taxes	(222,976)	(371,742)	(148,766)
Total taxes	**16,151,344**	**12,810,399**	**(3,340,945)**

9. Transactions with related parties

The company is entirely publicly owned and its shareholding structure as of 31 December 2017 is solely made up of local entities served by the Company. As of 31 December 2017, these numbered 198, of which 196 municipalities divided up as follows: 134 municipalities of the Metropolitan City of Milan, 40 municipalities of the Province of Monza and Brianza, 20 municipalities of the Province of Pavia, 1 municipality of the Province of Como and 1 municipality of the Province of Varese. CAP Holding S.p.A.'s shareholders' register is completed by the Provincial Authority of Monza and Brianza and the Metropolitan City of Milan (former provincial authority of Milan).

The Group is subject to joint control (so-called in-house providing) of said public bodies, pursuant to Article 2.1, letter d) of Italian Legislative Decree No. 175 dated 19 August 2016.

The Group has availed itself of the exemption envisaged by point 25 of IAS 24, and therefore is relieved from the disclosure requirements as per point 18 of IAS 24 relating to transactions with related parties and the outstanding balances, including the commitments, vis-à-vis the local bodies served.

10. Contractual Commitments, Guarantees and Concessions

Commitments for Euro 64,746,742, of which:

- € 34,449,756 represents the residual loan repayment instalments due to local bodies in the period 2018-2033 for the use of the networks and plant that they own, of which € 29,280,325 falling due after 12 months;
- € 24,953,566 is the estimated amount of the interest expense which will be paid to lenders in the period after 1 January 2018, on loans taken out and/or taken over and to be repaid by the end of the accounting period;

Obligations vis-à-vis third parties for € 4,329,463, of which:

- € 1,881,366 for past obligations deriving from the conferral to Pavia Acque S.r.l. of the business segment pursuant to Article 2560 of the Italian Civil Code (deed of conferral dated 15 July 2008);
- € 1,603,881 for past obligations deriving from the conferral to Pavia Acque S.r.l. of the business segment pursuant to Article 2560 of the Italian Civil Code (deed of conferral dated 2016);
- € 125,501 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 absorbed into CAP Holding S.p.A. in 2015) and Brianzacque S.r.l.

Liabilities for sureties for Euro 15,266,982, of which:

- € 15,166,982 of which € 7,407,611 for guarantees given by banks in favour of various bodies in the interests of Cap Holding and Amiacque, € 6,733,109 for insurance sureties given in the interests of Cap Holding 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 € 1,026,262 in the interests of Amiacque to guarantee the VAT rebate request of 2012;
- € 100,000 relating to guarantees issued by CAP Holding S.p.A. in favour of Banca Popolare di Milano in the interest of Rocca Brivio Sforza in liquidation S.r.l. for the issue of a bank loan.

The concession of the use of plant owned by local authorities for € 174,248,871, related to integrated water service networks, collectors and systems used by the CAP Group.

11. Directors' and Statutory Auditors' fees

For the year ended 31 December 2017, the fees due to the directors and statutory auditors amounted respectively to € 388,782 and € 384,254.

Fees for corporate bodies	31 Dec. 2016	31 Dec. 2017	Change
Board of Directors' fees	248,352	253,129	4,777
Board of Statutory Auditors' fees	135,902	135,653	(249)
Total fees	**384,254**	**388,782**	**4,528**

12. Independent Auditors' fees

For the year ended 31 December 2017, the cost incurred by the Group for the official audit of the accounts amounted in 2017 to € 29,341.

Other services offered by the independent auditing firm came to € 153,170.

The official audit of these consolidated financial statements is entrusted to BDO Italia S.p.A. appointed, with approval of the related fee, by the shareholders' meeting of CAP Holding S.p.A., in the session held on 1 June 2017, upon the justified proposal of the Board of Statutory Auditors and subject to performance of the negotiated procedure with comparison of offers, for the years ending 31 December 2017 until 31 December 2025 (conditional on the acquisition by CAP Holding S.p.A. of the status of Public Interest Entity, further to the issue and listing, which took place on 2 August 2017, of the bond ISIN code No. XS1656754873, as already commented on. The previous three-year official accounts audit appointment, expiring with the audit of the financial statements as of 31 December 2018, was revoked at the same time.

During 2017, the independent auditing firm received additional remuneration from the parent company, in relation to the activities entrusted to it for auditing, opinions and assistance aimed at the issue of the bond on organised markets (engagement letter, comfort letter, bring down letter, audit of the IFRS restatement to the 2016 consolidation, etc.) for a total of € 135,000. Of this, € 105,000 is not classified in the item services, but is recognised in the calculation of the amortised cost of the bond issue ISIN code No. XS1656754873.

These will be joined by the following in 2018, paid to the same independent auditing firm:
- costs attributable to the Group fulfilments as per the AEEGSI Resolution No. 137/2016/R/COM dated 24 March 2016 (audit of the "regulatory" separate annual accounts, for unbundling purposes, inseparably entrusted with the official audit appointment);
- costs regarding the assurance of the 2017 Sustainability Report, entrusted by means of appointment in November 2017.

13. First-time application of the IFRS to the consolidated financial statements

These notes contain the information required by IFRS 1 and, in particular, the description of the impacts which the transition to the EU IFRS has had on the income statement, statement of financial position and shareholders' equity of the Group. Accordingly, the following have been prepared:

- the statement of reconciliation between the statement of financial position of the Group drawn up according to the Italian Accounting Standards and the statement of financial position of the Group drawn up according to the EU IFRS as of 1 January 2016 (Transition Date) and as of 31 December 2016;
- the statement of reconciliation between the statement of comprehensive income for the year ended as of 31 December 2016 drawn up according to the Italian Accounting Standards and that drawn up according to the EU IFRS;

- the statement of reconciliation between the Group's shareholders' equity as of 1 January 2016 and 31 December 2016 determined according to the Italian Accounting Standards and the shareholders' equity determined on the basis of the EU IFRS;
- the explanatory notes relating to the adjustments and reclassifications included in the afore-mentioned statements of reconciliation.

The statement of financial position as of the Date of Transition to the EU IFRS was drawn up on the basis of the following criteria:

- all the assets and liabilities whose registration is required by the EU IFRS standards have been recognised;
- all the assets and liabilities whose registration is not permitted by the EU IFRS standards have not been recognised;
- the EU IFRS were applied in the measurement of all the assets and liabilities recognised.

Optional exemptions for the complete retrospective adoption of the EU IFRS
The Group has applied the accounting standard IFRIC 12 "Service concession arrangements" in advance as from the Transition Date.

Mandatory exemptions for the complete retrospective adoption of the EU IFRS

IFRS 1 establishes a number of mandatory exemptions for the retrospective application of the international accounting standards in the process for transition to the EU IFRS.

IFRS 1 establishes that the estimates used in the reprocessing of the information as of the transition date must be compliant with those used for the preparation of the related financial statements according to the previous accounting standards (after the necessary adjustments to reflect any differences in the accounting standards).

The other mandatory exemptions laid down by IFRS 1 have not been applied, since they relate to cases not applicable to the Group.

Statement of reconciliation of the shareholders' equity and explanatory notes

The reconciliations between the Group's shareholders' equity as of 1 January 2016 and 31 December 2016 and the overall net result for the period ended 31 December 2016 drawn up according to the Italian Accounting Standards are presented below with the corresponding balances prepared in compliance with the EU IFRS.
The description of the adjustments to the shareholders' equity as of 1 January 2016 and 31 December 2016 and the overall net result for the period ended 31 December 2016 for the purpose of adoption of the EU IFRS is presented below. The related tax effect, where applicable, has also been recognised for each of the afore-described adjustments.

Consolidated financial statements as per Italian accounting standards	Note	Shareholders' equity 1 January 2016	2016 net result	Other components of the statement of comprehensive income	Other changes	Shareholders' equity 31 December 2016
(€ 000's)		**723,798**	**29,482**	**-**	**(3,933)**	**749,347**
Derivative financial instruments	A	(4,428)	-	-	4,428	-
Flocculation tanks provision	B	1,086	(1,086)	-	-	-
Amortised Cost	C	19	-3	-	-	16
Employee Benefits	D	(375)	(9)	(182)	-	(566)
Discounting back of Trade receivable	E	(1,721)	240	-	-	(1,481)
IFRIC 12 concessions	F	-	(1,755)	-	-	(1,755)
IAS/IFRS Consolidated financial statements		**718,379**	**26,869**	**(182)**	**495**	**745,561**

(A) Derivative financial instruments (IRS)

As from 2016, in accordance with the new Italian Accounting Standards the Group took steps to recognise the fair value of the IRS derivative financial instruments within the consolidated statements of financial position.

The application of the international accounting standard IAS 39 required the recognition of the fair value of the IRS derivative contracts entered into by the Group in the statement of financial positions as of 1 January 2016. Subsequently to initial recognition, the derivative instruments were recorded in accordance with the formalities envisaged by hedge accounting since the conditions envisaged by IAS 39 have been observed, deeming however that the amounts recognised within the consolidated financial statements to be already correct as a result of the matters expressed in the previous point.

Consequently, the fair value of the IRS derivative instruments is recognised under financial liabilities for a total of € 35,500 thousand as of 1 January 2016 and € 31,909 thousand as of 31 December 2016, while the fair value change of € 810 thousand was recorded under other components of the statement of comprehensive income, net of the related tax effect equal to € 194 thousand.

(B) Flocculation tanks provision

As of the transition date, the Group took steps to discount back the flocculation tanks Provision in relation to the use / financial outgoing estimated on the basis of the useful life of the related asset.

(C) Loans - Amortised Cost

The application of international accounting standard IAS 39 required the application of the amortised cost method relating to the recognition in the accounts of the financial liabilities represented by outstanding bank loans.
The amortised cost is calculated using the effective interest rate approach, or that rate which links the book value to future payments, over the life of the financial instrument. For the purposes of the calculation of the effective interest rate, all the contractual aspects of the financial instrument must be considered, including all the commission, the transaction costs and any premiums or discounts.
As of the Transition Date, this method has been applied to the outstanding bank loans as of the reference date. In detail, the transaction costs were initially recognised as a reduction to the related financial liabilities and, subsequently, booked to the income statement, using the effective interest rate method, as financial expense.

(D) Employee Benefits

In accordance with the Italian Accounting Standards, the benefits associated with the employment relationship are recognised on an accruals basis during the period of the employment relationship with the employees, in compliance with legislation and the applicable employment contracts.

On the basis of the provisions envisaged by IAS 19, the benefits subsequent to the employment relationship are classified separately as "defined contribution" plans and "defined benefits" plans.

The Employee leaving indemnity (hereinafter "TFR") can be placed on the same footing as a defined benefits plan until 31 December 2006, to be assessed on the basis of statistical and demographic assumptions, as well as actuarial valuation methods. Further to the amendment to Italian legislation, the TFR provision accrued as from 1 January 2007 was placed on the same footing, if the conditions envisaged by the legislative amendments applied should exist, as a defined contribution plan.
As of the Transition Date, the value of the afore-mentioned provision was therefore recalculated, along with the cost relating to each year. In detail, the actuarial gains and losses were recognised in the other components of the statement of comprehensive income, the service cost was recognised in the item "Personnel costs" and the interest cost was recognised in the item "Financial expense". This adjustment led, amongst other aspects, to a reduction in the shareholders' equity equal to € 375 thousand and € 182 thousand respectively as at 1 January 2016 and 31 December 2016.

(E) Discounting back trade receivables and payables

As of the transition date, the Group took steps to discount back the Trade receivables and payables in relation to the use / financial outgoing estimated on the basis of repayment and payment plans.

(F) IFRIC 12

As of the Transition Date, the Group applied the accounting standard IFRIC 12 on a forward-looking basis with reference to the assets under concession of the Integrated Water Service. The main items which have been affected by the application of IFRIC 12 are indicated as follows:

- recognition of concession rights deriving from construction and/or improvement services for a total of € 631,467 thousand as of 1 January 2016 and € 662,601 thousand as of 31 December 2016;

- elimination of the value of the property, plant and machinery previously recognised such as proprietary assets strictly associated with the infrastructures under concession and which therefore, according to IFRIC 12, represent assets under the control of the assignor for a total of € 753,335 thousand as of 1 January 2016 and € 784,735 thousand as of 31 December 2016;

- recognition of the amortisation on the rights on assets under concession over the duration of the concession for a total of € 41,419 thousand, and elimination of the depreciation of the property, plant and machinery which fall within the sphere of application of IFRIC 12;

- recognition of the revenues and costs for construction services on the basis of the stage of completion of the orders for an amount of € 77,893 thousand and € 49,997 thousand, respectively.

Reclassifications on the statement of financial position and on the income statement

(a) Deferred tax assets and liabilities

The deferred taxes and the prepaid taxes, in accordance with the international accounting standard IAS 12, are stated as a net balance and therefore offset, under the long-term assets/liabilities.

(b) Derivative financial instruments (IRS)

Within the consolidated financial statements as of 31 December 2016 drawn up according to the Italian Accounting Standards, the Group - in relation to the derivatives subscribed and their features - recognised the values relating to the same within the items deferred income and provisions for risks and charges.
In accordance with the EU IFRS, the balances were reclassified within the item Non-current amounts due to banks and other financial backers.

(c) IFRS 5
In accordance with accounting standard IFRS 5 regarding the ceased operating activities relating to autonomous segments of activities or geographic areas of activities and forming part of the single co-ordinated disposal programme, steps were taken to:

- Separately reclassify the non-current assets and the non-current liabilities.

It is hereby disclosed that in relation to the features of the disposal transactions finalised by the Group and the scant quantitative importance of the income data on the other hand, steps were not taken to separately reclassify the results of the ceased operating activities within the income statement as per IFRS 5.

The amount of the revenues and the costs relating to the ceased operating activities therefore falls under the amount of the income and expense in the consolidated income statement as of 31 December 2016.

The Chairman of the Board of Directors

Mr. Alessandro Russo

ENCLOSURE 1 - reconciliation between the statement of financial position as of 1 January 2016 drawn up according to the Italian accounting standards and the statement of financial position drawn up according to the EU IFRS

	Consolidated statement of financial position as of December 31, 2016 according to italian GAAP, with IFRS form	IFRIC 12	Provision for flocculation tanks	IRS derivatives	Amortized cost on loans	Discounted receivables and payables	Employee Beefits	Consolidated statement of financial position as of December 31, 2016 after IFRS adjustments	IFRS reclassification	Consolidated statement of financial position as of December 31, 2016 according to IFRS
Non-current assets										
Rights on assets under concession	-	633,511,968	-	-	-	-	-	633,511,968	-	633,511,968
Other intangible fixed assets	11,287,755	-	-	-	-	-	-	11,287,755	-	11,287,755
Tangible fixed assets	806,659,155	(753,334,316)	-	-	-	-	-	53,324,839	(7,195,000)	46,129,839
Assets for prepaid taxes	18,731,482	-	-	1,630,000	-	-	-	20,361,482	(1,254,126)	19,107,356
Other receivables and other non-current financial assets	12,325,667	-	-	-	-	-	-	12,325,667	-	12,325,667
Total non-current assets	**849,004,059**	**(119,822,348)**	**-**	**1,630,000**	**-**	**-**	**-**	**730,811,711**	**(8,449,126)**	**722,362,585**
Attività correnti										
Trade receivables	237,828,175	-	-	-	-	(1,838,197)	-	235,989,978	-	235,989,978
Inventories	5,804,746	-	-	-	-	-	-	5,804,746	-	5,804,746
Contract work in progress	513,872	-	-	-	-	-	-	514	-	513,872
Cash and cash equivalents	93,895,570	-	-	-	-	-	-	93,895,570	-	93,895,570
Other receivables and other current financial assets	44,366,886	-	-	-	-	-	-	44,366,886	-	44,366,886
Total current assets	**382,409,249**	**-**	**-**	**-**	**-**	**(1,838,197)**	**-**	**380,571,052**	**-**	**380,571,052**
Non-current assets intended for sale	**11,739,497**	**-**	**-**	**-**	**-**	**-**	**-**	**11,739,497**	7,195,000	**18,934,497**
TOTAL ASSETS	**1,243,152,805**	**(119,822,348)**	**-**	**1,630,000**	**-**	**(1,838,197)**	**-**	**1,123,122,261**	**(1,254,126)**	**1,121,868,135**
SHAREHOLDERS' EQUITY										
Share capital	571,381,786	-	-	-	-	-	-	571,381,786	-	571,381,786
Other reserves	132,078,448	-	-	(4,428,151)	-	-	-	127,650,297	-	127,650,297
FTA reserve	-	-	1,086,502	-	19,504	(1,720,211)	(375,122)	(989,327)	-	(989,327)
Net result for the year	20,337,118	-	-	-	-	0	0	20,337,118	-	20,337,118
Total consolidated shareholders' equity	**723,797,352**	**-**	**1,086,502**	**(4,428,151)**	**19.504**	**(1,720,211)**	**(375)**	**718,379,874**	**-**	**718,379,874**
LIABILITIES										
Non-current liabilities								-	-	-
Provision for risks and charges	32,552,540	-	(1,086,502)	-	-	-	-	31,466,038	-	31,466,038
Employee Benefits	6,768,529	-	-	-	-	-	375,122	7,143,651	(13,000)	7,130,651
Deferred tax liabilities	1,323,209	-	-	-	-	-	-	1,323,209	(1,254,126)	69,083
Non-current payables due to banks and other providers of finar	90,621,501	-	-	35,500,276	(16,790)	-	-	126,104,987	-	126,104,987
Other non-current payables	240,362,740	(119,822,348)	-	(29,442,125)	-	-	-	91,098,267	(2,619,315)	88,478,951
Total non-current liabilities	**371,628,519**	**(119,822,348)**	**(1,086,502)**	**6,058,151**	**(16.790)**	**-**	**375,122**	**257,136,153**	**(3,886,441)**	**253,249,712**
Current liabilities										
Trade payables	64,824,547	-	-	-	-	-	-	64,824,547	-	64,824,547
Current payables due to banks and other providers of finance	12,370,942	-	-	-	(2,715)	-	-	12,368,227	-	12,368,227
Liabilities for current taxes	-	-	-	-	-	-	-	0	-	-
Other current payables	70,531,445	-	-	-	-	(117,986)	-	70,413,459	-	70,413,459
Total current liabilities	**147,726,934**	**-**	**-**	**-**	**(2,715)**	**(117,986)**	**-**	**147,606,234**	**-**	**147,606,234**
Non-current liabilities intended for sale	**0**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,632,315**	**2,632,315**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,243,152,805**	**(119,822,348)**	**-**	**1,630,000**	**0,00**	**(1,838,197)**	**-**	**1,123,122,260**	**(1,254,126)**	**1,121,868,135**

ENCLOSURE 2 - reconciliation between the statement of financial position as of 31 December 2016 drawn up according to the Italian accounting standards and the statement of financial position drawn up according to the EU IFRS

	Consolidated statement of financial position as of December 31, 2016 according to italian GAAP, with IFRS form	IFRIC 12	Provision for flocculation tanks	IRS derivatives	Amortized cost on loans	Discounted receivables and payables	Employee Beefits	Consolidated statement of financial position as of December 31, 2016 after IFRS adjustments	IFRS reclassification	Consolidated statement of financial position as of December 31, 2016 according to IFRS
Non-current assets										
Rights on assets under concession	-	662,602,282	-	-	-	-	-	662,602,282	-	662,602,282
Other intangible fixed assets	12,295,167	-	-	-	-	-	-	12,295,167	-	12,295,167
Tangible fixed assets	798,448,501	(784,733,881)	-	-	-	-	-	13,714,620	-	13,714,620
Assets for prepaid taxes	23,159,135	680,095	-	-	-	-	-	23,839,230	(1,189,675)	22,649,555
Other receivables and other non-current financial assets	24,396,449	-	-	-	-	-	-	24,396,449	21,098,780	45,495,229
Total non-current assets	**858,299,252**	**(121,451,505)**	-	-	-	-	-	**736,847,747**	**19,909,105**	**756,756,853**
Attività correnti										
Trade receivables	247,102,023	-	-	-	-	(1,469,051)	-	245,632,972	(10,101,831)	235,531,141
Inventories	5,327,121	-	-	-	-	-	-	5,327,121	-	5,327,121
Contract work in progress	574,818	-	-	-	-	-	-	574,818	-	574,818
Cash and cash equivalents	118,789,088	-	-	-	-	-	-	118,789,088	(5,222,979)	113,566,109
Other receivables and other current financial assets	45,402,385	-	-	-	-	-	-	45,402,385	(5,875,804)	39,526,581
Total current assets	**417,195,435**	-	-	-	-	**(1,469,051)**	-	**415,726,384**	**(21,200,615)**	**394,525,769**
Non-current assets intended for sale	**26,132,202**	-	-	-	-	-	-	**26,132,202**	-	**26,132,202**
TOTAL ASSETS	**1,301,626,889**	**(121,451,505)**	**0**	**0**	**0**	**(1,469,051)**	**0**	**1,178,706,333**	**(1,291,510)**	**1,177,414,824**
SHAREHOLDERS' EQUITY										
Share capital	571,381,786	-	-	-	-	-	-	571,381,786	0	571,381,786
Other reserves	148,483,077	-	-	-	-	-	-	148,483,077	(182,133)	148,300,944
FTA reserve	-	-	1,086,502	-	19,504	(1,720,211)	(557,255)	(1,171,460)	182,133	(989,326)
Net result for the year	29,482,689	(1,755,267)	(1,086,502)	-	(2,715)	239,414	(8,911)	26,868,709	-	26,868,707
Total consolidated shareholders' equity	**749,347,552**	**(1,755,267)**	-	-	**16.790**	**(1,480,797)**	**(566,166)**	**745,562,112**	**0,47**	**745,562,112**
LIABILITIES										
Non-current liabilities	-	-	-	-	-	-	-	-	-	-
Provision for risks and charges	48,282,821	-	-	(4,929,301)	-	-	-	43,353,520	399,210	43,752,730
Employee Benefits	6,095,397	-	-	-	-	-	566,166	6,661,563	(354,476)	6,307,087
Deferred tax liabilities	1,488,990	-	-	-	-	88,852	-	1,577,842	(1,577,842)	(0)
Non-current payables due to banks and other providers of finan	114,657,287	126,109	-	31,909,553	(14,203)	-	-	146,678,745	(126,109)	146,552,636
Other non-current payables	212,916,497	(119.822.348)	-	(26,980,252)	-	-	-	66,113,898	(803,373)	65,310,524
Total non-current liabilities	**383,440,992**	**(119,696,239)**	-	-	**(14,203)**	**88,852**	**566,166**	**264,385,568**	**(2,462,590)**	**261,922,977**
Current liabilities										
Trade payables	80,549,284	-	-	-	-	-	-	80,549,284	(10,101,829)	70,447,455
Current payables due to banks and other providers of finance	10,397,679	-	-	-	(2,586)	-	-	10,395,093	-	10,395,093
Liabilities for current taxes	-	-	-	-	-	-	-	0	-	-
Other current payables	77,891,382	-	-	-	-	(77,105)	-	77,814,277	6,922,325	84,736,602
Total current liabilities	**168,838,345**	-	-	-	**(2.586)**	**(77,105)**	-	**168,758,654**	**(3,179,504)**	**165,579,150**
Non-current liabilities intended for sale	**0**	-	-	-	-	0	-	**0**	4,350,584	**4,350,584**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,301,626,889**	**(121,451,505)**	**0**	**0**	**(0)**	**(1,469,051)**	**(0)**	**1,178,706,333**	**(1,291,510)**	**1,177,414,823**

ENCLOSURE 3 - reconciliation between the statement of comprehensive income as of 31 December 2016 drawn up according to the Italian accounting standards and the statement of comprehensive income drawn up according to the EU IFRS

	Consolidated statement of comprehensive income for the year ended December 31, 2016 according to italian GAAP, with IFRS form	IFRIC 12	Amortized cost on loan	Provision for flocculaton tanks	IRS derivates	Discounted receivables and payables	Employee benefits	Consolidated statement of comprehensive income for the year ended December 31, 2016 after IFRS adjustments	IFRS Reclassifications	Consolidated statement of comprehensive income for the year ended Decemebr 31, 2016 according to IFRS
Revenues	260,061,448	-	-	-	-	-	-	260,061,448	0	260,061,448
Increases for internal work	27,896,052	(27,019,595)	-	-	-	-	-	876,457	(876,457)	(0)
Revenues for work on assets under concession	0	77,016,665	-	-	-	-	-	77,016,665	876,457	77,893,122
Other revenues and income	16,151,886	(7,383,992)	-	-	-	-	-	8,767,894	977	8,768,871
Total revenues and other income	**304,109,386**	**42,613,078**	**-**	**-**	**-**	**-**	**-**	**346,722,464**	**977**	**346,723,441**
Costs for raw materials, consumables and goods	(11522053)	-	-	-	-	-	-	(11,522,053)	-	(11,522,053)
Costs for services	(121,261,573)	-	-	(1,179,574)	-	-	-	(122,441,147)	-	(122,441,147)
Costs for work on assets under concession		(49,997,070)	-	-	-	-	-	(49,997,070)	-	(49,997,070)
Personnel costs	(43,808,875)	0	-	-	-	-	90,385	(43,718,490)	-	(43,718,490)
Amortisation, depreciation, allocations and impairment	(65,841,958)	5,074,739	-	-	-	-	-	(60,767,219)	451	(60,766,768)
Other operating costs	(10,231,890)	-	-	-	-	-	-	(10,231,890)	-	(10,231,890)
Total costs	**(252,666,349)**	**(44,922,330)**	**0**	**(1,179,574)**	**0**	**0**	**90,385**	**(298,677,869)**	**451**	**(298,677,418)**
Result from operations	**51,443,037**	**(2,309,252)**	**0**	**(1,179,574)**	**0**	**0**	**90,385**	**48,044,595**	**1,428**	**48,046,023**
Financial income	3,056,267	-	-	93,073	-	411,095	-	3,560,435	-	3,560,435
Financial charges	(8,401,564)	-	(2,715)	-	-	(82,830)	(99,297)	(8,586,405)	-	(8,586,405)
Result befor taxes	**(46,097,740)**	**(2,309,252)**	**(2,715)**	**(1,086,502)**	**0**	**328.265**	**(8,912)**	**43,018,625**	**1,428**	**43,020,053**
Taxes	(16,615,051)	531,864	-	-	-	(88,852)	-	(16,172,038)	20,693	(16,151,345)
Net result of the period (A)	**29,482,689**	**(1,777,388)**	**(2,715)**	**(1,086,502)**	**0**	**239,414**	**(8,912)**	**26,846,586**	**22,121**	**26,868,707**
Other comprehensive income										
Net result of the period (A)	**29,482,689**	**(1,777,388)**	**(2,715)**	**(1,086,502)**	**0**	**239,414**	**(8,912)**	**26,846,586**	**22,121**	**26,868,707**
Other comprehensive income that will not be subsequently reclassified to the income statement		-	-	-	0	-	-	-	-	-
Actuarial gains/(losses) for employee benefits		-	-	-	0	-	(182,133)	(182,133)	-	(182,133)
Tax effect on actuarial gains/(losses) for employee benefits		-	-	-	0	-	43,703	43,703	-	43,703
Components of the statement of comprehensive income which will be subsequently reclassified in the income statement		-	-	-	0	-	-	-	-	-
Fair value change deriving from cash flow hedge (IRS)		-	-	-	810,773	-	-	810,773	-	810,773
Tax effect on fair value change deriving from cash flow hedge		-	-	-	(194,586)	-	-	(194,586)	-	(194,586)
Total components of the statement of comprehensive income, net of tax effect (B)	**-**	**-**	**-**	**-**	**616,188**	**-**	**(138,430)**	**477,758**	**-**	**477,758**
Total comprehensive income for the year (A)+(B)	**29,482,689**	**(1,777,388)**	**(2,715)**	**(1,086,502)**	**616,188**	**239,414**	**(1473412)**	**27,324,344**	**22,121**	**27,324,344**

BOARD OF STATUTORY AUDITORS' REPORT
TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

TO THE PARTNERS/SHAREHOLDERS OF CAP HOLDING S.P.A.

During the year ended as of 31 December 2017, our audit was made aspiring to the legal provisions and the standards of conduct for Boards of Statutory Auditors recommended by the Italian Accounting Profession.

SUPERVISORY ACTIVITIES

During the accounting period ended 31 December 2017, we oversaw the observance of the law and the Articles of Association and the observance of the standards of correct management.

We took part in the shareholders' meetings and the meetings of the Board of Directors, in relation to which, on the basis of the information available, we did not note any violations of the law and the Articles of Association, or manifestly imprudent or hazardous transactions or those in potential conflict of interests or such as to compromise the integrity of the company's assets.

During the meetings and encounters, we obtained information from the Directors, in relation to the general operating trend and on the outlook for the future as well as on transactions of greatest significance, due to their size or features, carried out by the company and, on the basis of the information acquired we indicate:

- On 2 August 2017, the company issued a bond not convertible into shares in accordance with the resolution of the extraordinary shareholders' meetings held on 1 June 2017;
- The amount of the issue came to a nominal €uro 40,000,000 subscribed by institutional investors and the company took steps to list the same care of the Main Securities Market of the ISE (Irish Stock Exchange).

- Further to this transaction, the company undertook the new status of "Public Interest Body" pursuant to Italian Legislative Decree No. 39/2010;
- The legislation referred to envisages that the companies with the afore-mentioned qualification must adopt the international accounting standards, abandoning the Italian accounting standards;
- The financial statements which we have examined have been drawn up for the first time according to the afore-mentioned legislation;
- For the purpose of drawing up the financial statements document, the company had to reclassify the balances as from 1 January 2016 for comparative purposes;
- The approach adopted for the drafting of the financial statements was the historical cost where permitted and fair value in accordance with the matters required by the IFRS;
- Further to the recognition, in accordance with the law, of the status of Public Interest Body, the company formally acknowledged that the appointment, granted by the shareholders' meeting, to the company BDO Italia S.p.A. was no longer compliant with the legislation and therefore the shareholders' meeting took steps to terminate the outstanding agreement and entrust the official audit appointment for the period 2017 - 2025 (nine years as required by current legislation) to the company BDO Italia S.p.A., upon our justified proposal.
- Therefore, on the basis of the above, the Board of Statutory Auditors - in accordance with Article 19.2 of Italian Legislative Decree No. 39/2010 undertook the role of internal control committee.

We met with the firm appointed to officially audit the accounts and no significant data or information emerged which needs to be highlighted in this report.

We met with the Board of Statutory Auditors of the subsidiary company Amiacque S.r.l. and no significant data or information emerged which needs to be highlighted in this report.

We met with the Supervisory Bodies of the company and the subsidiary company Amiacque S.r.l. and we examined the reports of said Bodies and no problematic aspects emerged with respect to the correct implementation of the organisational model which must be highlighted in this report.

We organised a meeting with all the bodies and/or parties with audit and control responsibilities, at least once a year for the purpose of highlighting any irregularities.

We acquired awareness of and oversaw, insofar as we are responsible, the adequacy and the functioning of the company's organisation set up, also via the gathering of information from the heads of the divisions and departments and in this connection there are no particular observations to report.

We acquired knowledge of and oversaw, insofar as we are responsible, the adequacy and functioning of the administrative-accounting system as well as the reliability of the latter to correctly represent the operating events, by means of obtaining information from the heads of the divisions and departments, from the firm appointed to audit the accounts and from the examination of the corporate documents, and in this connection the statutory auditors have no particular observations to report.

The Board of Statutory Auditors hereby discloses that on 30 January 2018 the Board of Directors approved the up-date of the plan for prevention of corruption and for transparency, which represents an integral part of the organisation model pursuant to Italian Legislative Decree No. 231/2001 adopted by the company.

The statutory auditors also declare that during the year no complaints as per Article 2408 of the Italian Civil Code were received.

ANNUAL FINANCIAL STATEMENTS

The financial statements of CAP Holding S.p.A. for the year ended 31 December 2017 have been drawn up for the first time in accordance with the international accounting standards (IAS / IFRS). Therefore, the balances for the previous year presented for comparative purposes, have been calculated according to the new accounting standards.

The financial statements thus drawn up were approved by the Board Meeting held on 19 April 2018 and disclose a net profit of €uro 22,454,273.

Hereby acknowledging that in the additional report as per Article 11 of the EU Regulation No. 537/2014, issued on 2 May 2018 and whose due forwarding to the Board of Directors will be seen to, BDO illustrated: i) the main aspects of the audit; ii) the levels of significance for the consolidated financial statements and the separate financial statements; iii) the audit plan; the scope and method of consolidation; v) the audit method and the measurement methods applied to the consolidated financial statements and the separate financial statements; vi) the areas of attention relating to the consolidated financial statements and the separate financial statements; vii) the activities carries out by the audit team dedicated to the CAP Holding S.p.A. Group.

In the same document, BDO also certified that no significant audit differences had been detected in the consolidated financial statements and in the separate financial statements, nor any significant shortfalls identified in the internal control system in relation to the financial disclosure process, listing the mandatory communications to the Board of Statutory Auditors, and in conclusion acknowledging that the checks on the due keeping of the company accounts and the correct recognition of the operating events on the accounting records did not reveal significant aspects to be reported.

The additional report, pursuant to Article 6.2, letter a) of the afore-mentioned EU regulation, includes the annual confirmation of the independence of the independent auditing firm.

We have received from said BDO the reports envisaged by Article 14 of Italian Legislative Decree No. 39/2010 and EU regulation No. 537/2014, issued on 2 May, with regard to the consolidated financial statements and the separate financial statements as of 31 December 2017, in which the independent auditing firm expressed a positive opinion, without irregularities or disclosure references.

In the opinion of the independent auditing firm, the report on operations is consistent with the separate and consolidated financial statements, drawn up in compliance with the legal provisions without identifying significant errors.

During 2017, CAP Holding S.p.A. granted BDO an additional appointment with respect to the accounts audit with reference to the certification of the sustainability report for the year ended 31 December 2017. Costs were also incurred during 2017 relating to services carried out by BDO for the audit, certification and assistance activities aimed at the issue of the above-mentioned bond.

Since we are not entrusted with the official audit of the financial statements, we ascertained, via direct checks and information gathered care of the independent auditing firm, the observance of the legal provisions pertaining to the formation and layout of the annual and consolidated financial statements, and the report on operations accompanying the same. Furthermore, we examined the accounting standards adopted for the formation of the financial statements presented so as to check the compliance with the legal requirements and the economic-business conditions.

The Board of Statutory Auditors formally acknowledges that during the period under review no new costs were capitalised to be allocated under intangible fixed assets. The Board of Statutory Auditors also gave its consent as per Article 2426.1.5 of the Italian Civil Code for the maintenance of the balances recorded in the item “other intangible assets”.

The Board of Statutory Auditors did not come across any atypical or unusual transactions, including those between related parties or intercompany.

<u>CONCLUSIONS</u>

Considering that the results of the activities carried out by the independent auditing firm contained in the audit report of the financial statements, which were made available to us on 2 May 2018, the Board of Statutory Auditors proposes to the shareholders' meeting the approval of the annual financial statements of CAP Holding S.p.A. and the related proposal for the allocation of the result for the year, as well as the approval the consolidated financial statements of the CAP Group, for the period ended 31 December 2017, as proposed by the Board of Directors.

Milan, Italy, 2 May 2018

THE BOARD OF STATUTORY AUDITORS

Mr. Antonio Tuscano - chairman

Ms. Anna Allievi - statutory auditor

Mr. Daniel Vezzani - statutory auditor

CAP Holding S.p.A.

Report of the independent auditing firm pursuant to Article 14 of Italian Legislative Decree No. 39 dated 27 January 2010 and Article 10 of (EU) Regulation No. 537/2014

Consolidated financial statements as of 31 December 2017

CCN/ACD/cpt - RC031132017BD1944

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Report of the independent auditing firm
pursuant to Article 14 of Italian Legislative Decree No. 39 dated 27 January 2010 and Article 10 of (EU) Regulation No. 537/2014

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the CAP Group (the Group), comprising the statement of financial position as of 31 December 2017, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement for the year ended as of that date and the explanatory notes to the financial statements which also include the summary of the most significant accounting standards applied.

In our opinion, the consolidated financial statements provide a true and correct view of the financial and equity position of the Group as of 31 December 2017, of the result of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union.

Elements underlying the opinion

We carried out the accounts audit in accordance with the international audit standards (ISA Italia). Our responsibilities in accordance with these standards are more fully described in the section Responsibilities of the independent auditing firm for the audit of the consolidated financial statements of this report. We are independent with respect to the CAP Group (the Group) in compliance with the provisions and standards concerning ethics and independence applicable in the Italian legal system to the auditing of financial statements. We believe that we have acquired sufficient and appropriate evidential elements on which to base our opinion.

Other aspects

The consolidated financial statements present the corresponding balances of the previous year for comparative purposes, drawn up in compliance with the international accounting standards which derive from the annual financial statements as of 31 December 2016 prepared in accordance with the Italian standards which discipline the basis of presentation. The explanatory notes illustrate the effects of the transition to the International Financial Reporting Standards adopted by the European Union and include information relating to the statements of reconciliation envisaged by IFRS 1.

Key aspects of the accounts audit

The key aspects of the accounts audit are those aspects which, according to our professional opinion, have been the most significant within the sphere of the audit of the consolidated financial statements in question. These aspects were dealt with by ourselves within the sphere of the accounts audit and in the formation of our opinion on the consolidated financial statements in their entirety; therefore, we do not express a separate opinion on these aspects.

Key aspects	Audit procedures in response to the key aspects
Estimation of the treatment plant areas decontamination Fund Note 7.13 of the consolidated financial statements The Group records a Fund for future expenses for decontamination of treatment plant areas in the consolidated financial statements amounting to €uro 23,207 thousand whose value represents the reasonable estimate of the decontamination costs which the Group will have to incur at the end of the useful life of the sites affected so as to restore the pre-existing environmental conditions. The measurement of the future liabilities linked to the decontamination obligations is a complex process based on technical and financial hypotheses which Management develops with the support of the technical division. In consideration of the complexity of the estimation process and the related uncertainties, and the importance of the item on the financial statements, we believe that it represents a key aspect of the audit.	The main audit procedures carried out were: • Analysis of the Fund estimation process, and in particular checking of the approach used by Management; • Examination and discussion with Management of the technical Report drawn up by the technical units; • Checking of the suitability of the disclosure provided in the notes to the financial statements and its compliance with the reference accounting standards.

Directors’ and Board of Statutory Auditors’ responsibility for the consolidated financial statements

The directors are responsible for the drafting of the consolidated financial statements which provide a true and correct view in compliance with the International Financial Reporting Standards adopted by the European Union and, under the terms envisaged by the law, for that part of the internal control deemed by the same necessary for permitting the drafting of financial statements which do not contain significant errors due to fraud or unintentional conduct or events.

The directors are responsible for the assessment of the ability of the Group to continue to operate as a going-concern and, in the drafting of the consolidated financial statements, for the appropriateness of the use of the assumption of the business as a going-concern, as well as for suitable disclosure on the subject. The directors use the assumption of the business as a going-concern in the drafting of the consolidated financial statements unless they have assessed that the conditions exist for the liquidation of the parent company CAP Holding S.p.A. or for the interruption of the activities or they do not have realistic alternatives to said choices.

The Board of Statutory Auditors is responsible for overseeing, by the deadlines envisaged by the law, the process for the preparation of the financial disclosure of the Group.

Responsibilities of the independent auditing firm for the audit of the consolidated financial statements

Our objectives are the acquisition of reasonable certainty that the consolidated financial statements it their entirety do not contain significant errors due to fraud, unintentional conduct or events, and the issue of an audit report which includes our opinion. Reasonable certainty is understood to be a high level of certainty that, nevertheless, does not provide the guarantee that an accounts audit carried out in compliance with the international accounting standards (ISA Italy) always identifies a significant error, if existing. The errors may derive from fraud, unintentional conduct or events and are considered to be significant if it can be reasonably expected that they, individually or together, are able to influence the economic decisions made by the users on the basis of the consolidated financial statements.

Within the sphere of the accounts audit carried out in compliance with the international accounting standards (ISA Italy), we expressed our professional opinion and we maintained professional scepticism for the entire duration of the accounts audit. Furthermore:

- we identified and assessed the risks of significant errors in the consolidated financial statements, due to fraud, unintentional conduct or events; we defined and carried out audit procedures in response to these risks; we acquired sufficient and appropriate evidential elements on which to base our audit. The risk of not identifying a significant error due to fraud is higher than the risk of not identifying a significant error deriving from unintentional conduct or events, since fraud may imply the existence of collusion, falsifications, intentional omissions, misleading representations or manipulation of the internal control;
- we acquired understanding of the internal audit relevant for the purposes of the accounts audit for the purpose of defining appropriate audit procedures under the circumstances and not for expressing an opinion on the effectiveness of the internal control of the Group;
- we assessed the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates made by the directors, including the related disclosure;
- we reached a conclusion on the appropriateness of the use by the directors of the assumption of the business as a going-concern and, on the basis of the evidential elements acquired, on the possible existence of a significant uncertainty with regard to events or circumstances which may lead to significant doubts on the ability of the Group to continue to operate as a going-concern. In the presence of significant uncertainty we are obliged to draw attention in the audit report to the related financial statement disclosure, if this disclosure is unsuitable for reflecting this circumstance in the formation of our opinion. Our conclusions are based on the evidential elements acquired up until the date of this report. However, subsequent events and circumstances may mean that the Group ceases to operate as a going-concern;
- we assessed the presentation, the structure and the content of the consolidated financial statements in their entirety, including the disclosure, and whether the consolidated financial statements represent the transactions and the underlying events in such a way as to provide a correct representation;
- we acquired sufficient and appropriate evidential elements on the financial information of the companies or of the different economic activities carried out within the Group so as to express an opinion on the consolidated financial statements. We are responsible for the management, supervision and performance of the accounts audit appointment on the Group. We are the only parties responsible for the audit opinion on the consolidated financial statements.

We have informed those responsible for the governance activities, identified at an appropriate level as required by the ISA Italy, among other aspects, of the extent and timescale planned for the accounts audit and the significant results emerging, including any significant shortfalls in the internal control identified during the audit.

We have provided those responsible for the governance activities also with a declaration on the fact that we have observed the provisions and standards regarding ethics and independence applicable in the Italian legal system and we have informed them of every situation which may reasonably have an effect on our independence and, if applicable, the related safeguard measures.

Among the aspects communicated to those responsible for the governance activities, we have identified those which were the most significant within the sphere of the audit of the consolidated financial statements for the year under review, which therefore represented key aspects of the audit. We have described these aspects in the audit report.

Other information communicated pursuant to Article 10 of (EU) Regulation No. 537/2014

On 1 June 2017, the shareholders' meeting of CAP Holding S.p.A. granted us the appointment for the official audit of the annual and consolidated financial statements of the Group for the years as from 31 December 2017 until 31 December 2025.

We hereby declare that no services other than the official audit have been provided, services which are prohibited in accordance with Article 5.1 of EU Regulation 537/2014, and that we have remained independent with respect to the company in the execution of the official audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is in line with that indicated in the additional report intended for the Board of Statutory Auditors, in its capacity as internal control and official audit committee, drawn up in accordance with Article 11 of the afore-mentioned Regulation.

Report on other legal and regulatory provisions Opinion pursuant to Article 14.2, letter e) of Italian Legislative Decree No. 39/10

The Directors of CAP Holding S.p.A. are responsible for the drawing up of the report on operations of the CAP Group as of 31 December 2017, including its consistency with the related consolidated financial statements and its compliance with the legal provisions.

We have performed the procedures indicated in the auditing standard (ISA Italy) No. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of the CAP Group as of 31 December 2017 and on the compliance of the same with the legal provisions, as well as to issue a declaration on any significant errors.

In our opinion the report on operations mentioned above is consistent with the consolidated financial statements of the CAP Group as of 31 December 2017 and has been drawn up in compliance with the legal provisions.

With reference to the declaration as per Article 14. 2, letter e) of Italian Legislative Decree No. 39/10, issued on the basis of the knowledge and understanding of the company and the related context acquired during the audit activities, we have nothing to report.

Declaration pursuant to Article 4 of the Consob Regulation implementing Italian Legislative Decree No. 254 dated 30 December 2016

The directors of CAP Holding S.p.A. are responsible for the preparation of the non-financial declaration pursuant to Italian Legislative Decree No. 254 dated 30 December 2016. We checked the approval by the directors of the non-financial declaration.

Milan, Italy, 2 May 2018

BDO Italia S.p.A.

Carlo Consonni
Partner