



Consolidated financial statements of the CAP Group as of 31 December 2018

Shareholders' Meeting 16 May 2019

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Dear Shareholders,

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

On a consistent basis with the strategic and binding guidelines decided by the Shareholders' meeting held on 18 May 2018 – this report deals with the activities of the CAP Group carried out in 2018 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.

Also in the course of 2018 the Group confirmed the objective of guaranteeing VALUE for common shareholders through the "maximization of social well-being", which can generally be identified in a plurality of attributes, such as:

- low rates;
- high service quality;
- citizen/user satisfaction;
- economic development;
- attention to the environment

All the above principles are fully confirmed in the VISION updated by the CAP Group:

THE EXCELLENCE OF YOUR WATER, THE TRANSPARENCY OF OUR WORK.
THIS IS OUR EVERYDAY COMMITMENT

and the VALUES that inspire this action, first of all: transparency, respect, passion, trust, excellence, innovation, attention, community, well-being, participation, courage, pride, vicinity.

Group presentation

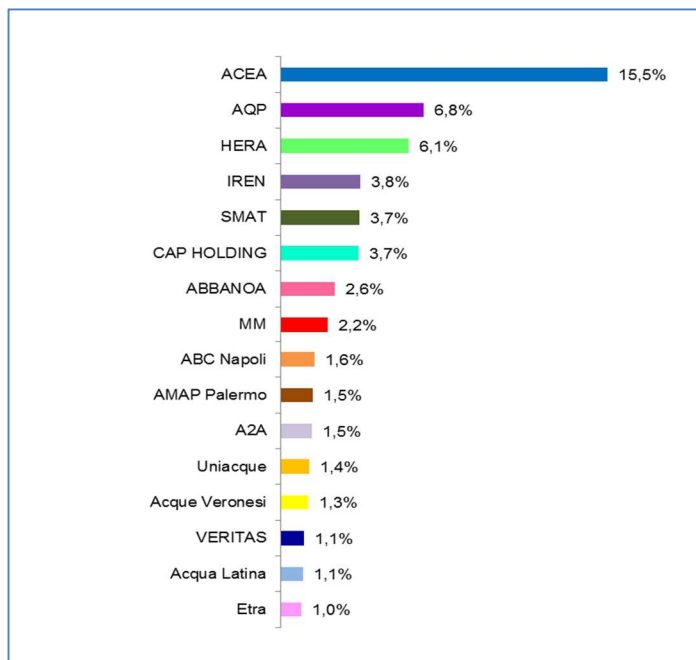
The CAP Group is one of the leading Italian operators (in terms of inhabitants served and cubic meters raised) among the so-called "*mono-utility*" operators (i.e., operators which do not carry out other significant industrial activities) operating in the Integrated Water Service, with a customer base as of 31.12.2018 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 national players, as shown in the table below:

(Source: **Utilitatis Foundation-Blue Book 2017**)

Market share out of Italian population



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

Company, Headquarters, Share Capital

- AMIACQUE S.r.l., Milan, Italy, total share capital €23,667,606.16 owned for € 23,667,606.16, equal to 100.00% as of 31.12.2018 (unchanged with respect to 31.12.2017), subject to management and co-ordination activities;

- Rocca Brivio Sforza S.r.l., San Giuliano Milanese, in liquidation as from 21.04.2015, total share capital € 53,100.00, owned for €27,100.12 holdings, equal to 51.04%, as of 31.12.2018 (equal to that held as of 31.12.2017 and to-date unchanged).

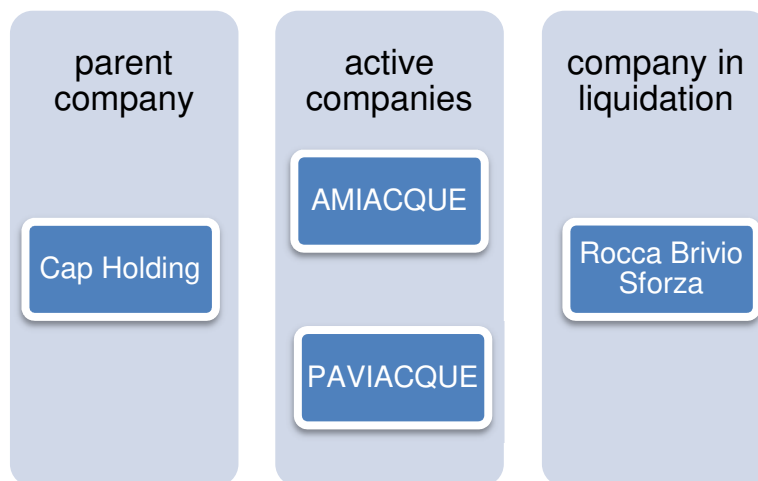
With regard to the area of consolidation, only AMIACQUE S.r.l. is consolidated with CAP Holding S.p.A., it being deemed that, with regard to Rocca Brivio S.r.l. in liquidation (whose corporate purpose involves the “*safeguarding and enhancement of the historic monumental complex of Rocca Brivio*”), pursuant to IFRS 10 Cap Holding S.p.A. has effective control due to the lack of material rights that assign the power to manage the significant activities of the investee company in such a way to influence its returns. 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 company:

- PAVIA Acque S.c.a.r.l. with headquarters in Pavia, total share capital €15,048,128, owned for € 1,519,861, equal to 10.1%, as of 31.12.2018 (equal to that held as of 31.12.2017).

CAP Holding S.p.A. also participates in the network agreement “*Water Alliance – Acque di Lombardia*”, with legal subjectivity pursuant to 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 24.02.2017, with headquarters in Assago (MI), total share capital of €340,395.01 fully paid up, owned for €79,247.86, equal to 23.3% as at 31.12.2018. Some information on the Water Alliance is presented further on.

The diagram shows the current equity investment of the Group in companies as of 31.12.2018:



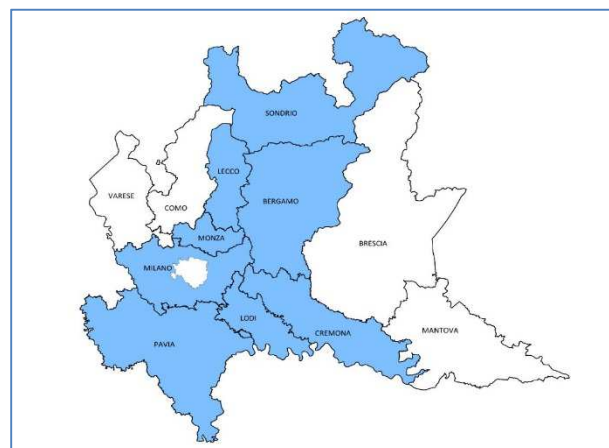
Cap Holding S.p.A. is also the sole member of the CAP Foundation (previously Lida Foundation), with headquarters in Assago (Milan) established on 31 July 2007, pursuant to Article 14 et seq. of the Italian Civil Code (payment by way of endowment fund of €1,000,000 by the founder former T.A.S.M. S.p.A., absorbed in 2013 within CAP Holding S.p.A.). The Foundation's balance sheet at 31.12.2018 shows residual cash and cash equivalents for €222,309, which indicates modest operations.

In the summer of 2018 the Foundation took on its current name and received €263,300 from CAP Holding SpA, mainly in support of the project "Blu Lab, Blu Factory e Blue Studies"; this project is funded by the Cariplo Foundation with a non-repayable grant of €100,000. The Foundation has a temporary sole director without any financial remuneration.

Role of the Operator

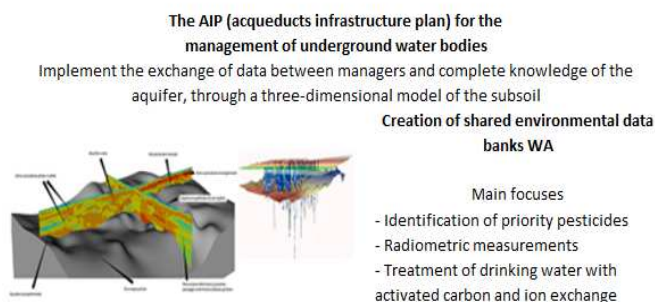
The CAP Group proposes itself as the promoter of collaboration with certain in-house companies from Lombardy, creating a network of companies (known as "WaterAlliance-Acque di Lombardia") aimed at improving the performance and the services provided to the user and of defending the role of the public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

The companies involved (by means of deed dated 4.11.2015) 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; these companies, together with the CAP Group, ensure water services to around 5.5 million inhabitants, equal to over 50% of the population resident in Lombardy, delivering each year 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, by deed dated 20.01.2017, volume No. 22.444, file No. 6.780 of the Notary Public Ninci of Milan, the CAP Group, together with the aforementioned other 7 Lombardy IWS public companies, entered into the "Representation agreement 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. In 2018 endowment capital contributions were made to the "Network", which then continued in 2018. Similarly to that which has happened in Piedmont, the network agreement has become an instrument for stimulating economic efficiency (e.g., calls for tenders for the purchase of energy and consumables), creating organised synergies (inter-company network offices), aligning operating instruments (Aqueduct Infrastructural Plan), etc.

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 22.01.2016, 05.02.2016 and 04.05.2016) for handling and sharing 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 08.07.2016 for Information Technology services until 30.06.2021;
- Network agreement entered into on 08.07.2016 for Industrial Users Management services until 30.06.2021. This contract was updated by a deed signed on 13.02.2019 effective as of 8.1.2019 and expiring on 30.6.2021.

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 is, inter alia, that of bringing the voice of the public water operators within the decision-making policy of the EU and furthering their interests and prospects.

Social Commitment

Its role as a public company that 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 of the management, consumption and use of the resource which it has the honour to manage.

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

The sustainability within the CAP Group involves the company strategies and policies, therefore interacting with all business management aspects. This becomes clear in the dedication to dialogue and the reporting of results to 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 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 ensuring proper consideration, in the development of business, of social and environmental aspects, and of furthering and spreading the culture of sustainability by drawing up the sustainability report, realising corporate social responsibility projects and initiatives for involving the both internal and external stakeholders.

The user satisfaction analysis, 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 2018, the CAP Group launched a complex process of reflection and internal study - supported also by external consultants - which involved the entire management, aimed at integrating sustainability into the business. This gave way to a sustainability plan which sets out the sustainability objectives up to 2033.

This management report 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 must be presented separately from this report according to the publication system envisaged by said Article 5.

Operating Performance in 2018

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

Overall scenario of the Water Sector

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

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

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

General overview – the Consolidation Act on publicly owned companies

The water service, like the other public services, was affected in 2016 by the enforcement of Italian Legislative Decree No. 175 dated 19 August 2016 "Consolidation Act on publicly owned companies" (TUSP-published in the Italian Official Gazette No. 210 dated 8-9-2016)¹. By means of Italian Legislative Decree No. 100 dated 26 June 2017, and with the Law n. 145 dated 30 December 2018, the TUSP then underwent an initial series of amendments.

Italian Legislative Decree No. 175/2016 introduced in the legal system limitations on the use, by the local bodies, of the instrument of the investee company, especially when the latter is the beneficiary of exclusive

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

rights (so-called in-house assignments), including the water service, with the exception of “listed” companies and companies which issue financial instruments on regulated markets.

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

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

The Strategic Policy Committee, in the meeting held on 7 October 2016, consequently resolved to authorise the Board of Directors to inform the Court of Auditors that the Company had adopted acts aimed at the issue of financial instruments other than shares, listed on regulated markets, as per Article 26, paragraph 5 of Italian Legislative Decree No. 175/2016. This was communicated to the Court of Auditors with a notice dated 21 November 2016.

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

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

Following the said issue, CAP Holding S.p.A. since 2.08.2017 has been qualified as a public interest entity, pursuant to article 16 of Legislative Decree n. 39 of 27/01/2010² and has been therefore subject, inter alia to specific supervisory obligations regarding the financial reporting process, the effectiveness of the internal control and auditing systems and risk management. Since the bonds are not convertible, their issue does not in any way alter the nature of public owned company of the Group.

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

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

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

No General Government Body which is a shareholder of CAP Holding S.p.A. decided for “disposal”, with the exception of the municipal authorities of Nova Milanese (MB) and Veduggio al Lambro (MB), which hold

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

1,763,547 and 256,279 shares respectively and the only municipal authorities in the Monza area to be affected by so-called Minor interconnections .

The two shareholders of CAP Holding S.p.A. resolved to "*proceed with the disposal of the equity investment in CAP Holding S.p.A.*" since, in their opinion, the corporate purpose of the company is the same as or similar to that of other bodies invested in by the Entity (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.

Now we only anticipate that, deeming the decision of the two municipal authorities not to be consistent with the inter-ATO area management model, CAP Holding S.p.A. appealed, with deed dated 30.11.2017, to the Lombardy Administrative Court requiring said decision to be cancelled. The equity investments of the two municipal authorities have not yet been disposed of and therefore, as per Article 24 of Italian Legislative Decree No. 175/2016, the two municipalities are still shareholders of CAP at the time we draft this report.

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

On 29/1/2019 CAP Holding S.p.A. notified the Municipality of Veduggio al Lambro and the Municipality of Nova Milanese an appeal raised for additional reasons challenging the resolutions of the City Council (respectively number 47 of 29/11/2018 and number 73 of 21/12/2018) of the aforementioned Municipalities, which upon the periodic review of shareholdings, confirmed the decisions taken in the the extraordinary audit..

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

National legislation

The water service is organized on a territorial basis. Paragraph 1 of article. 147 of Legislative Decree 152/06 requires that the ATO (optimal territorial areas) are defined by the regional authorities. All regions, including Lombardy, have delimited their ATO³. Each ATO is managed by an area governing body (EGA), which is also the body granting the service. Further on, comments are provided on the reference territory of CAP Holding S.p.A.

It should be noted that in March 2018 a bill was filed with the Chamber of Deputies bearing "Provisions on public and participatory management of the integral water cycle" (Pdl A.C. 52 of the "Daga reform"). The bill touches on many topics, among which the main ones are the following: the IWS is identified as a local public service of general interest (but not economic interest) and not to be placed on the market in a competitive regime; the assignment exclusively in favour of public-law bodies or wholly public *in-house* companies; the reintroduction in some cases of economic management; the transfer to the Ministry of the environment the regulation and control functions which today belong to ARERA; a return to general taxation among the sources of financing of the S.I.I. These are not insignificant forecasts and could have a significant impact on the S.I.I. as a whole and also, consequently, for the CAP Group.

³ ARERA: 8th report pursuant to article 172, paragraph 3-bis, of the legislative decree n. 152 of 3 April 2006, containing "environmental regulations", 701/2018/I/IDR, page 5.

The water sector is highly regulated, in particular by the interventions of the sector Authority, the ARERA (Regulatory Authority for Energy Networks and the Environment, formerly AEGGSI)⁴ by virtue of the attributions given with decree-law No. 201/11, converted into law No. 214/11, also in the field of water services.

Regarding **the tariff aspect**, remember that the national legislator has finally introduced the issue of the social tariff of the integrated water service, summarized in the article 60 of the law 221/2015 (so-called Environmental Connection).

In implementing the aforementioned article, d.p.c.m. (Decree of the President of the Council of Ministers of the Italian Republic) dated 13 October 2016 was issued which, among other things, establishes (article 1) that "the minimum quantity of vital water necessary to satisfy essential needs is set at 50 litres/inhabitant/day" and contains forecasts regarding the preferential tariff (article 2), as well as (article 3) the establishment of a water bonus for all resident domestic users, or family units, whose economic hardship conditions are ascertained.

In 2017 and in 2018 the ARERA carried out various measures along the "social" lines of intervention mentioned above.

First of all, resolution No. 897/2017/R/ldr of 21 December 2017 approved, pursuant to article 3, paragraph 1, of the d.p.c.m. of 13 October 2016, the integrated text of the application methods of the social water bonus for the supply of water to economically disadvantaged home users. Then with resolution No. 227/2018/R/IDR of 5 April 2018 it dictated further application methods.

The measure involves a sort of "discount"⁵ 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.

The ARERA resolution also provides the possibility for the Area Government Body, in agreement with the manager, to provide a supplementary water bonus operating at the local level, whose charge is covered in the user tariff of the territory concerned by the facilitation.

Another point which, at least partly, linked to the "social tariff", is represented by the ARERA Resolution No. 665/2017/R/ldr 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 introduced from 2018 the need to review the various types of customers of the integrated water system (from domestic user to non-domestic users), as well as the tariff structuring criteria, at least from the last billing cycle for the year 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 component proportional to the consumption (by cubic metres) and – limited to the aqueduct service – modulated by consumer bracket, as well as a

⁴ With the publication in the Official Gazette of 29 December 2017 of the 2018 Budget Law (Law No. 205 of 27 December 2017), which gave the Authority regulatory tasks also in the waste sector, the Authority for electricity gas and the water system (Aeegsi) has become ARERA, Regulatory Authority for Energy Networks and the Environment.

⁵ The bonus is calculated by applying the preferential tariff to the essential quantity of water, taking into account the number of family members.

“fixed” component which – generally – reflects 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 (determined on a standard basis equal to three components at the time of the first application of the provision, in the event that punctual data are not available with the obligation in any case for the operator to determine the actual number by 1.1.2022).

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, paragraph 1). Among the points of interest of the regulatory measure there will be activities such as the placement in default procedures, the time scales 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. The definitive provision is currently pending.

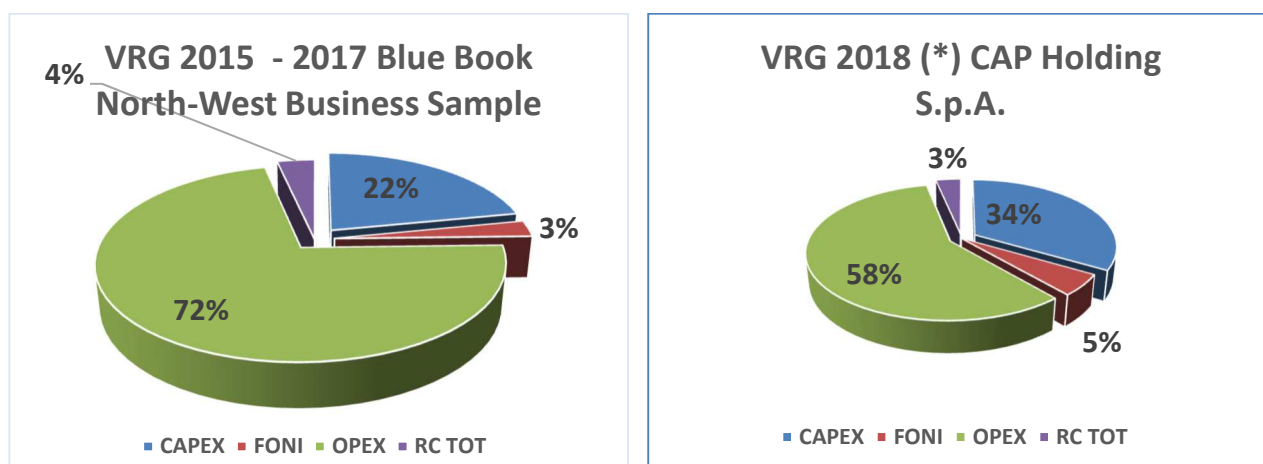
Alongside the “social” interpretation of the tariff as above, there is also – naturally – the approval of the tariff method. The Method introduced by the A.E.E.G.S.I. (entitled Transitory Method for 2012-2013, MTI-1 for 2014-2015, and MTI-2 for 2016-2019) ⁶ is based on the principle of the Full Cost 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 ARERA 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 regulated by resolution No. 918/2017/ R/Idr of 27 December 2017).

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:

⁶ ARERA Resolution No. 34/2019/R/IDR of 29/01/2019 has started the process of defining the new tariff method for the third regulatory period (MTI-3).



(*) The VRG of the wholesale operators were also considered in the calculation of the 2018 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 updated (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 some consumer associations, was the object of a ruling by the State Council, with sentence No. 2841/2017. That judge, arguing about the compatibility of the tariff component relating to the coverage of financial charges introduced by the MTT, with the article 154 of Legislative Decree 152/2006, as resulting from the aforementioned referendum, clarified that *“the tariff method adopted by the AEEGSI in resolution No. 585/2012 appears in line with the referendum dictum and with the principle of the so-called full cost recovery (including the cost of capital, equity and debt), fully compatible with the outcome of the referendum [...]”*

Other appeals presented by various managers are still pending, including the one presented by CAP Holding S.p.A. to the Lombardy Regional Administrative Court against AEEGSI resolution No. 643/2013/ R/Idr (so-called MTI) pending the hearing on the merits and that presented, again by CAP Holding SpA, to the State Council against AEEGSI resolution 585/2012/R/IDR (so-called MTT), also in the merit phase.

Regarding aspects of service **quality** it should be noted that the ARERA, with resolution 917/2017/R/ idr of 27 December 2017 <<Regulation of the technical quality of the integrated water service, that is each of the individual services that compose it (RQTI)>>, defined minimum levels and objectives of technical quality in the integrated water service, through the introduction of: i) specific standards to be guaranteed in the

services provided to the individual user, ii) general standards that describe the technical conditions for providing the service, iii) prerequisites, which represent the conditions necessary for admission to the incentive mechanism associated with general standards.⁷

Lastly, with regard to consumer protection, resolution No. 355/2018/R/COM of 28 June 2018 concerning “the efficiency and harmonization of the regulations concerning the procedures for out-of-court settlement of disputes between customers or end users and operators or managers in the sectors regulated by the authority - integrated conciliation text (TICO) - now concerning , definitively, also the water service and effective from 1 January 2019, after an experimental phase regulated temporarily in the second half of the year.

Regional legislation

At a 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 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 58bis 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 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.

Organizational performance

In the Metropolitan City of Milan

The year 2018 represented for the CAP Group the fifth year of assignment (from 1.1.2014 to 31.12.2033) of the entire S.I.I. within the former Province of Milan, the result:

⁷ To give an idea of the impact, not insignificant, on the managers, we offer the following view on the measure:

- among the quality standards that ARERA has under observation, there are: indicators of linear water losses and percentages, maximum time for activation of the emergency replacement service in the event the drinking water service is suspended, incidence of non-drinking water ordinances and other indicators of the quality of the water supplied, frequency of flooding and/or spills from sewers, control of flood drains, percentage of disposal of sludge in landfills, quality of purified water;
- the managers are required to constantly monitor the technical quality data needed to determine the standards and their periodic communication.
- the EGA of reference, verifies and validates the data transmitted by the operators, and annually communicates to the Authority, according to the deadlines and the modalities established by the latter, the data needed to calculate the standards.

The provision concludes with an incentive mechanism of technical quality articulated in reward factors or penalisation to be attributed based on the performance of the managers.

- of the profound process of industrial restructuring (through a process of merger between the management companies present in the territory that took place in 2013⁸, which then had another step in 2015⁹);
- of the expansion of activities in favour of the Municipalities of the Province of Milan, which began in 2010 and culminated in 2013 (overcoming management in the economy and acquisitions of numerous business branches from former managers).

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.) that were still present in the Milan area.

Still active as of 31.12.2018, in the district of the former Province of Milan, is:

- the "de facto" manager Metropolitana Milanese S.p.A. (for the Corsico Municipality aqueduct) on which a request for intervention was sent to the ATO Metropolitan City of Milan in order to favour the regularization of the management structure of the aqueduct service in the municipality of Corsico

Furthermore, some very modest parts of the territory remain for which the purification service is carried out through outside installations. These are "wholesaler" situations recognized by the Conference of Municipalities of the ATO of the Metropolitan City of Milan on 12 September 2016 with Resolution No. 3, in which managers of other areas (or portions thereof) perform services:

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

It should be remembered that for the Municipality of Castellanza (VA), included in the ATO of the Metropolitan City of Milan (previously included in the tariff defined for CAP Holding SpA by ATO Varese), it involves management (aqueduct, purification and sewerage) from now on considered also metropolitan "tariff" (see decision No. 1 of the Board of Directors of the EGA for the Metropolitan City of Milan dated 31/05/2016 - Annex A).

The CAP Group is therefore the sole manager of the Integrated Water Service within the territory of the former Province of Milan, established according to the management model of the public "*in house*" company, in accordance with the conditions required by the resolution of the Provincial Council and the Conference of the Statutory Auditors for the territorial area of reference of 11 October 2012.

The chosen management form - that of the "*in house providing*" model - involves a strict relationship with the partner institutions and with the strategic Steering Committee, a body whose task is precisely to guarantee the full exercise of similar powers of direction and control.

In 2017 the foundations were laid to transfer the business branch mainly related to commercial activities from Amiacque S.r.l. to CAP Holding S.p.A., thus overcoming a specific exception allowed by the Water Service Contract (Article 3.7).

The Manager has taken on - since 1.1.2018 - invoicing activities, responding in this way also to the request of the Local Authority to overcome the possibility of the above-mentioned article considered exceptional.

⁸ Tutela Ambientale del Magentino S.p.A. (T.A.M.S.p.A.), Tutela Ambientale Sud Milanese S.p.A. (T.A.S.M.S.p.A.), Infrastrutture Acque Nord Milano S.p.A. (I.A.No.Mi.S.p.A.), the latter with a significant presence also in the province of Monza and Brianza), 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.

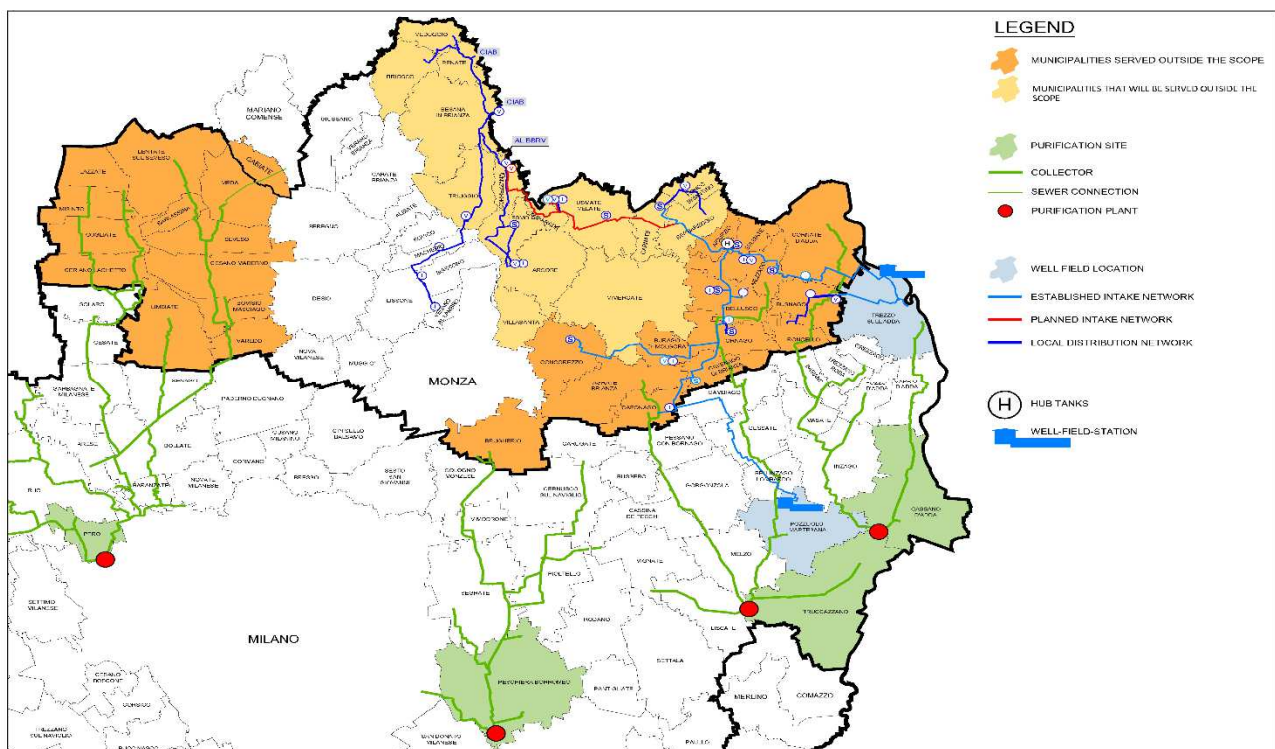
⁹ In 2015 Idra Milano S.r.l. (company that owns water infrastructure in the north-east of Milan) was incorporated with legal effect from 01.05.2015 and accounting effective 01.01.2015, following its establishment as a result of the total demerger of Idra Patrimonio S.p.A., based in Vimercate (MB). However, these infrastructures were granted in use and run by a different company, Brianzacque S.r.l.

In the province of Monza

As of 31.12.2018 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.).

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

The purpose was, inter alia, to transfer Brianzacque S.r.l. the service segments carried out by the CAP Group in the Brianza area, but without interconnections with the "metropolitan" territory and, at the same time, to acquire from Brianzacque S.r.l. service segments carried out through plants located in the metropolitan area (regardless of their being interconnected or not with the Brianza area). These transactions were carried out in two phases, and became effective as of 1.1.2016 and 1.03.2017, respectively.

However, not all the properties located in the Monza area have been transferred, as part of the aforementioned transactions, to Brianzacque S.r.l. The CAP Group has retained ownership of some large aqueduct pipelines and collection networks.

In fact, the CAP Group carries out activities for the municipalities of the Monza area that are its shareholders (wholesale collection, purification, collection and supply of aqueduct), which contribute to form the integrated water service as defined by Legislative Decree 152/2006 and subsequent amendments and addition, and as a consequence, carries out activities for them, production of a service of general interest, considering that this also includes the creation and management of networks and facilities that are functional to the provision of the services in question.

This in strict adherence to the programmatic acts adopted by the reference EGAs. The Metropolitan City Area Office of Milan, in fact, signed on 29.06.16 the inter-area agreement pursuant to article 47, paragraph 2 of Regional Law 26/2003, with the homologous governing body of the Province of Monza and Brianza, followed:

- on 29.06.2016 by the formal agreement between the CAP Group and the Optimal Territorial Area Office of the Province of Monza and Brianza, which regulates the performance of the activity of the former, with the role of "wholesaler" manager (according to the acceptance of ARERA).
- On 28.02.2017 by a specific contract between Brianzacque S.r.l. and CAP Group, with a duration equal to the agreement in place between CAP Holding S.p.A. and the ATO of the Metropolitan City of Milan.

In the province of Pavia

The organisational scheme in the Pavia area is summarised in the resolution dated 7 June 2013 of the Provincial Administration 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, has been responsible since 1 January 2014 for the joint and coordinated management of the Service within the Pavese A.T.O.

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

The assets of Pavia Acque S.c.a.r.l. in addition to a share capital of € 1,520,000 held by the CAP Group, include a capitalized reserve "tagged" with a reference number for the same entity, amounting to €12,557,748 as of 12.31.2017.

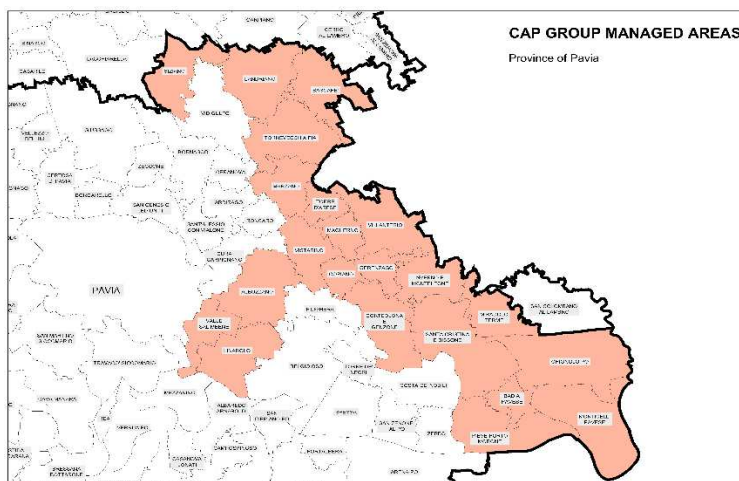
A third contribution of €315,078 relating to receivables that the CAP Group held towards Pavia Acque S.c.a.r.l., was made (subject to the appraisal carried out on 30 September 2017 by the appraiser of Dr. Maria Angela Zenoni, sworn on 15 December 2017 with minutes authenticated by deed, repertory No. 139957, notary public Trotta of Pavia) with deed dated 1.02.2018, notary public Trotta repertory 140.125/54.195, intended to the same reserve.

The said "tagged" reserve (in accordance with the provisions of the shareholders' meeting of Pavia Acque S.c.a.r.l. of 22/12/2016) will be non-distributable, not available for increases in share capital (with the only and exclusive exception of the case provided for in article 11.5 of the current by-laws of Pavia Acque S.c.a.r.l.), and may be used to cover any operating losses and/or other management events of the company just before the reduction of the share capital.

If PAVIA 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.

Provisionally, the dealings for reimbursement, by Pavia Acque S.c.ar.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 01.01.2016 by virtue of the resolution of the Board of Directors of said EGA No. 1 dated 31 May 2016 - Enclosure A. This involves:

- purification service carried out through the CAP Holding S.p.A. purifier located in the municipality of San Colombano al Lambro (enclave of the Metropolitan City of Milan in the territory of Lodi) for 3 municipalities in the Lodi area (Borghetto Lodigiano, Graffignana, Livraga) in which the main Operator is SAL S.r.l.;
- purification service provided to 2 municipalities of the ATO of Como (Cabiato and Mariano Comense, for the latter case there are very few utilities) through the Pero purifier located in the Metropolitan area of Milan.
- purification service performed by the Peschiera Borromeo plant (located in the Metropolitan City of Milan) also serves the eastern districts of the City of Milan, where the main Operator is MM S.p.A.

For the whole of 2018, the CAP Group managed the aqueduct service for the Municipality of Gorla Minore belonging to the Varese area. The EGA of that area (Board of Directors Provision No. 37 of 04/08/2016 Prot. N. 3608 of 5 August 2016) had approved “*guidelines for the determination of the “takeover values” pursuant to Article 153 of Legislative Decree 152/2006 and AEEGSI resolution 643/2013/IDR*” (terminal value).

However, with sentence No. 1781/2016, had cancelled the in-house awarding of the integrated water service in the Province of Varese to Alfa S.r.l., a company set up by the Municipalities in 2015. The State Council, in the council meeting on 19 January 2017, accepted the request for precautionary measure proposed, among others, by ALFA S.r.l., and therefore suspended the enforceability of the contested Lombardy TAR sentence. Lastly, the dispute has been overcome due to the decision of the State Council No. 3484 of 8 June 2018, with the admissibility which was declared of the preliminary appeal to the judgment and of the main and incidental appeals that followed one another given the agreement reached between the parties in court.¹⁰

On 28.12.2018, the CAP Group therefore sold to ALFA S.r.l. the business unit concerning the aqueduct service carried out in the Municipality of Gorla Minore (VA), with effect as of 31.12.2018, concluding the procedure described above.

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

¹⁰ See ARERA: 8th report pursuant to article 172, paragraph 3-bis, of Legislative Decree No. 152 of 3 April 2006, containing “environmental regulations”, 701/2018/I/IDR, 20-12.2018, page 23

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, by contrast it 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 territory was completed, with a second and final assignment, after that in 2008, of water infrastructures, and a third one concerning a portion of receivables, at the beginning of 2018, aimed at strengthening the equity of the subsidiary Pavia Acque S.c.a.r.l.

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

In addition to the "extraordinary" aspects and corporate architecture and *governance*, the CAP Group has focused on internal organizational elements, in a time of very strong changes induced by the changes already commented.

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

Measurement of corporate crisis risk

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

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

Internal Control and Risk Management System

The Internal Control and Risk Management System of the CAP Group comprises the series of different Business instruments, bodies and units which each Group company has for the purpose of achieving the effectiveness and efficiency of the business processes, ensuring the reliability and integrity of the accounting and operational information, guaranteeing the compliance of the business operations with the provisions and the management of 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 control functions, 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 there in 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 those for production, which have the aim of checking the observance of the limits assigned to the various operating units (e.g. extant budget control, including there in 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 trend);

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

The company certifications obtained are related to the quality, environment, health and safety at work systems, corporate social responsibility, energy, food security (for the management of water houses), anti-corruption, as well as the accreditation of the main test methods of the CAP Group laboratories, in compliance with the ISO/IEC 17025 standard.

In 2018, the CAP Group confirmed its attention to maintaining the certifications achieved.

In 2018 the process that led the CAP Group to obtaining the ISO 37001: 2016 certification for the "Anti-corruption management system" was concluded.

The risk assessment, the scope of activities for ISO 37001 and the Integrated Policy were updated accordingly.

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

In 2018, the CAP Group obtained the certification of its Carbon Footprint for 2017.

The certifying body carried out the verification of the voluntary statement concerning the organization's greenhouse gas inventory by issuing the Group Greenhouse gas emissions verification declaration according to ISO 14064-1:2012.

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

Also, for financial year 2018, the CAP Group has drawn up the Sustainability Report with the aim of disseminating, in an accurate and transparent manner, the activities and performances in the economic, social and environmental 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 general Government Bodies*".

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 General Government Bodies 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.

In 2018, following organisational changes in the company, such as the transfer of the unit from Amiacque to the parent company, the review of corporate procedures and instructions and the legislation evolution (e.g., Law 179/2017 on Whistleblowing – Legislative Decree 107/2018), Forms 231 of the CAP Group companies were updated.

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, director indirect, active or passive, which involves not only public officials but also private parties.

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

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 updated and the Boards of Directors of both companies, in the sessions held on 30.01.2018 and 31.01.2018, approved the update of the Three-year corruption prevention and transparency plans - years 2018–2020.



On 22.02.2017, 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".

On 12 December 2018, the Company started activities relating to the renewal of the application for legality rating to the Competition Authority; the application is currently being examined.

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.

The Group's attention to this issue was also noted by the Municipality of Milan: in 2018 it analysed the implementation of the legislation on transparency of the investee companies of the Municipality of Milan and the rating obtained by CAP Holding S.p.A. was 95.8 out of 100, the best among the companies invested in by the aforementioned Municipality, confirming that the "Transparent Company" section of the CAP Group is updated and in line with the requests made by the ANAC

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 (here in after 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 Board of Directors may request the Head of Internal Auditing to carryout checks on specific operating areas and on the observance of the internal procedures and rules in the execution of business transactions.

The Head of IA organises regular meetings with the control bodies for the purpose of establishing a reciprocal exchange of information with the Board of Statutory Auditors, the Supervisory Body and the Independent 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 financial year 2018 and that of the financial statements closing as of 31.12.2017, presented on the basis of the application of the International Financial Reporting Standards (IFRS) adopted by the European Union.¹¹

Firstly, to contribute to giving a key for comparison with the data for 2017, it should be remembered (see the above paragraph on organizational performance for more details) that during 2017 there were some significant adjustments to the territorial perimeter (incoming and outgoing branch passages, with effect from 1.03.2017 between Brianzacque S.p.A. and CAP Holding S.p.A.).

Statement of income	Values as of 31 Dec 2018	Values as of 31 Dec 2017
Revenues	240,320,141	237,902,149
Increases for Internal Work	3,546,984	3,950,626
Revenues for work on assets under concession	86,630,270	75,403,902
Other revenues and income	17,664,813	18,253,966
Total revenues and other income	348,162,207	335,510,644
Costs for raw and consumable materials and goods	(12,602,602)	(12,800,537)
Costs for services	(124,911,661)	(128,792,628)
Costs for work on assets under concession	(49,907,446)	(45,905,201)
Personnel cost	(43,356,169)	(42,181,308)
Amortisation, depreciation, provisions and write-downs	(51,007,329)	(49,470,476)
Other operating costs	(15,429,802)	(9,036,430)
Total costs	(297,215,009)	(288,186,580)
Operating result	50,947,198	47,324,064
Financial income	2,537,863	4,224,132
Financial expense	(7,409,575)	(8,495,476)
Pre-tax result	46,075,485	43,052,720
Taxation	(14,130,817)	(12,810,400)
Net result for the year	31,944,669	30,242,319

The table shows a net operating result which represents around +14.6% of total revenues of the CAP group (similar to approximately +14.1% in the previous year) and a partial absorption of margins by the financial area.

Total revenues for 2018 increased with respect to those of the previous financial year (+3.8%) due to the effect of increased revenues from sales and services (see the matters already mentioned above regarding the partial disengagement in the Monza area), and the increase in the item "revenues for work under concession".

The total costs for 2018, on the other hand, varied by +3.1% compared to the previous year. The main reasons are the increased costs for work on assets under concession, amortisation, provisions and write-downs and other operating costs.

¹¹ The adoption of the IAS/IFRS accounting standards was approved by the Board of Directors of CAP Holding S.p.A. at the meeting of 26 June 2017 (as regards the suspensive condition, then manifested on 2.08.2017, of the actual admission to negotiations on the Main Securities Market of the Irish Stock Exchange of a bond loan of € 40 million issued by the CAP Holding S.p.A.)

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, the use of which is restricted to new investments identified as priority for the territory served.

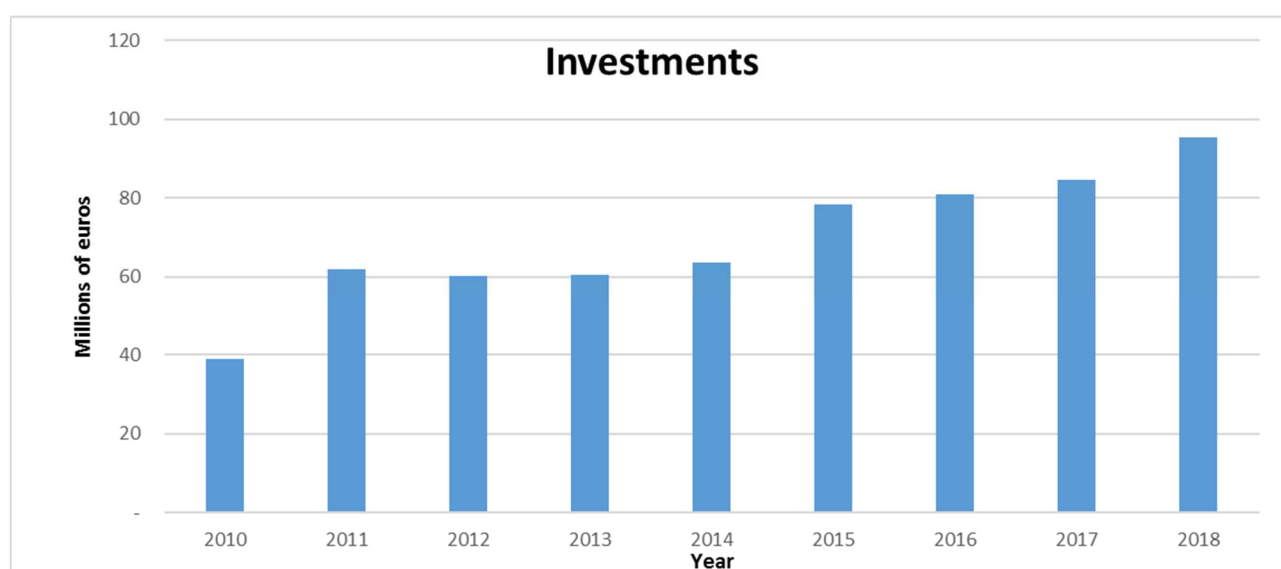
The portion acknowledged to the CAP Group, just for the area of the province of Milan for this purpose, in 2018 amounts to:

(units in euro)	FONI 2018
Gross of taxation	11,335,184
Net of taxation ¹¹	7,049,609

(Note: € 1,306,206 are added for the wholesaler tariff arranged for 2018 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

For the period 2012 - 2018, the portion of the FONI component was used as a priority for the realization of investments, as well as in part for tariff reductions granted in the form of water bonuses in 2016 and 2017, years in which this option was still admitted by the tariff system.



In particular, it is easy to note from the Diagram how the amount of the investments has risen continuously, finally by 12.8%.

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, where in fact it has already been used. A choice also confirmed in the proposal to update 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,

¹¹ The ARERA resolution of 27 December 2017 No. 918/2017/R/IDR "Biennial update of the tariff arrangements of the Integrated Water Service" amendment to paragraph 21.1 of Annex A the tax adjustment effect of the Foni component from the previously applied rate of 27.5% to 24%.

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 2018 were:

Revenues and other income	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change %
Revenues	240,320,141	237,902,149	1,0%
Increases for Internal Work	3,546,984	3,950,626	-10,2%
Revenues for work on assets under concession	86,630,270	75,403,902	14,9%
Other revenues and income	17,664,813	18,253,966	-3,2%
Total revenues and other income	348,162,207	335,510,643	3,8%

Some details follow.

The Revenues

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

Their amount (€ 240,320,141) varied by 1% compared to 2017 (€ 237,902,149) due to the joint effect of the increase in all revenues.

In particular, for the metropolitan and Brianza areas, the tariffs for implementing the water tariff method for the 2016-2019 regulatory period, approved by the Authority for Electricity, Gas and Water Service were applied in 2018 (from the 2018 Regulation Authority for Energy Networks and Environment), with 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 effective as of the following dates:

- 01/01/2018, the tariffs published in the BURL No. 1 dated 3 January 2018 approved by the Regulation Authority for Energy Networks and Environment with resolution No. 503/2016/R/idr dated 15/09/2016;
- 01/06/2018 the rates published in the BURL No. 27 of 4 July 2018 approved by the Conference of the Municipalities of the Metropolitan Area of Milan with resolution No. 3 of 11 June 2018 pending the final approval of the Regulatory Authority for Energy Networks and the Environment, which took place with resolution No. 436/2018/R/idr of 2/08/2018
- 01/01/2018 the rates published in the BURL No. 49 - Wednesday 5 December 2018, approved by the Conference of Municipalities of the Milan Metropolitan Area with resolution No. 2 of 30 October 2018, following the reorganization of the tariff structure pursuant to ARERA resolution No. 665/2017/R/idr, which, in addition to providing a single tariff framework, establishes the methods for applying the tariffs for the year 2018.¹²

¹² The EGA of the Metropolitan City of Milan with the aforementioned resolution No. 2/2018 approved the reorganization of the tariff structures and the consequent adjustment of the fees according to the provisions dictated by the "Integrated Text for Charges for Water Services - TICSII" pursuant to ARERA resolution N. 665/2017/R/idr, providing for a single tariff area, coinciding with the business perimeter of Manager Cap Holding S.p.A. in the ATO Metropolitan City of Milan. The new tariffs have been applied, starting from consumption of 01.01.2018 for the services directly invoiced and managed by CAP Holding S.p.A., within the last billing cycle which includes consumptions pertaining to the year 2018, as established by the by article 4.1 of the ARERA resolution mentioned above. This is the conclusion of the tariff convergence process authorized with ARERA resolution No. 503/2016/R/idr of 15/09/2016 by (according to the provisions of article 37 of Annex A of the ARERA resolution No. 664/2015/R/IDR), with the aim of reaching a single tariff area, coinciding with the business perimeter of the Manager CAP Holding S.p.A. on the ATO Metropolitan City of Milan. Previously,

It should be noted that the Regulatory Authority for Energy Networks and the Environment, with Resolution 503/2016/R/idr of 15/09/2016 had formally approved the values of the multiplier ϑ prepared by the Milan Metropolitan Area Office, providing for the relative management of the tariff update, for the 2016-2019 period, determined pursuant to Article 6 of *Annex A*, of Resolution 664/2015/R/IDR.

With subsequent resolution 436/2018/r/idr of 2 August 2018, the same Authority approved the updating of the tariff arrangements for the integrated water service for the years 2018 and 2019, proposed by the ATO of the Metropolitan area of Milan, with the following multipliers: ϑ equal to 1.062 (re-determined with a mean value of ϑ equal to 1.057, to be used for bill compensation) for 2018 and ϑ equal to 1.023 for 2019.

It should be noted that in the said resolution, ARERA did not recognize the inclusion in the tariff of the amount of €1,046,181 for 2018 and €1,266,427 for 2019, respectively as a compensation for "environmental and resource costs" and in particular, for derivation/under-voltage charges for the years 2016 and 2017, considering - wrongly - that they were already included in another tariff component.

CAP Holding S.p.A. filed an appeal before the Lombardy Regional Administrative Court on 30 October 2018 against this decision.

The permanence of wholesale service activities 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 be provided within 30 days, of the competent EGA for the operator served"*.

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. 437/2018/R/IDR dated 2 August 2018 it approved the values of the ϑ multiplier for the CAP Group as Wholesale treatment operator and Wholesale aqueduct operator for the Province of Monza and Brianza arranging for the related operations the tariff update, for the 2018-2019 period, determined in accordance with Article 6 of Annex A, of resolution No. 664/2015/R/IDR (for the Wholesale aqueduct operator: ϑ equal to 1.124 for 2018; ϑ equal to 1.138 for 2019; while for the Wholesale treatment operator: ϑ equal to 0.691 for 2018 and ϑ equal to 0.691 for 2019);
- by means of resolution No. 105/2019/R/IDR dated 19 March 2019 it approved the values of the ϑ multiplier for the CAP Group as Wholesale treatment operator in the Province of Lodi, arranging for the related operations the tariff update, for the period 2018-2019, determined in accordance with Article 6 of Annex A, of resolution No. 664/2015/R/IDR (ϑ equal to 1.018 for 2018; ϑ equal to 1.022 for 2019);

We are also awaiting the formal approval by Arera of the update of the tariff arrangements for the integrated water service for the years 2018 and 2019, proposed by the Milan Metropolitan Area Office which, with Board of Directors resolution No. 5 of 11/06/2018 approved the updating of the purification wholesale tariff in the Como area with ϑ equal to 0.989 for 2018 and ϑ equal to 1.031 for 2019.

historically, there existed, despite the presence of a single managed area, different "sub-tariff areas", often coinciding with each single municipality managed.

The tariff multiplier of the CAP Group as purification Wholesaler in the former City of Milan (Peschiera Borromeo purifier) was determined with ARERA's Resolution 436/2018/r/idr on 2 August 2018, providing the following multipliers: ϑ equal at 0.723 for 2018 and 0.723 for 2019).

The components considered in the mechanism of the regulatory adjustments include 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, or overpaid, due to the change in resource demand.

Article 29 of the Annex 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 should be noted that AEEGSI recovers the cost of energy by establishing an average parametric price for the supply of electricity as a reference base for calculating the deviation.
- Rc_{Other}^a component within which there are items such as the contribution paid to the Regulatory Authority for Energy, Networks and the Environment, the local charges which include taxes and duties paid to local authorities.
- Rc_{ws}^a component within which there is a recovery of the difference between the component covering the wholesale costs of the second previous year (a-2) and the costs actually due.

The mechanism described above 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 2020 VRG designated to restore costs incurred and not covered by the tariff, or to recover revenues lacking due to "volumes", relative to 2018.

The conclusion of the aforementioned is that with the advent of ARERA's tariff methods, we have entered into a "*guaranteed revenue*" logic defined at the time of approving the tariff and the function of various elements of economic cost (operational and capital). Even if with a certain simplification it can be said that a part of the guaranteed revenues for 2018, which was not requested to be billed to users in the year 2018, or was requested in excess of the expected amount, can be recovered or returned with the tariffs of 2020.

The value of the tariff quotas, operator and wholesaler, belonging to the CAP group amounts to a total of €235,555,325 (234,224,542 in 2017).

The comparison with the revenue for 2018 shows an increase in the revenue from tariffs of € 1,303,783, equal to 0.6%, compared with 2017 mainly due to the effect already mentioned above.

Following is a table showing revenues from tariff by Province, Wholesale revenues and the contingent assets of the item Revenues of the income statement.

Tariff revenues	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change %
Province of Milan	217,829,065	216,581,772	0,6%
Province of Monza and Brianza	12,827,733	13,742,798	-6,7%
City of Milan	2,237,416	3,113,098	-28,1%
Province of Lodi	405,351	371,421	9,1%
Others	438,408	227,547	92,7%
Out-of-period amounts	1,817,352	187,906	867,2%
Total tariff revenues	235,555,325	234,224,542	0,6%

In addition, please note, as shown in the table below:

- for the Pavia area, the additional revenues for services rendered for the execution of technical activities pertaining to the running and ordinary maintenance of the works of the s.i.i. for part of the territory of Pavia carried out in favour of the manager of that area;
- for the Monza and Brianza area, revenues for use of infrastructure carried out until 2017.

Revenues for industrial services to other operators	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change %
Province of Monza and Brianza	0	184,255	-100,0%
Province of Pavia	2,649,542	2,617,751	1,2%
Total revenues for industrial services to other operators	2,649,542	2,802,005	-5,4%

Revenues for work on assets under concession

Revenues for work on assets under concession amount to € 86,630,270 for financial year ended 31 December 2018. These amounted to € 75,403,902 in 2017. 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 financial year ended 31 December 2018 amounted to € 17,664,813. In 2017 these amounted to € 18,253,966. The main components include:

- reimbursements for seconded personnel for € 18,033;
- revenues from grants for € 2,084,290 from private individuals for assets and € 645,083 for operating expenses;
- € 5,934,859 for reversal of provisions for future expenses and risks;
- € 541,982 for lease payments.

Of the aforementioned funds transferred:

- € 2,092,250 are for the total transfer of the future expenses fund of the FoNI tariff quota for the part that, in previous years, was destined for the concession of social incentive tariffs (consequent to the decision made with resolution No. 7 of the Conference of Municipalities ATO Metropolitan City of 31/05/2016 for the approval of the "regulation for the concession of tariff facilities of a Group social nature ". The reason for the transfer is the failure to use within the deadline of 30/06/2018 (right decision of the EGA of the Metropolitan City of Milan with Board of Directors Resolution No. 4 of 22/12/2016).
- € 108,598 are a surplus of part of the future expenses fund for "road repairs" not yet carried out in the year 2018. The surplus is due to the best estimate as of 31.12.2018 conducted by the technicians of the

CAP Group of those road sections which, by that same date, accrued the requisites that impose the Manager of the company to intervene, in compliance with what is governed and regulated by resolution No. 5, point 2, of the Milan Metropolitan Area Office of 25.5.2016;

- € 1,642,457, on the other hand, relate to the partial surplus of the "goodwill agreements" fund formed until 2016 pursuant to article 12 of the Decree of the President of the Republic No. 207 dated 5 October 2010. The unused portion of the fund is in fact released as the scheduled works of the investment program for which the sums set aside, are completed;
- € 1,962,599 relate instead to the partial surplus of the fund for pending litigations;
- € 128,956 relate to a surplus fund to cover future losses.

It should be remembered that in 2017 this item included the amount of € 4,445,346 recorded in the accounts of the CAP Group as a result of the acquisition of a sewage collector free of charge.

The total costs of the CAP Group

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

In 2018, the CAP Group recorded total costs for € 297,215,009, an increase compared to 2017 (€288,186,580) of about 3.1%.

In the following table are some details:

Total costs	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change %
Costs for raw and consumable materials and goods	(12,602,602)	(12,800,537)	-1,5%
Costs for services	(124,911,661)	(128,792,628)	-3,0%
Costs for work on assets under concession	(49,907,446)	(45,905,201)	8,7%
Personnel cost	(43,356,169)	(42,181,308)	2,8%
Amortisation, depreciation, provisions and write-downs	(51,007,329)	(49,470,476)	3,1%
Other operating costs	(15,429,802)	(9,036,430)	70,8%
Total costs	(297,215,009)	(288,186,580)	3,1%

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

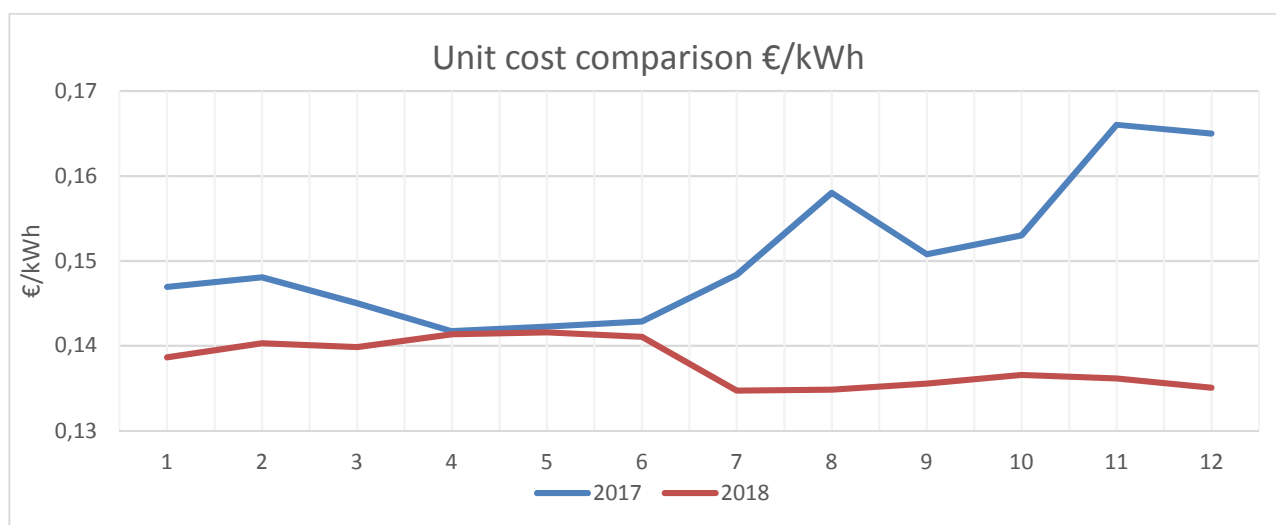
Costs for services

Costs for services in 2018 amounted to € 124,911,661 compared with € 128,792,628 in 2017.

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

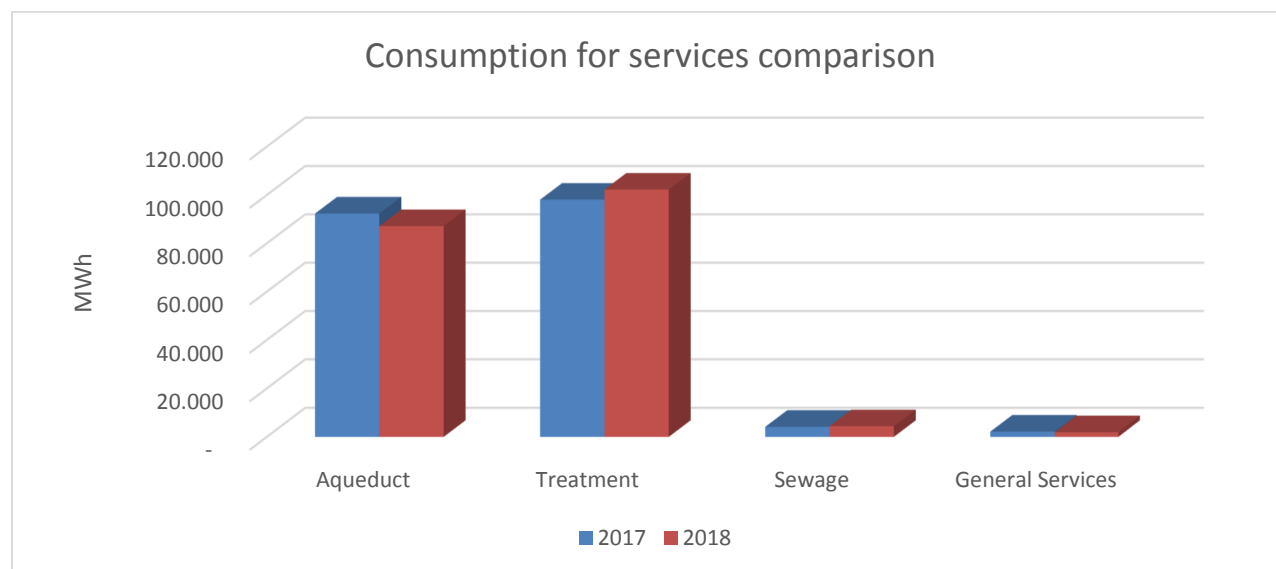
The cost of **electricity** came to € 26.9 million, a decrease of 8.3% compared to 2017 (€ 29.4 million). In 2016 it amounted to € 32.0 million.

The overall cost reduction is mainly linked to the competitive price of energy obtained through the joint Water Alliance - Lombardy Water tender and the innovative use of the electronic auction which, after 298 consecutive reductions, was award at a competitive price (13% reduction compared to the SINTEL tender price). Against this reduction, however, we note the decrease in the components of system charges in the third quarter, which further increased the positive effect of the procurement strategy.



As regards the quantitative aspects, compared to the specific consumption reduction for treated water and water introduced into the network, in line with the company objectives (Aqueduct: -0.9% compared to 2017 and Depuration -0.8% compared to 2017), the overall energy consumption is almost unchanged.

In detail, an increase in consumption of the purification sector (+ 4%) related to energy-intensive plant revamping to improve the quality of wastewater (tertiary treatments - filtration and UV lamps) and a decrease in aqueduct consumption (-5 %) linked to a decrease in water withdrawn from the environment and introduced into the network and water supplied (approximately - 2% in 2018 compared to 2017).



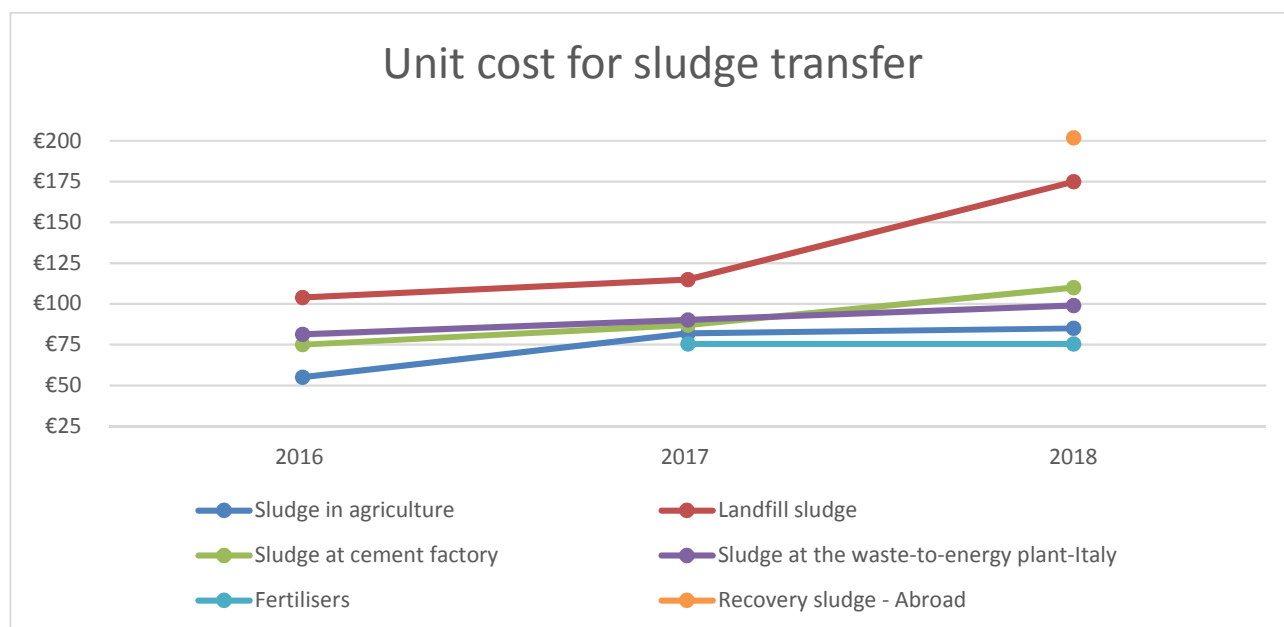
As mentioned above due to the mechanism in Article 29 <<Adjustment components included in the VRG>> of the MTI-2 and in particular of the therein envisaged adjustment of the component Rc_{EE}^a , the change in the cost of electricity registered in 2018 will lead to a containment of tariff progression for 2020.

We then witnessed in 2018:

- an increase of € 2.9 million in ordinary maintenance costs (€ 13,248,041 in 2018 compared to 10,358,341 euros in 2017) and an increase in extraordinary maintenance items;
- an increase of € 0.7 million in the cost of sludge disposal (+ 10.5% compared to 2017) due mainly to the higher average disposal costs because of speculative phenomena following the emergency

generated in July 2018 on the occasion of the ruling of the Lombardy TAR (in 2018, € 8,536,854 was spent against the € 7,103,368 spent in 2017).

Market externalities and regulatory uncertainties of the last few years **are leading to a marked increase in transfer costs**.

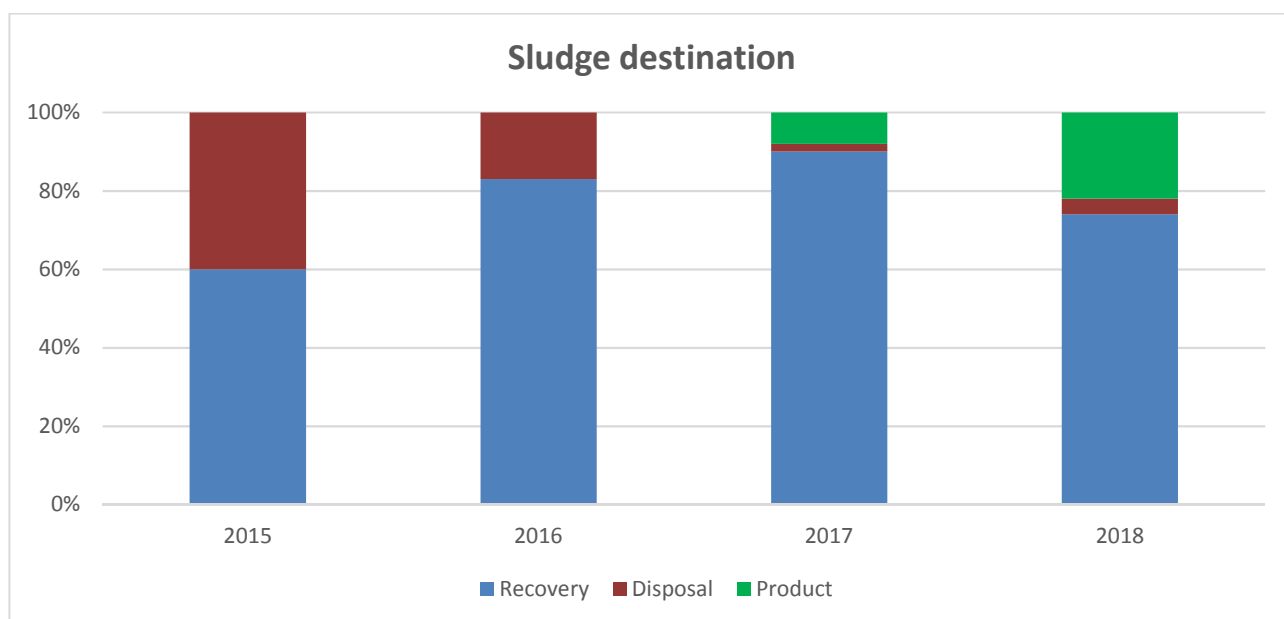


Both the energy and sludge areas have been subject to specific action by the Group aimed at their containment and rationalisation.

With regard to sludge, the following are especially mentioned:

1. The optimization of all processes aimed at reducing the volume of sludge, therefore anaerobic digestion and classical dehydration, up to the optimization in the yield of the drying plant, making sure to maximize the availability of the plant itself, at the San Giuliano site, reducing the introduction of sludge into the environment
2. Careful management has allowed us to consolidate the sludge valorisation process
 - a. It is well known that starting in 2016, recovery strategies were redefined with the aim of **eliminating landfill disposal** and encouraging the recovery of nutrients and resources in agriculture.
 - b. During July 2016, following negative externalities affecting the agricultural recovery market, actions were taken to **increase heat recovery** (cement and/or external waste to energy plants) and to **enhance «high quality» sludge as a fertilizer product** (compost and corrective).
 - c. From 2017 disposal rates of <15% were obtained in landfills (ARERA class A M5 technical quality indicator).
 - d. On the other hand, during 2018, mainly due to ruling 1782/2018 of 20/07/18 of the Lombardy TAR, a period of emergency management was opened which effectively blocked the recovery of sludge in agriculture and which upset the planning in course that tended to minimize the disposal of sludge in landfills and that caused a sudden surge in sludge management costs towards all destinations.
 - e. Despite the management difficulties, important results have in any case been reached in relation to the growing production of fertilizers and the thermal recovery of sludge, which is

becoming a valid alternative in terms of circular economy and in an uncertain regulatory context



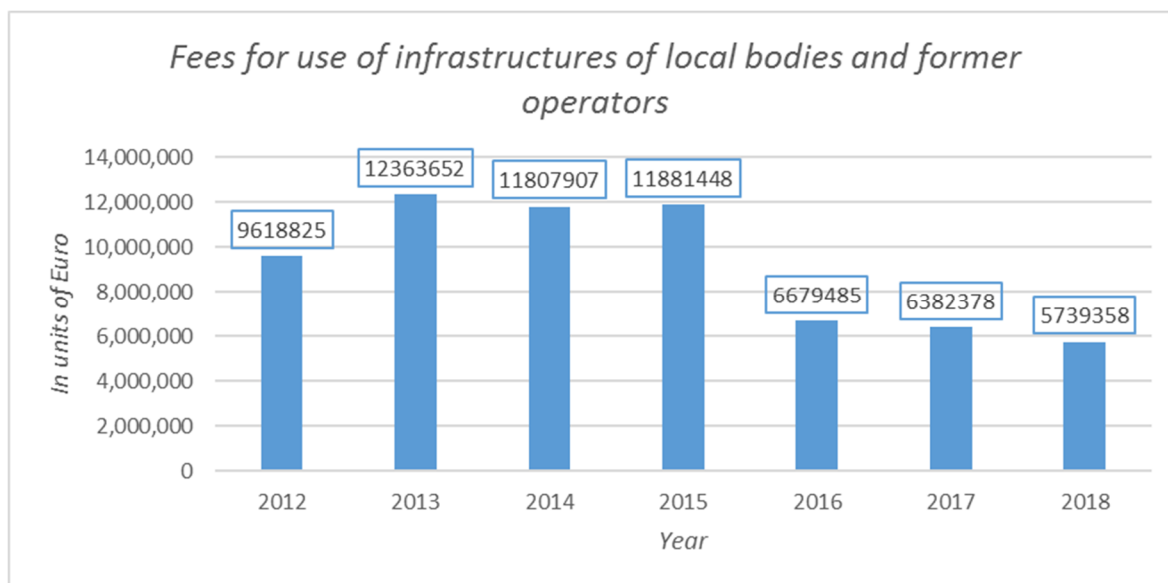
Another significant item of costs for services is the cost recognised for the use of the infrastructures and/or third-party assets, thus further composed:

Costs for use of third party assets	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change %
Rental and licence fees	1,438,651	1,737,072	-17,2%
Repayments of loans and concession fees	5,739,358	6,382,378	-10,1%
Fee for use of well and crossings	1,787,042	1,935,163	-7,7%
Hiring	1,900,304	2,145,941	-11,4%
Contingent liabilities	17,437	9,460	84,3%
Other operating costs	0	1,992	-100,0%
Total costs for use of third party assets	10,882,792	12,212,005	-10,9%

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 value of € 5,739,358 (€ 6,382,378 in 2017) 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.

Following is the trend of this cost over the last few years.



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

The item costs for services includes, among others, € 7,436,071 in annual provisions for risks and charges, in accordance with IAS No. 37 (Provisions, contingent liabilities and contingent assets). Of these:

- € 1,382,864 related to the adaptation of a fund for environmental remediation and restoration interventions relating to the grounds of the treatment plants, evaluated in consideration of the reasonably expected condition of the lands underlying the sections, in particular pre-treatment and anaerobic digestion at the end of their useful life, as well as an estimate of the charges necessary to eliminate the statistically occurring contaminations); In 2017, the provision in question was € 23,206,911 (the first year the fund was set up, which became possible in that year).
- € 4,933,576 related to the allocation of a fund for the disposal of asbestos networks.
- € 465,830 related to the establishment of a fund for issues linked to the TAR Lombardy ruling No. 1782/2018 and new urgent regulations regarding sludge article 41 of Decree-Law No. 109 of 09/28/2018 converted into law No. 130 on 11/16/2018. The aforementioned measures led to difficulties in 2018 in the regular provision of mud for spreading in agriculture. This is essentially the estimate as of 31.12.2018 for future disposal of sewage sludge, accumulated beyond physiological, as of 31.12.2018, and temporarily stored awaiting disposal.
- € 635,284 related to the adjustment of the basin reclamation fund (€ 1,054,155 in 2017).
- € 18,518 for adjustment of the provision for future expenses for "road repairs" not yet carried out in 2018, for an amount equal to euro (€ 400,260 in 2017). The cost has been quantified as the best estimate as of 31.12.2018 conducted by the technicians of the CAP Group of the road sections for which, by the same date, the requirements that they impose on the Manager of the S.I.I. to intervene, in compliance with what is governed and regulated by resolution No. 5, point 2, of the Milan Metropolitan Area Office of 25.5.2016

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

Allowances for corporate bodies	Value as of 31 Dec 2018	Value as of 31 Dec 2017	% variation
Board of Directors' allowances	250,551	249,885	0%
Board of Statutory Auditors' allowances	128,796	135,653	-5%
Total allowances for corporate bodies	379,347	385,538	-2%

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

Costs for work on assets under concession

Costs for work on assets under concession amount to € 49,907,446 for financial year ended 31 December 2018 and represent changes relating to the work carried out on assets under concession. Capitalised internal costs are recognised by nature within the specific Income Statement items. In 2017 they amounted to € 45,905,201.

Personnel costs

The item Personnel costs, € 43,356,169 in 2018 compared to € 42,181,308 in 2017, recorded an increase of 2.8%.

This slight increase, also thanks to policies of rationalization and containment of personnel costs developed over time, shows a substantial maintenance of personnel costs compared to 2017.

Personnel employed at 31.12.2018 with the Parent Company increased by 163 units compared to 31.12.2017, for a total of 361 employees.

Personnel in service at 31.12.2018 at Amiacque S.r.l. decreased compared to 31.12.2017 by 131 units, for a total of 484 employees.

Overall, for the Group there were 845 employees at 31.12.2018 (an increase of 32 units - 813 as of 31.12.2017).

The cost of personnel, as will be explained in greater detail below, is equal to 14.59% of the Total Costs therefore below the limit set by the Shareholders' Meeting of 18/05/2018 (20%).

The limit of containment of the cost established by the Shareholders' Meeting therefore remains active even if the company is no longer subject to the constraints set forth in Legislative Decree 175/2016. Within the aforementioned limit, the incentive policies for internal staff that promotes the company remain.

Amortisation, depreciation, provisions and write-downs

The item, € 51,007,329 in 2018, compared with € 49,470,476 in 2017, recorded an increase of 3.1%.

In this item we highlight:

- 1) adjustment of funds for future liabilities and/or deemed probable (€ 3,564,757), of which:
 - provision for future expenses for the disposal of buildings, where the office currently located in Milan, Via Rimini 34/36, for € 1,459,073 is located. These buildings are in the process of being demolished and the related works should be completed by 2021. Instead, a new building will be erected to be used as "headquarters" of the CAP Group. For more details, see the notes to the financial statements;

- provisions for legal disputes for € 1,551,335;
- 2) provision for bad debts (€ 8,341,369);
- 3) depreciation of assets under concession, of intangible and tangible assets (€ 39,101,203).

Other operating costs

One last item of some importance is Other Operating costs the value (€ 15,429,802) of which has increased compared to 2017 (€ 9,036,430).

The item includes contingencies, including some adjustments to revenues from previous years (negative regulatory adjustments, credit notes to users, lower revenues from third-party interference resolution work orders, etc.).

Other charges recognized to local authorities (EGA operating costs for € 1,151,056, state fees, COSAP / TOSAP, IMU, etc. for € 1,376,544) are also significant in the item "other operating costs".

Net operating result

The net operating result for 2018 amounts to + € 50,947,198 higher than that of 2017 (+ € 47.324.064).

Financial income and expense and write-down of equity investments

The balance between financial income and charges and write-down of investments, for 2018 amounts to - € 4,871,712, in line with that of 2017, amounting to -€ 4,271,344.

Taxation

Income taxes amount to € 14,130,817 (€ 12,810,400 in 2017).

Net result for the year

The balance for the year was € 31,944,669 (€ 30,242,319 in 2017, € 26,868,709 in 2016, € 20,401,462 in 2015, € 7,232,900 in 2014 and € 12,620,485 in 2013¹³) in line with the other operators of the same size water service.

Financial result indicators

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 indicators have been developed, compared with those presented for 2017.

¹³ The data referring to the years prior to 2016, refer to financial statements prepared according to the Italian GAAP.

Contents	Notes	Value as of 31 Dec 2018	Value as of 31 Dec 2017
Shareholders' equity	Consolidated shareholders' equity	810,253,320	777,148,904
Fixed assets	Total non-current assets	848,696,797	823,912,202
Consolidated liabilities	Total non-current liabilities	301,527,453	341,498,798
Current liabilities	Total current liabilities	149,301,962	140,474,243
Debt borrowing	Accounts payable to banks and third party lenders, both current and non-current	176,477,531	200,699,998
Current assets	Current assets	412,385,939	435,209,743
Immediate + deferred liquidity	Cash and cash equivalents + fixed-term current account	200,153,402	174,219,180
Net capital employed	Total current assets - liabilities	1,111,780,774	1,118,647,702

PROFITABILITY INDICATORS	Value as of 31 Dec 2018	Value as of 31 Dec 2017
EBIT)	50,947,198	47,324,064
EBITDA (*)	103,314,098	117,055,403
GROSS RESULT	46,075,485	43,052,720
NET RESULT	31,944,669	30,242,319
SALES REVENUES	240,320,141	237,902,149

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

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

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

PROFITABILITY RATIOS		31/12/2018	31/12/2017
NET ROE	Net income / Shareholders' equity	3.9%	3.9%
GROSS ROE	Gross income / Shareholders' equity	5.7%	5.5%
ROI	Operating income / Net invested capital	4.6%	4.2%
ROS	Operating income / Sales revenues	21.2%	19.9%

FIXED ASSET FUNDING INDICATORS		31/12/2018	31/12/2017
FIXED ASSETS TO EQUITY CAPITAL MARGIN	Shareholders' equity - Fixed assets	-38.443.477	-46.763.298
FIXED ASSETS TO EQUITY CAPITAL RATIO	Shareholders' equity / Fixed assets	95.5%	94.3%
FIXED ASSETS TO EQUITY CAPITAL AND MED	(Shareholders' equity + Consolidated liabilities) - Fixed assets	263.083.977	294.735.500
FIXED ASSETS TO EQUITY CAPITAL AND MED	(Shareholders' equity + Consolidated liabilities) / Fixed assets	131.0%	135.8%

LOAN STRUCTURES RATIOS		31/12/2018	31/12/2017
TOTAL DEBT RATIO	(Consolidated liabilities + Current liabilities) / Shareholders' equity	56%	62%
FINANCIAL DEBT RATIO	Funding liabilities / Shareholders' equity	21.8%	25.8%

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

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

SOLVENCY INDICATORS		Value as of 31 Dec 2018	Value as of 31 Dec 2017
CURRENT LIQUIDITY MARGIN	Current assets - Current liabilities	263,083,977	294,735,500
CURRENT LIQUIDITY RATIO	Current assets / Current liabilities	276%	310%
CASH MARGIN	(Deferred liquidity + Immediate liquidity) - Current liabilities	50,851,440	33,744,937
CASH RATIO	(Deferred liquidity + Immediate liquidity) / Current liabilities	134%	124%

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

Group investments

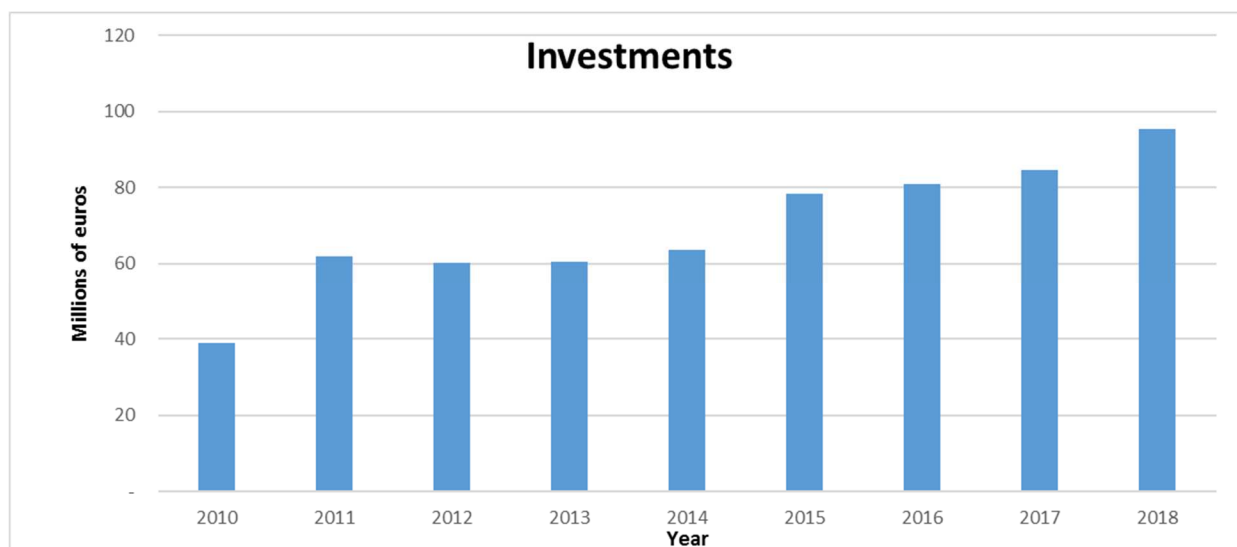
Investments in technical, tangible and intangible fixed assets recorded by the Group in 2018 amounted to € 95,452,714 (€ 84,623,580 in 2017, € 80,760,064 in 2016, € 78,301,805 in 2015 and € 63,539,506 in 2014).¹⁴

To these must be added the purchases of company branches and/or universality of goods built "used" by former managers. For 2018 they were zero.

On the other hand, these additional components amounted to € 1,833,302 for 2017, to € 2,251,382 for 2016, € 24,500,000 for 2015 and € 364,843 for 2014.

All the investments mentioned above were carried out by the CAP Group. It should be remembered that, included in the 2017 value, the value of € 4,445,346 was recorded as a measure for the free devolution to the CAP Group of a sewage collector built by company Expo 2015 S.p.a. in place of a collector demolished in 2015)

Year 2018	Investments from processing
Parent Company	94,876,695
Amiacque S.r.l.	576,019
Group Total	95,452,714



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

Also, the amount invested per inhabitant indicator (estimated at around 1.9 million) reported a value of € 51.12, despite it being still distant from the European average of € 80/100 per inhabitant, in the presence however of an average higher tariff of € 4 per cubic metre.

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, 42.5 in 2016, and 45.4 in 2017.

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 2017, an impressive effort in terms of planning and realisation (settled) is evident again in 2018.

With regard to the contract, in 2018 framework agreements were awarded for the construction of water and sewerage networks, the maintenance of drinking water systems and a contractual extension of the framework agreement for the maintenance of instrumental infrastructures was implemented. S.I.I. sewerage and aqueduct network; in addition, the tender for the construction of the new CAP Group headquarters was awarded.

The trend was thus significant, summarized as follows:

contracted:	119,617,000 (<i>of which 94,000,000 for the AQs</i>)	(in 2017 it was 77,500,000)
planned:	57,593,520	(in 2017 it was 53,806,868)
completed:	53,500,000	(in 2017 it was 49,200,000)

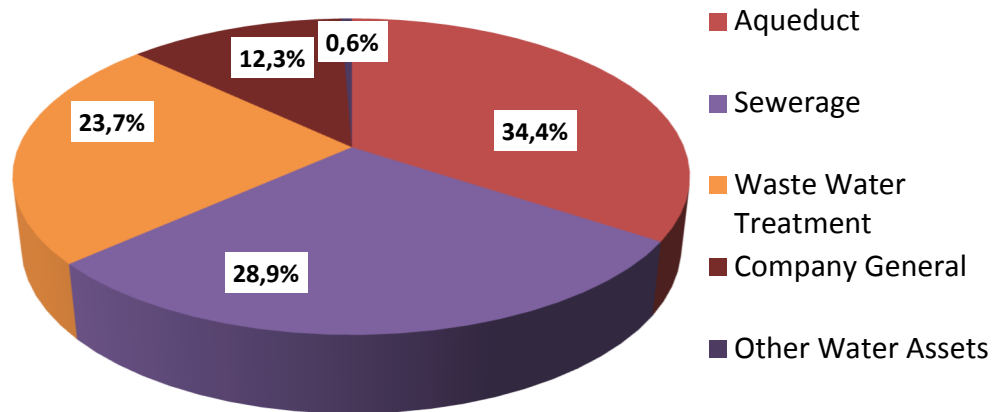
The activities directed at the investments also disclose the following indicators:

Number of measures on which CRE has been issued or tested in 2018:	41	(19 in 2017)
Number of measures planned in 2018:	91	(93 in 2017)
Number of measures awarded/entrusted in 2018:	25	(53 in 2017)
Number of detrimental terminations:	1	(0 in 2017)
Number of measures underway as of 31/12/2018:	104	(111 in 2017)

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

AQUEDUCT	SEWERAGE	WASTE WATER TREATMENT	COMPANY GENERAL	OTHER WATER ASSETS	TOTAL
32,809,784	27,628,588	22,658,185	11,760,498	595,658	95,452,714

Investments analysis 2018 per service

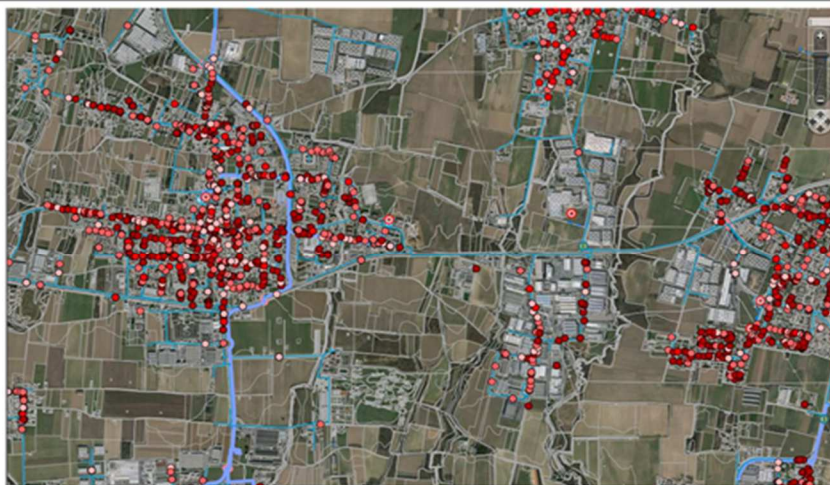


The general company investments mainly refer to the completion of projects aimed at energy saving, *Information Technology* and extraordinary maintenance of premises; the investments not pertaining to the integrated water service, by contrast, mainly refer to the construction of waterworks houses and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

In 2018, the CAP Group, as part of the "Search, recovery and control of water leaks" plan, also included in the investment plan of the contract for the award of the integrated water service for the municipalities of the Milan area, developed the following activities:

- replacement of 44,420 old meters (more than double the meters replaced in 2015);
- 2,053 km of network subjected to search for losses (within the ATO of Milan), of which 1,046 km of network subjected to leak detection with advanced analysis based on calibrated hydraulic modelling with pressure and flow data coming 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 reporting a value for replaced meters (excluding Smart Metering) of € 6,892,116.13 (+64% compared with 2017 € 4,207,010.77).

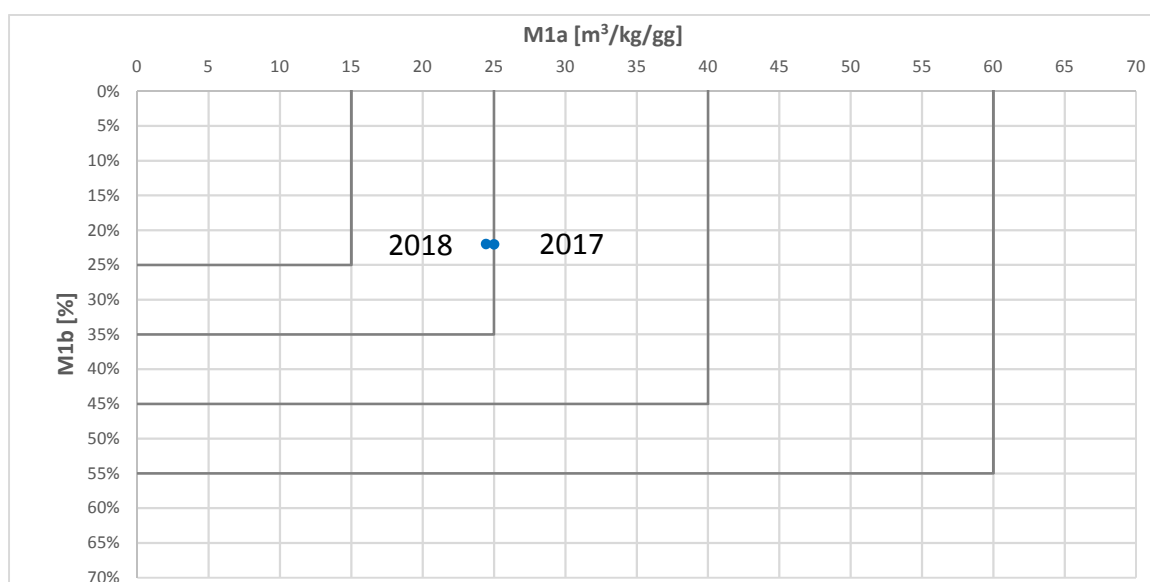
With Resolution 917/2017/R/IDR, the Authority identified specific performance indicators and regulated the technical quality of the integrated water service in order to identify the main guidelines for achieving adequate levels of performance, for an efficient and effective service, promoting benefits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

The Resolution provides for the application of the system of indicators at the base of the technical quality, as well as starting to monitor the data underlying them, starting from 1 January 2018 (based on the value assumed by the macro-indicators for the year 2016, while from 1 January 2019 it will be on the basis of the value in the previous year, where available), and from 1 January 2019 the application of the rules concerning data registration and filing obligations, provided by the same provision.

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

The results achieved during the year 2018 further improved the performance of the previous year, confirming the class B of the aqueducts located within the perimeter of the Milan ATO.

	M1a	M1b	class
Year 2017	24.99	22.03	B
Year 2018	24.45	21.99	B



The reduction is the result of joint policies aimed at both the change of measuring instruments (in line with the guidelines provided by AEEGSI with consultation document No. 42/2016/R/IDR “Regulation of measurement services within the sphere of the Integrated Water Service in the second regulatory period”)

and the prompt intervention policies described above which identified in individual SACs (closed aqueduct systems) 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 2018, another 35 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 32 interconnection measurers between aqueducts, 13 network water withdrawal points for washing sewage pipes.

At present therefore 560 Aqueduct plants are remote-controlled out of a total of 564 (figures registered in DIM).

Overall situation as of 31 Dec. 2018		
	Number of remotely controlled aqueduct plants	Total number of aqueduct plants
MB	5	7
MI	545	547
VA	10	10
Total	560	564

In addition, 91 municipal water network interconnections out of 151 in operation and 141 water houses are also remotely controlled.

At 31/12/2018, 182 detection systems were installed for the activation of sewer overflows on 720 buildings, 36 treatment plants, 239 sewage lifts and 16 flywheel tanks.

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

a) Surmounting of EU infractions

Case C85/13

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 treatments for removing 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 had to be carried out by the deadline of 2015 so as to comply with the infraction procedure.

The CAP Group managed to complete the work in time, necessary for dealing with and 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 65 municipalities).

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

We are awaiting the EC opinion on what was previously communicated by ATO CMM for investigations on 3 agglomerations since the EC itself has deemed it necessary to acquire the laboratory reports for specific purifiers to confirm the achievement of compliance.

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

With regard to the 5 agglomerations affected by the infringement procedure in question in May 2017, all the documentation certifying that the alleged violations had been resolved was transmitted to the EC. Indeed, as of 17 May 2017, all the disputes raised by the Commission, based on data/information assessments concerning the situation of the agglomerations prior to 2014, were already resolved. This case as well, is pending the final opinion of the EC.

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

No. 9 interventions were start, 2 of which already concluded; of the remaining 7 out of 4 agglomerations (Peschiera Borromeo, San Colombano Vernate and Sesto San Giovanni) 3 have reached hydraulic functionality on 31/12/2018.

Compared to the request for an update received in August 2018, it was also specified to the Area Authority that:

- **Agglomeration AG01518401 – Robecco sul Naviglio**
 - o Interventions relating to the resolution of non-conformities pursuant to article 3 and article 4 of the Directive are completed;
 - o SIRE monitors for 2017 show average values of total nitrogen and total phosphorus concentrations at the exhaust that are lower than those reported in the discharge authorization as well as a lower number of non-conformities with respect to the admissible non-compliance limit;
 - o it was therefore requested to report that the agglomeration is currently compliant.
- **Agglomeration AG01519501 - San Giuliano Ovest**
 - o SIRE monitors for 2017 show average values of total nitrogen and total phosphorus concentrations at exhaust that are lower than those reported in the discharge authorization;
 - o the already announced completion of interventions 5731_1 and 5731_2 also allowed the achievement of structural compliance on the reported deficiencies related to the tertiary sector;
 - o it was therefore requested to report that the agglomeration is currently compliant.
- **Agglomeration AG01523601 Vernate**
 - o the updating of the agglomerations referred to in Ato Città Metropolitana di Milano resolution No. 11 dated 11/06/2018 shows that the organic design capacity of the Vernate purification plant is higher than the load generated by the agglomeration;
 - o SIRE monitoring for 2017 did not show Non-Conformity;
 - o The test of hydraulic functionality of intervention 6960_16 "discharge resolution" was completed during 2018.

On the other hand, interventions are in progress for functional adjustment and strengthening in the following agglomerations:

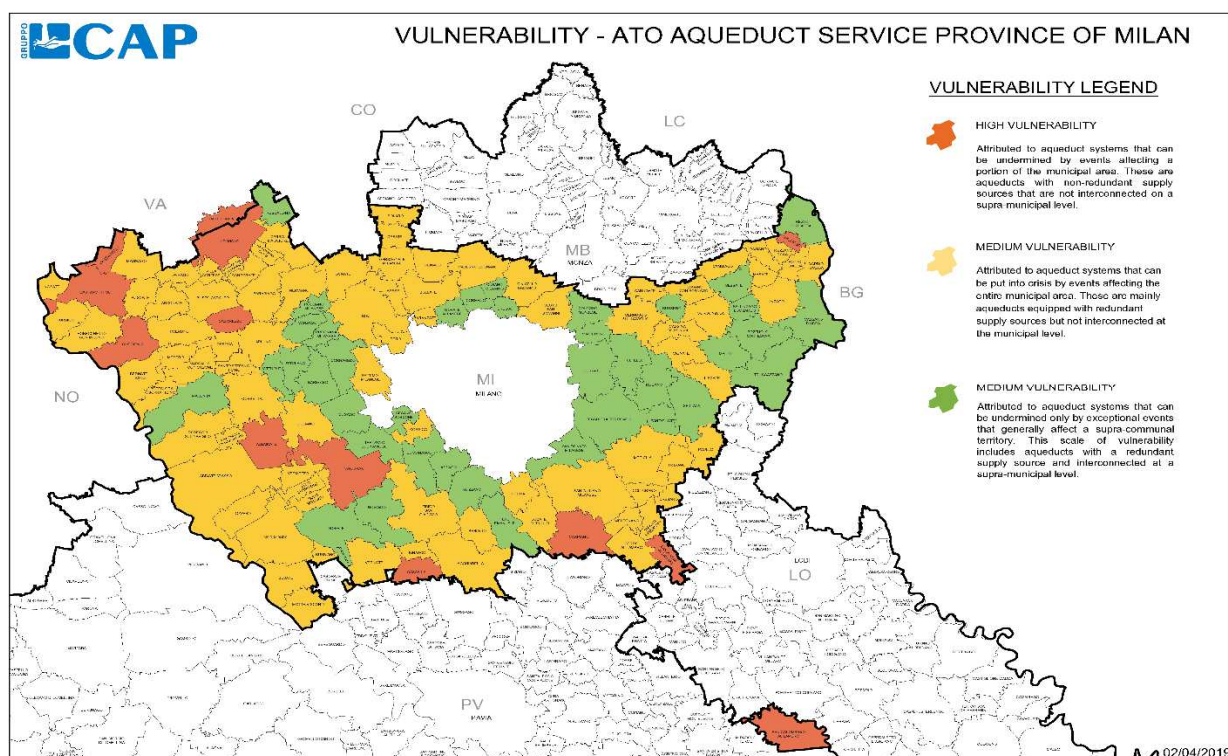
- Agglomerations AG01514601 – AG015171101 – Peschiera Borromeo with completion scheduled in 2020;
- Agglomeration AG01520901 – Sesto San Giovanni with completion scheduled in 2020;
- Agglomeration AG01519101– San Colombano with completion scheduled in 2020.

Unloading points under monitoring Area Authority of the Metropolitan City of Milan/Lombardy Region

In analogy to the obligations of Directive 91/271/EEC, as of 31 December 2018 No. 10 agglomerations of the ATO of the Metropolitan City presented critical issues detected by the same Operator with the completion of the monitoring of the entire sewer network (over 6,574 KM).

Out of 10 agglomerations 19 interventions were identified, mainly related to the presence of untreated sewage terminals, of which 13 achieved hydraulic functionality on 31/12/2018, 1 in the month of February 2019 and for the other 5 design/execution is in progress.

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 (moreover never exceeded).

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

With reference to the reduction in the load of contaminants introduced into the distribution network, during the year 2018, the Aqueduct Management Department maintained and implemented the plan to reduce the concentration values of the chemical parameters introduced into the distribution network. Specifically, the plan provides for monitoring the analytical weighted average entered into the distribution network of the municipalities served, for the total solvent parameters, TCE + PCE, Chromium and Nitrate.

In relation to the Chromium parameter, although the regulatory value will still stand at 50 micrograms/ litre for the whole of 2019, in 2018 it was decided to further reduce the target on the weighted average entered into the network, going from 10 to 5 micrograms per litre in order to further incentivise the refinement of treatment technologies.

Consequently in 2018 the existing treatment plants have undergone a process of continuous improvement by management aimed at ensuring, with high reliability, the respect of the value of 5 micrograms/litre at the single point of entry into the network.

Furthermore, although the Chromium values at the source are much lower than the legal values, during 2018 7 new treatment plants were started, while in 2019 the construction of another 4 new Chromium treatment plants is planned.

All this will allow absolute compliance with the weighted average target of 5 micrograms/litre for the Chrome injected into the network by the end of 2019.

The aforementioned interventions remain consistent with the company policy of implementing the *Water Safety Plan* that pushes operators to no longer be content to guarantee water within the limits of the law but prompts them towards continuous 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 to phenomena of water eutrophication (as occurred in the past in the Adriatic sea).

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

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

On 27/12/2017, with Resolution No. 917/2017/R/ldr, ARERA introduced a specific indicator (called M6) to monitor purification performance under the Technical Quality Monitoring Regulation. The values assumed by the same are reported below:

Parameter	ARERA Resolution no. 436/2018/R/IDR values as of 31.12.2017	Indicators as of 31 Dec. 2018
M6 * as redetermined by ARERA	20.08%	12.46%
M6 - Quality of purified water	D	

The non-conformities that contribute to the calculation of the macro-indicator recorded for the year 2017 were 305. While in the year 2018 there were 238 non-conformities. There is therefore a reduction of -67 NC between 2018 and 2017 or rather a reduction expressed in percentage terms of -22%.

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

- Adaptation to Directive 91/271/EEC
 - o Adaptation of the Sesto San Giovanni purification plant with particular reference to the biological treatment sector;
 - o Adjustment and upgrading of the Peschiera Borromeo purification plant with the construction of a third treatment line;
 - o For the San Colombano al Lambro purifier, now structurally in the process of being obsolescent, the design of the complete plant and functional restructuring is expected with the consequent realization of the outgoing works.
- Decommissioning of inappropriate facilities
 - o For the Rescaldina plant the hypothesis of disposal with the conferment of the wastewater to the purification plant of Parabiago was validated, for which the necessary strengthening will be provided by means of a new collector. The project activities to enhance the provision of Parabiago purifier are ongoing with completion scheduled for 2022.

During 2018, support activities for Municipalities were also agreed upon with regard to the regulation containing criteria and methods for compliance with the principle of hydraulic and hydrological invariance pursuant to Article 58-bis of the regional law No. 12 of 11 March 2005, with the aim, on the one hand, of drafting the simplified invariance document directly as a CAP Group, and on the other hand contributing to the homogenization of all documents and analyses, including the communal study of invariance with a view to harmonization on a wider territorial scale with particular reference to the scale of purification agglomerations and this also in view of the imminent entry into force of the new regulation on waste water (revision of RR 03/06). At 31/12/2018, 119 Municipalities signed the agreements and the simplified documents are being prepared with completion expected in 2019.

As regards the flywheel tanks, in 2018 further reconnaissance of the manufactured goods were carried out in order to provide the related update to what was detected and communicated in 2017.

The census activity led to the identification of a further No. 3 instrumental artefacts on IWS falling under article 4 of the assignment agreement, whose management is included in the IWS according to the provisions of AEEGSI resolution No. 643 of 27.12.2013:

- Abbiategrasso - Via Fausto Coppi - Municipality property - electric utility registered under Amiacque S.r.l.;
- Cesate - Via G. Garibaldi - Municipality property - electric utility registered under Amiacque S.r.l.;
- San Zenone al Lambro - Via Don Gnocchi - Municipality property - electric utility registered under Amiacque S.r.l.

With the update, as of 31.12.2018 No. 70 artefacts are therefore under management, including No. 3 recently built tanks with works being completed by CAP Holding S.p.A. (Boffalora Via A. Volta, completed as part of order 5644, Carpiano Cascina Liberia, under construction under order 5659 and San Donato Milanese Via D. Vittorio, completed as part of order 6657).

During 2018, the provisions of the PDI 2018-2022 were implemented in terms of planning the interventions.

The interventions included, in particular, the construction of the flywheel tanks for the former Carpiano purifiers (work in progress), Paullo (the demolition of the former Paullo purifier was completed and work began on the construction of the new first rain tank), in the area of the former Villastanza purifier (the doubling of the tank supply manifold was completed, the reclamation works of the two dispersing tanks and the works for the construction of the new first rain tank are in progress), in the area of the former Varedo sewage treatment plant (the conversion of the tanks of the former purifier to the first rainfall tank and the construction of the lifting station serving the first rain basin), the redevelopment of the Ossona basin (nearing completion), the redevelopment of the San Giorgio tank via don Luigi Sturzo (the work for the removal of waste was completed and the work for adapting the tank that will be enlarged in volume), the redevelopment of the Sedriano tank (ongoing maintenance of the dispersing tank to recover its functionality).

The planning activities related to upgrading the Cerro Maggiore Cantalupo tank (which is part of the reorganization and adaptation of the municipal sewerage network functional to the disposal of the Rescaldina purifier and the collection of its wastewater in the Parabiago purifier) and the new tanks for Abbiategrasso and Vittuone.

Personnel and the work environment

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

- 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 or fines have been inflicted on the company for environmental offences or damages;
- for the accident that resulted in serious injuries to a purification worker at the Peschiera Borromeo plant that occurred on 17/01/2017, after which it was decided to give full confirmation of the instructions given by the Protection Company of the Metropolitan City of Milan, the proceeding initiated by the judicial authority was concluded, following the hearing of 27 March 2019, with a sentence of acquittal and consequently exclusion of the administrative responsibility of AMIACQUE S.r.l. pursuant to Legislative Decree 231/01. The acquittal sentence has not yet become final.

With regard to organisational development measures, the main action adopted in 2018 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 - 2018 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 31.12.2018 numbered 845 employees.

The most significant changes registered for the year concern:

- No. 78 incoming employees for activation of selections pursuant to the current Recruitment Regulation;
- No. 30 outgoing employees due to termination of work contract;
- No. 16 outgoing employees for retirement requirements;

It should be noted that effective 01.01.2018, within an overall framework of broader reorganization of the activities of the CAP Group, the Customer and Laboratory Management service was acquired from the subsidiary Amiacque. The reasons for the transfer of the aforementioned activities must be sought in the need for Cap Holding S.p.A. to become the sole interlocutor in the management of users with regard to contractual relationships, taking over from Amiacque for aspects regarding billing users and customers.

This operation aims to make management of the integrated water service in the relevant territory consistent with reference regulatory aspects, also by overcoming the current situation of managing relations with users which is characterized by execution through the subsidiary based on specific intercompany contracts.

The transfer of Laboratory activities - both drinking water and wastewater - to Cap Holding S.p.A. in the process of centralization and strengthening of research and development activities was functional to the overall process of strengthening the parent company.

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

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

	Limitations	2015	2016	2017	2018
% INCIDENCE PERSONNEL COSTS/TOTAL COSTS	20.00%	19.50%	17.34%	14.64%	14.59%

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

Other personnel management costs include total investments for staff training activities amounting to € 182,678 for a total of No. 23,402 hours of training with the involvement of No. 845 employees (including turnover), of which € 89,344, for a total of No. 11,914 hours and the involvement of No. 589 employees on the subject of work safety.

Incentive systems adopted

With regard to the incentive systems applied for the year 2018, it should be noted that:

- pursuant to Article 9 of the Consolidated Gas Water CCNL, 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 31/12/2018, 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 27/05/2016, 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 that serve the integrated water cycle.

The Group carries out innovation activities, operating at various level and, in particular, conducted the following projects:

1. **Smart Metering:** after the positive experimentation of smart metering in the municipality of Magenta in 2016-2017, it was decided, for 2017, to transform 10,000 mechanical meters into remote-controlled, or otherwise called smart meters and, subsequently, replace 42,000 meters with an expiring validity with new smart meters with milestone in 2018; to these, a further 55,000 points will be linked during the next 12 months (tender 2018-19) and in 2019 a tender for a further 33,000 meters will be called, 3,000 of which of large calibre.
At the end of 2018, as many as 74 municipalities are equipped with smart technology, compared to 16 in 2017.
At the same time, additional remote reading technologies were selected for the hourly profiling of the Group's top customers in order to make consumption measurement more precise and frequent.
At the same time, the smart metering project with drone has progressed, and took off in February 2018 from Cinisello Balsamo, reaching to the beginning of 2019, where technology is being refined to extend the readings.
2. **Efficient management of aqueducts:** The CAP Group has promoted a study aimed at identifying innovative solutions for the advanced search for losses. CAP, in collaboration with the company BLUEGOLD, will carry out activities aimed at testing and evaluating innovative methods for optimizing the network's energy supply and reducing water losses in the networks. Starting from 2018, and for a period of 24 months, the following activities will be carried out on the water network of the municipality of Carpiano:
 - Experimental study to acquire new knowledge for identifying innovative ways of pre-localizing losses;
 - Research planning aimed at using the most innovative methodologies for reducing water volumes lost from the networks;
 - Theoretical and experimental identification of the priority criteria for localizing losses;
 - Continuous management of the energy status of the water network, through the regulation of organs controlled by last generation adaptive algorithms, making it possible to obtain an improvement in the water pressure modulation process of the pressure distributed to the users according to the variable requests over time measured on a number of control users.
3. **PIA – Aqueducts Infrastructure Plan:** The CAP Group carried out the following activities in the field of PIA during 2018:
 - A first project (in collaboration with the Danish companies SKYTEM and Aarhus geophysics, the latter a spin-off of the University of Aarhus) in an area of about 30 square kilometres, along the range of "Ticino" municipalities ranging from Bernate Ticino to Robecchetto with Induno, and which saw the use of a geophysical technique of mapping the subsoil to great depths (about 450-500 m from p.c.) called AEM/SKYTEM. An investigation of the subsoil was thus obtained by means of electromagnetic waves in time and/or frequency domain and the 3D reconstruction of the electrical resistivity parameter of the layers present in the underground space. This technique was used for the first time in Italy by an IWS manager;
 - A second project (in the form of a research contract signed with the Istituto Superiore di Sanità) concerned the bacteriological/virologic screening of groundwater intended for human consumption, by collecting water samples from an adequate number of wells managed by the CAP Group;

- A third project (totally developed in-house) concerned the analysis on a basin scale of the meteorological, hydrogeological and hydro-chemical aspects that could be correlated with the climate change phenomena.
4. **WSP – Water Safety Plan:** from 2016 to 2017 the 5 SAC WSPs were adopted. This was also possible through the use of already consolidated corporate technologies such as GIS and TLC. Alongside the new laboratory instruments for detecting emerging micro-pollutants, an experimental Early Warning System network was introduced for real-time collection of analytical data relating to parameters such as chromium, nitrates, nitrites, bacterial presence, etc. A new treatment system for hexavalent chromium has been introduced by flocculation and pressure filtration. UV ray technology has been adopted to control the development of *pseudomonas aeruginosa*. Between the years 2017 and 2018, the WSP was also implemented for schools in the managed territory, taking samples according to an established time schedule and processing the results in the general perspective of the WSP for identifying the potential risk and for planning and implementing its mitigation measures. 2018 also saw the refinement of WSP's production chain with innovations and improvements introduced in the study and in the implementation of a further 7 SACs in the Metropolitan City of Milan:
- Lainate
 - Melegnanese
 - East Milan
 - South Incirano
 - Paderno Dugnano
 - Cinisello Balsamo
 - Bollatense

In 2018, the activation of the EWS pilot system was completed and will be validated in 2019, also through collaboration with the Polytechnic of Milan, according to the following themes:

- Validation of chemical-physical parameters multi-parameter probes, spectrometric optics and colorimetric analysers;
- Water - absorbance fingerprint validation;
- Validation of continuous microbiological monitoring

The CAP Group has, for some time, also been involved in the development of a vast and complex policy on circular economy and bio economy within the integrated water service.

As a result of the elaboration of the Masterplan for circular wastewater management, the following projects continued in 2018:

1. **Biomethane from biogas:** The biogas biomethane production project, which is part of the various activities carried out by the CAP Group with a view to circular economy, has the ambitious objective of affirming innovation in energy production from alternative sources, maximizing the contribution of the integrated water cycle, not only in its technological component but also in the purposeful exercise of governance in relation to an extremely efficient and purposeful use of investments. The project sees the enhancement technologies of sewage sludge and in particular biogas upgrading technologies starting from anaerobic digestion of sewage sludge. The activities of CAP, begun in 2016, saw the realization of decisive actions for experimentation in 2018, in fact an integrated contract worth 1.1 million euros was awarded for the construction of an industrial-scale upgrading plant that was consequently installed at the Bresso-Niguarda purifier. The plant, which will be fully operational in early 2019, has a production potential of approximately 50,000 m³/month. All the biomethane obtained will be fed into the network and used for transport, respecting the respective quality standards in accordance with the new biomethane decree of 2 March 2018. The CAP Group also continues experimentation, in collaboration with the Milano Bicocca University, Department of Material Sciences, of other biomethane biogas purification technologies with pilot plants. At the Sesto San Giovanni purifier, a second experimental plant was started with the use of naturally

derived solvents to enrich biogas in biomethane.

2. **Fertilizer recovery from sludge:** The CAP Group continues to be engaged in the recovery of sludge deriving from the sewage waste treatment process through research activities and resulting transformation processes that allow the recovery of sludge nutrients and the use of final products obtained as fertilizers. The Fertilizer Recovery project, which in the past few years has successfully passed Phase 1 of the trial, saw the start of Phase 2 in 2018: at the Peschiera Borromeo plant some modifications were made to the final sludge treatment sections of the mud line and started the production of bio carbonate, or precisely "defecation calcium carbonate" used in agriculture as a fertilizer based on the provisions of Legislative Decree No. 75/2010. The starting ingredient for obtaining this product is the biological mud produced downstream of the anaerobic digestion process. The product obtained also provides amino acids, available calcium and magnesium in addition to the organic substance, improving the soil structure, especially where the soils are particularly acidic, as often occurs in the Lombardy region.
3. **Biorefineries:** The Project that will lead to the creation of the new integrated CAP CORE bio-platform in 4 years saw the continuation of the design phase of the innovative plant context during 2018. The Bio Platform is an example of an environmental improvement that is better than the current state of the art in terms of waste-to-energy. In fact, the new technologies and the design solutions made available for the project will guarantee the birth of a virtuous system of waste treatment for which the environmental impact on the territory of the entire structure will be minimal. Upon the proposal of the Municipalities involved, in November 2018, the CAP and CORE Group decided to join the preliminary Service Conference with the participatory BioPlatformLab process, in order to engage civil society and those subjects not involved in the preliminary investigation (committees, associations, unions, etc.). The objective of the participatory process is to inform in a clear, complete and transparent manner about the project; to deal with the territory, analysing reasons, characteristics, impacts and consequences of the project itself; improve and enrich the project, adapting it to the context in which it will be carried out best. BioPlatformLab represents an opportunity to give voice to the territory in an effective and concrete manner. Through meetings with experts organized in thematic sessions, in fact, the participated path opens a channel of constant dialogue with the proposing company: the set of issues and contributions that will emerge gradually will be collected and systematically coherent and presented in a final document, of an official nature, which will be delivered to CAP-CORE.
4. **Circular economy and resource recovery:** The CAP Group, pursuing the broad policy of recovering materials and energy from wastewater treatment plants with a view to the circular economy, continued the creation and implementation of process solutions for the recovery of resources during 2018, realizing during the course of year the following operational activities:
 - design and installation of a fermenter, which will become operational in early 2019, at the Sesto SG purifier. From the fermentation of the sludge, easily biodegradable carbonaceous substrates (VFA) will be obtained which will be used in the water line to optimize not only the phosphorus accumulation processes, but also its subsequent recovery;
 - executive design of a fermenter and treatment system for supernatants at the Robecco SN plant, as well as achieving full operation of sand recovery;
 - extension of the reuse of purified wastewater, as in the case of the Assago purifier;
 - purification of biogas in biomethane and recovery of sulphur in Bresso;
 - design of cases of anaerobic codigestion.

The following projects have also been launched:

1. **MICODEP:** With this project, CAP wants to actively contribute to the optimization of the traditional processes of bacterial purification which, although they have undergone great evolutions in recent years, still have ample room for optimization both in the removal of unwanted nutrients and compounds in purified waters and in the possibility of producing composite biomaterials starting from the sewage sludge. The latter are attracting growing attention for the potential in the production of

panels and materials for green building, as well as containers, packaging and various types of products. The physical-mechanical properties of these materials are mostly due to the substitution of the lignocellulosic biomass with fungal biomass which also causes compaction.

In collaboration with the DICAT department of the University of Pavia, the CAP Group wants to explore the possibility of using fungal biomass in wastewater purification treatments.

The objectives of the project are ambitious and aim to:

- improve water purification through the use of mushrooms capable of reducing the concentration of nitrogen and phosphorus which in their degradative action will not interfere with the purification process and, more generally, with the proper functioning of the plants;
- expanding the possibilities of reusing the purification sludge to obtain new bio-composite materials to be used, for example, as green building panels;
- remove the fraction of hydrocarbons from the sludge, thus improving the quality and the possibility of re-use both in the agricultural field and for other applications in which the sludge can constitute a raw material for subsequent industrial production (see production of protein hydrolysates from mud).

2. **URBAN WASTE 4 PLASTIC:** the project, conducted by CAP in collaboration with the PROPLAST research centre, is one of the projects for the enhancement of sludge by-products. More precisely, with these research activities we want to test the feasibility of producing plastic objects based on polyethylene and/or recycled polypropylene containing over 20% of purification sludge transformed into a plastic filler within the plastic matrix.

The final application of the product will be a support for adherent biomass to be introduced into the purification tanks and therefore a dual circularity both in the process and for the intended use.

3. **Industrial Symbiosis:** the project, which in recent years has seen the establishment of important agreements including that with the company Danone for the use of expired yoghurt as a substrate for anaerobic digestion, has been enriched this year with important collaborations with the companies FITT and NOVAMONT.

The project started with FITT is of great environmental value as it wants to increase the green and bio-renewable content of the PVC plastic material that currently comes exclusively from fossil sources. At the same time, it represents an important element in the exploitation of sludge in consumer industries.

FITT is an Italian multinational company active in the production and marketing of plastic pipes and the research collaboration signed with CAP aims to plan and carry out research, trials and testing activities aimed at:

- FOR CAP: producing new materials and products obtained from urban sewage sludge such as fillers, plasticizers, lubricants and flame retardants that can be used in PVC processing;
- FOR FITT: to test the products supplied by CAP in its production facilities for the production of rigid PVC pipes, to optimize production processes where necessary;

Another important collaboration signed by CAP is the research agreement with Novamont formalized on the occasion of Ecomondo - Rimini, November 2018. The industrial symbiosis between the two companies will favour the development of innovative industrial models that combine environmental sustainability and business competitiveness, through the involvement of not only industrial but also public, ethical and cultural realities. For the purpose of joint research, the two companies have identified a series of projects with the common goal of regenerating resources, bringing quality organic carbon back into the soil, guaranteeing water quality, creating new products that respect the environment and health. The first projects that CAP and Novamont intend to implement are Ecodesign of microplastics for the cosmetic industry and production of raw materials obtainable from wastewater.

With the first we want to work to redefine some environmental sustainability parameters related to the degradation of plastics not only in the soil, but also in water, and more specifically, the research activities will study the biodegradation of a new class of microplastics produced by Novamont for cosmetic use within the purification process. The research will be carried out both at CAP and Novamont laboratories and at CAP purification plants.

With the second project we will study the optimal conditions for the production of PHA - Polyhydroxyalkanoates - which are chemical precursors in the production processes of biodegradable plastics. Today the plastic industry is able to produce these substances by bacterial fermentation of sugars and lipids; the research carried out by the manager of the integrated water service of the Metropolitan City of Milan, supported by Novamont's experience and technological know-how, will instead have the challenging purpose of demonstrating how it is possible to produce PHAs from urban sludge on an industrial scale thanks to microbial consortia of course present in purification.

- **Water Reuse Risk Management:** the reuse of treated wastewater is one of the key actions to face the new challenges of climate change, included in the SDG 6 sustainable development goal: "Ensuring access to water and sanitation for all" of the agenda of sustainable development of the UN 2030, and is also a relevant aspect of the circular economy, as indicated in COM (2015) 614: "Closing the cycle - An EU action plan for the circular economy".

Within this frame of reference, in 2018, the CAP Group initiated the project "Water Reuse Risk Management based on the Sanitation Safety Plan" in order to implement a health risk assessment system based on internationally consolidated guidelines (Water Safety Plans approach/WHO Sanitation Safety Plans) and then assess the feasibility of reusing treated water for irrigation purposes.

This will be the first experiment of this type in Italy conducted by an IWS manager in which both the microbiological quality and the chemical quality of the purified water and the influence that these waters can have on irrigated plants will be extensively evaluated. Furthermore, during the two-year experimentation, risk assessment criteria and procedures will be defined for the practice of reusing wastewater treated in agriculture, in order to understand the potential transfer of chemical and biological contaminants to crops, soil and water superficial and underground ones.

The project will be carried out by CAP Holding at the Peschiera Borromeo plant and will involve not only the CAP but also the CNR-IRSA, THE WATER INSTITUTE OF UNC, the Istituto Superiore di Sanità, the Politecnico di Milano, the Istituto Mario Negri.

The implementation activities of the PerFORM WATER 2030 project were also continued, the activities of the new LIFE METROADAPT funded project were started and those for participation in national and European research bids were intensified.

1. **PerFORM WATER 2030:** the industrial research and experimental development project PerFORM WATER 2030 - Platform for Integrated Operation Research and Management of Public Water towards 2030, of which the CAP Group is leader, realized under the REGIONAL OPERATIONAL PROGRAM 2014-2020 - Objective "Investments in favour of growth and employment", co-financed with the ERDF within the CALL of the Lombardy Region for the activation of an experimental path aimed at defining the agreements for research, development and innovation, has provided during 2018 the start of the first field experiments and study and modelling activities, related to the different research lines of the project (water line, sludge line, energy and material recovery line, line for economic and social enhancement of technologies).

In particular:

- at the San Giuliano EAST plant a trial was launched dedicated to the study and optimization of the operational parameters of an innovative treatment stage dedicated to the removal of emerging pollutants on purifier effluents, based on the use of powdered activated carbon;
- at the San Giuliano WEST plant experiments have been started on:
 - 1) the study and optimization of the operating parameters of a treatment process of purifier effluents for the removal of emerging micro-pollutants, based on chemical oxidation with ozone;
 - 2) the study of the emissions into the atmosphere of the purification process and the evaluation of the possible optimizations in order to reduce the emissions themselves in terms of greenhouse gases, organic and inorganic compounds, particulates and emerging micro-pollutants adsorbed to it, bio-aerosols and odours;
 - 3) the study of ozone injected into the mud entering anaerobic digestion in order to optimize biogas production;
 - 4) the start-up of the wastewater analysis laboratory as a support for project experiments.

- at the laboratories of the University of Milan Bicocca (Departments of Environmental and Earth Sciences and Materials Science) and the Bresso Niguarda plant:
 - 1) thermal treatment of algal biomass to evaluate the potential of nanoparticles obtained as pollutant adsorbents;
 - 2) the study of biomethane biogas purification with the use of naturally derived solvents and the recovery of CO₂ for the growth of microalgae;
 - at the Salazzurra Research Centre and the departments of Environmental and Environmental Sciences - Computer Science, Systems and Communication of the University of Milan Bicocca and the Department of Management Engineering of the Politecnico di Milano, study and modelling activities were carried out on the quality of procurement waters, optimization of distribution networks and analysis of case studies related to the social acceptability of sludge treatment options in national and European regions.
2. **LIFE METROADAPT:** The METROADAPT project - enhancing climate change adaptation strategies and measures in the Metropolitan City of Milan, presented in the call of the LIFE 2017 Climate Action call, was awarded by the European Union a co-financing of 676,409 € against a budget total of € 1,316,709.
- Launched in October 2018 and coordinated by Città Metropolitana di Milano, sees CAP Group as a project partner, together with Ambiente Italia, e-GEOS, Legambiente Lombardia, Association des agences de la Democratie Locale (ALDA).
- The activities of the partners, which will end in September 2021, have ambitious objectives such as the implementation of strategies and initiatives for adapting to climate change by virtue of a territorial governance on a larger scale of the single municipality or city and which will therefore be able to implement urban and territorial planning on a metropolitan scale. Particular attention will be paid during the three years of work to promote the so-called Nature Based Solutions (NBS), i.e. those interventions that use the nature and natural functions of healthy ecosystems and also resorting to sustainable urban drainage actively respond to the environmental challenges triggered by the climate changes.
- Initiatives for the widespread dissemination of the proposed solutions will also be encouraged, with the objectives both to increase citizens' awareness and commitment to climate change, and to develop an Italian and European network of metropolitan areas aimed at promoting adaptation policies and measures also economically effective.
- The project foresees an important section of work dedicated to the integration between different levels of design and administration for which information and data sharing is necessary and which will functionally converge in the construction of a new shared map that integrates local knowledge and skills, satellite thermal analyses, meteorological data and population census data, facilitating access to all this information for the 134 Municipalities of the Metropolitan City.
- CAP's commitment will consist in the design of Sustainable Urban Drainage (SuDS) interventions in two municipalities of the Metropolitan City (Solaro, Masate), chosen according to the peculiarities of their territory (urbanization, position of the aquifer, permeability of the soils ...). In addition, various local events will be organized, and involvement and dissemination tools will also be designed through the media.
3. **H2020 DIGITAL WATER CITY:** the CAP Group participated, as part of the European Horizon 2020 program, in the H2020-SC5-11-2018 call: "Digital solutions for water: linking the physical and digital world for water solutions" presenting the DWC project - Digital Water City - Leading urban water management to its digital future which in December 2018 was positively evaluated by the European Commission and therefore financed for the execution of the proposed activities.
- The project is coordinated by the Berlin Water Competence Centre (KWB - Kompetenzzentrum Wasser Berlin), brings together 24 partners from 10 European countries and plans to create digital solutions in 5 urban case studies: Paris, Berlin, Copenhagen, Milan, Sofia facing all aspects of the integrated water cycle.
- The application case of Milan in collaboration with the Polytechnic University of Marche, the Higher Institute of Health and the University of Milan concerns the "smart water reuse" at the Peschiera Borromeo purifier. It will include innovative elements for monitoring the quality of the effluent, the

characteristics of the soil and the development of advanced IT tools to promote the irrigated reuse of treated water.

The expected duration is 3 years with a total funding of 5 million euros.

DWC will permanently connect the physical and digital water world by developing, implementing and evaluating a panel of 18 advanced digital solutions in a complete operating environment.

4. The Group also participated in drafting two full proposals in the call of the European **LIFE ENVIRONMENT** program with **Wast2Value** projects - A process to turn the wastewater organics into bioplastics and recover nutrients while saving energy (CAP coordinator group) and **FREEDOM** - Solving treatment of wastewater sewage sludge with new HTL technology to produce hydrocarbons, asphalts and fertilizers (partner CAP Group) which, if financed, will experiment with specific demonstration plants at purifiers of the Group the recovery of precious organic substances from process water and sludge purification exploring their exploitation in new productive sectors, such as plastics and biofuels

In September 2018, the Salazzurra Research Centre was also inaugurated.

At the Salazzurra CAP Group, through its Foundation and in collaboration with Fondazione Cariplo and Seeds&Chips, the international summit on global innovation linked to the food industry, has started an incubation process for young start-ups.

In a logic of Open Innovation, innovative projects will be developed in the water sector with the best start-ups involved in the development of the circular economy, in order to improve performance, talents and entrepreneurial skills.

Salazzurra will be a place of "sharing knowledge" and of co-research in which to experiment forms of collaboration between public and private and in which to encourage the creation of bridges between new entrepreneurial realities and global markets. The first start-ups incubated during 2018 are the Canadian/Sudanese start-up The Raimaker Enterprise and the Bluetentacles start-up.

For the year 2018 the tax benefit for the tax credit for research and development expenses is € 743,543.

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

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



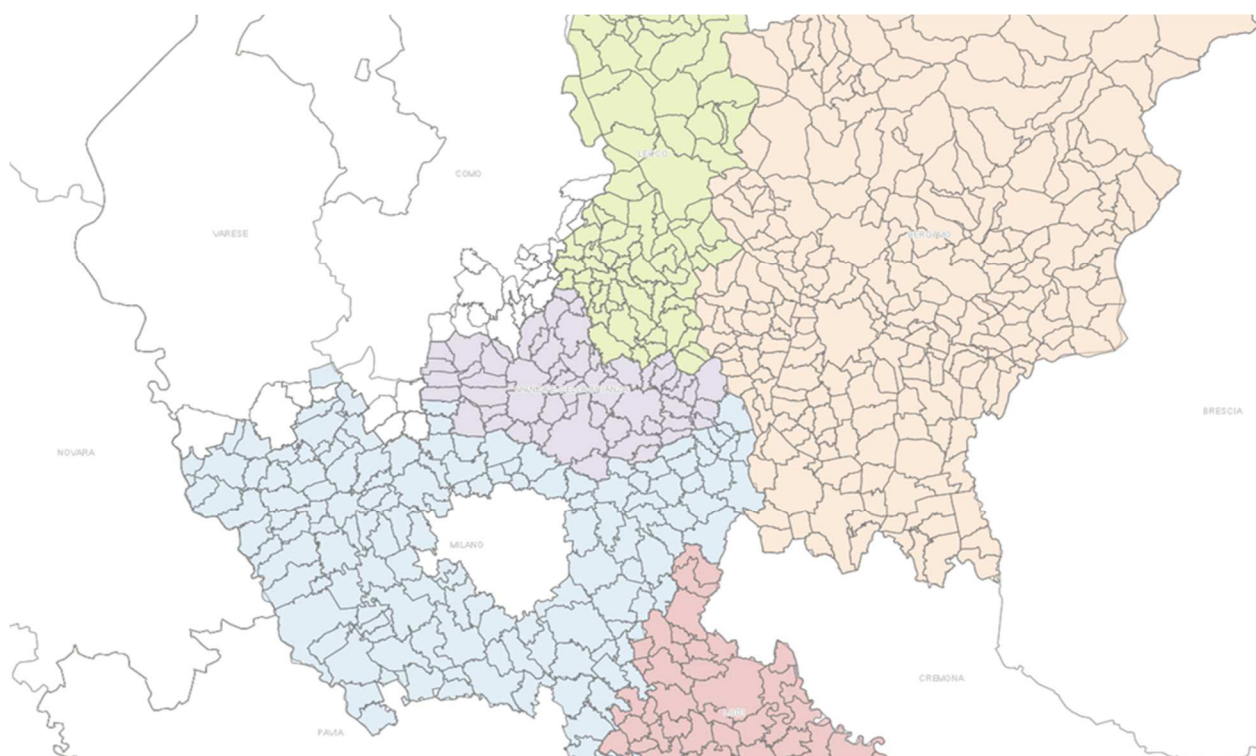
Real time	Centralised control	Data sharing	Redundancy reduction
Independence of the data structure	Direct access	Security	Versatility

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

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

N° 18,445 km of aqueduct network included in the system;

N° 20,842 km of sewer mains included in the system.



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

Focus: WebGIS Gruppo CAP	2018	Notes
Number of investments entered on WEB GIS	81	Only the interventions from 1.1.2018 to 31.12.2018
Number of sewerage drains entered on WEB GIS	866	Only those authorised
Number of industrial drains entered on WEB GIS	1,662	Overall figure
Number of extraordinary maintenance interventions entered on WEB GIS	43	Only the interventions from 1.1.2018 to 31.12.2018
Number of breakdown maintenance interventions entered on WEB GIS	27	Only the interventions from 1.1.2018 to 31.12.2018
Number as built by third parties entered on WEB GIS	37	Only the interventions from 1.1.2018 to 31.12.2018
Number of km of aqueduct and sewerage network entered on WEB GIS	13,372	Overall figure
Number of well monographs entered on WEB GIS	467	Overall figure
Number of inspection videos entered on WEB GIS	231	Only the video inspections entered from 1.1.2018 to 31.12.2018
Sewer maintenance service entered on WEB GIS	5,370	Only the interventions from 1.1.2018 to 31.12.2018
Number of discharge authorisations entered on WEB GIS	866	Overall figure
Number of monographs for accessible sewerage network manholes entered	180,510	Overall figure

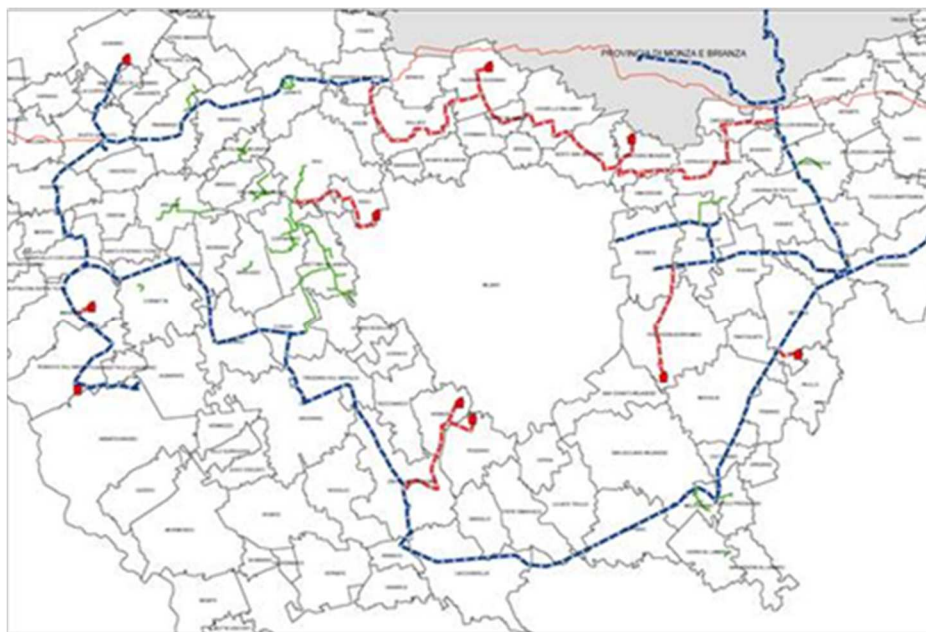
Numerous agreements with the Lombardy Regional Authority and other Italian operators make the platform one of the most advanced both at Italian and international level.

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.

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

The foreseeable evolution of management

It should be noted that the CAP Group acts, as amply illustrated in this report, in highly regulated activities, above all in the part relating to revenues and investments.

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

(in units of Euro)	Budget 2019
Total revenues	354,895,928
(Total costs)	-302,548,293
Net operating result	52,347,635
Financial income (financial expense for writedown of equity investments)	-5,373,949
Taxation	-13,818,918
Net result for the year	33,154,768

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 2018, 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 2018 amounts in total to € 11,861,139, equal to around 7% of the total indebtedness outstanding as of 31 December 2018

As of the same date part of this indebtedness, as of 31.12.2018 for € 3,711,700, 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 31.12.2018 to € 2.5 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 liquidity, also operative for 2018 and 2019 (until 30.11.2019).

(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 1.1.2018, 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 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 there is an objective condition of partial or total non-payment, are subject to individual write-down.

(d) Covenants and Negative pledges and similar

Part of the CAP Group's indebtedness as of 31.12.2018 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 *IRS* contract from incorporated company Idra Milano S.r.l. (of which Banca Nazionale del Lavoro S.p.A. is the counterparty).

All refer to underlying liabilities of a financial type.

In detail, the CAP Group 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 of € 55,313,163 (in repayment) expiring on 31 December 2021;
2. 14 June 2006: IRS for a nominal of € 1,626,816 (in repayment) expiring on 31 December 2020;
3. 11 July 2006: IRS for a nominal of € 20,000,000 (in repayment) expiring on 31 December 2019;
4. 2 November 2007: IRS for a nominal of € 20,000,000 (in repayment) expiring 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 of € 6,000,000 (in repayment) expiring 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 the *Duration Swap* 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 swaps* 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, in the period from 31.12.2024 to 31.12.2026, should the possibility established by a *Floating rate* clause occur (with reference to the trend of a Euribor rate), the company would benefit from a theoretical total maximum positive flow of € 1,200,000 (which leaves CAP the opportunity to benefit from of a subsequent theoretical rate reduction).

For the *swap* listed under No. 3 (relating to a variable rate bond), foresees on one hand that 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 capital share 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	14/06/2006	17/02/2006	11/07/2006	22/01/2008	16/05/2011
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	269,951	5,494,200	1,481,500	10,336,020	3,461,538
Maturity	31/12/2020	31/12/2021	31/12/2019	31/12/2026	16/05/2026
underlying financial risk				interest rate variability	
mark to market	-16,033	-16,963,188	-1,466,972	-1,558,894	-49,011
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:

- there are no significant concentrations of liquidity risk;
- there are no risks associated with the trend in exchange rates;
- there are no significant risks associated with the trend in interest rates;
- the trend in the prices of the services provided is linked to the tariffs and the Tariff Method determined by the Authority for Electricity, Gas and the Water System (AEEGSI).

*The Chairman of the Board of Directors
Dr. Alessandro Russo*

Statement of financial position

In Euro	Notes	Values as of 31 Dec 2018	Value as of 31 Dec 2017	Variation	Var. %
ASSETS					
Non-current assets					
Rights on assets under concession	7.1	751,770,071	711,689,516	40,080,556	6%
Other intangible assets	7.2	13,788,442	13,422,852	365,590	3%
Tangible fixed assets	7.3	13,653,518	11,253,735	2,399,783	21%
Prepaid tax assets	7.4	24,971,012	26,426,937	(1,455,926)	-6%
Other receivables and other non-current financial assets	7.5	44,513,754	61,119,162	(16,605,408)	-27%
Total non-current assets		848,696,797	823,912,202	24,784,595	3%
Current assets					
Trade receivables	7.6	191,275,922	232,560,400	(41,284,479)	-18%
Inventories	7.7	4,801,892	5,578,442	(776,549)	-14%
Contract work in progress	7.8	1,564,113	662,420	901,693	136%
Cash and cash equivalents	7.9	198,254,373	170,710,140	27,544,233	16%
Other receivables and other current financial assets	7.10	16,489,639	25,698,341	(9,208,702)	-36%
Total-current assets		412,385,939	435,209,743	(22,823,804)	-5%
Non-current assets intended for sale	7.11	0	0	0	0%
TOTAL ASSETS		1,261,082,736	1,259,121,945	1,960,791	0%
SHAREHOLDERS' EQUITY					
Share capital	7.12	571,381,786	571,381,786	0	0%
Other reserves	7.12	207,916,193	176,514,126	31,402,067	18%
FTA reserve	7.12	(989,327)	(989,327)	0	0%
Net result for the period	7.12	31,944,669	30,242,319	1,702,349	6%
Total consolidated shareholders' equity		810,253,320	777,148,904	33,104,416	4%
LIABILITIES					
Non-current liabilities					
Provision for risks and charges	7.13	68,985,525	65,335,525	3,650,001	6%
Employee Benefits	7.14	5,477,772	6,011,193	(533,422)	-9%
Accounts payables to banks and non-current third parties	7.15	151,625,126	177,010,034	(25,384,908)	-14%
Other non-current payables	7.16	75,439,031	93,142,046	(17,703,016)	-19%
Total non-current liabilities		301,527,453	341,498,798	(39,971,344)	-12%
Current liabilities					
Trade payables	7.17	76,890,597	72,777,648	4,112,950	6%
Accounts payables to banks and current third parties	7.15	24,852,405	23,689,965	1,162,441	5%
Other current payables	7.18	47,558,959	44,006,630	3,552,329	8%
Total current liabilities		149,301,962	140,474,243	8,827,719	6%
Non-current liabilities intended for sale	7.19	0	0	0	0%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,261,082,736	1,259,121,945	1,960,791	0%

Statement of comprehensive income

In Euro	Notes	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change	Change %
Revenues	8.1	240,320,141	237,902,149	2,417,991	1%
Increases for Internal Work	8.2	3,546,984	3,950,626	(403,642)	-10%
Revenues for work on assets under concession	8.3	86,630,270	75,403,902	11,226,367	15%
Other revenues and income	8.4	17,664,813	18,253,966	(589,154)	-3%
Total revenues and other income		348,162,207	335,510,644	12,651,563	4%
Costs for raw and consumable materials and goods	8.5	(12,602,602)	(12,800,537)	197,935	-2%
Costs for services	8.6	(124,911,661)	(128,792,628)	3,880,967	-3%
Costs for work on assets under concession	8.7	(49,907,446)	(45,905,201)	(4,002,244)	9%
Personnel cost	8.8	(43,356,169)	(42,181,308)	(1,174,861)	3%
Amortisation, depreciation, provisions and write-downs	8.9	(51,007,329)	(49,470,476)	(1,536,854)	3%
Other operating costs	8.10	(15,429,802)	(9,036,430)	(6,393,372)	71%
Total costs		(297,215,009)	(288,186,580)	(9,028,429)	3%
Operating result		50,947,198	47,324,064	3,623,134	8%
Financial income	8.11	2,537,863	4,224,132	(1,686,270)	-40%
Financial expense	8.11	(7,409,575)	(8,495,476)	1,085,901	-13%
Pre-tax result		46,075,485	43,052,720	3,022,766	7%
Taxes	8.12	(14,130,817)	(12,810,400)	(1,320,416)	10%
Net result for the year (A)		31,944,669	30,242,319	1,702,349	6%
Components of the statement of comprehensive income which will not be subsequently reclassified in the income statement					
Actuarial gain/(loss) for employee benefits		151,971	41,942	110,028	262%
Tax effect on actuarial gain/(loss) for employee benefits		(36,473)	(10,066)	(26,407)	262%
Components of the statement of comprehensive income which will be subsequently reclassified in the income statement					
Fair value change deriving from cash flow hedge (IRS)		1,219,232	1,325,539	(106,307)	-8%
Tax effect on fair value change deriving from cash flow hedge		(310,460)	(337,530)	27,070	-8%
Total components of the statement of comprehensive income, net of tax effect (B)		1,024,270	1,019,885	4,384	0%
Total comprehensive income for the year (A)+(B)		32,968,938	31,262,205	1,706,734	5%

Cash flow statement

CASH FLOW STATEMENT OF GROUP CAP HOLDING SPA YEAR (*)	Values as of 31 Dec 2018	Values as of 31 Dec 2017
Schedule No. 1: Operating cash flow determined using the indirect method		
A. Cash flows from operating activities (indirect method)		
Profit (loss) of the period	31,944,669	30,242,319
Income taxes	14,130,817	12,810,400
Interest expense/(interest income)	4,871,712	4,271,344
(Dividends)	0	0
(Capital) gain/loss deriving from disposal of assets	245,380	(4,887)
1 Profit (loss) for the period before income taxes, interest, dividends and capital gains/loss from disposal	51,192,577	47,319,177
<i>Adjustment for non-monetary elements with no set-off in the net working capital</i>		
Accruals to provisions	11,134,039	31,066,514
Fixed assets depreciation	39,101,203	40,806,524
Write-downs for impairment losses	272,795	21,794
Other adjustments for non-monetary elements	(5,733,965)	(11,246,275)
2 Cash flow before changes in NWC	44,774,073	60,648,557
<i>Changes in net working capital</i>		
Decrease/(increase) in inventories	(125,143)	(338,922)
Decrease/(increase) in receivables from customers	51,334,218	44,602,103
Increase/(decrease) in payables to suppliers	8,264,125	(16,556,584)
Decrease/(increase) in accrued income and prepaid expenses	0	0
Increase/(decrease) in accrued liabilities and deferred income	0	0
Other changes in net working capital	914,626	239,409
3 Cash flow after changes in NWC	60,387,826	27,946,006
<i>Other adjustments</i>		
Interest collected/(paid)	(5,327,676)	(2,253,669)
(Income tax paid)	(15,819,600)	(18,525,727)
Dividends collected	0	0
Use of provisions	(2,814,043)	(5,221,257)
4 Cash flow after other adjustments	(23,961,319)	(26,000,654)
Cash flow from operating activities(A)	132,393,157	109,913,085
B. Cash flow from investment activities		
<i>Tangible fixed assets</i>		
(Investments)	(3,937,172)	(1,950,698)
Realisation price of divestment	229	2,694,421
<i>Intangible fixed assets</i>		
(Investments)	(3,734,241)	(3,099,697)
Realisation price of divestment	0	3,389
<i>Fixed assets under concession</i>		
(Investments)	(91,271,479)	(76,310,392)
Realisation price of divestment	1,218,546	(13,958)
<i>Financial fixed assets</i>		
(Investments)	(354,850)	(17,049,891)
Realisation price of divestment	16,980,745	0
<i>Current financial assets</i>		
(Investments)	0	0
Realisation price of divestment	1,264,592	867,272
Cash flow from investment activities (B)	(79,833,630)	(94,859,554)
C. Cash flow from financing activities		
<i>Loan capital</i>		
Increase (decrease) in short-term payables to banks	0	0
Loans taken out	0	60,786,214
Loans repaid	(25,015,294)	(18,695,715)
<i>Shareholders' equity</i>		
Share capital increase against payment	0	0
Sale (purchases) of own shares	0	0
Dividends (and advances on dividends) paid	0	0
Cash flow from financing activities (C)	(25,015,294)	42,090,499
<i>Increase (decrease) in cash and cash equivalents (a ± b ± c)</i>		
Liquid assets as of 1 January	170,710,140	113,566,109
Liquid assets as of 31 December	198,254,373	170,710,140
change	27,544,233	57,144,031

(*) for the sake of simplicity the change in payables for investments has remained included in the change in payables to suppliers 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 31.12.2017	571,381,786	(989,327)	(2,685,897)	179,200,023	30,242,319	777,148,904
Result assignment 31.12.2017	-	-	-	30,242,319	(30,242,319)	-
Fair value change deriving from cash flow hedge, net of tax effect	-	-	908,772	-	-	908,772
Actuarial gains/(losses) for employee benefits net of tax effect	-	-	-	250,976	-	250,976
Profit (loss) for the year	-	-	-	-	31,944,669	31,944,669
Shareholders' Equity 31.12.2018	571,381,786	(989,327)	(1,777,125)	209,693,318	31,944,669	810,253,321

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31.12.2018

1. General information

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

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

The company is entirely publicly owned: its shareholding structure as of 31 December 2018 is solely made up of local territorial bodies.

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.

This consolidated financial statement was approved by the Company’s Board of Directors on 15 April 2019.

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 drafting the financial statements of companies which have equities and/or debt securities listed with one of the organised markets of the European Community. On 2.08.2017 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 with the Irish Stock Exchange. In accordance with the legislative provisions referred to above, CAP Holding S.p.A. is therefore obliged to draw up the consolidated and separate 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”) starting from the accounting period ended 31 December 2017.

Therefore, the date of transition to the IFRS was identified as 1 January 2016 (the “Transition Date”).

This consolidated financial statement for CAP Holding S.p.A. has therefore been drawn up for the first time in accordance with the “EU IFRS”.

The Consolidated financial statements include the consolidated statement of financial position as of 31 December 2018 and 31 December 2017, 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 2018 and the related explanatory notes.

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

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

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 longer than twelve months.

2.2 Scope of consolidation and consolidation criteria

These Consolidated financial statements include the balance sheet as of 31 December 2018 and 31 December 2017 and the income statements for the year ended 31 December 2018 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 2018 is presented below:

- AMIACQUE S.r.l. of Milan, total share capital of € 23,667,606.16, owned for € 23,667,606.16, equal to 100.00% as of 31 December 2018 (equal to that held as of 31 December 2017 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 noted that with regard to the subsidiary Rocca Brivio Sforza S.r.l. in liquidation, with registered offices in Via Vivaio 6, 20122 Milan (MI), Italy, total share capital of € 53,100 held as of 31 December 2018 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 2018, 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 full consolidation are the following:

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

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 plants	8%
Sundry equipment	25%
Specific equipment	19%
Vehicles	20%
Cars	25%
Furniture and furnishings	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 recognized 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)

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

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

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

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

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. For such purpose, both internal and external sources of information are considered.

With regard to the former (internal sources) the following is considered: the obsolescence or the physical deterioration of the assets, any significant changes in the use of the assets and the economic performance of the assets with respect to that envisaged. With regard to the external sources, the following is considered:

the trend of market prices for the assets, any technological, market or legislative discontinuity, the trend of market interest rates or the cost of the capital used to assess the investments.

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

The recoverable value of an asset is represented by the *fair value*, net of the accessory sales costs, or the related value in use, whichever is the higher, the latter being the current value of the future cash flows estimated for these assets. When determining the value in use, the expected cash flows are discounted back using a discount rate gross of the taxes 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 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 assets deriving from the contract are recognized, in accordance with IFRS 15, para.31, in correspondence with the revenues from which they originate, gradually that the Group fulfils the obligation to do, transferring control over the asset or service to the customer performed. Where the service has not been definitively completed or formally accepted definitively by the customer, it nonetheless gives rise to the registration of the activity as a result of a reasonable evaluation of the progress made towards the complete fulfilment of the obligation to do, on the basis of reliable information and in light of the contractual conditions

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

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

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

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

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

The estimate of the allowance for doubtful trade receivables is based on expected losses (*expected loss*, IFRS 9), measured using available information without unreasonable charges or efforts, which include historical, current and prospective data relating to the economic conditions of the reference debtors.

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

Investments

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

The cost is reinstated in subsequent years if the reasons that gave rise to the write-downs no longer exist.

Value reductions and restorations are recognized in the income statement.

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

Inventories

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

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

Contract work in progress

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

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

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

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

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

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

Conversion of transactions Denominated in Currency other than the Reporting Currency

The transactions in currency other than the reporting currency of the entity 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.

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

In accordance with the matters envisaged by the IFRS, the payments collected on behalf of third parties, as in the agency dealings 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 type- approved	Effective date
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

Accounting standards, amendments, interpretations and improvements applied from 1 January 2018

On 1 January 2018, the following documents containing changes to the international accounting standards, which had been previously issued by the IASB and endorsed by the European Union, became effective.

IFRS 15 - Revenues from contracts with customers.

The standard, implemented by the European Union on 22 September 2016 and subsequently amended by the EU regulation 1987/2017 of 31 October 2017, applies to all contracts with customers, with the exception of leasing contracts, insurance contracts and financial instruments. IFRS 15 defines a revenue recognition model based on various steps, which, in summary, consist of: identification of the contract; identification of the obligations to be provided (goods and / or services) of the same; price identification; allocation of the price to the obligations to be lent; revenue recognition when the service is satisfied. The last condition occurs when the good and / or service is transferred to the client, or when the latter obtains control, that is, it has the ability to decide and / or direct its use and obtain substantially all the benefits.

The standard requires retroactive application, but the transition can take place in two ways: retroactively to each previous year presented in accordance with IAS 8 (full retrospective approach) or retroactively accounting for the cumulative effect from the date of the initial application (modified retrospective approach) in opening shareholders' equity at January 1, 2018 (IFRS 15 par C3 b)). The second approach applies IFRS 15 retroactively only to contracts that are not concluded on the date of the initial application (1 January 2018).

The Group has chosen to apply IFRS 15 using the second approach: however the checks carried out have not highlighted the need for adjustments.

IFRS 9 – Financial instruments.

The new standard was approved on November 22, 2016 with EU regulation 2067/2016. In summary, the provisions of IFRS 9 concern: I) the criteria for the classification and measurement of financial assets and liabilities; II) the impairment of financial assets; III) hedging transactions (*hedge accounting*).

With regard to point I) (classification), the categories of loans and receivables, financial assets available for sale and financial assets “*held to maturity*” disappear. The classification of financial assets takes place, based on the entity's business model and in relation to the characteristics of the cash flows generated by the assets, instead among the following categories:

a) asset valued at *amortized cost* if the entity's business model provides for the financial asset to be held to collect the related cash flows (therefore, essentially, not to make profits even from the sale of the instrument) and the characteristics of the cash flows of the asset correspond only to the payment of principal and interest; b) assets measured at *Fair Value* with a balancing entry in the other components of the

comprehensive income statement, if they are held with the objective both of collecting the contractual cash flows and of being sold (*Hold to Collect and Sell model*); c) assets measured at fair value through profit or loss (FVTPL - *fair value through profit and loss*), if held for trading purposes and in any case do not fall under the circumstances indicated in points a) and b) above.

The rules for accounting for embedded derivatives have been simplified: separate accounting for the embedded derivative and the financial asset that "hosts" it is no longer required.

For financial liabilities, the main change concerns the accounting treatment of changes in the *fair value* of a financial liability designated as valued at *fair value* through the income statement, if these are due to changes in the creditworthiness of the liability. According to the new standard, these changes must be recognized in the other components of the comprehensive income statement.

As regards point II (impairment of financial assets), the standard introduces an impairment model based on expected losses, where "loss" means the present value of all future lost receipts, appropriately integrated to take into account future expectations ("*forward looking information*").

In particular, with regard to the regulation ("*forward looking*") of the write-down of trade receivables (see also the previous paragraph "Trade receivables and other current and non-current receivables"), the Group, after having carried out a preliminary analysis, based both on the type and the nature of existing customers, both on credit losses historically recorded, considered that the approach used to calculate the write-down of receivables reasonably reflects the new requirements. Therefore, it was not deemed necessary to modify the approach so far used for calculating the write-down of trade receivables.

As regards point III (hedging transactions), the most significant changes in IFRS mainly concern the effectiveness test (the 80-125% threshold is abolished, replaced by an objective test that verifies the economic relationship between the instrument covered and hedging instrument, accounting for the cost of the hedge, the expansion of the items covered and the information required).

With reference to points I), II) and III), there is no conclusive indication of significant impacts on the Group's financial statements deriving from the application of IFRS9.

Amendment to IAS 40 - Investment Property.

The amendment, approved with EU regulation 400/2018, entails a clarification on the application of paragraph 57 of IAS 40, providing guidelines on the changes that lead to qualifying an asset that was not an investment property as such or vice versa. The amendment clarifies that a change in management's intentions for the use of an asset is not sufficient to provide proof of a change of use.

Accounting standards, amendments and interpretations applicable after the end of the financial year and not adopted in advance

IFRS 16 - Leases.

Issued in January 2016, replaces the previous standard on leasing, IAS 17 and related interpretations, identifies the criteria for the recognition, measurement and presentation as well as the information to be provided with reference to leasing contracts for both parties, the lessor and the lessee. IFRS 16 marks the end of the distinction in terms of classification and accounting treatment, between operating leases (whose information is off-balance sheet) and financial leasing (which appears in the financial statements). The right to use the leased asset (so-called "right of use") and the commitment assumed will emerge in the financial data in the financial statements (IFRS 16 will apply to all transactions that provide for a right of use, regardless of the contractual form, i.e. leasing, rent or hire). The main novelty is represented by the introduction of the concept of control within the definition. In particular, to determine whether or not a contract represents a lease, IFRS 16 requires verification of whether the lessee has the right to control the use of a specific asset for a specific period of time.

There will be no accounting symmetry with the tenants: there will continue to be a separate accounting treatment depending on whether it is an operating lease contract or a financial leasing contract (based on the guidelines currently in existence). Based on this new model, the lessee must note:

a) in the Balance Sheet, the assets and liabilities for all leasing contracts that have a duration of more than 12 months, unless the underlying asset has a modest value; and
b) in the income statement, the depreciation of assets relating to leases separately from interest related to the related liabilities.

- On the lessor's side, the new principle should have a minor impact on the financial statements (unless so-called "*sub-leases*" are implemented) since the current accounting will not change, except for the financial information which must be quantitatively and qualitatively higher than the previous one. The standard, which ended its endorsement process in October 2017, applies from 1 January 2019 however early application is permitted if IFRS 15 - Revenue from Contracts with Customers is also adopted.
- The Group has undertaken an analysis for a preliminary assessment of the impact. This evaluation, still in progress, may be subject to changes following the more detailed analyses that will be completed during the current year. To complete this analysis, the Group will choose the first application methods

The Company has not opted, as optionally permitted, for the early application from the beginning of the 2018 financial year. Therefore, it will be applied starting from 1 January 2019.

The estimated impact of its application, in relation to the date of 31.12.2018, would have involved: the recognition of assets, among *Intangibles*, for approximately 5,872 thousand euro; the entry, among financial liabilities, of approximately 5,875 thousand euro (for rentals and lease of the office).

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 2018 amounted in total of € 11,864,665, equal to around 7% of the total indebtedness outstanding as of 31 December 2018.

As of the same date part of this indebtedness, € 3,711,700 at a 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 31.12.2018 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. 2018
Payables to banks and bonds	291,702,417	24,501,227	79,613,353	72,159,825	151,773,179	176,274,406

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 31.12.2018 to € 2,550,000 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 for which it is the Wholesaler.

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

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

(d) Price risk

The Group mainly operates in a regulated market (integrated water service). The trend of the prices for the services provided (tariff) is therefore linked to the tariff regulation (by the 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 2018 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/Write-back 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 2018 follows:

In Euro	Financial assets and liabilities at fair value with OCI variations	Loans and receivables/payables at nominal value	Available-for-sale financial assets	Financial liabilities/assets at amortised cost	Total
ASSETS					
Other non-current assets	-	44,513,754	-	-	44,513,754
Trade receivables	-	180,636,627	-	10,639,295	191,275,921
Cash and cash equivalents	-	198,254,372	-	-	198,254,372
Other current assets	-	16,489,639	-	-	16,489,639
LIABILITIES					
Non-current financial liabilities	13,668,122	96,136,919	0	41,820,085	151,625,126
Other non-current liabilities	0	75,439,031	0	0	75,439,031
Trade payables	0	76,890,597	0	0	76,890,597
current financial liabilities	6,385,975	11,188,789	0	7,277,641	24,852,405
Other current liabilities	0	47,558,960	0	0	47,558,960

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 IFRS 13 define 3 *fair value* levels:

- level 1: this level contains the classification of the financial assets/liabilities whose *fair value* is determined on the basis of prices listed (unchanged) on active markets, both Official and *Over the Counter* of identical assets or liabilities;
- level 2: this level contains the classification of the financial assets/liabilities whose *fair value* is determined on the basis of inputs other than the listed prices as per level 1, but which for these assets/liabilities said inputs are observable directly or indirectly on the market;
- level 3: this level contains the classification of the financial assets/liabilities whose *fair value* is determined on the basis of market data 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 2018, on the basis of the level which reflects the inputs used to determine the *fair value*

In Euro	As of 31 December 2018		
	Level 1	Level 2	Level 3
Derivative financial instruments (IRS)		20,054,097	

The CAP Group, during the years 2006 and 2007, entered into certain *Interest Rate Swap* agreements; specifically, insofar as still existing as of 31.12.2018, 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 Idrà 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 Swap”, i.e. financial instruments created for the purpose of transforming the debt repayment profile standardising, in terms of current value, the repayment of said debt

6. Disclosure by operating segments

The disclosure relating to the sectors of activities has been prepared according to the provisions of IFRS 8 “Operating segments”, which envisage the presentation of the disclosure on a consistent basis with the methods adopted by management for the adoption of the operational decisions. Therefore, the identification of the operating segments and the disclosure presented are defined on the basis of the internal reporting used by *management* for the 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 (excluding the capital);

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

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

7. Notes to the consolidated balance sheet and financial position

7.1. Rights on assets under concession

Following is the movement in the item “Rights on assets under concession” for the period 1 January 2018 to 31 December 2018 is presented below.

In Euro	Value as of 31 Dec 2017	Increases	Decreases	transfers	Grants and contributions	Amortisation	Decommissioning/disposal of business units	Reclassification of Gorla acquisition	Values as of 31 Dec 2018
Rights on assets under concession in the period	626,212,907	73,584,724	(532,808)	(103,858)	(15,256,172)	(34,207,100)	(922,550)	36,710	648,811,852
Rights on assets under concession in progress	85,476,608	90,359,172	(72,789,822)	(72,039)	-	-	(25,297)	9,596	102,958,219
Rights on assets under concession	711,689,516	163,943,896	(73,322,630)	(175,897)	(15,256,172)	(34,207,100)	(947,847)	46,306	751,770,071

In accordance with IFRIC 12, rights on assets under concession for € 751,770,071 as of 31 December 2018 and € 711,689,516 as of 1 January 2018 were recognised. These rights are amortised on a straight-line basis over the duration of the concession, and then destined to be assigned to the assignor on conclusion of the concession.

The item "Rights on assets under concession" is stated net of the operating grants for the plant amounting to € 15,256,172. The investments for 2018 amount to € 87,745,302.

On 28.12.2018 CAP Holding S.p.A. sold to ALFA S.r.l. the company branch concerning the aqueduct service carried out at the Municipality of Gorla Minore (VA), effective 31.12.2018.

Impairment test on rights on assets under concession

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

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

For the purpose of performing the *impairment* test, the cash flows for the duration of the Concession were used as extrapolated from the economic-financial plan drawn up by the Group, as well as the envisaged residual value of the 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 discounted cash flow rate (WACC) used, which reflects the market valuations of the cost of money and the specific risks of the sector of activities and the geographic area of reference, is equal to 3.8%.

The *impairment* test carried out did not reveal any permanent losses in value with reference to the amounts recorded under rights on assets in concession for the 2018 financial year and, consequently, no write-downs were made on these assets.

7.2. Other intangible assets

The change in the item "Other intangible assets" for the period from December 31, 2017 to December 31, 2018 are shown below:

In Euro	Value as of 31 Dec 2017	Increases	Decreases	Reclassification of Gorla acquisition	transfers	amortisation	Values as of 31 Dec 2018
Other intangible assets in the period	8,052,346	8,482,554	0	(36,322)		(3,368,650)	13,129,928
Other intangible assets in progress	5,370,506	2,456,088	(7,158,484)	(6,470)	(3,127)		658,514
Other intangible assets	13,422,852	10,938,643	(7,158,484)	(42,792)	(3,127)	(3,368,650)	13,788,442

The amount totalling € 13,788,442 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 to € 5,698,014 when adjusted, which was increased by € 1,654,770 following the absorption in 2013 of the company 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.

7.3. Properties, plant and machinery

As of 31 December 2018, the tangible fixed assets amount to € 13,653,518, with a difference compared to the balance as of 31 December 2017 of € 2,399,783. (€ 11,253,735 in 2017).

In Euro	Values as of 31 Dec 2017	Increases	Decreases	Reclassification of Gorla acquisition	transfers	amortisation	Values as of 31 Dec 2018
Other intangible assets in exercise	7,142,591	1,795,134	(936)	-	(11,000)	(1,525,454)	7,400,335
Other intangible assets in progress	4,111,144	3,743,357	(1,676,383)	(3,127)	78,192	-	6,253,183
Other intangible assets	11,253,735	5,538,491	(1,677,319)	(3,127)	67,192	(1,525,454)	13,653,518

Other fixed assets owned by the Company for a book value as of 31 December 2017 amounting to € 1,374,796 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 31.12.2021), with headquarters in Rozzano (MI) which, as of 1 June 2016 was leased to third parties (until 31.05.2022). The related fees are parameterised to the ISTAT.

In conclusion, it is believed that, as a whole, sufficient future economic benefits are generated to recover the carrying amount recognized by the Group.

7.4. Prepaid tax assets

The breakdown of the item "Prepaid tax assets" for the period from 31 December 2017 until 31 December 2018 is presented below:

In Euro	Values as of 31 Dec 2017	Increases	Decreases	Values as of 31 Dec 2018
TOTAL DEFERRED TAX ASSETS				
For provision for treatment plant area decontamination costs	5,569,659	331,887	-	5,901,546
For tax loss carryforward	-	5,185,512	-	5,185,512
For connection contributions from users	2,523,646	657,925	(332,124)	2,849,447
For write-down of receivables exceeding the tax limit	7,318,503	1,748,077	(6,612,748)	2,453,832
For provision for damages from sewer network percolation	1,765,656	-	-	1,765,656
For provision for future plant decommissioning costs	1,141,163	350,178	-	1,491,341
For provisions for pending lawsuits	1,440,915	440,973	(495,344)	1,386,544
For provision for future tank decontamination costs	1,068,145	152,468	-	1,220,614
For provision for risks on personnel costs	1,149,357	-	-	1,149,357
For asbestos disposal costs	-	1,184,058	-	1,184,058
For provisions for amicable settlements	1,304,494	-	(394,190)	910,304
Provisions for adjustments as per IAS 1 Jan. 2017	680,095	-	-	680,095
For provision for expected loan hedging transactions	917,864	-	(310,461)	607,403
For provision for environmental damages	263,716	-	-	263,716
For provisions for other risks	441,458	8,209	(227,428)	222,240
For provision for non-deducted excess amortisation	212,595	-	-	212,595
For ACE carryforward	-	158,488	-	158,488
For sludge disposal costs	-	111,799	-	111,799
For amortisation of goodwill	52,145	-	(6,525)	45,620
For provision for sundry charges	40,455	-	(773)	39,682
For provision for municipal asphalt costs	150,209	4,444	(125,626)	29,027
For provision for water bonus	774,198	-	(761,286)	12,912
For default interest payable not paid.	6	30	(2)	34
TOTAL IRES (company income tax)	26,814,279	10,334,048	(9,266,506)	27,881,821
For connection contributions from users	442,003	115,137	-	499,018
For provision for sundry charges	6,321	-	135	6,186
For amortisation of goodwill	9,210	-	1,142	8,068
For provision for water bonus	135,485	-	133,225	2,260
For provision for future tank decontamination	186,925	26,682	-	213,607
For provision for treatment plant area decontamination costs	974,690	58,080	-	1,032,771
For provision for damages from sewer network percolation	308,990	-	-	308,990
For provision for municipal asphalt costs	26,274	778	21,985	5,067
For sludge disposal costs	-	19,565	-	19,565
For asbestos disposal costs	-	207,210	-	207,210
For provision for un-deducted excess amortisation	37,204	-	-	37,204
For provisions for other risks	34,384	-	34,384	-
TOTAL IRAP (regional business tax)	2,161,486	427,452	(248,992)	2,339,945
TOTAL ACTIVE PREPAID TAXES	28,975,765	10,761,500	(9,515,498)	30,221,767
TOTAL DEFERRED TAX LIABILITIES				
For fiscal amortisation	(2,077,912)	(2,871,086)	-	(4,948,998)
For default interest receivable to be collected	(410,923)	(183,670)	410,923	(183,669)
Provisions for adjustments as per IAS 1 Jan. 2017	(88,852)	-	-	(88,852)
differences from consolidation	28,859	(58,095)	-	(29,236)
TOTAL IRES (company income tax)	(2,548,827)	(3,112,850)	410,923	(5,250,755)
TOTAL DEFERRED TAX LIABILITIES	(2,548,827)	(3,112,850)	410,923	(5,250,755)
TOTAL PREPAID TAX ASSETS	26,426,937	7,648,649	(9,104,575)	24,971,012

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 2018 for prepaid taxes, offset by deferred tax liabilities, amount to € 24,971,012.

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

7.5. Other non-current assets

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

Other receivables and other non-current financial assets	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change
Equity investments in companies	15,336,123	15,254,069	82,054
Receivables from subsidiaries	0	282	(282)
Other receivables	9,523,330	13,307,638	(3,784,308)
Tax receivables	6,657,396	16,832,372	(10,174,977)
Prepayments and accrued income	8,646,640	8,591,838	54,802
Bank and postal deposits	1,899,029	3,509,040	(1,610,011)
security deposits	644,338	1,816,819	(1,172,481)
Receivables from social security and welfare institutions	125,480	125,480	0
Receivables from companies with minority invest	1,440,707	474,631	966,077
Financial receivables	80,063	80,063	0
Other non-current financial receivables	160,649	1,126,931	(966,282)
Total Other receivables and other non-current financial assets	44,513,753	61,119,162	(16,605,408)

Following are changes made in 2018 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, network contract for companies with legal status:

In Euro	Values as of 31 Dec 2017	Increases	Decreases	Values as of 31 Dec 2018
Pavia Acque S.c.a r.l.	14,077,735	315,078	-	14,392,813
Rocca Brivio Sforza S.r.l. in liquidation	1,158,652	-	(236,331)	922,321
Water Alliance – Acque di Lombardia	17,682	39,772	(36,464)	20,990
Equity investments	15,254,069	354,850	(272,795)	15,336,123

During 2018, the Group ordered a contribution of €315,078 in favour of Pavia Acque S.c.a.r.l. regarding receivables that the CAP Group held towards the same company, by deed dated 1.02.2018.

The investment in Water Alliance - Acque di Lombardia was registered during the year due to the transfer of endowment capital completed on 20 January. 2017. The total endowment fund of Water Alliance - Acque di Lombardia is € 340,395 fully paid up, owned by the Company for € 79,248, equal to 23.3% at 31.12.2018.

The 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 actual control over Rocca Brivio Sforza S.r.l. in liquidation since it does not have substantial rights that give it the power to direct the relevant activities of the investee in order to influence its returns.

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

It should be noted that within the "Other non-current assets" the non-current portion of the amount on the captive account of CAP Holding in favour of the bank Banca Intesa San Paolo S.p.A. for an amount of euro 1,899,029 (euro 3,473,424 at 31 December 2017). For more details on the loan to which the amount is connected, see item 7.15.

With regard to the sub-item "other receivables", these are credit portions whose collectability was estimated over 12 months in 2017, and relating to:

- € 8,643,842 to the company Brianzacque S.r.l. for the sale of Il step branch.

With regard to the sub-item "financial receivables", these are portions of receivables whose collectability was estimated as beyond 12 months in 2018, and relating to:

- € 80,063 mainly consisting mainly of deposits made for € 22,498 by the incorporated company I.A.No.Mi. S.p.A. and for € 43,032 directly from CAP Holding S.p.A., at the Provincial Treasury Section of Milan – Servizio Cassa Depositi e Prestiti - as indemnity for various properties subject to occupation and/or expropriation for the acquisition of the areas necessary to construct the plants.

With regard to prepaid expenses, the item includes an amount of € 6,607,617 (as a non-current portion) recognized as a matching balance to the payable due to Cassa Depositi e Prestiti S.p.A. as guarantee commissions on the loan issued by the European Investment Bank backed by Cassa Depositi e Prestiti itself. The current portion is recognized under item 7.10 for an amount of € 1,095,687.

7.6. Trade receivables

Following is the breakdown of the item "Trade receivables" as of 31 December 2018:

TRADE RECEIVABLES	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change
Receivables from civil users	145,561,012	176,959,282	(31,398,270)
For invoices issued	103,802,092	69,099,794	34,702,298
For invoices to be issued	49,481,468	108,114,582	(58,633,115)
Allowance for doubtful receivables	(7,722,548)	(255,095)	(7,467,453)
Receivables from productive users	14,782,727	13,121,574	1,661,153
For invoices issued	11,095,117	13,121,574	(2,026,457)
For invoices to be issued	4,104,399	0	4,104,399
Allowance for doubtful receivables	(416,789)	0	(416,789)
Receivables from other operators for tariffs	870,050	1,440,713	(570,664)
For invoices issued	278,469	278,469	0
For invoices to be issued	591,581	1,162,245	(570,664)
Receivables from other wholesale operators	16,658,949	30,715,025	(14,056,076)
For invoices to be issued	16,658,949	30,715,025	(14,056,076)
Other trade receivables	11,613,158	10,008,759	1,604,399
For invoices issued	2,228,633	2,216,223	12,410
For invoices to be issued	13,281,458	11,912,917	1,368,541
Allowance for doubtful receivables	(3,896,933)	(4,120,381)	223,448
Receivables from subsidiary company (Rocca Brivio Sforza)	282	0	282
For invoices issued	282	0	282
Receivables from municipalities	1,789,745	315,047	1,474,697
For invoices issued	933,083	233,037	700,046
For invoices to be issued	1,086,109	82,010	1,004,099
Allowance for doubtful receivables	(229,447)	0	(229,447)
Total	191,275,922	232,560,400	(41,284,479)

Trade receivables mainly refer to amounts set aside for invoices issued and to be issued to civil users, production users and other customers. The balance also includes the amounts set aside for invoices to be issued deriving from tariff adjustments. The 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).

The balance also includes provisions for invoices to be issued deriving from tariff adjustments for €3,829,815. These are invoices to be issued for "guaranteed revenues", or sums which, based on the agreements for the award of the water service and the "tariff" regulation of the sector Authority (ARERA) constitute financial assets accrued by the date of 31.12.2018, but which may be applied to users on consumption after that date. These regulatory adjustments refer to the years 2014-2018

7.7. Inventories

Following is the detail of the item "Inventories":

INVENTORIES	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change during the period
Raw, ancillary and consumable materials	4,801,892	5,578,442	(776,550)
Total inventories	4,801,892	5,578,442	(776,550)

The inventories item is composed of electrical and hydraulic components, electrical pumps for wells, raw materials for purification, meters and other consumable materials held in the warehouse at 31 December 2018.

7.8. Contract work in progress

The item amounting to € 1,564,113 includes the value of the contracts for work in progress, inherent to the planning, works management and construction of works for the hydraulic repairs of the Cagnola water source, on behalf of the Lombardy regional authority, entrusted to the absorbed company I.A.No.Mi. S.p.A.

As of 31 December 2018, the Company has not received any advance payment.

The amount as of 31 December 2018 represents the gross value of the stage of completion of said contract

7.9. Cash and cash equivalents

Following is the breakdown of the item "Cash and Cash Equivalents":

CASH AND CASH EQUIVALENTS	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change
Bank and postal deposits	198,242,197	170,663,561	27,578,636
Cheques	2,959	27,380	(24,421)
Cash and equivalents on hand	9,216	19,198	(9,982)
Total cash and cash equivalents	198,254,373	170,710,140	27,544,233

Please note that the current portion of the restricted account in favour of the bank Banca Intesa San Paolo S.p.A. equal to € 1,500,000 (€ 1,135,955 at 31 December 2017) deriving from the disbursement made on 1 December 2012 to T.A.S.M. S.p.A., incorporated as of 1 June 2013 in CAP Holding S.p.A

The amount refers specifically to the purpose loan for the construction of the extension of the purification plant in the municipality of Assago, the upgrading of phase 1 Melegnano purification plant, the adaptation of the existing plant line of purification of Rozzano and sewage networks. The account is released upon presentation of the expense documents incurred for the realization of the interventions indicated above.

In the same item, as at 31.12.2018, the amount equal to € 100,894 is also recognized as the current portion of a current account opened with Banca Nazionale del Lavoro SpA. established as a pledge to guarantee a financing line granted by the Bank to Cogeser Servizi Idrici S.r.l. The latter sold a branch of the "water" company to CAP Holding S.p.A. on 28.06.2012.

7.10. Other current assets

Following is the detail of the item "Other current assets":

OTHER RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change
VAT/tax receivables	6,581,311	12,266,392	(5,685,081)
Receivables from companies with minority investments	2,113,033	4,560,024	(2,446,992)
Receivables for contribution for plants	775,412	2,617,814	(1,842,401)
Receivables from Brianzacque (disposal of business unit)	1,963,309	2,194,614	(231,304)
Other sundry receivables	2,405,087	-	2,405,087
Receivables from municipalities for work and/or services	-	1,238,741	(1,238,741)
Receivables from banks	1,281,802	1,207,536	74,266
Advances to Public Bodies	165,823	165,823	0
Receivables from social security and welfare institutions	54,999	12,640	42,359
Receivables from employees	67,284	37,141	30,143
From third parties	330,366	527,704	(197,338)
Prepayments and accrued income	751,214	869,914	(118,700)
TOTAL OTHER RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS	16,489,639	25,698,342	(9,208,702)

The tax credit essentially consists of VAT credit for € 3,162,081, € 2,889,572 for Ires, € 405,243 for IRAP and € 124,414 for virtual stamp duty.

Other receivables amount to € 9,908,328 at December 31, 2018 and are mainly composed of:

- receivables from investee company Pavia Acque SCARL for € 2,113,033 for services relating to commercial contracts;
- other miscellaneous receivables for € 2,405,087 mainly refer, for € 2,383,636 to receivables from the companies SAL S.r.l. and Alfa SRL for items related to the sale of branches.
- receivables from credit institutions for € 1,281,802 mainly refer to prepayments on commissions relating to guarantees;
- receivables from public bodies in which the preponderant part consists of receivables from the ATOs of the provinces of Milan and Monza Brianza, for a sum equal to € 775,412, regarding grants related to assets and/or financing amounts to cover expenses relating to projects included in the excerpt plans.

7.11 Available-for-sale assets

As of 31.12.2018 the item amounts to zero euro, as at 31.12.2017.

7.12. Shareholder's 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 changes in the item "Provisions for risks and charges" are shown below:

PROVISIONS FOR RISKS AND CHARGES	Values as of 31 Dec 2017	Provisions	adjustment/re versals	Utilisation/trans fers	Values as of 31 Dec 2018
Provision for risks for future losses	995,272	-	-	(128,956)	866,316
Provision for risks on personnel INPS contributions	4,788,991	-	-	-	4,788,991
Provisions for pending lawsuits	6,235,986	2,095,488	(2,013,557)	399,211	6,717,129
Provision for out-of-court agreements	5,511,441	-	(1,642,457)	-	3,868,984
Provision for risks relating to request for 2007 tax reimbursement	2,719,952	-	-	-	2,719,952
Provision for sundry charges	26,797	-	-	(3,220)	23,577
Total provision for other risks	20,278,439	2,095,488	(3,656,014)	267,035	18,984,949
Provision for bill discounts for social reasons	3,225,823	-	(3,172,024)	-	53,799
Provision for taxes	399,210	961,683	(818,660)	(399,210)	143,023
Provision for environmental damage from sewers	1,124,295	-	-	-	1,124,295
Provision for asphalt expenses	625,566	18,518	(523,442)	-	120,642
Provision for future tank decontamination expenses	4,450,606	635,284	-	-	5,085,890
Provision for decontamination of treatment plant areas	23,206,911	1,382,864	-	-	24,589,774
Provision percolation damage decontamination	7,356,900	-	-	-	7,356,900
Provision for sludge disposal	0	465,830	-	-	465,830
Provision for disposal of asbestos from water m	0	4,933,576	-	-	4,933,576
Provision for future plant decommissioning	4,667,775	1,459,073	-	-	6,126,848
Total provision for future expenses	45,057,086	9,856,827	(4,514,126)	(399,210)	50,000,578
Total provisions for risks and charges	65,335,525	11,952,316	(8,170,139)	(132,175)	68,985,526

Following are some notes on the most significant provisions as at 31.12.2018:

- € 5,085,890 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;
- € 6,126,848 for the future expenses fund for the disposal of buildings. This mainly refers to buildings related to the Milan office, Via Rimini 34/36. These buildings will in fact be demolished presumably in the three-year period 2019-2021 and a new building will be erected to be used as the "headquarters" of the CAP Group.
- € 24,589,774 for the reclamation and environmental restoration intervention fund related to the treatment area, following the assessment, which will be the reasonably expected condition of the lands underlying the sections, in particular pre-treatment and anaerobic digestion at the end of their useful life, as well as the estimate of the charges necessary to eliminate the statistically occurring contaminations.
- € 7,356,900 for reclamation from the sewerage system, through which it is believed that it is possible to face the probable costs of reclamation of the soil polluted by the drainage of wastewater from deteriorated sewage networks;
- € 4,933,576 for the fund for future removal of aqueduct networks granted to CAP Holding S.p.A., no longer in operation, which have asbestos cement among the construction materials. This is essentially an estimate, as of 31.12.2018, of the cost of future excavations and removal of

approximately 12 km of pipelines, surveyed in 2018 and decided as an alternative to the risk control and management activities envisaged by Article 12 of the Law No. 257 of 27 March 1992. In December 2018, the company made a public commitment to this effect towards the relevant EGA.

- € 1.124.295 for the fund for future expenses for environmental damage (environmental restoration) due to the drainage of sewage discharges into the ground.
- € 465,830 for the fund for issues related to the Lombardy Regional Administrative Court ruling No. 1782/2018 and new urgent regulations regarding sludge, article 41 of Law Decree No. 109 of 28/09/2018 converted into Law N. 130 on 16/11/2018. The aforementioned measures led to difficulties in 2018 in the regular provision of mud for spreading in agriculture. This is essentially the estimate, as of 31.12.2018, for the future disposal of sewage sludge, accumulated beyond what is physiological, as of 31.12.2018, and temporarily stored awaiting disposal.
- € 3,868,984, for the "good-natured agreements" fund. It was formed, especially in 2010 and 2011, in compliance with article 12 of the Presidential Decree No. 207 of 5 October 2010 "Regulation for the execution and implementation of Legislative Decree No. 162 of 12 April 2006" (Procurement Code) which, following the repeal of Legislative Decree 163/2006, and with it expired for contracts subsequent to April 2016. Article 12 provided for the mandatory pre-formation of an equal fund at 3% of the "economic framework" for the risks associated with "disputes relating to subjective rights deriving from the execution of public works contracts". As the works for which it was set aside close, the fund is progressively released.
- € 53,799 for "social incentive rates" fund. The fund established in past years as a result of the decision taken with resolution No. 7 of the Conference of ATO Città Metropolitana Municipalities of 31/05/2016 approving the "regulation for the concession of tariff reductions of a social character CAP Group" and subsequent additions, was released, for the part not used as of 31.12.2018, and no longer available for use.
- € 120,642 for provision for future expenses for "road repairs". The cost was quantified as the best estimate as at 31.12.2018 by the technicians of CAP Holding S.p.A. of the road sections for which, by the same date, the requirements that are imposed on the Manager of the SII to intervene, in compliance with what is regulated by resolution no. 5 point 2 of the Milan Metropolitan Area Office of 25.5.2016. In summary: CAP Holding S.p.A. must provide, for the restoration of the roads concerned (beyond defined margins of tolerance), from multiple tampering operations carried out within the activities of the integrated water service, on municipal roads.
- € 4,788,991 for "provision for risks on personnel costs": includes provisions set aside for requests made by INPS for the regularization of payments of certain types of contributions. No further provisions were made, as the fund was considered to be adequate in relation to the amount of tax notifications notified by the INPS, in relation to which the related judgments are still pending before the territorially competent Court of Appeal and before the Court of Supreme Court;
- € 2,719,952 for "2007 tax refund risk fund": includes the provision made in 2008 for the recognition of a receivable of the same amount against the Treasury, represented by taxes (IRES and IRAP) paid and not due and related interest and reduced penalties, paid on 30 September 2008 by the incorporated company CAP Management, and requests for reimbursement by application pursuant to article 38 of Presidential Decree No. 602/1973, presented on 11 May 2009 at the Revenue Agency, and subsequent appeal to the Provincial Tax Commission of Milan, rejected with sentence No. 78/47/12. An appeal was brought against this sentence before the Regional Tax Commission which, with sentence No. 110/28/13, filed on 19.09.2013, declared the appeal inadmissible. Amiacque has therefore decided to appeal sentence No. 110/28/13 with appeal for revocation. In the face of the rejection of the same, it was decided to lodge an appeal with the Court of Cassation. At the same time, an appeal to the Supreme Court is still pending on the merits of the case.

7.14. Employee Benefits

The change in the item "Employee benefits" for the period 31 December 2017 to 31 December 2018 is presented below:

Employee Benefits	Values as of 31 Dec 2017	Disposal/Acquisition of business units	Provisions	Utilisation	Financial expense	Actuarial gains (losses)	Other changes	Values as of 31 Dec 2018
Employee severance indemnities	6,011,193	(12,852)	99,005	(421,455)	52,856	(151,971)	(99,005)	5,477,771
Total Employee Benefits	6,011,193	(12,852)	99,005	(421,455)	52,856	(151,971)	(99,005)	5,477,771

The provision for severance indemnities reflects the effects of the discounting in accordance with the requirements of IAS 19.

Following is a breakdown of the economic and demographic assumptions used for actuarial valuations:

	2018	2017
Inflation rate	1,50%	1,50%
Discount rate	0,88%	0,88%
Annual frequency Advances/Leavers	1,50%	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 2018 and 31 December 2017 is shown below:

Current and non-current financial liabilities	Values as of 31 Dec 2018		Values as of 31 Dec 2017	
	Current share	Non-current share	Current share	Non-current share
cassa depositi e prestiti mortgages	4,101,721	4,191,753	4,404,825	8,293,474
Intesa San Paolo mortgages	1,894,399	20,439,975	1,858,138	22,334,375
Banca nazionale del lavoro mortgages	567,094	3,105,556	872,100	3,672,650
Current account overdrafts	0	0	500	0
Monte dei paschi di siena mortgages	540,146	2,322,212	556,250	2,862,545
Finlombarda spa loans	97,115	653,174	97,115	750,289
Banca Popolare di Milano	532,452	4,185,428	342,621	4,545,449
European Investment Bank loans	1,981,647	68,018,353	0	70,000,000
Payable to Cassa Depositi e Prestiti as guarantee on EIB loan	1,095,687	6,607,617	1,101,844	7,703,305
2005 bond issue ISIN: IT0003853568	1,481,500	0	2,224,139	1,481,500
2017 bond issue ISIN: XS1656754873	5,661,032	28,432,937	6,048,791	34,093,970
Payable to banks for derivatives	6,385,975	13,668,121	6,183,643	21,272,479
Payables to banks for interest and mortgage	513,636	0	0	0
Total current and non-current financial liabilities	24,852,405	151,625,126	23,689,965	177,010,035

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

In Euro	Maturity	Total	Maturing within one year	Maturing in 2-5 years	Maturing beyond 5 years
2005 Bond issue	2019	1,481,500	1,481,500	0	0
MPS	2019	26,601	26,601	0	0
BNL (COGESER) 0,950	2020	211,111	105,556	105,556	0
MPS OOE	2020	11,870	7,855	4,016	0
MPS	2020	250,162	124,769	125,393	0
MPS	2022	873,248	226,812	646,437	0
Cdp	2022	8,293,474	4,101,721	4,191,753	0
2017 Bond issue	2024	34,093,969	5,661,032	22,728,334	5,704,603
BANCA INTESA OPI 2006	2026	10,329,448	1,084,156	4,898,251	4,347,041
BNL (merger IDRA)	2026	3,461,538	461,538	1,846,154	1,153,846
Finlombardia	2026	399,462	53,262	213,046	133,154
Finlombardia	2026	350,827	43,853	175,413	131,560
BANCA POPOLARE MILANO (AMIACQUE)	2028	4,717,880	532,452	1,632,396	2,553,032
BANCA INTESA EX TASM	2029	12,004,927	810,243	3,732,814	7,461,870
BEI (I tranche)	2029	18,000,000	1,555,582	6,380,645	10,063,773
MPS (AMIACQUE)	2029	1,700,476	154,110	624,747	921,620
BEI (II tranche)	2030	10,000,000	426,065	3,503,584	6,070,351
BEI (III tranche)	2030	12,000,000	0	4,249,446	7,750,554
BEI (IV tranche)	2031	12,000,000	0	3,733,883	8,266,117
BEI (I tranche)	2032	18,000,000	0	3,900,963	14,099,037
TOTAL LOANS		148,206,494	16,857,106	62,692,831	68,656,557

Bank mortgage loans

It should be noted that a loan with Monte dei Paschi Siena S.p.A. signed on 14.12.2011 by the company T.A.S.M. S.p.A. (then merged into CAP Holding S.p.A. deed of merger of 22.05.2013, Volume No. 23262 file No.10176 Notary Public Ferrelli Milan), originally of € 2,000,000, with repayment beginning December 2012 and ending December 2022, which is guaranteed with the release of a voluntary mortgage to guarantee a loan, for a total of € 4,000,000 on real estate units in Rozzano (sheet 15, parcel 995 sub-parcel 701, category E3, Via dell'Ecologia, 8), on which a treatment plant owned by the former T.A.S.M., now CAP Holding S.p.A. (public notary deed 6.3.2012 volume 22358/9707 Notary Public Ferrelli of Milan). The residual debt at 31.12.2018 for this loan amounts to a nominal value of € 873,248.

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., signed 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 22.05.2013, 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 escrow account as collateral in favour of the Bank and it will therefore be unavailable to the company financed until the Bank releases it subsequent to the progress of the expenses financed. 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 31.12.2018 amounts to € 12,004,927.

The payables to banks at 31.12.2018 also include:

- € 211,111 at nominal value, for a loan taken out with BNL by the then Cogeser Servizi Idrici S.r.l. acquired by CAP Holding S.p.A. due to the sale of a business unit on 28.06.2012, which is backed by a guarantee in the form of a pledge on the sums deposited in a bank account opened at the same bank (deposits at 31.12.2018 for € 180,886, recognized under item 7.9). On 31.12.2017 the debt was € 610,541 and included a further loan, fully repaid on 31.12.2018. The amounts deposited on that bank account were therefore released in 2019.
- € 1,700,476 at nominal value for a loan with Monte dei Paschi di Siena, acquired in 2013 by Amiacque S.r.l., with the company branch of AMAGA together with the Abbiategrasso headquarters,

which was purchased with the loan in question. A voluntary mortgage is registered as security for the loan on the Abbiategrasso building. The amortization schedule expires on 01.09.2029.

It should also be noted that the amounts due to banks also include the residual debt as capital for:

- portions of loans transferred by conferment of business unit pursuant to article 2560 of the Italian Civil Code, in Pavia Acque S.c.a r.l. (deeds of 15 July 2008 and 23 December 2016) for which it has not yet been possible to make innovations, due to a residual debt as of 31.12.2018 of a nominal amount of € 1,234,705 and the recognition of the receivable against Pavia Acque Srl, for € 1,234,705 for residual credit, at the nominal value at 31.12.2018;
- shares of loans transferred by partial demerger to Lodigiana S.r.l. (deed dated 28.5.2014) for a residual nominal value of € 855,551, not yet innovated and the recognition in the receivable assets from the Lodigiana Water Balance, for a nominal value of € 855,551 (the company P.I.L. S.r.l. with deed of 14/12/15 rep. 94891 collection No. 24276 Notary Public Mattea of Lodi was incorporated into the SAL Società Acqua Lodigiana, S.r.l.);
- portions of loans transferred for the sale of a business unit to the company Brianzacque S.r.l. for residual nominal value of € 901,213, not yet innovated and the recognition in the receivable from Brianzacque S.r.l., for € 901,271 at 31.12.2018. The difference between the two items relates to the portion of interest at a variable rate relating to the instalment maturing on 31.12.2018 of the partially transferred bond loan.

Payable to Cassa Depositi e Prestiti as guarantee on EIB loan

The item, amounting to € 7.703.305 as of 31.12.2018 (of which €1,095,687 current portion and € 6,607,617 non-current portion), relates to the total charge linked to the guarantee commissions due to the guarantor bank, calculated in proportion to the actual drawdowns on the guaranteed EIB loan, paid periodically until the guaranteed loan expires.

This payable is recognised as a balancing entry to the item Other Current and Non-current Assets (see Notes 7.5 and 7.10) which follows the allocation to the income statement on an accrual basis.

BEI loan

With regard to the amount due to the European Investment Bank, the *tranches* disbursed up until 31 December 2018 were:

- in May 2015, a first of Euro 18,000,000, which will have a repayment period in constant six-monthly instalments (fixed rate) starting from June 2019 to December 2029;
- in November 2015, a second of Euro 10,000,000, which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2019 to June 2030.
- in May 2016, a third of Euro 12,000,000, which will have a repayment period in constant six-monthly instalments (at a fixed rate) starting from June 2020 to December 2030;
- in July 2016, a fourth of Euro 12,000,000, which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2020 to June 2031;
- in July 2017 a fifth of Euro 18,000,000 which will have a repayment period in constant six-monthly instalments (fixed rate) starting from December 2021 to June 2032.

As at 31 December 2018, the total amount due to the EIB amounts to a nominal € 70,000,000 and has been fully disbursed.

Bonds

The entry refers to:

- € 1,481,500 to the debenture loan (ISIN code IT0003853568), with a nominal value of € 20,000,000 placed with the firm in 2005 by the Finance Bank for Public Works S.p.A. (now Intesa Sanpaolo S.p.A.), expiring in 2019. There are no payables due beyond 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. Reimbursement is in six-monthly instalments with constant percentages of the principal sum. The bonds are traded on the ExtraMOT PRO Segment of the ExtraMOT Market operated by Borsa Italiana S.p.A. from 22 July 2016. The interest accrued for 2018 amounted to € 4,074; of these, € 465 were recharged to the companies SAL, Pavia Acque and Brianzacque.

- Euro 34,093,969 for the bond (ISIN code No. XS1656754873), for a nominal € 40,000,000 admitted for listing and trading on the regulated market of the Irish Stock Exchange on 2 August 2017. The bond was fully subscribed by institutional investors. The 7-year notes (maturing August 2024) bear interest payable on an annual basis (first maturity in August 2018) at a fixed rate of 1.98%. The capital is repaid according to an amortization plan at constant principal, without prejudice to the hypotheses of early repayment governed by the regulation of the Bonds.

The costs incurred by the Company to obtain the bond were initially recognized as a reduction of the financial liability and subsequently recorded in the income statement under the amortized cost method, in accordance with the provisions of IFRS 9.

At 31.12.2018 the residual capital, at nominal value, amounts to € 34,285,716, and at amortized cost it amounts to € 34,093,970. The portion of interest pertaining to the year 2018 was entered among the financial liabilities, due within the next financial year, for € 339,429.

The portion due within the following year is equal to € 6,000,461; the portion due beyond the following year amounts to € 22,728,334; the portion due beyond 5 years is equal to € 5,704,603.

The IAS derivative fair value

Reference is made to paragraph 5, point "derivative financial instruments". At 31.12.2018 the value of the derivatives amounted to € 20,054,097, subdivided as shown in the following layout:

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	14/06/2006	17/02/2006	11/07/2006	22/01/2008	16/05/2011
purpose	rate hedging	loan hedging	loan hedging	loan hedging	rate hedging
contract number	72399	602170669	607120274 (12049552)	10706142	5963433
Maturity	31/12/2020	31/12/2021	31/12/2019	31/12/2026	16/05/2026
underlying financial risk	Change in interest rates				
balance sheet value as of 31 Dec. 2018	(16,033)	(16,963,188)	(1,466,972)	(1,558,894)	(49,011)
hedged asset/liability	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 to obtain bank loans were initially recognized as a reduction of financial liabilities and subsequently recognized in the income statement using the amortized cost method, in accordance with IFRS 9.

7.16. Other non-current liabilities

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

Other non-current liabilities and payables	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change
<i>Payables for tax provision</i>			
Tax provision	0	927,477	(927,477)
Total non-current liabilities for tax provision	0	927,477	(927,477)
<i>Payables to municipalities for services and other</i>			
Payables to municipalities for services and other	528,970	528,970	(0)
Total non-current liabilities for payables to municipalities	528,970	528,970	(0)
<i>Payables to others for tariff quotas</i>			
<i>payables to local authorities for tariff quotas</i>	0	4,169,524	(4,169,524)
Payables to EGA for tariff quotas under transitional law	0	1,106,959	(1,106,959)
Payables to companies and consortiums for tariff quotas	0	2,350,851	(2,350,851)
Payables to Villoresi consortium for decontamination contribution on bill	0	1,815,038	(1,815,038)
Payables to companies for operator quota	0	44,371	(44,371)
Payables to companies for quota documents to be received	0	471,682	(471,682)
Total payables to others for tariff quotas	0	9,958,425	(9,958,425)
<i>Payables for contributions</i>			
Payables for ert.nert connection contributions and other third party financed projects	3,408,382	5,373,707	(1,965,325)
Payables for aqueduct connection contributions	4,366,526	0	4,366,526
Payables for sewer connection contributions	1,979,966	0	1,979,966
Payables for ATO/Regional Authority's contributions for work in progress	3,870,830	9,956,458	(6,085,628)
Total non-current liabilities for contributions	13,625,704	15,330,165	(1,704,461)
<i>Payables to others</i>			0
Accrued liabilities and deferred income	4,476,726	4,653,419	(176,693)
Loans taken over	23,080,704	25,386,028	(2,305,324)
security deposits from users and customers	32,892,947	35,727,883	(2,834,936)
Other non-current payables	833,979	629,679	204,300
Total non-current liabilities to others	61,284,357	66,397,009	(5,112,652)
Total other non-current liabilities and payables	75,439,031	93,142,046	(17,703,016)

Another significant sub-item is represented by amounts due to users for the utility guarantee deposits of the integrated water services, for € 32,892,947.

€ 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 31.12.2019 in connection with the depreciation of the related assets.

In conclusion, with regard to the loans undertaken, € 23.080.704, this involves the portions due beyond 12 months, for:

- € 20,423,985 for payables to the ATO for "take over" 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;
- € 864,333 for other mortgages and/or financial loans taken over, 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 incorporated companies in 2013) of the assets of the water service by EELL, now a shareholder. The portion due beyond 5 years amounts to € 334,422.

- € 1,792,386 for a debt, recorded during 2015, for the taking over of the Cddpp loan position No. 4430124, based on agreements signed by the then Idra Patrimonio S.p.A. to finance the so-called "Idra Fanghi" (plant sold during 2015 by Idra Milano S.r.l.). It reached CAP Holding S.p.A. due to the incorporation of Idra Milano S.r.l. in 2015. The amount due beyond five years amounts to € 389,171

The portions of these payables for the acceptance of loans due within 12 months are shown under "other current liabilities".

7.17. Trade payables

This item includes payables relating to the normal performance of commercial activities by the Group, relating to the supply of goods, fixed assets and services for € 76,890,597. At 31 December 2018 there were no payables in the financial statements with a residual duration of more than five years

7.18. Other current liabilities

Following is a breakdown of the item "Other current liabilities".

Other current liabilities and payables	Values as of 31 Dec 2018	Values as of 31 Dec 2017	Change
Payables from minority companies	-	45,032	(45,032)
Payables from minority companies	0	45,032	(45,032)
Payables for aqueduct connection contributions	-	3,060,146	(3,060,146)
Payables for sewer connection contributions	-	1,359,222	(1,359,222)
Payables for sewer connection contributions	-	4,419,368	(4,419,368)
Payables to municipalities for services and other	635,909	942,808	(306,899)
Payables to municipalities for bills to be received	1,045,411	1,156,713	(111,302)
Payables to municipalities for services and other	1,681,320	2,099,521	(418,201)
Payables to local authorities for tariff quotas	1,979,158	0	1,979,158
Payables to companies and consortiums for tariff quotas	3,170,933	0	3,170,933
Payables to Villoresi consortium for decontamination contribution	2,395,130	0	2,395,130
Payables to EGA for tariff quotas under transitional law	1,106,959	0	1,106,959
Payables to others for tariff quotas	8,652,181	0	8,652,181
Security deposits from users and customers	0	(7,459)	7,459
Advances	5,205,893	16,960,982	(11,755,089)
Other payables to users and customers	346,212	0	346,212
Advances from users	5,641,056	0	5,641,056
Advances from municipalities for services and other	598,847	1,571,050	(972,203)
Advances on contributions for ATO MI/Lombardy Reg. Auth job on	8,622,068	8,622,068	0
Payables to the Region and the Province for advances on loans	0	108,345	(108,345)
Other payables to employees	2,783,082	2,804,688	(21,606)
Loans taken over	2,368,359	2,290,632	77,727
Tax payables	7,518,257	733,472	6,784,785
Payables to social security and welfare institutions	3,577,885	3,443,563	134,321
Other liabilities	563,799	915,369	(351,569)
Payables to others	37,225,459	37,442,710	(217,251)
Total other current liabilities	47,558,959	44,006,630	3,552,329

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 amount to € 9,220,915 as of 31 December 2017 and mainly regard advance payments for work in progress commissioned by private entities and public bodies (€ 598,847) and the Lombardy Regional Authority (€ 8,622,068).

It should be noted that part of this amount refers to the long-term order "arrangement of the Cagnola Fontanile". Since these are advance payments, the value of work in progress on order, equal to € 901,693, has not been deducted from the total amount of advances.

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

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

7.19 Liabilities available for sale

As of 31.12.2018 amount to zero, as at 31.12.2017.

8. Notes to the consolidated statement of comprehensive income

8.1 Revenues

As of 31 December 2018, revenues amounted to € 240,320,141.

Following is an indication of the revenues achieved in relation to sales and services performed during the year 2018, divided by the main Area Authorities.

The revenues recorded in the financial statements are mainly composed of:

- Revenues from sales and services for the Milan Metropolitan Area.

Revenues for tariffs of the S.I.I. within the province of Milan determined in the context of the Guaranteed Revenue Bonds amount to € 217,829,065.

With regard to the regulated revenues of the Milan metropolitan area, except for the provincial capital, it should be noted that with resolution No. 503/2016/r/idr of 15 September 2016, the Authority for Electricity, Gas and the Water System (AEEGSI, today ARERA) approved the regulatory scheme, containing the tariff arrangements for the 2016-2019 period.

With subsequent resolution 436/2018/r/idr of 2 August 2018, the same Authority approved the updating of the tariff arrangements for the integrated water service for the years 2018 and 2019, proposed by the Milan Metropolitan Area Office. The reference tariff method for 2017 is the MTI-2, introduced by AEEGSI 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).

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

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.

With subsequent resolution 437/2018/R/IDR of 2 August 2018, the tariff was adjusted for CAP Holding S.p.A. as purification Wholesaler and aqueduct wholesaler for the Province of Monza and Brianza, for 2018-2019,

Also for the Monza and Brianza area, 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).

On the whole, revenues for the integrated water system tariffs in the area of the province of Monza and Brianza determined in the context of the VRG in question amounted to € 12,827,733 for 2018, entirely relating to the wholesaler share.

- Revenues from sales and services for the Pavia area

For the Pavia area, the entire tariff as of 1.1.2014 is due to the consortium company Pavia Acque S.c.a.r.l. pursuant to the agreement assigning the service entered into by said companies and the Pavia ATO Office on 20 December 2013.

Therefore, the Company does not have revenue consisting of a tariff for that area. The CAP Holding S.p.A., as a member of S.c.a.r.l. was appointed to conduct activities of various infrastructures in some municipalities of Pavia, consequently registering among their proceeds a consideration arising from the prices recognized to it by Pavia Acque S.c.a r.l. For 2018 the proceeds amount to € 2,649,542 (plant operation and maintenance).

- Revenues from sales and services for the Varese area
Overall revenues for the integrated water system tariffs within the province of Varese for the Municipality of Gorla Minore amounted to € 185,302. This management ceased effective 31 December 2018, due to the sale of the related business branch of the aqueduct to the company Alfa S.r.l., water manager of the Varese area.

- Other areas

This is a residual presence of CAP Holding S.p.A. that acts as a "wholesaler" recognized by the AGA of the Metropolitan City of Milan with effect from 1.1.2016 (see Board of Directors Resolution of the aforementioned EGA No. 1 of 31/05/2016 - Annex A) and relating to the following cases:

- purification service performed through the CAP purifier located in the municipality of San Colombano al Lambro (enclave of the Metropolitan City of Milan in the territory of Lodi) for 3 municipalities of the Lodigiano (Borghetto Lodigiano, Graffignana, Livraga) in which the main Operator is SAL S.r.l;
- purification service rendered to 2 municipalities of the ATO of Como (Cabiato and Mariano Comense, for the latter case there are very few utilities) through the Pero purifier located in the Metropolitan City of Milan;
- purification service carried out by the Peschiera Borromeo plant (located in the Metropolitan City of Milan) that also serves the eastern districts of the City of Milan, where the main Operator is MM S.p.A.

As mentioned above, the management of the water service in the municipality of Castellanza (VA) (aqueduct, purification and sewerage) is also to be considered under metropolitan "tariff" (see Board of Directors resolution of the EGA of the Metropolitan City of Milan No. 1 of 31/05/2016 - Annex A)

In 2018 revenues for the province of Lodi amounted to € 405,351, those for the province of Como amounted to € 154,931 while those for the Metropolitan City of Milan amounted to € 2,237,416.

Added to these are revenues pertaining to Amiacque € 48,968 for authorization to discharge water and € 384,552 for sludge disposal.

8.2 Increases for internal works

The value is equal to € 3,546,984 of which € 3,225,757 for hours of personnel capitalized on the investment orders and for works carried out by Amiacque for € 321,227.

8.3 Revenues for works on assets under concession

Revenues for works on assets under concession amounted to € 86,630,270 for the year ended 31 December 2018. In accordance with IFRIC 12, these revenues correspond to the works carried out on the assets under concession owned by the company and used by the same in the exercise of its characteristic activity.

8.4. Other revenues and income

Following are the details of the item "Other revenues and income" for the year ended 31 December 2018:

Other revenues and income	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
<i>Sundry</i>				
Rental fees received	541,982	555,169	(13,186)	-2%
Penalties from suppliers and custom	700,307	502,698	197,609	39%
Insurance premiums to cover losses	123,006	137,500	(14,494)	-11%
Compensation for damages and othe	568,977	390,224	178,753	46%
Reimbursement for posted personnel	18,033	-	18,033	100%
Other revenues and income	1,664,680	1,318,864	345,816	26%
Other out-of-period amounts and coi	4,934,711	7,976,598	(3,041,887)	-38%
R&D receivable	448,884	238,679	210,205	88%
Funds write-off	5,934,859	5,321,077	613,782	12%
Sundry total	14,935,440	16,440,809	(1,505,369)	-9%
<i>Operating grants</i>				
Operating grants	645,083	554,025	91,058	16%
Total grants	645,083	554,025	91,058	16%
<i>Considerations</i>				
Considerations from individuals anc	2,084,290	1,259,132	825,157	66%
Total considerations	2,084,290	1,259,132	825,157	66%
Total other revenues and income	17,664,813	18,253,966	(589,154)	-3%

It should be noted that the item "Other contingencies and non-existences" contingent assets include reversals, redundancy, unused portions of the "goodwill agreements" fund, the "social incentive tariff" fund, the "asphalt fund", the fund for "pending litigation and "coverage of future losses", for € 5,934,859 (see also paragraph 7.13 above).

8.5. Costs for raw materials, consumables and goods

A breakdown of the item "Costs for raw materials, consumables and goods" for the year ended 31 December 2018 is show below:

Costs for raw and consumable materials and goods	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Consumable materials	569,646	672,168	(102,521)	-15%
Consumable materials for safety in the workplace	566,902	402,915	163,987	41%
Electrical and hydraulic components	1,565,584	1,242,673	322,911	26%
Consumption metres	375,256	1,484,114	(1,108,858)	-75%
Materials destined for works	7,959,155	7,966,422	(7,268)	-0,1%
Potable water filters and raw materials formaking water p	653	818	(166)	-20%
Electrical pumps	72,110	332,654	(260,544)	-78%
Fuels and combustibles	611,119	662,842	(51,724)	-8%
Wholesale water provisioning	105,629	255,142	(149,514)	-59%
Change in inventories	776,549	(219,211)	995,761	-454%
Total costs for raw and consumable materials and goods	12,602,602	12,800,537	(197,935)	-2%

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

8.6. Costs for services

A breakdown of the item "Costs for services" for the year ended 31 December 2018 is shown below

Costs for services	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Works carried out for CAP, private parties and municipalities	32,578,665	24,044,043	8,534,621	35%
Routine maintenance	13,248,041	10,358,341	2,889,699	28%
Work on plant and waterworks houses	35,201	415,661	(380,461)	-92%
Demolition of tanks	-	41,191	(41,191)	-100%
Costs for industrial services	38,521,813	38,623,326	(101,514)	0%
Total cost for industrial services	84,383,719	73,482,564	10,901,155	15%
Allocation to provision for future expenses	7,436,071	25,618,226	(18,182,155)	-71%
Other administrative, general and commercial costs	22,209,079	17,479,833	4,729,246	27%
Total other administrative, general, commercial costs and provisions	29,645,150	43,098,059	(13,452,909)	-31%
Rental and licence fees	1,438,651	1,813,263	(374,613)	-21%
Repayments of loans and concession fees	5,739,358	6,382,413	(643,054)	-10%
Fee for use of well and crossings	1,787,042	1,935,128	(148,086)	-8%
Hiring	1,900,304	2,069,750	(169,445)	-8%
Contingent liabilities	17,437	9,460	7,977	84%
Other sundry operating costs	-	1,992	(1,992)	-100%
Total costs for use of third party assets	10,882,792	12,212,005	(1,329,213)	-11%
Total cost for services	124,911,661	128,792,628	(3,880,967)	-3%

Below, are details of costs for industrial services:

Costs for industrial services	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	%
Electricity	26,986,726	29,358,811	(2,372,086)	-8%
Activated carbon regeneration	1,247,208	1,182,840	64,369	5%
Network and plant cleaning	1,584,202	752,717	831,485	110%
Costs for sludge disposal	7,083,594	6,832,123	251,471	4%
Other industrial costs	1,620,082	496,835	1,123,247	226%
Total cost for industrial services	38,521,813	38,623,326	(101,514)	0%

Below is a breakdown of "other administrative, general and commercial costs":

Other administrative, general and commercial costs	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Insurance	2,067,549	1,733,728	333,821	19%
Sludge disposal	987,430	271,245	716,185	264%
Costs for personnel	1,740,336	1,843,815	(103,479)	-6%
Idroscalo sponsorship	544,210	0	544,210	100%
Professional administrative and technical services	604,636	570,929	33,707	6%
Bank charges and commissions	453,452	577,705	(124,253)	-22%
Connectivity and social network services	373,450	91,167	282,283	310%
Water houses	278,092	341,435	(63,343)	-19%
Maintenance on equipment, sw , hw , vehicles and locations	3,006,428	2,869,471	136,957	5%
Specialist consultancies	1,126,280	1,409,805	(283,525)	-20%
Management, cleaning and security expenses	1,503,744	1,522,981	(19,237)	-1%
Hydraulic risk study	2,395,906	0	2,395,906	100%
Wholesaler purification contract costs	1,157,259	1,117,729	39,530	4%
Reading of consumption meters	635,937	400,753	235,185	59%
Fees and costs for corporate bodies	508,499	487,134	21,365	4%
Contingent items	667,927	394,377	273,550	69%
Other costs	2,809,099	2,695,332	113,768	4%
Other expenses	1,348,847	1,152,229	196,618	17%
Total other administrative, general and commercial costs	22,209,079	17,479,833	4,729,246	27%

The services item includes € 7,436,071 in annual provisions for risks and charges:

- € 4,933,576 for future removal of aqueduct networks granted to CAP Holding S.p.A., no longer in operation, which include asbestos cement among the construction materials.
- € 465,830 for future disposal of sewage sludge, accumulated and temporarily stored in addition to the physiological, as of 31.12.2018.
- € 18,518 for expenses for asphalt as of 31.12.2018.
- € 1,382,864 for the cost of future reclamation of the purifier areas.
- € 635,284 for expenses for future drainage tanks.

8.7. Costs for works on assets under concession

Costs for works on assets under concession amounted to € 49,907,446 for the year ended 31 December 2018 and represent the charges relating to the works carried out on assets under concession from third parties. Capitalized internal costs are recorded by nature in the specific income statements. The item is related to € 86,630,270 in revenues for assets under concession. The difference relates to the consolidation writing for the works 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 2018 is shown below:

Costs for personnel	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Salaries and wages	30,552,819	29,758,592	794,227	3%
Social security charges	9,643,323	9,392,790	250,533	3%
Employee severance indemnity	2,052,230	2,009,928	42,301	2%
Retirement benefits	244,158	246,936	(2,778)	-1%
Other costs	863,639	773,062	90,577	12%
Total costs for personnel	43,356,169	42,181,308	1,174,861	3%

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

Level	In force as of 31.12.2017	Revenue	Expenses	In force as of 31.12.2018
<i>Executives:</i>				
Permanent contracts	1	0	0	1
Term contracts	7	2	1	8
Total executives	8	2	1	9
<i>Personnel with permanent contracts / apprenticeships</i>				
Middle managers	28	4	4	28
Level 8	44	8	8	44
Level 7	45	7	5	47
Level 6	104	28	22	110
Level 5	117	64	34	147
Level 4	171	55	58	168
Level 3	152	38	42	148
Level 2	87	19	29	77
Level 1	3	0	0	3
Total permanent contract and apprenticeship	751	223	202	772
Total term contracts	54	44	34	64
Total Employees	813	269	237	845

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 2018 is presented below:

Amortisation, depreciation, provisions and write-downs	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Amortisation	39,101,203	40,574,750	(1,473,547)	-4%
Bad debts write-off	8,341,369	4,467,874	3,873,496	87%
Total depreciation, amortisation and write-downs	47,442,573	45,042,624	2,399,949	5%
Provisions	3,564,757	4,427,852	(863,095)	-19%
Total provisions	3,564,757	4,427,852	5,410,349	122%
Total depreciation, provisions and write-downs	51,007,329	49,470,476	1,536,854	3%

The amount relating to other provisions, amounting to € 3,564,757 refers to the adjustment of the risk fund.

The provision for doubtful accounts amounted to € 8,341,369.

8.10 Other operating costs

Following are details of the item "Other operating costs" for the year ended 31 December 2018:

Other operating costs	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Membership fees	164,829	166,349	(1,520)	-1%
Books magazines and newspapers	21,406	20,538	868	4%
Losses on receivables	3,000	17,237	(14,237)	-83%
Taxes and duties	1,376,544	2,279,092	(902,548)	-40%
Expenses for ATO-AEEG running costs	1,151,056	947,556	203,500	21%
Socially useful charity donations	319,564	28,455	291,109	1023%
Fines and penalties	43,151	182,019	(138,868)	-76%
Expense reimbursements to third parties	237,518	119,186	118,332	99%
Sundry rights	183,743	56,789	126,954	224%
Other sundry operating costs	42,203	58,433	(16,231)	-28%
Capital losses on fixed assets	245,595	4,877	240,718	4936%
Other out-of-period amounts/contingencies	11,641,194	5,155,898	6,485,295	126%
Total other operating costs	15,429,802	9,036,430	6,393,372	71%

The other contingent liabilities/non-existent liabilities refer mainly to lower revenues for interference resolution work for € 5,191,533 and lower revenues on rate for € 2,810,445.

8.11. Financial income and expense

The balance of the financial income and expense amounts to a negative total of - € 4,871.712. Financial income as of 31 December 2018 totalled € 2,537,863 and mainly regards default interest on outstanding bills and interest for deferred payment arrangements granted to users.

As of 31 December 2018, the financial expense amount to € 7,409,575.

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

Financial expense	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
bonds	739,038	400,898	338,140	84%
Bank loans and mortgages	2,745,642	2,976,068	(230,425)	-8%
EIB loan charges*	1,101,844	951,251	150,593	16%
Swaps (to banks)	1,263,806	1,266,092	(2,286)	-0,2%
Assumption of mortgage loans	1,058,100	1,123,990	(65,890)	-6%
Other	501,145	1,777,178	(1,276,032)	-72%
Total financial expense	7,409,575	8,495,476	(1,085,901)	-13%

*It should be noted that in 2017 the item 'EIB charges and loan' was included under the item 'Bank loans and mortgages'

The amounts indicated above are shown gross of the financial effect linked to the discounting of trade receivables and payables to IFRS 9.

8.12. Taxation

Following are details of the item "Taxes" for the year ended 31 December 2018.

Taxes	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
IRES	10,117,065	13,875,422	(3,758,357)	-27%
IRAP	2,990,871	3,396,158	(405,287)	-12%
Reversal of prepaid taxes for previous years	9,205,037	4,576,941	4,628,096	101%
Prepaid taxes for the year	(10,761,499)	(10,050,789)	(710,710)	7%
Reversal of deferred taxes for previous years	(352,828)	(271,670)	(81,158)	30%
Deferred taxes for the year	3,054,755	1,656,080	1,398,676	84%
Previous years' taxes	(122,584)	(371,741)	249,157	-67%
Total taxes	14,130,817	12,810,400	1,320,417	10%

9. Transactions with related parties

The company CAP Holding S.p.A. is fully publicly owned, whose shareholding structure at 31 December 2018 is made up solely of local territorial bodies served by the Company. As of 31.12.2018 there are 199 Members, of which 196 Municipalities divided 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, 1 Municipality of the Province of Varese. The Province of Monza and Brianza, the Metropolitan City of Milan (former province of Milan) complete the shareholders' register of CAP Holding S.p.A.

The Group is under joint control (so-called *in house providing*) of said public bodies, pursuant to article 2, paragraph 1, letter d) of the Legislative Decree No. 175 of 19 August 2016.

The Group made use of the exemption provided by paragraph 25 of IAS 24, and therefore is exempt from the information requirements referred to in paragraph 18 of IAS 24 relating to transactions with related parties and outstanding balances, including commitments, with respect to the territorial partners.

10. Contractual Commitments, Guarantees and Concessions

Commitments for € 52,202,621 of which:

- € 27,615,138 for residual instalments of mortgages to be repaid to local authorities for the use of their networks and plants in the period 2019-2033; of which € 23,178,071 expiring beyond twelve months;
- € 24,587,483 as an estimate of passive interests that will be paid to lenders in the period after 1 January 2019, on raised and/or accrued loans to be repaid on the closing date of the year.

Obligations vis-à-vis third parties for € 2,706,647 of which:

- € 98,666 for obligation in the process of recourse deriving from the transfer of a business unit pursuant to article 2560 of the Italian Civil Code to Pavia Acque S.r.l. (transfer deed of 15 July 2008);
- € 1,232,473 for obligations under recourse deriving from the transfer of a business unit pursuant to article 2560 of the Italian Civil Code to Pavia Acque S.r.l. (transfer deed of 2016);
- € 1,375,508 for obligations in the process of recovery arising from the spin-off of Idra Patrimonio S.p.A. for the benefit of Idra Milano S.r.l. (the latter incorporated in CAP Holding S.p.A. in 2015) and Brianzacque S.r.l.

Passive Sureties for € 109,304,995 of which:

- € 98,832,056 for guarantees issued by banks in favour of various entities in the interests of CAP Holding and Amiacque;
- € 10,472,939 as insurance sureties issued in the interest of Cap Holding for assignment conventions of the S.I.I. in favour of the AATO of Milan and the AATO of Monza and Brianza;

It should also be noted:

- € 100,000 relating to the guarantee 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 granting of bank credit.

Plants granted for use by local authorities for € 174,443,190 relating to networks, collectors and plants of the S.I.I. owned by the Entities and used by the CAP Group.

11. Directors' and Statutory Auditors' fees

For the year ended 31 December 2018, the fees due to directors, statutory auditors and the supervisory body are summarized in the table below.

Allowances for corporate bodies	Value as of 31 Dec 2018	Value as of 31 Dec 2017	Change	Change %
Board of Directors' allowances	250,551	249,885	666	0%
Board of Statutory Auditors' allowances	128,797	135,653	(6,856)	-5%
Total allowances	379,348	385,538	(6,190)	-2%

12. Independent Auditors' fees

For the financial year ended 31 December 2018, the cost incurred by the Company for the statutory audit in 2018 amounted to € 27,499.

The statutory audit of these financial statements is entrusted to the company BDO Italia S.p.A. appointed, with approval of the relevant remuneration, by the Shareholders' Meeting of CAP Holding S.p.A., in the meeting of 01.06.2017, on a justified proposal of the Board of Statutory Auditors and subject to experiment of a negotiated procedure with comparison of offers, for the years ending on 31 December 2017 to 31 December 2025 (subject to the acquisition by CAP Holding S.p.A. of the status of Public Interest Entity, following the issue and listing, which then took place on 2.8.2017, of the ISIN bond loan XS1656754873, already subject to comment).

The Shareholders' Meeting of Amiacque of 20 April 2018 resolved to confirm the mandate for the statutory audit of the accounts of BDO Italia S.p.A., for the period 2018 - 2020, pursuant to article 13 of Legislative Decree No. 39/2010 and article 2409 bis of the Italian Civil Code, fixing the relative remuneration.

These will be joined by the following in 2018, paid to the same independent auditing firm:

- costs attributable to the Company's obligations pursuant to AEEGSI Resolution No. 137/2016/R/COM 24.03.2016 (audit of the separate annual "regulatory" accounts, for the purpose of *unbundling*, inseparably entrusted with the statutory audit assignment) for € 6,586;
- costs relating to the *assurance* of the 2017 Sustainability Report, entrusted with the mandate of November 2017 for € 11,550;
- costs for certification of expenses incurred for advertising investments from 24 June 2017 to 31 December 2017 - Decree of the President of the Council of Ministers No. 90 dated 16/05/2018 for € 1,000.

13. Transparency obligations for those who receive public funding

Article 1, paragraphs 125, third sentence, of Law No. 124/2017, subsequently supplemented by the "security" Law (No. 113/2018) and the "simplification" decree law (No. 135/2018), requires Italian companies, including CAP Holding S.p.A., to indicate in the supplementary note, also of the consolidated financial statements, of the amounts received (cash) in the previous year (2018, which is also the year of first application, according to State Council opinion No. 1449/2018) of "*grants, contributions, remunerated assignments and in any case economic advantages of any kind*" of an amount equal to or greater than € 10,000, by the public administrations and other subjects (certain public companies) indicated in the first period of the aforementioned paragraph 125.

The standard is not easy to read as confirmed by different and contrasting interpretations in the application, especially with regard to the objective context of reference.

Specifically, the most controversial points are:

- a) "paid positions": according to some, the latter definition must exclude sums received by the company in payment for public works, services and supplies, at least those rendered as part of the company's typical activity¹⁵. Others must be included¹⁶;

¹⁵ According to circular Non.5 dated 22 February 2019 of the Italian association of joint-stock companies (Assonime), the charges deriving from normal business transactions are to be excluded in general. Consideration should also be given to fees deriving from the performance of services provided under an agreement or a program contract and / or sponsorship contracts. The fees could be included from consultancy and collaboration activities to Public Administrations. According to the trade association referred to by the CAP Group, Utilitalia (circular 12832 dated 15.02.2019) would exclude those that are directly related to the activity of the company receiving the sum. Also for the National Council of Chartered Accountants and Accounting Experts (doc. March 2019) operations carried out in the context of their business are excluded, where synallagmatic relations are managed according to market rules and the facilitating measures aimed at the generality of companies are excluded. (including tax relief measures).

¹⁶ Ministry of Labour and Social Policies Directorate General of the Third Sector and Corporate Social Responsibility, Circular No. 2 of 11.01.2019.

- b) general measures usable by all companies and which fall within the general structure of the reference system defined by the State (e.g. availability of road or public lighting infrastructures, ACE facilitation);
- c) selective advantages received in application of an aid scheme accessible on the basis of predetermined general criteria (e.g. tax credits for research and development, facilitation of advertising).

In conclusion, only sums (or utilities, in kind) received in the context of selective "donations" to the company would be subject to publication.

However, State aid and *de minimis* aid contained in the National Register of State aid referred to in article 52 of the Law are expressly excluded (from article 3-quater, paragraph 2, of Decree Law 135/2018) No. 234 of 24 December 2012, if and in what way they declare the existence and the obligation to publish in the context of the aforementioned register.

In addition to the aforementioned points, it should be noted that, given the very wide reference to the "lending" subjects carried out by the first period of the aforementioned paragraph 125, objective difficulties may exist in knowing the subjective social situation of some providers of sums (referring to the case of "companies in public participation", for which there is no exhaustive public list that can be consulted), difficulties that manifest themselves in a more evident way the wider the objective sphere is considered and the greater the number of subjects "customers" with whom the company normally comes into contact

The information to be provided is:

- the identifiers of the lender;
- the amount of the economic advantage received;
- a brief description of the type of advantage/title at the base of the attribution (causal)

As far as we believe, adhering to the prevailing interpretations, that the rule does not apply for the situations listed above under letters a), b) and c) a spontaneous presentation of a table containing the information of "Grants, contributions, remunerated offices and economic advantages", including the above mentioned in letters a) and c), drawn up according to the cash principle and for the calendar year 2018. For the reconstruction of the information regarding lenders, consideration was given to "public" subjects as of 31.12.2018 in the lists of the Decree of the Minister of Economy and Finance of 9 January 2018 as well as in the "IPA" list. It should be noted that the table below shows the figures net of intercompany payments.

Disbursing body	Amount	Description
BRIANZACQUE SRL	475,091	Considerations for work and services
	12,629,317	Considerations from the Integrated Water Service
	269,484	considerations repayments for assumptions of mortgages
	2,194,614	Consideration for disposal of business unit
MM S.P.A.	9,559,073	Considerations from the Integrated Water Service
PAVIA ACQUE S.C.A.R.L.	3,249,119	Considerations from the Integrated Water Service
	518,421	considerations repayments for assumptions of mortgages
ENI S.P.A.	2,600,505	Considerations for work and services
ATO OFFICE OF THE METROPOLITAN CITY OF MILAN	93,033	Inspections and checks of sewerage mains discharges
	2,519,164	Contributions for plants
SAL SRL SOCIETA' ACQUA LODIGIANA	1,367,045	Considerations from the Integrated Water Service
	126,866	Considerations for work and services
	632,617	considerations repayments for assumptions of mortgages
AMMINISTRAZIONE FINANZIARIA	1,917,132	ACE
	448,884	Tax credit
MUNICIPALITY OF PARABIAGO	1,189,996	Considerations for work and services
METROPOLITAN CITY OF MILAN	919,491	Considerations from the Integrated Water Service
MUNICIPALITY OF SESTO SAN GIOVANNI	698,765	Considerations from the Integrated Water Service
MUNICIPALITY OF CINISELLO BALSAMO	542,944	Considerations from the Integrated Water Service
MUNICIPALITY OF RHO	475,461	Considerations from the Integrated Water Service
ASST NORD MILANO	403,191	Considerations from the Integrated Water Service
ASST RHODENSE	401,058	Considerations from the Integrated Water Service
ASST OVEST MILANESE	371,187	Considerations from the Integrated Water Service
GESTORE DEI SERVIZI ENERGETICI - GSE S.P.A.	315,637	GRIN incentives
ASST MELEGNANO E DELLA MARTESANA	314,816	Considerations from the Integrated Water Service
AMSA SPA A SOCIO UNICO	307,136	Considerations for work and services
ALFA S.R.L.	300,000	Consideration for disposal of business unit
MUNICIPALITY OF COLOGNO MONZESE	273,884	Considerations from the Integrated Water Service
MUNICIPALITY OF SAN DONATO MILANESE	239,079	Considerations from the Integrated Water Service
MUNICIPALITY OF PADERNO DUGNANO	236,747	Considerations from the Integrated Water Service
MUNICIPALITY OF INVERUNO	234,583	Considerations for work and services
MUNICIPALITY OF ROZZANO	232,286	Considerations from the Integrated Water Service
A.S.P. GOLGI - REDAELLI	228,590	Considerations from the Integrated Water Service
E.N.P.A.M.	221,725	Considerations from the Integrated Water Service
MUNICIPALITY OF SEGRATE	201,501	Considerations from the Integrated Water Service
MUNICIPALITY OF ABBIATEGRASSO	195,296	Considerations from the Integrated Water Service
MUNICIPALITY OF LEGNANO	193,774	Considerations from the Integrated Water Service
MUNICIPALITY OF BRESCO	184,527	Considerations from the Integrated Water Service
MUNICIPALITY OF CERNUSCO SUL NAVIGLIO	160,900	Considerations from the Integrated Water Service
MUNICIPALITY OF BOLLATE	158,703	Considerations from the Integrated Water Service
MUNICIPALITY OF PESCHIERA BORROMEO	154,767	Considerations from the Integrated Water Service
MUNICIPALITY OF PIOTTELLO	149,136	Considerations from the Integrated Water Service
MUNICIPALITY OF TREZZANO SUL NAVIGLIO	143,711	Considerations from the Integrated Water Service
MUNICIPALITY OF GORGONZOLA	141,706	Considerations from the Integrated Water Service
UNIVERSITA STUDI MILANO	139,737	Considerations from the Integrated Water Service

Disbursing body	Amount	Description
MUNICIPALITY OF TREZZANO SUL NAVIGLIO	138,894	Considerations for work and services
MUNICIPALITY OF PIEVE EMANUELE	132,475	Considerations from the Integrated Water Service
MUNICIPALITY OF CESANO BOSCONI	131,886	Considerations from the Integrated Water Service
MUNICIPALITY OF SAN GIULIANO MILANESE	131,725	Considerations from the Integrated Water Service
MUNICIPALITY OF ASSAGO	130,616	Considerations from the Integrated Water Service
PREFECTURE OF MILAN	126,560	Considerations from the Integrated Water Service
MUNICIPALITY OF LAINATE	126,162	Considerations from the Integrated Water Service
MUNICIPALITY OF PARABIAGO	121,292	Considerations from the Integrated Water Service
ASST RHODENSE	119,217	Considerations for work and services
MUNICIPALITY OF BUCCINASCO	115,402	Considerations from the Integrated Water Service
STMICROELECTRONICS SRL	114,256	Considerations for work and services
MUNICIPALITY OF CUSANO MILANINO	111,822	Considerations from the Integrated Water Service
MUNICIPALITY OF CERIANO LAGHETTO	107,048	Considerations for work and services
MUNICIPALITY OF CORBETTA	106,986	Considerations from the Integrated Water Service
MUNICIPALITY OF MAGENTA	101,996	Considerations from the Integrated Water Service
ASST OVEST MILANESE	101,303	Considerations for work and services
UNIONE DI COM. LOMBARDA ADDA MARTESANA	100,862	Considerations from the Integrated Water Service
MUNICIPALITY OF SEDRIANO	99,860	Considerations from the Integrated Water Service
MUNICIPALITY OF GARBAGNATE MILANESE	88,939	Considerations from the Integrated Water Service
MUNICIPALITY OF VIMODRONE	88,244	Considerations from the Integrated Water Service
MUNICIPALITY OF CASSANO D'ADDA	87,933	Considerations from the Integrated Water Service
MUNICIPALITY OF MELZO	87,314	Considerations from the Integrated Water Service
MUNICIPALITY OF MELEGNANO	86,961	Considerations from the Integrated Water Service
MUNICIPALITY OF NOVATE MILANESE	85,115	Considerations from the Integrated Water Service
MUNICIPALITY OF SETTIMO MILANESE	84,113	Considerations from the Integrated Water Service
ITALIAN REVENUE AGENCY	70,544	Reimbursement of registration fees
	83,166	Reimbursement for taxes from previous years
MUNICIPALITY OF CANEGRATE	82,319	Considerations for work and services
MUNICIPALITY OF LACCHIARELLA	81,165	Considerations from the Integrated Water Service
MUNICIPALITY OF CORNAREDO	80,630	Considerations from the Integrated Water Service
MUNICIPALITY OF SENAGO	77,592	Considerations from the Integrated Water Service
MUNICIPALITY OF OPERA	77,019	Considerations from the Integrated Water Service
CONS. DI BONIFICA VILLORESI	76,594	Considerations for work and services
TRENORD SRL	76,320	Considerations for work and services
MUNICIPALITY OF GAGGIANO	75,664	Considerations from the Integrated Water Service
MUNICIPALITY OF NERVIANO	75,279	Considerations from the Integrated Water Service
MUNICIPALITY OF TREZZO SULL'ADDA	71,884	Considerations from the Integrated Water Service
MUNICIPALITY OF MEDIGLIA	71,711	Considerations from the Integrated Water Service
AREXPO SPA	68,484	Considerations for work and services
MUNICIPALITY OF PANTIGLIATE	67,956	Considerations from the Integrated Water Service
MUNICIPALITY OF BESANA BRIANZA	66,649	Considerations for work and services
MUNICIPALITY OF BASiglio	65,606	Considerations from the Integrated Water Service
MUNICIPALITY OF INVERUNO	63,482	Considerations from the Integrated Water Service
A2A ENERGY SOLUTIONS SRL	62,201	Considerations for work and services
CEM AMBIENTE SPA	61,220	Considerations for work and services

Disbursing body	Amount	Description
MUNICIPALITY OF BAREGGIO	58,604	Considerations from the Integrated Water Service
MUNICIPALITY OF BUSTO GAROLFO	58,535	Considerations from the Integrated Water Service
MUNICIPALITY OF RODANO	58,187	Considerations from the Integrated Water Service
MUNICIPALITY OF ARESE	58,011	Considerations from the Integrated Water Service
MUNICIPALITY OF RESCALDINA	53,957	Considerations from the Integrated Water Service
LARIO RETI HOLDING S.P.A.	53,900	Considerations for work and services
MUNICIPALITY OF SOLARO	52,081	Considerations from the Integrated Water Service
MUNICIPALITY OF CASSINA DE 'PECCHI	52,080	Considerations from the Integrated Water Service
MUNICIPALITY OF PERO	51,241	Considerations from the Integrated Water Service
MUNICIPALITY OF CARUGATE	50,100	Considerations from the Integrated Water Service
TIM S.P.A.	50,062	Considerations for work and services
MUNICIPALITY OF VIGNATE	49,687	Considerations from the Integrated Water Service
MUNICIPALITY OF ZIBIDO SAN GIACOMO	49,278	Considerations from the Integrated Water Service
MUNICIPALITY OF CORMANO	48,172	Considerations from the Integrated Water Service
MUNICIPALITY OF CERRO MAGGIORE	47,240	Considerations from the Integrated Water Service
MUNICIPALITY OF PAULLO	47,237	Considerations from the Integrated Water Service
MUNICIPALITY OF BINASCO	46,759	Considerations from the Integrated Water Service
MUNICIPALITY OF BUSSERO	44,131	Considerations from the Integrated Water Service
MUNICIPALITY OF CANEGRATE	42,360	Considerations from the Integrated Water Service
MUNICIPALITY OF VAPRIO D'ADDA	42,259	Considerations from the Integrated Water Service
MUNICIPALITY OF NOVATE MILANESE	41,396	Considerations for work and services
MUNICIPALITY OF LOCATE TRIULZI	40,777	Considerations from the Integrated Water Service
EXPO 2015 S.P.A	40,148	Considerations from the Integrated Water Service
MUNICIPALITY OF BARANZATE	39,840	Considerations from the Integrated Water Service
MUNICIPALITY OF ARLUNO	39,806	Considerations from the Integrated Water Service
E-DISTRIBUZIONE SPA	39,434	Considerations for work and services
MUNICIPALITY OF SETTALA	38,948	Considerations from the Integrated Water Service
MUNICIPALITY OF COLTURANO	38,936	Considerations from the Integrated Water Service
MUNICIPALITY OF VITTUONE	37,697	Considerations from the Integrated Water Service
MUNICIPALITY OF CAMBIAGO	37,693	Considerations from the Integrated Water Service
MUNICIPALITY OF PREGNANA MILANESE	36,247	Considerations from the Integrated Water Service
UNIAQUE SPA	35,831	Considerations for work and services
LURA ENVIRONMENT SPA	34,343	Considerations for work and services
MUNICIPALITY OF VANZAGO	34,382	Considerations from the Integrated Water Service
MUNICIPALITY OF ARCONATE	33,006	Considerations from the Integrated Water Service
MUNICIPALITY OF OSSONA	32,403	Considerations from the Integrated Water Service
INAIL MILANO	31,629	Repayment of employees' sickness allowance
MUNICIPALITY OF POGLIANO MILANESE	31,046	Considerations from the Integrated Water Service
MUNICIPALITY OF BASIANO	30,750	Considerations from the Integrated Water Service
SELEX ELECTRONIC SYSTEMS SPA	30,679	Considerations for work and services
EXPO 2015 SPA IN LIQUIDATION	30,065	Considerations for work and services
MUNICIPALITY OF CESATE	29,197	Considerations from the Integrated Water Service
MUNICIPALITY OF SAN COLOMBANO AL LAMBRO	26,240	Considerations from the Integrated Water Service
ALER MILANO	25,401	Considerations for work and services
MUNICIPALITY OF CASTANO PRIMO	25,267	Considerations from the Integrated Water Service

Disbursing body	Amount	Description
MUNICIPALITY OF SAN VITTORE OLONA	24,712	Considerations from the Integrated Water Service
A.M.A. ROZZANO SPA	24,234	Considerations for work and services
MUNICIPALITY OF CISLIANO	23,854	Considerations from the Integrated Water Service
MUNICIPALITY OF CUGGIONO	23,417	Considerations from the Integrated Water Service
MUNICIPALITY OF TURBIGO	23,362	Considerations from the Integrated Water Service
MUNICIPALITY OF GESSATE	23,241	Considerations from the Integrated Water Service
MUNICIPALITY OF AICURZIO	23,106	Considerations for work and services
MUNICIPALITY OF ROSATE	23,019	Considerations from the Integrated Water Service
MUNICIPALITY OF VERMEZZO	22,133	Considerations from the Integrated Water Service
METROPOLITAN CITY OF MILAN	22,100	Considerations for work and services
MUNICIPALITY OF TREZZANO ROSA	20,864	Considerations from the Integrated Water Service
MUNICIPALITY OF POZZO D'ADDA	20,764	Considerations from the Integrated Water Service
MUNICIPALITY OF VANZAGHELLO	20,474	Considerations from the Integrated Water Service
MUNICIPALITY OF OZZERO	20,113	Considerations from the Integrated Water Service
MUNICIPALITY OF CASTELLANZA	19,834	Considerations from the Integrated Water Service
MUNICIPALITY OF SANTO STEFANO TICINO	18,818	Considerations from the Integrated Water Service
MUNICIPALITY OF SAN ZENONE AL LAMBRO	18,800	Considerations from the Integrated Water Service
CORE CONSORZIO RECUPERI ENERGETICI S.P.A.	18,501	Considerations for work and services
MUNICIPALITY OF COLOGNO MONZESE	17,729	Repayment for rental security deposit
MUNICIPALITY OF MARCALLO CON CASONE	17,484	Considerations from the Integrated Water Service
COMANDO PROV. VIGILI DEL FUOCO	17,437	Considerations from the Integrated Water Service
MUNICIPALITY OF CARPIANO	16,930	Considerations from the Integrated Water Service
MUNICIPALITY OF ALBAIRATE	16,816	Considerations from the Integrated Water Service
MUNICIPALITY OF PESSANO CON BORNAGO	16,793	Considerations from the Integrated Water Service
MUNICIPALITY OF SAN GIORGIO SU LEGNANO	16,611	Considerations from the Integrated Water Service
MUNICIPALITY OF MOTTA VISCONTI	16,224	Considerations from the Integrated Water Service
MUNICIPALITY OF TRIBIANO	15,953	Considerations from the Integrated Water Service
MUNICIPALITY OF DAIRAGO	15,921	Considerations from the Integrated Water Service
MUNICIPALITY OF ROBECCETTO CON INDUNO	15,514	Considerations from the Integrated Water Service
MUNICIPALITY OF ROBECCO SUL NAVIGLIO	14,886	Considerations from the Integrated Water Service
ASST SANTI PAOLO E CARLO	14,822	Considerations from the Integrated Water Service
MUNICIPALITY OF CERRO AL LAMBRO	14,719	Considerations from the Integrated Water Service
MUNICIPALITY OF NOVIGLIO	14,512	Considerations from the Integrated Water Service
R.T.L.A. GUARDIA DI FINANZA LOMBARDIA	13,780	Considerations from the Integrated Water Service
MUNICIPALITY OF CUSAGO	13,341	Considerations from the Integrated Water Service
MUNICIPALITY OF BOFFALORA SOPRA TICINO	13,322	Considerations from the Integrated Water Service
FONDAZIONE CAP	13,320	Considerations for work and services
CASSA PREV.ASS.DOTTORI COMM.	13,258	Considerations from the Integrated Water Service
MUNICIPALITY OF CASARILE	13,191	Considerations from the Integrated Water Service
PARCO NORD MILANO	13,023	Considerations from the Integrated Water Service
MUNICIPALITY OF VILLA CORTESE	13,020	Considerations from the Integrated Water Service
MUNICIPALITY OF BOVISIO MASCIAGO	11,843	Considerations for work and services
MUNICIPALITY OF NERVIANO	11,547	Considerations for work and services
MUNICIPALITY OF BUBBIANO	11,480	Considerations from the Integrated Water Service
MUNICIPALITY OF CASOREZZO	10,764	Considerations from the Integrated Water Service
MUNICIPALITY OF LAINATE	10,750	Considerations for work and services
A.S. MARE SRL	10,000	Considerations for work and services

14. Events occurring after the balance sheet date

There are no other significant events to report pursuant to IAS 10.

The Chairman of the Board of Directors
Dr. Alessandro Russo

**BOARD OF STATUTORY AUDITORS' REPORT
TO THE SHAREHOLDERS' MEETING of CAP
HOLDING S.P.A.**

*Pursuant to Article 2429.2 of the
Italian Civil Code*

To the shareholders.

During the year ended as of 31/12/2018, we carried out our activity in full observance of the law and the Rules of conduct laid down by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (CNDCEC); we carried out the self-assessment on each member of the Board of Statutory Auditors according to the said laws and rules, and the outcome was always positive.

Supervisory activities pursuant to Art. 2403 and subsequent articles of the Italian Civil Code

We supervised the observance of the law, the Articles of Association and correct management principles.

We took part in the Shareholders' Meetings and the Meetings of the Board of Directors, in relation to which, based on the information available, we did not notice any violations of the law and the Articles of Association, or any transaction manifestly imprudent or hazardous or potentially involving conflict of interests or such as to compromise the integrity of the company's assets.

During the meetings held, we obtained information on the general operating performance and the outlook on its evolution, as well as on major transactions - major due to their size or features - carried out by the company and by its subsidiaries and, on the basis of the information acquired, we indicate that on 25 June 2018, your Company concluded, with effect from 1 January 2018, the purchase of the business unit for the '*Management of the relationship with users and invoicing of water service tariffs and analysis laboratories*' by the subsidiary Amiacque S.r.l.

We met with the firm appointed to audit the BDO 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 criticalities emerged with respect to the correct implementation of the organisational model which need to be highlighted in this report.

We acquired awareness of and oversaw, insofar as our responsibility is concerned, the adequacy and the functioning of the company's organisation, also via the gathering of information from the heads of the divisions and departments and we have no particular observations to report in this regard.

Finally, we oversaw, insofar as our responsibility is concerned, 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 from the examination of the corporate documents, and we have no particular observations to report in this regard.

No complaints as per Article 2408 of the Italian Civil Code were received.

During the supervisory activity, as described above, no further significant facts emerged such as to require reporting in this report.

Annual financial statements

The financial statements of CAP Holding S.P.A. for the year ended 31 December 2018 have been drawn up in accordance with the international accounting standards as envisaged for 'Public Interest Bodies' pursuant to Italian Legislative Decree No. 39/2010.

The financial statements were approved by the Board Meeting held on 15 April 2019 and disclose a net profit of Euro 27,242,184.

The appointed company BDO on 30 April 2019 issued the Additional Report for the Internal Control and Audit Committee as per Art. 11 of Regulation (EU) No. 537/2014, which will be duly forwarded to the Board of Directors.

In the said report, BDO illustrated, inter alia:

- the annual confirmation of the independence of the auditing firm;
- the main aspects of the audit;
- the levels of significance for the consolidated financial statements and the separate financial statements;
- the Audit Plan;
- the scope and method of consolidation;
- the audit method and the measurement methods applied to the consolidated financial statements and the separate financial statements;

- the areas of the consolidated financial statements and the separate financial statements;
- the activities carried out by the audit team dedicated to the CAP Holding S.p.A. Group.

In the same document, BDO also certified that no significant differences had been detected in the auditing of the consolidated financial statements and in that of the separate financial statements, nor any significant shortfalls had been identified in the internal control system and in the financial statements in relation to the financial disclosure process; BDO listed the mandatory communications to the Board of Statutory Auditors and concluded acknowledging that the checks on the due keeping of the company accounts and the correct recognition of the operating events on the accounting records did not reveal significant aspects to be reported.

On 30 April 2019, we have received from said BDO the reports envisaged by Article 14 of Italian Legislative Decree No. 39/2010 and 10 of said Regulation, with regard to the consolidated financial statements and the separate financial statements as of 31 December 2018, in which the auditing firm expressed a positive opinion, without remarks or emphasis of matter.

In the opinion of the auditing firm, the report on operations is consistent with the separate and consolidated financial statements, drawn up in compliance with the legal provisions with no significant errors.

During the 2018 financial year, CAP Holding S.p.A. entrusted BDO with the Certification of the consolidated non-financial declaration pursuant to Art. 3.10 of Italian Legislative Decree No. 254/2016 and Art. 5 of CONSOB Regulation No. 20267.

We received said certificate on 30 April 2019. It shows that the non-financial declaration of the CAP Group for the financial year ended 31 December 2018 was drawn up in compliance with the provisions of Articles 3 and 4 of the Decree and the GRI Standards.

Since we have not been entrusted with the audit of the financial statements, we ascertained, via direct checks and information gathered from the auditing firm, that the legal provisions on the formation and layout of the annual and consolidated financial statements, as well as the report on operations accompanying the same, have been duly respected.

Furthermore, we examined the accounting standards adopted for the formation of the financial statements presented so as to check their compliance with the legal requirements and the economic-business conditions.

The Board of Statutory Auditors did not come across any atypical or unusual transactions, including in those with related parties or inter-company transactions.

Conclusions

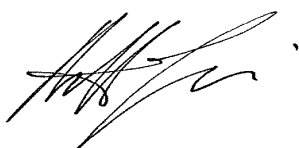
Considering that the results of the activities carried out by the auditing firm contained in the audit report on the financial statements, which were made available to us on 30 April 2018, the Board of Statutory Auditors proposes to the Shareholders' Meeting to approve the annual financial statements

of CAP Holding S.p.A. and the related proposal for the allocation of the operating result for the year, as well as to approve the consolidated financial statements of the CAP Group, for the period ended 31 December 2018, as proposed by the Board of Directors.

Milan, Italy, 30 April 2019

The Board of Statutory Auditors

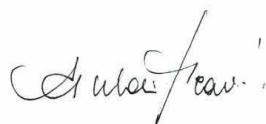
Mr. Raffaele Zorloni, Chairman;



Ms. Giuditta Vanara, Standing Statutory Auditor.



Mr. Antonio Traviglia, Standing 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 Regulation (EU) No. 537/2014

**Consolidated financial statements as of 31
December 2018**

**Report of the independent auditing firm
pursuant to Article 14 of Italian Legislative Decree No. 39 dated 27 January 2010 and Article 10 of
Regulation (EU) 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 2018, 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 2018, of the result of its operations and its cash flows for the year then ended on that date, in accordance with the International Financial Reporting Standards adopted by the European Union.

Basis for the opinion

We carried out the accounts audit in accordance with the international audit standards (ISA Italy). Our responsibilities in accordance with these standards are more fully described in the section *Responsibilities of the 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 on presentation criteria. 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.

Bari, Bergamo, Bologna, Brescia, Cagliari, Florence, Genoa, Milan, Naples, Padua, Palermo, Pescara, Rome, Turin, Treviso, Trieste, Verona, Vicenza

BDO Italia S.p.A. - Registered Offices: Viale Abruzzi 94 - 20131 Milan, Italy - Share Capital Euro 1,000,000 fully paid-in Tax Code, VAT No. and Milan Companies' Register No. 07722780967 - Milan E&A Index No. 1977842 Enrolled in the Register of Official Auditors under No. 167911 by means of Ministerial Decree dated 15 March 2013 Italian Official Gazette No. 26 dated 2 April 2013
BDO Italia S.p.A., an Italian joint-stock company, is a member of BDO International Limited, company subject to UK law (company limited by guarantee), and is a member of the BDO international network of independent companies.

Key aspects

Audit procedures in response to the key aspects

Extraordinary operations

On 25 June 2018, the parent company concluded, with effect from 1 January 2018, a transaction for the purchase of the business unit relating to the 'management of the relationship with users and invoicing of water service tariffs and analysis laboratories' by the subsidiary company Amiacque S.r.l.

In consideration of the importance of the transaction on the balance sheet of the Group companies, we believe that it represents a key aspect of the audit.

The main audit procedures carried out were:

- ✓ Discussion with the Top Management and the Control Body of the effects of the transaction on the financial and equity position of the Group companies;
- ✓ Analysis of the purchase deed and final settlement agreement between the parties.

Directors' and Board of Statutory Auditors' responsibility for the consolidated financial statements

The directors are responsible for drafting 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 they deem necessary for drafting financial statements which do not contain significant errors due to fraud or unintentional conduct or events.

The directors are responsible for assessing the ability of the Group to continue to operate as a going-concern and, in the drafting of the consolidated financial statements, they are responsible for the proper use of the going concern principle, as well as for suitable disclosure on the matter.

In drafting the consolidated financial statements the directors use the going concern assumption, unless according to their assessment, 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 statements of the Group.

Responsibilities of the auditing firm for the audit of the consolidated financial statements

Our objectives are the acquisition of reasonable certainty that the consolidated financial statements as a whole 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 exercised our professional judgement and maintained professional scepticism for the entire duration of the accounts audit. Furthermore:

- We identified and assessed the risks of significant errors due to fraud, unintentional conduct or events being present in the consolidated financial statements, ; 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 achieved a level of understanding of the internal control mechanism as required for the accounts audit, in order for us to be able to determine audit procedures that were in line with the circumstances, and not to express an opinion on the effectiveness of the internal control of the Group;
- We assessed the appropriateness of the accounting principles used, as well as the reasonableness of the accounting estimates made by the directors, including related reporting;
- We reached a conclusion on the appropriateness of the use of the going-concern assumption on the part of directors and, on based on evidence acquired, on the possible existence of 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. Should significant uncertainty emerge, in the audit report we must draw attention to the related financial reporting, and if the reporting concerned does not reflect the actual circumstances, we must reflect it in the formation of our opinion. Our conclusions are based on the evidence acquired up until the date of this report. However, subsequent events and circumstances may mean that the Group is no longer a going-concern;
- we assessed the presentation, the structure and the content of the consolidated financial statements as a whole, including related disclosure, and also assessed whether the consolidated financial statements represent transactions and their 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, and we have been therefore able to express an 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 - of, inter alia, the extent and timescale planned for the accounts audit and the significant results emerged, including any significant shortfalls in the internal control identified during the audit.

We have also provided those responsible for the governance activities with a declaration in which we stated that we have observed the ethical and independence rules and principles of current Italian legislation, and we have informed them of every situation which may reasonably affect our independence and, if applicable, of related safeguard measures.

Among the aspects we communicated to those responsible for the governance activities, we 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 were the key aspects of our 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. appointed us to statutory auditing 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 we did not provide any non-audit prohibited services in accordance with Article 5.1 of Regulation (EU) 537/2014, and that we have remained independent with respect to the company in the execution of the statutory 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 the internal body responsible for control activities and statutory audit, and that it was 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 management report of the CAP Group as of 31 December 2017, as well as its consistency with the related consolidated financial statements and its compliance with applicable laws and regulations.

We performed the procedures provided for in the auditing standard (ISA Italy) No. 720B in order to express an opinion on the consistency of the management report with the consolidated financial statements of the CAP Group as of 31 December 2018 and on the compliance of the said report with applicable laws and regulations, with legal provisions, as well as to issue a declaration on any significant errors.

In our opinion, the aforementioned management report is consistent with the consolidated financial statements of the CAP Group as of 31 December 2018 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 that we acquired during the audit activities, we have nothing to report.

Declaration pursuant to Article 4 of 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 have verified that the directors actually approved the non-financial declaration.

Milan, Italy, 30 April 2019



BDO Italia S.p.A.
Carlo Consonni
Shareholder