

Consolidated financial statements of the CAP Group as at 31 December 2019

**Shareholders' meeting
21 May 2020**

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

Table of Contents

Management Report.....	4
Financial Statements.....	64
Statement of Financial Position.....	65
Statement of Comprehensive Income.....	66
Cash Flow Statement.....	67
Changes in shareholders' equity.....	68
Explanatory notes to the financial statements.....	69
General information.....	69
Summary of Accounting Standards.....	69
Financial risk management.....	80
Going concern.....	82
Estimates and assumptions.....	82
Disclosure by operating segments.....	84
Notes to the Consolidated Statement of Financial Position.....	84
Notes to the Statement of comprehensive income.....	101
Related party transactions.....	108
Contractual commitments, Guarantees and Concessions.....	109
Fees to directors and statutory auditors.....	109
Fees to the Independent auditors.....	109
Transparency requirements for those who receive public funds.....	110
Events after the reporting period.....	111
Report of the Independent auditors.....	112

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 2019 for the three areas of intervention identified, in compliance with the VISION indicated by the common shareholders during the meeting held on 26 June 2015, and in particular:

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

At the same time, it integrates the objectives of the Sustainability Plan that, approved in 2019, has become the reference point for the Group's strategies with its three pillars:

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

Pillars that contain a series of objectives and ambitions that will reach the horizon of the 2033 assignment. A long-term horizon so that changes in the company can be identified before they are reflected in the company's business.

For the CAP Group, orienting its sustainability strategy to 2033 means making the effort to imagine the development of future scenarios and anticipate the impacts of the main social, environmental and economic trends by becoming a protagonist of change and not just a spectator.

The plan will enable the CAP Group not only to maintain a proactive approach to changes in the socio-economic context but also to contribute to the development of the sector and the territories in which it operates.

With this ambitious strategy, the CAP Group is inspired by best practices at global level in the management of integrated water services, choosing to implement sustainability solutions based on the model of international examples of excellence.

A process of redefinition of the business model launched with the development of the 2018-2022 Business Plan. From this point of view, the CAP Group integrates sustainability into its industrial activity by leveraging the theory of shared value, i.e. assuming that the economic value generated must bring benefits not only to the company but also to the stakeholders and the territory in which it operates.

Consistent with this approach, in 2019 the Group confirmed its objective of guaranteeing value for shareholders through a series of actions based on:

- containment of tariffs;
- improving service performance and improving technical quality parameters;
- dialogue and proactive listening to citizens and stakeholders in general;
- reducing emissions and impacts and strengthening circular economy projects;
- making the plants smart and service digitalisation.

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 DAILY COMMITMENT

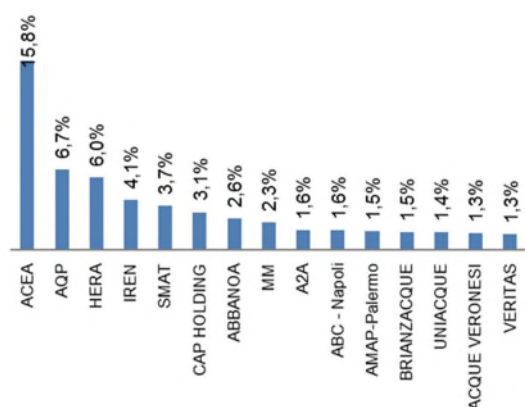
and the VALUES that inspire its action, first of all: transparency, respect, passion, trust, excellence, innovation, attention, community, well-being, participation, courage, pride, closeness.

Group presentation

The CAP Group is one of the leading Italian operators (in terms of inhabitants served and cubic meters raised) among the “mono-utility” operators (i.e. operators which do not carry out other significant industrial activities) operating in the Integrated Water Service, with a customer base as at 31 December 2019 of around 2.2 million resident inhabitants served in addition to the individuals who normally work in one of the most industrialised and productive areas in Italy.

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

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



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

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

Company, Headquarters, Share Capital

- AMIACQUE S.r.l., Milan, total share capital of € 23,667,606.16 owned for € 23,667,606.16, equal to 100.00% as at 31 December 2019 (unchanged compared to 31 December 2018), subject to management and co-ordination activities;
- Rocca Brivio Sforza S.r.l., San Giuliano Milanese, in liquidation as from 21 April 2015, total share capital € 53,100.00, owned for € 27,100.12, as at 31 December 2019 (shares equal to 51.04%, equal to the equity investment held as at 31 December 2018 and unchanged to date).

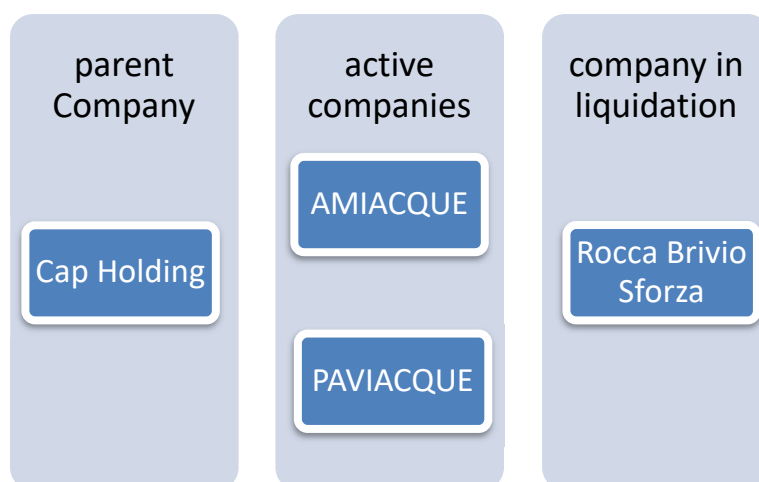
With regard to the scope of consolidation, only AMIACQUE S.r.l. is consolidated with CAP Holding S.p.A., considering that, with regard to Rocca Brivio S.r.l. in liquidation (whose corporate purpose involves the “safeguarding and enhancement of the historic monumental complex of Rocca Brivio”), in accordance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

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

- PAVIA Acque S.c.a.r.l. with headquarters in Pavia, total share capital € 15,048,128, owned for € 1,519,861, equal to 10.1%, as at 31 December 2019 (equal to the equity investment held as at 31 December 2018).

CAP Holding S.p.A. also participates in the network agreement "Water Alliance – Acque di Lombardia", with legal subjectivity pursuant to and for the purposes of Article 3, sections 4-ter et seq. of Italian Decree Law No. 5 dated 10 February 2009, converted into Italian Law No. 33 dated 9 April 2009 as amended and supplemented, enrolled in the Milan Companies' Register under No. 2115513 on 24 February 2017, VAT no. 11150310966, Tax Code 97773550153, with headquarters in Assago (MI), total share capital of € 616,597.12 fully paid up, owned for € 145,704.98, equal to 23.6% as at 31 December 2019. Some information on the Water Alliance is presented further on.

The diagram shows the current "corporate" equity investments of the Group in companies as at 31 December 2019:



Cap Holding S.p.A. is also the sole member of the CAP Foundation (previously Lida Foundation), with headquarters in Assago (Milan) established on 31 July 2007, pursuant to Article 14 et seq. of the Italian Civil Code (payment by way of endowment fund of € 1,000,000 by the founder former T.A.S.M. S.p.A., merged in 2013 by CAP Holding S.p.A.). In the summer of 2018, the Foundation took on its current name and received € 263,300 from CAP Holding 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. The Foundation's balance sheet as at 31 December 2019 shows residual cash and cash equivalents of approximately € 109 thousand.

The company MM expressed its willingness to become a founding member of the Foundation. This entry will increase - subject to a change of name - its capacity to promote policies in favour of schools and in general to achieve its corporate purpose.

On 25 July 2019, in line with the mandate provided by the shareholders' meeting of CAP Holding, an agreement was signed between the latter and CORE - Consorzio Recupero Energetici - S.p.A. of Sesto San Giovanni that could lead to the purchase by CAP Holding S.p.A., of part of the share capital of that company, as part of a project for the reconversion - through demolition and reconstruction - of the current structures of that company, for the implementation of infrastructures instrumental to the integrated water service necessary for the valorisation of the Sludge coming from the management activities carried out by the CAP Group and the construction of a plant for the recovery of the wet waste component (FORSU) in terms of Circular Economy.

With regard to the purchase value of the equity investment, on 3 October 2019, the expert appointed for this purpose by the President of the Court of Milan forwarded an initial result of the appraisal report of the CORE company.

Following the approval of the 2019 financial statements of that company, he is updating the estimate during 2020. The transaction will be submitted to the next Shareholders' Meeting of CAP Holding S.p.A.

As explained in more detail below, negotiations are also underway with the Company ALFA Srl for the signing of a network contract for the joint management of certain company functions and for a synergic management of shared catchment basins.

Role of the Operator

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

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

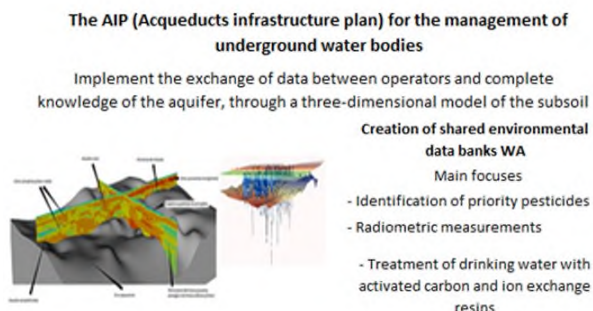


Water Alliance
Acque di Lombardia

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

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

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



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

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

- Network agreement entered into on 8 July 2016 for Information Technology services until 30 June 2021; this agreement, in alignment with the agreement for the use and utilisation of the GIS water

system in Lombardy, was renewed in 2019, in advance of its natural expiry date, defining the new expiry date on 1 November 2024;

- Network agreement entered into on 8 July 2016 for Industrial Users Management services until 30 June 2021. This agreement was updated by a deed signed on 13 February 2019 effective as from 8 January 2019 and expiring on 30 June 2021.

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

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

Sustainability and ESG policy

On 14 March 2019, the CAP Group approved its Sustainability Plan, which sets the ambitious horizon of 2033 - in line with the sustainable development goals for 2030 - to achieve a number of major objectives that are inscribed in three pillars that describe the company's vision:

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

An approach that made it possible to analyse the main world trends in the sector, explore the risks related to the development of the business in order to understand its relations with the company, the territory and the industrial choices made to date. Significantly reduce drinking water consumption to 180 litres per day per capita and at the same time increase the amount of tap water drunk by citizens; transform the water industry through a perfectly circular approach in which the reduction of climate-altering emissions is combined with a 90% reduction in waste, which is instead used as energy and new raw material; radically innovate production sites and the relationship with citizens, digitalising and robotising processes (thus increasing workers' safety and professionalism) and providing personalised services that can be fully used online; these are just some of the objectives that were included in this plan and the implementation of which will be updated every year and monitored thanks to a dedicated website.

The plan will enable the CAP Group not only to maintain a proactive approach to changes in the socio-economic context but also to contribute to the development of the sector and the territories in which it operates. The approval of the CAP Group's sustainability strategy represents the completion of a process of redefinition of the business model launched with the development of the 2018-2022 Business Plan. From this point of view, the CAP Group integrates sustainability into its industrial activity by leveraging the theory of shared value, i.e. assuming that the economic value generated must bring benefits not only to the company but also to the stakeholders and the territory in which it operates. Therefore, development of a sustainability strategy in line with the Business Plan is a decisive step towards redefining planned actions and integrating sustainability into business activities by involving top management and strengthening the company culture.

As part of this process, the CAP Group analysed the reference scenarios and the main trends in relation to the key issues for the company as at 2033 with the aim of defining a set of objectives over a time horizon consistent with the Business Plan. In order to determine the lines of action capable of responding to the challenges of the sector and anticipating future needs, CAP has chosen to develop its sustainability plan

around the 3 priority guidelines indicated above and which are in turn broken down into 9 ambitious objectives to be achieved by 2033.

The Sustainability Plan represents a fundamental part of a broader ESG policy that, also in the light of the obligations set out in Italian Legislative Decree 254/2016, integrated the NFS with a number of strategic activities, including the approval by the Board of Directors, on 24 October 2019, of the new materiality analysis and the start of the structuring of a stakeholder Engagement policy.

Operating Performance in 2019

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

Overall scenario of the Water Sector.

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

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

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

General overview – the Consolidation Act on publicly owned companies

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

Italian Legislative Decree No. 175/2016 introduced in the legal system limitations on the use, by the local bodies, of the instrument of the investee company, especially when the latter is the beneficiary of exclusive rights (known as in house assignments), including the water service, with the exception of "listed" companies and companies that 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

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

therefore less obliged to observe the more typical legislative restrictions of the “public circle”), is a principle that underlies many rules and regulations occurred 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 ² so as to acquire, also with a view to diversification, financial instruments on regulated markets in order to meet its financial needs for supporting the consistent amount of investments envisaged in the Business Plan of the CAP Group, while maintaining the entirely public nature of the company.

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

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

The loan (ISIN: XS1656754873), to be used to fund investments of the integrated water service, was issued, subscribed and admitted to listing on 2 August 2017 at the Main 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 Italian Legislative Decree 175/2016 (see paragraph 5, article 26, of the aforementioned decree).

Following the said issue, since 2 August 2017 CAP Holding S.p.A. has been qualified as a public interest entity, pursuant to Article 16 of Italian Legislative Decree no. 39 of 27 January 2010 ³ 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 at the date of enforcement of said decree, identifying those to be disposed of. This also applies to the General Government Bodies that are shareholders of CAP Holding S.p.A.

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

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

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

The two shareholders of CAP Holding S.p.A. resolved to “*proceed with the disposal of the equity investment in CAP Holding S.p.A.*” since, in their opinion, it is a company the purpose of which is the same or similar to that of other bodies in which the Entity has an interest (reference is made to the company BrianzaAcque S.r.l.).

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

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

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

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

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

The Municipality of Cabiato is also a shareholder of CAP at the time we draft this report.

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

Italian legislation

The water service is organised on a territorial basis. Paragraph 1 of article. 147 of Italian Legislative Decree 152/06 requires that the ATO (Ambito Territoriale Ottimale) are defined by the regional authorities. All regions, including Lombardy, have delimited their ATO.⁴ Each ATO is managed by an EGA, which is also the body granting the service. Further on, comments are provided on the reference territory of CAP Holding S.p.A.

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

⁴ ARERA: 10th report pursuant to Article 172, paragraph 3-bis, of Italian Legislative Decree No. 152 of 3 April 2006, containing “environmental regulations”, no. 562/2019/l/IDR, 19 December 2019, page 6

In particular, the A.C. 52 bill ("Daga reform") is the one that would involve the most radical changes, including: 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 of the regulation and control functions that today belong to ARERA (on the role of which see below); a return to general taxation among the sources of financing of the IWS. These forecasts are not of little account and could have a significant impact on IWS as a whole and, consequently, on CAP Holding S.p.A. as well.

The other A.C.773 bill ("Braga Reform") is more conservative unless it is specified that direct assignment in favour of wholly public companies that meet the requirements of European law for in house management is the priority assignment method.

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

The year 2019 was characterised by the application of different ARERA provisions in different fields of action.

About the technical aspect of the service.

With resolution 20/2019/R/IDR of 22 January 2019 (survey on the methods of management and use of sewage sludge), ARERA started an investigation aimed ultimately at encouraging the adoption of suitable measures to accompany the transition to a "recycling" economy in the treatment of sewage sludge. At sector level, there are in fact greater difficulties than in the past in the use of spreading in agriculture (one of the main ways of recycling).

With resolution 51/2019/R/IDR of 12 February 2019, ARERA started a procedure concerning the necessary and urgent interventions for the water sector in order to define the "aqueducts" section of the national plan referred to in Article 1, paragraph 516 of Italian Law 205/2017.

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

About the commercial aspects of the service.

By resolution no. 311/2019/R/IDR of 16 July 2019, later amended by resolution no. 547/2019/R/IDR of 17 December 2019, ARERA adopted a regulation of delays in payment in the integrated water service (REMSI). The resolution regulates the carrying out of the reminder and formal notice procedures for the defaulting user. For example, the measure envisages that the suspension of supply in the most serious cases can only be carried out after:

- 1) non-payment of invoices that exceed an amount equal to the annual amount (referring to the year prior to the year of formal notice) due by the defaulting user in relation to the preferential rate consumption bracket;
- 2) the intervention of limitation of the supply, where technically feasible, aimed at ensuring a flow of water supplied such as to guarantee the minimum vital quantity (50 litres per inhabitant per day);
- 3) the sending by the operator of a communication with the reasons for the possible technical impossibility to limit the supply.

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

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

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

About the financing of the works.

With resolution 353/2019/R/idr, ARERA started a procedure for the definition of the methods of supply and management of the guarantee fund for water works, envisaged by Article 58 of Italian Law 221/2015 and subsequently regulated by the Prime Ministerial Decree of 30 May 2019.

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

The operator may resort to the Fund to obtain:

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

About the tariff aspect of the service.

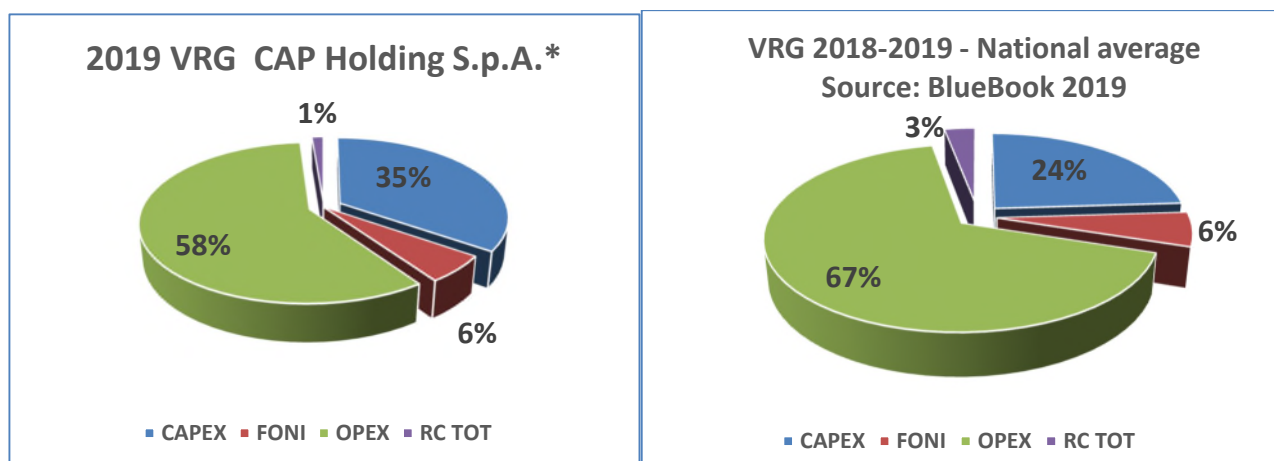
The tasks of ARERA also include the approval of the tariff methodology. The Method introduced by ARERA (called Transitory Method for 2012-2013, MTI-1 for 2014-2015 and MTI-2 for 2016-2019, MTI-3 for 2020-2023)⁵ is based on the principle of the Full Cost Recovering and is constructed first and foremost on the determination of two essential parameters: the Restriction Acknowledged to the Revenues of the Operator (VRG) and the invested regulatory capital (RAB).

The Method applied to 2019 (MTI-2) was adopted by 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 (and the subsequent MTI-3, approved by Resolution no. 580/2019/R/Idr of 27/12/2019) it is based on the principle of the Full Cost Recovering and is constructed first and foremost on the determination of two essential parameters: the Restriction Acknowledged to the Revenues of the Operator (VRG) and the invested regulatory capital (RAB).

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

⁵ ARERA resolution no. 580/2019/R/IDR of 27 December 2019 concluded the process of defining the new tariff method for the third regulatory period (MTI-3).



* The VRG of the wholesale operators were also considered in the calculation of the 2019 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 that in the VRG of the second subsequent year recovers the differences between the acknowledged fee (VRG) and that invoiced at the time of application of the unit tariffs to the disbursed volumes.

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

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

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

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

Regional regulations

At regional level, the reference regulations comprise regional law No. 26 dated 12 December 2003 (Regulation of local services of general economic interest. Standards regarding waste management, energy, use of the subsoil and water resources).

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

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

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

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

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

Organisational performance

In the Metropolitan City of Milan

The year 2019 represented for the CAP Group the sixth year of assignment (from 1 January 2014 to 31 December 2033) of the entire IWS within the former Province of Milan, the result:

- of the profound process of industrial restructuring (through a process of merger between the management companies present in the territory that took place in 2013⁶, which then had another step in 2015⁷);
- of the expansion of the activities in favour of the Municipal Authorities of the Province of Milan, started in 2010 and ended in 2013 (overcoming shoestring operations and acquiring many business units from former operators).

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

The "de facto" operator of Metropolitana Milanese S.p.A. is still active as at 31 December 2019 in the area of the former Province of Milan, for the aqueduct of the Municipality of Corsico, since the latter is considered by the ATO of the Metropolitan City of Milan not in compliance with the approved management organisational model: ATO envisaged the regularisation through the transfer of the management of the service from MM S.p.A. to CAP Holding S.p.A.

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

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

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

In the light of ATO Resolution no. 6 of 16 December 2019, the above mentioned "wholesaler" situations, starting from the year 2020, will be managed through the application of an exchange rate. The Area Office of the Metropolitan City of Milan started a discussion with ARERA in this sense in order for the Authority to recognise the proposed approach to be implemented in the tariff preparation pursuant to MTI-3.

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

⁶ Tutela Ambientale del Magentino S.p.A. (T.A.M. S.p.A.), Tutela Ambientale Sud Milanese S.p.A. (T.A.S.M. S.p.A.), Infrastrutture Acque Nord Milano S.p.A. (I.A.No.Mi. S.p.A., the latter with a significant presence also in the province of Monza and Brianza), operators within the meaning of Italian Regional Law no. 26/2003, merged into CAP Holding S.p.A. as a result of the merger deed, signed on 22 May 2013 and with effect from 1 June 2013.

⁷ In 2015, Idra Milano S.r.l. (company that owns water infrastructures in the north-east of Milan) was merged with legal effect from 1 May 2015 and accounting effect from 1 January 2015, following its establishment as a result of the total demerger of Idra Patrimonio S.p.A., based in Vimercate (MB).

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

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

With regard to the duration of the assignment, note that on 28 May 2019 a request for technical extension of the concession to 31 December 2037 was submitted to the ATO of the Metropolitan City of Milan, pursuant to Article 6 of the Contract of assignment. This request follows the decision taken by the Shareholders' Meeting on 16 May 2019, and stems from increased investments, estimated at € 250 million in the period from 2022 to 2031, necessary to meet the Technical Quality objectives defined by ARERA for the macro-indicators "M1 - Water leaks" and "M4 - Adequacy of the sewerage system", also in light of the entry into force of regional regulations no. 7/2017 on hydraulic invariance and no. 6/2019 on waste water.

The ATO, by letter dated 21 October 2019, responded by inserting the above request as part of a broader strategy aimed at establishing the Sole Area Operator, in line with the provisions of the 2019-2021 Strategic Plan of the Metropolitan City of Milan, approved in September 2019.

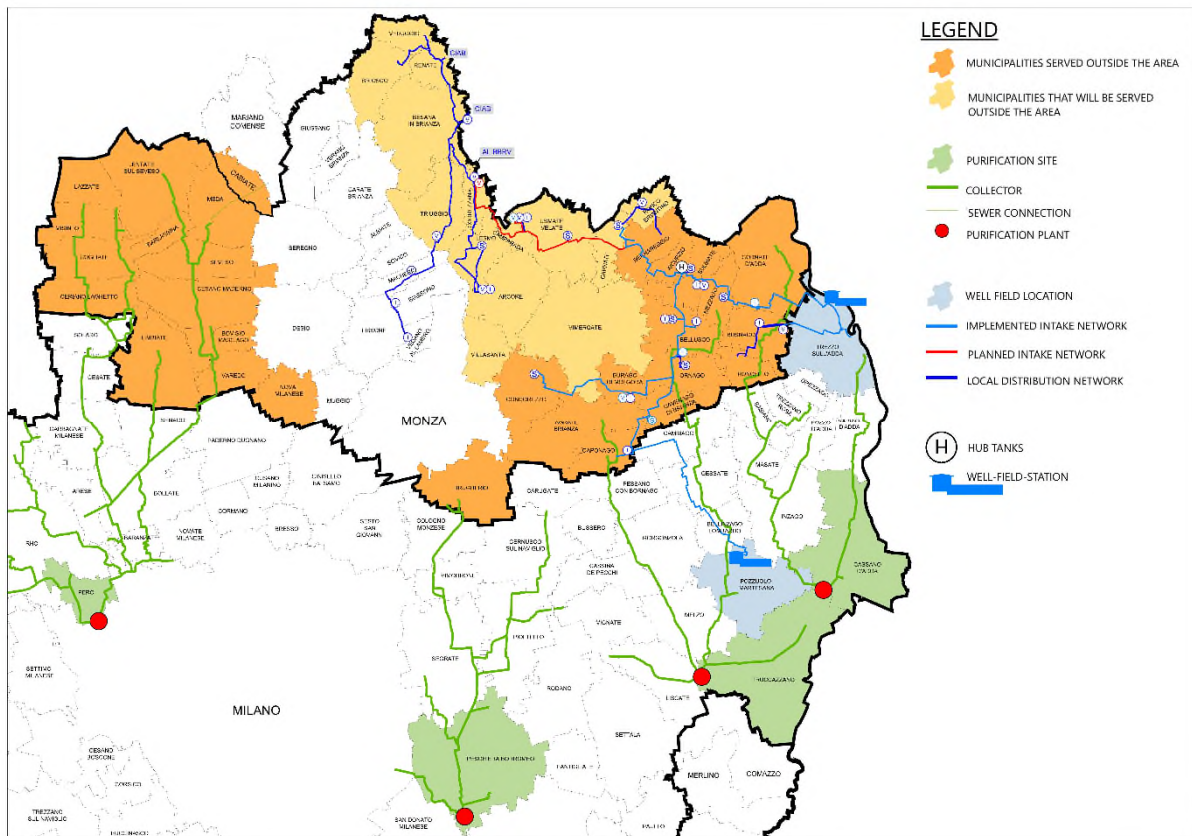
To complete the point on the area of the Metropolitan City of Milan, note that with resolution no. 13/07 of 28 November 2007 of the Board of Directors of the ATO Authority of the City of Milan (later merged into that of the Metropolitan City of Milan in 2016), the management of the Integrated Water Service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

In the province of Monza.

As at 31 December 2019, 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 waste water treatment service in part of the Monza area.

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

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



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

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

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

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

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

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

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

In the province of Pavia

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

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

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

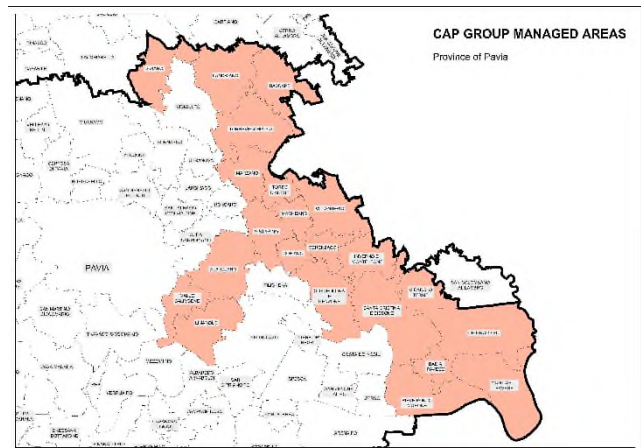
The assets of Pavia Acque S.c.a.r.l., in addition to a share capital of € 1,520,000 held by the CAP Group, include a capital reserve "registered" with reference to the same entity, amounting to € 12,872,828 as at 31 December 2019.

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

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

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

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



Other areas

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

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

As already illustrated with reference to the services managed in the Area of the Metropolitan City of Milan, in the light of ATO resolution no. 6 of 16 December 2019, the above mentioned “wholesaler” situations, starting from 2020, will also be managed through the application of an exchange rate, unless otherwise decided by ARERA.

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

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

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

Summary of the macro-organisational plan.

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

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

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

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

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

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

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

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

Measurement of company crisis risk

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

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

Internal Control and Risk Management System

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

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

- provisions that concern each individual Group company in its entirety: Articles of Association, Organisational, Management and Control Model pursuant to Italian Legislative Decree No. 231/2001, Code of Ethics, Anti-corruption Plan, etc. For further details on these issues, please refer to the following sections in this report: *“Organisational, Management and Control Model pursuant to Italian Legislative Decree No. 231/01”*; *“Organisational Model consistent with the prevention of*

corruption Italian Law No. 190/2012”; “Compliance with transparency requirements”; “Internal Audit and checking of the internal control system”.

- more strictly operational procedures/instructions that regulate the business processes, the individual activities and the related controls.

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

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

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

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

The Internal Control System is also called upon to:

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

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

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

The Internal Control System also involves:

- The Board of Directors – which is reserved the powers regarding the policies and the internal control of the Company and (with regard to the Board of Directors of the parent company) of the Group (e.g. the power to define the policies of the internal control system, as well as periodically check its suitability and effective operation, making sure that the main company risks are identified and managed adequately and that the controls required for monitoring the performance of the Company trend exist);
- the Internal Audit function whose head reports hierarchically to the Board of Directors, also responsible for the Prevention of Corruption and Transparency;

- the Board of Statutory Auditors that oversees (by means of inspection and control activities) the observance of the law, the articles of association and the principles of correct administration and that, specifically, must assess the adequacy of the organisational, administrative and accounting structure and supervise its effective operation;
- The parent company's Internal Control Committee (coinciding with its Board of Statutory Auditors) that oversees a series of aspects that pertain to the internal and external controls system for bodies of public interest, in particular with regard to: financial disclosure process; efficacy of the internal control, internal audit, if applicable, and risk management systems; external audit of the annual and consolidated accounts; independence of the external auditor or Independent auditors. In order to strengthen the prerogatives of the committee it is also envisaged that the auditor submits a report to this body on key issues emerging during the external audit, especially with regard to the short falls identified in the internal control system, which have an impact on the financial reporting process.

It should be remembered that, as envisaged by organisational communication no. 15/2019, the Chairman & Corporate Compliance Office launched a project to define an Enterprise Risk Management model for the CAP Group. The Office will implement, develop and maintain the ERM model for the CAP Group through coordinated risk assessment and management, construction of the regulatory inventory, assessment of the impact on processes and integration with the internal control system.

Integrated Quality Management System – Sustainability Report and Environmental Accounts

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

The 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).

In 2019, the CAP Group confirmed its attention to maintaining the certifications already achieved and to changing the health and safety certification from BS OHSAS 18001: 2007 to the new UNI EN ISO 45001:2018 standard.

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

In 2019, the CAP Group obtained the certification of its Carbon Footprint for 2018, with regard to the emissions of the Group companies.

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

For the 2019 financial year, at the end of a non-financial reporting process involving all company functions, the CAP Group has drawn up the Non-Financial Statement - NFS - (also called Sustainability Report) with the aim of accurately and transparently disseminating the company's economic, social and environmental activities and performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

According to the indications formulated by ANAC with resolution no. 1064/2019, the Boards of Directors of both companies, in the sessions held on 29 January 2020 and 30 January 2020, approved the update of the Three-year corruption prevention and transparency plans - years 2020–2022.

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

On 17 April 2019, the Company obtained from the AGCM the renewal of the legality rating confirming the maximum score of three stars. The rating is a tool that recognises rewards to companies that operate according to the principles of legality, transparency and social responsibility.



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

Compliance with transparency requirements

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

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

On the Group's corporate website www.gruppocap.it a specific section has been established, called "Transparent company", in which all the information whose publication is mandatory in accordance with the regulatory provisions in force on the matter is published, including the composition and fees of the administrative and control body, organisation, assignment of works, services and supplies, collaboration and consulting appointments, executive appointments, grants and aid, investee companies etc.

In 2019, the quantity and quality of public data that can be consulted and downloaded from the CAP Group portal were increased.

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

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

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

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

The Group's attention to this issue was also noted by the Municipality of Milan: in 2018, it analysed the implementation of the regulations 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. have had a Group Internal Auditing Unit (hereinafter also "IA") since 2014.

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

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

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

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

Economic performance

The consolidated financial statements of the CAP Group, accompanied by this report, illustrate the accounting data relating to financial year 2019 and that of the financial statements as at 31 December 2018, presented on the basis of the application of the International Financial Reporting Standards (IFRS) adopted by the European Union.⁸

⁸ The adoption of the IAS/IFRS accounting standards was approved by the Board of Directors of CAP Holding S.p.A. at the meeting of 26 June 2017 (as regards the suspensive condition, then occurred on 2 August 2017, of the actual admission to negotiations on the Main Securities Market of the Irish Stock Exchange of a bond of € 40 million issued by CAP Holding S.p.A.)

Statement of Comprehensive Income	Value as at 31/12/2019	Value as at 31/12/2018
Revenues	253,949,891	240,320,141
Increases for internal work	4,127,584	3,546,984
Revenues for work on assets under concession	96,534,625	86,630,270
Other revenues and income	14,652,965	17,664,813
Total revenues and other income	369,265,065	348,162,207
Costs for raw materials, consumables and goods	(15,477,915)	(12,602,602)
Costs for services	(128,493,077)	(124,911,661)
Costs for work on assets under concession	(56,294,549)	(49,907,446)
Personnel costs	(45,780,163)	(43,356,169)
Amortisation, depreciation, provisions and write-downs	(58,169,963)	(51,007,329)
Other operating costs	(12,896,872)	(15,429,802)
Total costs	(317,112,539)	(297,215,009)
Operating result	52,152,525	50,947,198
Financial income	2,025,354	2,537,863
Financial expense	(6,911,346)	(7,409,575)
Result before taxes	47,266,533	46,075,485
Taxes	(14,982,838)	(14,130,817)
Profit (loss) from assets held for sale or disposed of	(24,589)	0
Net result for the year (A)	32,259,106	31,944,669

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

Total revenues for 2019 increased with respect to those of the previous financial year (+6%) due to the effect of increase in revenues, revenues for works on assets under concession and other revenues and income.

On the other hand, the total costs for 2019 varied by +7% compared to the previous year mainly due to the increase in costs for services, amortisation, provisions and write-downs, costs for work on assets under concession and personnel costs.

Here we wish to make clear an aspect of particular importance: the FONI component, in other words the portion of tariff the use of which is restricted to new investments identified as priority for the territory served, contributes to the revenues for the year.

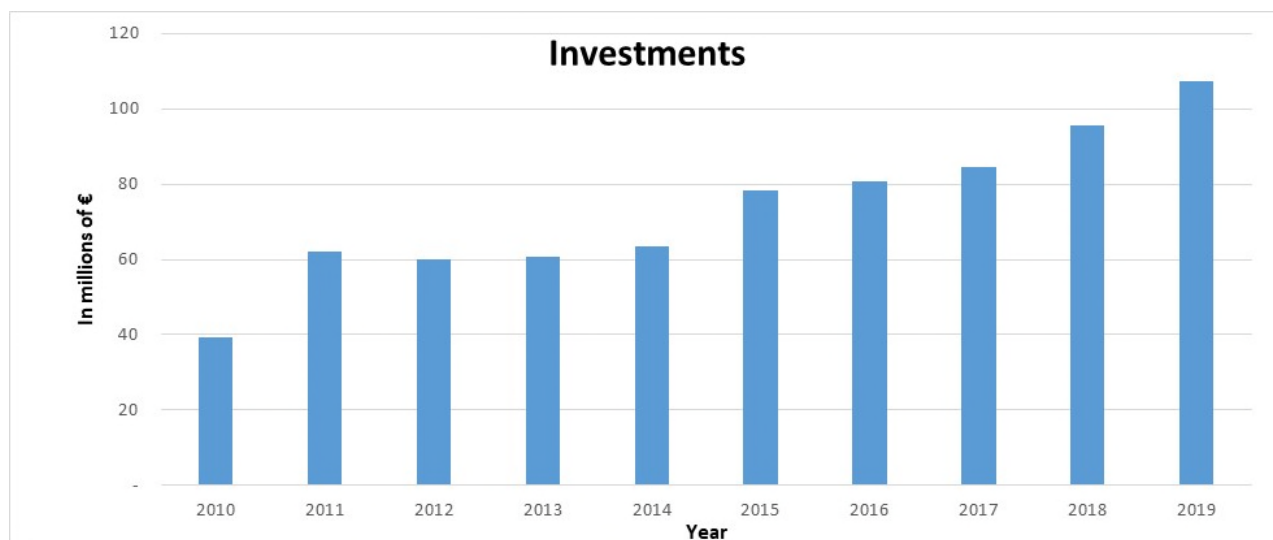
The portion acknowledged to the CAP Group, for just the area of the province of Milan, for this purpose and for 2019 amounts to:

(units in €)	FONI 2019
Gross of taxation	12,047,407
Net of taxation (Ires)	9,156,029

(Note: € 1,240,220 are added for the wholesaler tariff arranged for 2019 gross of the tax effect, equal to € 942,567 net of this effect).

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

For the period from 2012 to 2019, the portion of the FONI component was used as a priority for the realisation of investments, as well as in part for tariff reductions granted in the form of water bonuses in 2016 and 2017, years in which this option was still admitted by the tariff system.



In particular, it is easy to note from the Diagram how the amount of the investments has risen continuously, finally by 12.6%.

In this sense, also in terms of equity, the assets 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 that, furthermore, as a binding decision for future years, decided to reinvest all the management balances generated in new and increasingly greater investments and in improvements to the service.

Total Revenues of the Group.

Total Revenues of the CAP Group in 2019 were:

Revenues and other income	Value as at 31/12/2019	Value as at 31/12/2018	% change
Revenues	253,949,891	240,320,141	5.7%
Increases for internal work	4,127,584	3,546,984	16.4%
Revenues for work on assets under concession	96,534,625	86,630,270	11.4%
Other revenues and income	14,652,965	17,664,813	-17.0%
Total revenues and other income	369,265,065	348,162,207	6.1%

Some details follow.

Revenues

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

Their amount (€ 253,949,891) varied by 5.7% compared to 2018 (€ 240,320,141) as a result of the increase in tariff revenues, other revenues, consisting mainly of contract work in progress and wholesaler tariff revenues.

In particular, for the areas of the Metropolitan City of Milan and for the other areas in which it operates as a wholesaler, the tariffs for implementing the water tariff method for the 2016-2019 regulatory period, approved by the Italian Authority for Electricity, Gas and Water System were applied in 2019 (from the 2018 Italian Regulatory Authority for Energy, Networks and Environment), with ARERA resolution No. 664/2015/R/IDR dated 28 December 2015 ("MTI – 2") and with the subsequent resolution to update it within the two-year period of 27 December 2017 no. 918/2017/R/IDR.

In the municipalities of the Metropolitan City of Milan, the tariffs published in BURL No. 1 dated 2 January 2019 approved by the Italian Regulatory Authority for Energy, Networks and Environment with resolution No. 436/2018/R/idr dated 2 August 2018 were applied effective as at 1 January 2019.

It should be noted that the Italian Regulatory Authority for Energy, Networks and Environment , with Resolution 436/2018/r/idr of 2 August 2018 approved the updating of the tariff arrangements for the integrated water service for the years 2018 and 2019, proposed by the Area Office of the Metropolitan City of Milan, with a value of the tariff multiplier ϑ of 1.023 for the year 2019.

It should be noted that in the said resolution, ARERA did not recognise 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 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 ATO of the Metropolitan City of Milan and which supplies aqueduct and waste water treatment services to operators operating in the adjoining territories, has led the competent EGAs to envisage the application of the matters established in Article 16.3 of the model agreement approved by means of resolution No. 656/2015/R/IDR, which states that *"if a wholesaler provides services to different operators, operating in a plurality of ATOs, the EGA in whose area the plant is located sees to the tariff arrangement obligations, subject to the opinion, to be provided within 30 days, of the competent EGA for the operator served"*.

Therefore, the Metropolitan City of Milan EGA operated in this sense, arranging the tariffs also for the operations as wholesaler of the CAP Group vis-à-vis the adjacent former City of Milan ATO (purification), subsequently merged into the ATO of the Metropolitan City of Milan, Como ATO (purification), Lodi ATO (purification) and Monza Brianza ATO (aqueduct and waste water treatment).

The Italian Regulatory 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 purification Wholesaler and aqueduct Wholesaler within 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 Annexe A, of resolution No. 664/2015/R/IDR (for the aqueduct Wholesaler: ϑ equal to 1.138 for 2019; while for the purification Wholesaler: 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 CAP Holding S.p.A. as purification Wholesaler in the Province of Lodi, arranging for the

related operations the tariff update, for the period from 2018 to 2019, determined in accordance with Article 6 of Annexe A, of resolution No. 664/2015/R/IDR; 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 Area Office of the Metropolitan City of Milan which with Board of Directors resolution No. 5 of 11/06/2018 approved the updating of the purification wholesaler tariff in the Como area with ϑ equal to 0,989 for 2018 and ϑ equal to 1,031 for 2019.

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

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

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

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

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

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

The matters stated already provide initial evidence that the portion of the future 2021 VRG will be designated to adjust costs incurred and not covered by the tariff, or to recover the differential on revenues earned as a result of "volumes", relating to 2019.

The conclusion of the aforementioned is that the ARERA's tariff method is based on a "guaranteed revenue" approach, defined at the time of approving the tariff and function of various elements of economic cost (operational and capital). Even if with a certain simplification it can be said that a part of the guaranteed revenues for 2019, which was not requested to be billed to users in the year 2019, or was requested in excess of the expected amount, can be recovered or returned with the tariffs of 2021.

The value of the tariff portions, operator and wholesaler, belonging to the CAP group amounts to a total of € 246,649,317 (235,555,325 in 2018).

The comparison with the revenue for 2019 shows an increase in the revenue from tariffs of € 11,093,992, equal to 4.7%, compared with 2018 mainly due to positive balances of electricity and sludge (for a value of about + € 8.3 million), without prejudice to the decrease in the theta.

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

Tariff revenues	Value as at 31/12/2019	Value as at 31/12/2018	% change
Tariff revenues			
Province of Milan	228,258,849	217,829,065	4.8%
Province of Varese	0	185,302	-100.0%
Wholesaler revenues			
Province of Monza and Brianza	13,978,404	12,827,733	9.0%
City of Milan	1,957,118	2,237,416	-12.5%
Province of Lodi	400,566	405,351	-1.2%
Province of Como	195,747	154,931	26.3%
Contingencies			
Contingencies	1,858,633	1,915,526	-3.0%
Total Tariff Revenues	246,649,317	235,555,325	4.7%

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

Revenues for industrial services to other operators	Value as at 31/12/2019	Value as at 31/12/2018	% change
Province of Pavia	2,671,119	2,649,542	1%
Total Revenues for industrial services to other operators	2,671,119	2,649,542	1%

Revenues for work on assets under concession

Revenues for work on assets under concession amounted to € 96,534,625 for financial year ended 31 December 2019. They amounted to € 86,630,270 in 2018. These revenues correspond, in accordance with IFRIC 12, to the work carried out on the assets under concession owned and used by the Group for its core activities

Other revenues and income

Other revenues and income for financial year ended 31 December 2019 amounted to € 14,652,965. In 2018 they amounted to € 17,664,813. The main components include:

- Other revenues and income of € 2,156,211 mainly consisting of the fee for the maintenance service of the green area of Parco Idroscalo di Milano rendered to CMM S.p.A. (under the agreement, for this service CMM S.p.A. allows CAP Holding to advertise its brand and image in the park; the cost of this service is recorded under the item Costs for Services), IT and WebGis services to third parties, etc.;
- other extraordinary income of € 4,241,726, consisting mainly of collections on receivables from users written down in previous years, revenues from work carried out in previous years, tax credits for research and development, fixed rights and fire-fighting penalties etc.
- reversal of provisions for future expenses and risks of € 2,991,523.
- penalties to users for fire hydrants of € 958,500;
- operating grants of € 602,330.

Of the aforementioned funds transferred:

- € 392,399 are related to the partial excess of the fund for "amicable settlements" formed until 2016 pursuant to Article 12 of Italian Presidential Decree no. 207 of 5 October 2010. The unused portion of the fund is in fact released as the scheduled works of the investment programme for which the sums set aside, are completed;
- € 2,197,394 relate to the partial excess of the fund for pending litigations;
- € 244,283 relate to an excess fund to cover future losses;
- € 143,023 relate to an excess provision for taxes;
- € 14,423 relate to the partial excess of the sludge disposal fund.

The total costs of the CAP Group

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

In 2019, the CAP Group recorded total costs of € 317,112,539, an increase compared to 2018 (€ 297,215,009) of about 6.7%.

There are some details in the following table:

Total Costs	Value as at 31/12/2019	Value as at 31/12/2018	% change
Costs for raw materials, consumables and goods	15,477,915	12,602,602	22.8%
Costs for services	128,493,077	124,911,661	2.9%
Costs for work on assets under concession	56,294,549	49,907,446	12.8%
Personnel costs	45,780,163	43,356,169	5.6%
Amortisation, depreciation, provisions and write-downs	58,169,963	51,007,329	14.0%
Other operating costs	12,896,872	15,429,802	-16.4%
Total Costs	317,112,539	297,215,009	6.7%

This is mainly due to the increase in amortisation, depreciation, provisions and write-downs, costs for work on assets under concession and costs for services.

Costs for services

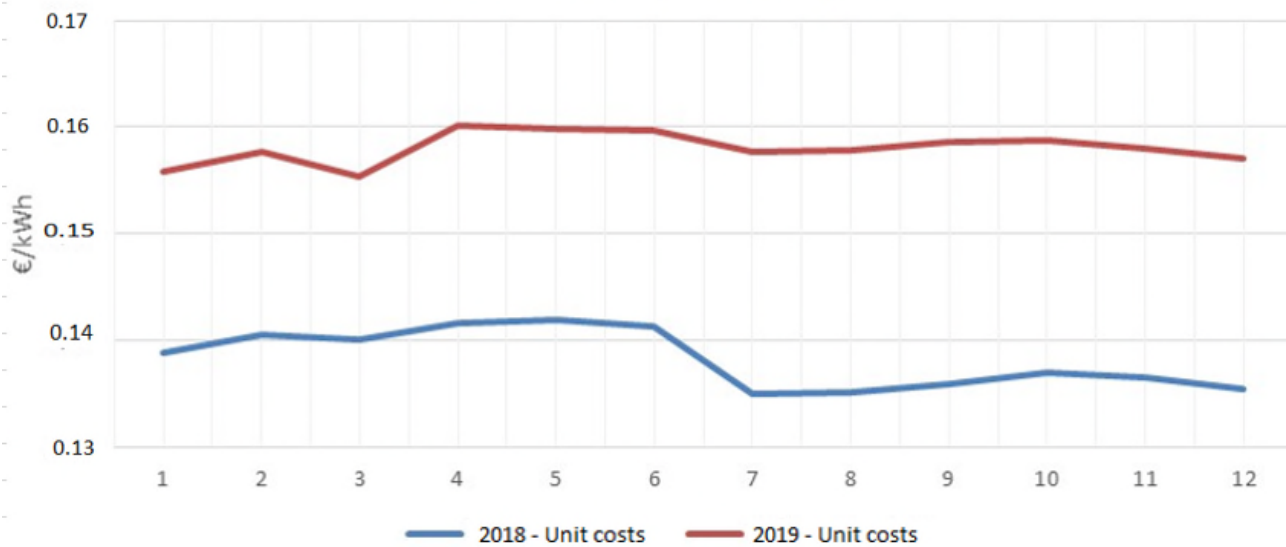
Costs for services in 2019 amounted to € 128,493,077 compared with € 124,911,661 in 2018.

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

The cost of **electricity** came to € 31.3 million, up by 15.9% compared to 2018 (€ 26.9 million). In 2017, it amounted to € 29.4 million, in 2016 it amounted to € 32.0 million.

The overall cost increase is mainly related to the sharp rise in forward energy market prices over the following year recorded between 2018 and 2017 and applied in 2019, which led, despite the use of electronic auctions with a significant reduction in the bidding amount, to the awarding of an energy raw material alone at a unit price higher than +33%. As can be seen from the graph below, the general trend in unit cost, including charges, followed substantially the same trend during the year as in 2018, unless a further reduction was achieved in the last quarter of 2018 and attributed to the component of systemic charges.

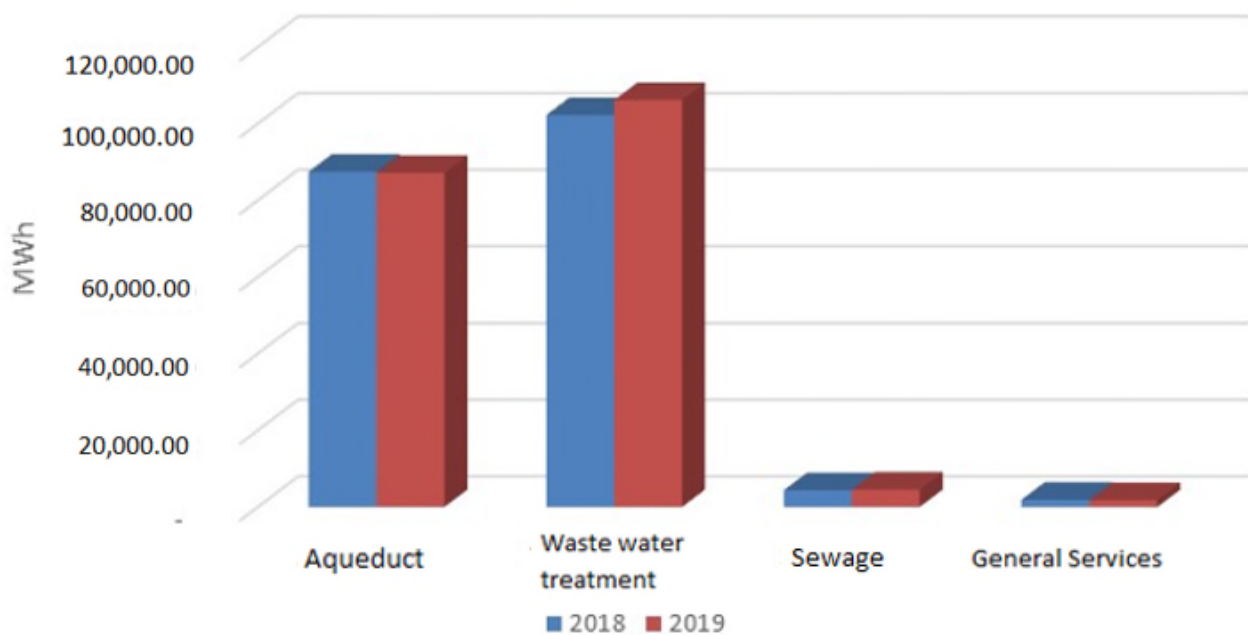
Unit cost comparison €/kWh



As regards the quantitative aspects, compared to the specific consumption reduction for treated water and water withdrawn from the network, in line with the company objectives (Aqueduct: -0.4% compared to 2018 and Waste water treatment -0.6% compared to 2018), the overall energy consumption is almost unchanged.

An increase in consumption of the treatment sector (+ 4%) related to revamping of the biological section of the Peschiera Borromeo plant to improve the quality of wastewater, the start-up of sludge dewatering plants aimed at better management of the reuse of waste products as well as the start-up of the biomethane upgrading plant in Bresso.

Consumption for services comparison

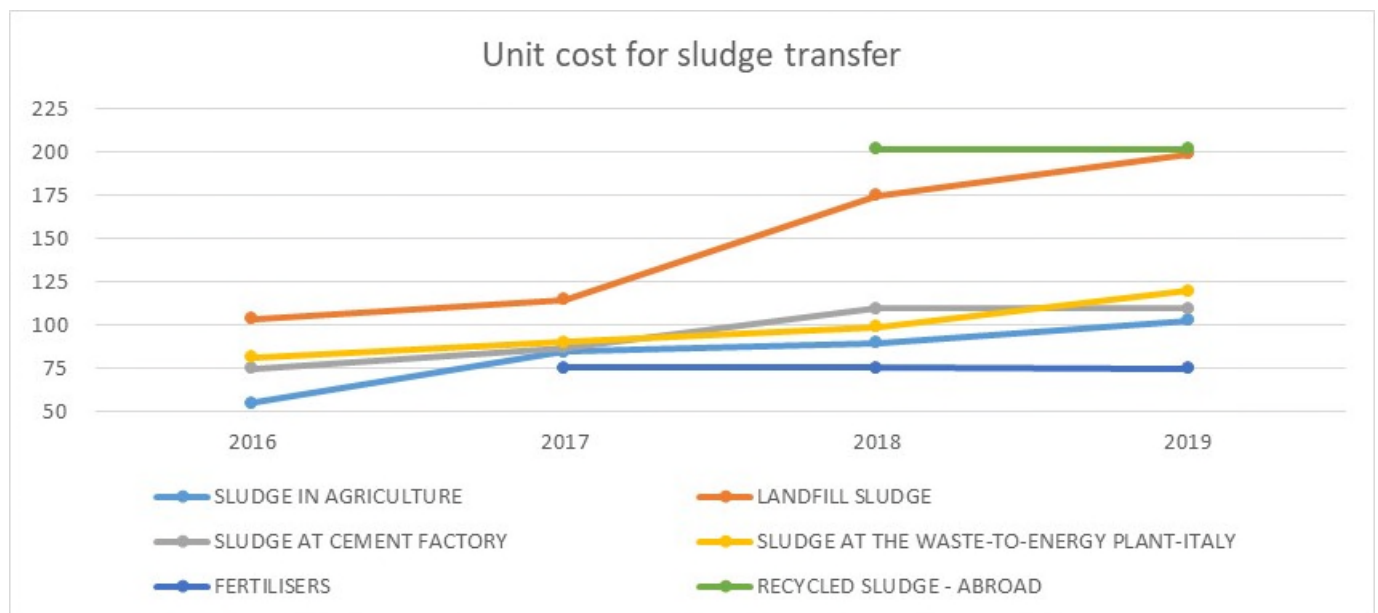


As mentioned above, due to the mechanism in Article 29 <<Adjustment components included in the VRG>> of the MTI-3 and in particular of the therein envisaged adjustment of the component Rc_{EE}^a , the change in the cost of electricity registered in 2019 will lead to a tariff definition for 2021.

We then witnessed in 2019:

- an increase of € 381,808 million in ordinary maintenance costs (€ 13,629,848 in 2019, € 13,248,041 in 2018 compared to € 10,358,341 in 2017) and an increase in extraordinary maintenance items;
- an increase in the cost of sludge disposal due mainly to the higher average disposal costs following the emergency generated in July 2018 on the occasion of the ruling of the Lombardy Administrative Court (in 2019, € 10,087,865 was spent against the € 8,536,854 spent in 2018).

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

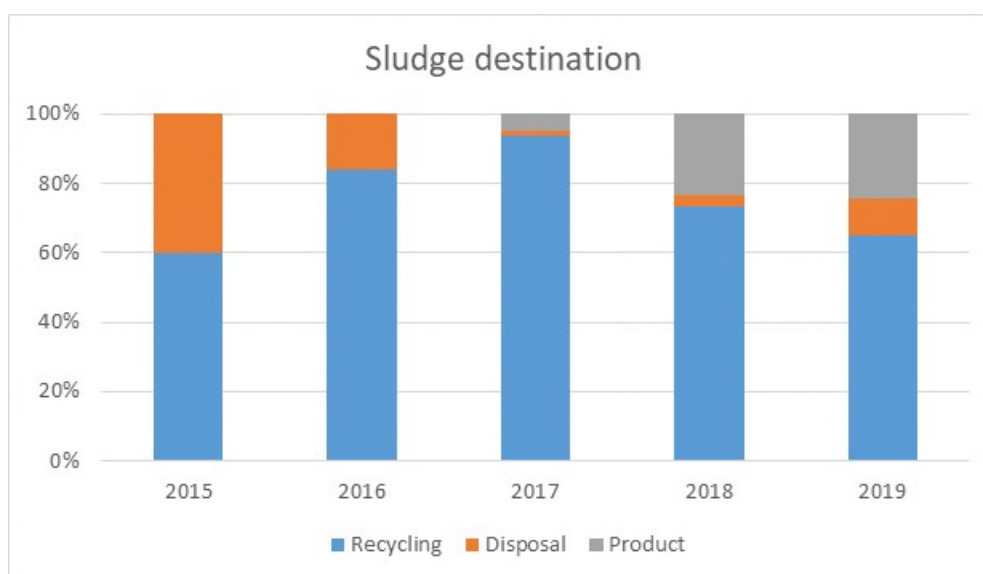


Both the energy and sludge areas have been subject to specific action by the Group aimed at their containment and rationalisation.

With regard to sludge, the following are especially mentioned:

1. The optimisation of all processes aimed at reducing the volume of sludge, therefore anaerobic digestion and classical dehydration, up to the optimisation in the yield of the drying plant, making sure to maximise the availability of the plant itself, at the San Giuliano site, reducing the introduction of sludge into the environment
2. The installation of the first experimental Bio-drying module at the Robecco sul Naviglio purification plant at the end of 2019, which will allow a reduction of the sludge leaving the plant in 2020.
3. Careful management has allowed us to consolidate the sludge valorisation process despite the complexities faced in recent years:
 - a. important results have been reached in relation to the growing production of fertilisers and the thermal recovery of sludge, which is becoming a valid alternative in terms of circular economy and in an uncertain regulatory context.
 - b. in 2019, the destinations identified in 2018 were activated to deal with the emergency, which also provided for the disposal of the sludge in landfills. Therefore, the quantities of sludge

sent to this destination increased. Despite this management driven by the few spaces available on the market, the value of the M5 is also below 10% in 2019, confirming its class A positioning.



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

Costs for use of third-party assets	Value as at 31/12/2019	Value as at 31/12/2018	% change
Repayments of loans and concession fees	5,048,080	5,739,358	-12.0%
Fee for use of well and crossings	1,901,417	1,787,042	6.4%
Hiring	999,613	1,900,304	-47.4%
Rental and licence fees	440,052	1,438,651	-69.4%
Contingent liabilities	6,468	17,437	-62.9%
Total Costs for use of third-party assets	8,395,630	10,882,792	-22.9%

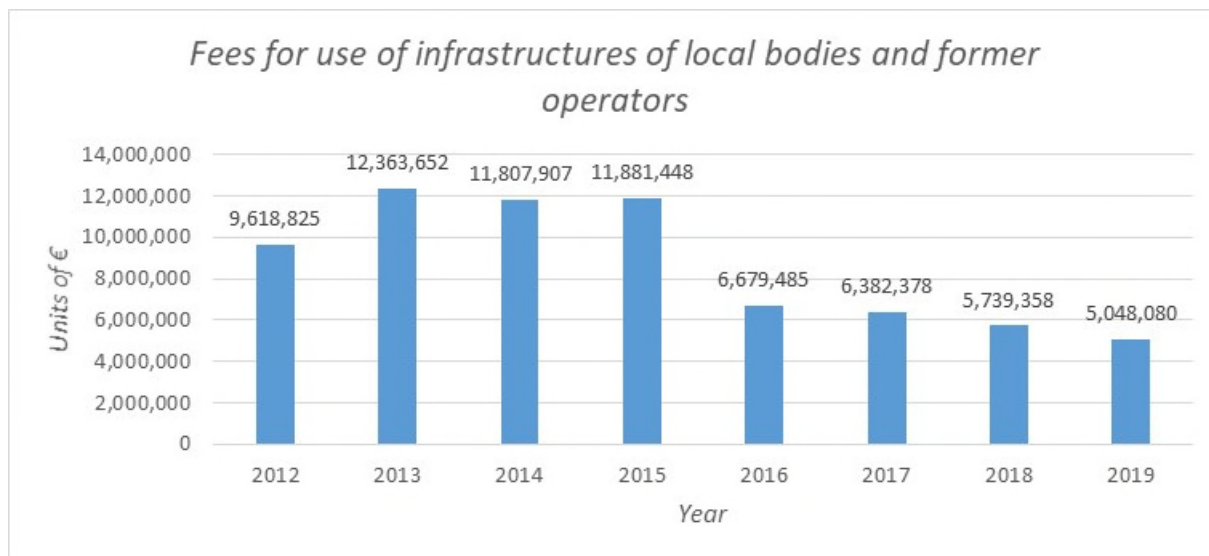
Note that in 2019 the application of IFRS 16 (leases) leads to a different presentation of the data in the income statement compared to 2018.

All contracts (car rental, location lease, etc.) that fall under the new definition (both finance leases and operating leases, but also rentals or service contracts) are now accounted for using the financial approach, i.e. recognising the asset under assets (the right of use should be recognised under fixed assets, under a separate specific item) and the payable to the supplier (lease liability) under liabilities. The right of use is therefore subject to depreciation.

On the other hand, the treatment of the main portion 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 them for the construction of said infrastructures was not changed.⁹

The value of € 5,048,080 (€ 5,739,358 in 2018) also includes the fees paid to the former operators for the use of the respective infrastructures when they continued to be owned by them, on the basis of the amount agreed conventionally.

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



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

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

The item costs for services also includes € 1,972,754 in annual provisions for risks and charges, in accordance with IAS 37 (Provisions, contingent liabilities and contingent assets. Of these:

- € 1,274,487 is related to the adaptation of a fund for environmental remediation and restoration interventions relating to the grounds of the purification plants, evaluated in consideration of the reasonably expected condition of the lands underlying the sections, in particular pre-treatment and anaerobic digestion at the end of their useful life, as well as an estimate of the charges necessary to eliminate the statistically occurring contaminations). In 2018, the provision in question was € 1,382,864;
- € 559,583 was related to the adjustment of the provision for tank reclamation (€ 635,284 in 2018);
- € 138,683 for adjustment of the provision for future expenses for "road repairs" not yet carried out in 2019, for an amount equal to € (€ 108,598 in 2018). The cost was quantified as the best estimate as at 31 December 2019 carried out by the technicians of the CAP Group of the road sections for which, by the same date, the requirements that they impose on the Operator of the IWS to intervene were met, in compliance with what is governed and regulated by resolution No. 5, point 2, of the Area Office of the Metropolitan City of Milan of 25 May 2016.

⁹ These amounts, also in the MTI-3 as in the MTI-2, are allocated, in the generation of tariff revenue, as "operating costs that can be updated" (i.e. "pass-through"), so that they also compete for the cash in, in the same "outgoing" amount (annual instalments), i.e. without having any net financial impact.

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

Allowance for corporate bodies	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
Board of Directors' allowance	249,287	250,551	(1,264)	-1%
Board of Statutory Auditors' allowance	133,081	128,797	4,284	3%
Total allowance	382,368	379,348	3,020	1%

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

Costs for work on assets under concession

Costs for work on assets under concession amounted to € 56,294,549 for the financial year ended 31 December 2019 and represented changes relating to the work carried out on assets under concession. Capitalised internal costs were recognised by nature within the specific Income Statement items. In 2018, they amounted to € 49,907,446.

Personnel costs

The item Personnel costs, € 45,780,163 in 2019 compared to € 43,356,169 in 2018, recorded an increase of 6%.

This increase, also thanks to policies of rationalisation and containment of personnel costs developed over time, shows a substantial maintenance of personnel costs compared to 2018, without prejudice to the new recruitments decided by the Strategic Policy Committee for the new services (of which 14 for upgrading facilities, 9 for apprenticeships and 8 for special funded projects).

Personnel employed as at 31 December 2019 with the Parent Company increased by 31 units compared to 31 December 2018, for a total of 392 employees.

Personnel in service as at 31 December 2019 at Amiacque S.r.l. decreased compared to 31 December 2018 by 8 units, for a total of 476 employees.

Overall, for the Group there were 868 employees as at 31 December 2019 (an increase of 23 units; 845 as at 31 December 2018).

Personnel costs, as will be explained in greater detail below, accounted for 14.44% of Total Costs, therefore, below the limit set by the Shareholders' Meeting of 18 May 2018 (20%).

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

Amortisation, depreciation, provisions and write-downs

The item of € 58,169,963 in 2019, compared with € 51,007,329 in 2018, recorded an increase of 14%.

In this item we highlight:

- 1) adjustment of funds for future liabilities and/or deemed probable (€ 2,011,569), of which:
 - provision for future expenses for the disposal of buildings, where the headquarters, located in Milan, Via Rimini 34/36, are currently based, of € 1,459,073. These buildings are in the process of being demolished and the related works should be completed by 2021. They will be replaced by a new building to be used as "headquarters" of the CAP Group. For more details, see the notes to the financial statements;
 - provisions for legal disputes of € 552,496
- 2) depreciation of assets under concession, of intangible and tangible assets (€ 46,269,845);
- 3) bad debt provision (€ 9,888,549);

Other operating costs

One last item of some importance is Other Operating costs the value (€ 12,896,872) of which has decreased compared to 2018 (€ 15,429,802).

The item also 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 recognised to local authorities (EGA operating costs of € 1,111,934, state fees, COSAP/TOSAP, IMU, etc. of € 771,232) are also significant in the item "other operating costs".

Net operating result

The net operating result for 2019 amounted to + € 52,152,525 higher than that of 2018 (+ € 50,947,198).

Financial income and expense

The balance between financial income and expense for 2019 amounted to - € 4,885,992, in line with that of 2018, amounting to - € 4,871,712.

Taxes

Income taxes amounted to € 14,982,838 (€ 14,130,817 in 2018).

Net result for the year

The balance for the year amounted to € 32,259,106 (€ 31,944,669 in 2018, € 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 2013¹⁰) in line with the other water service operators with similar dimensions.

¹⁰ The data referring to the years prior to 2016, refer to financial statements prepared according to the Italian GAAP.

Financial result indicators

In order to allow an analysis of the asset and financial structure and the operating results and in particular for the analysis of the profitability of the operations as well as the conditions of financial equilibrium, the following indicators have been developed, compared with those presented for 2018.

Contents	Notes	31/12/2019	31/12/2018
Shareholders' equity	Consolidated shareholders' equity	843,330,363	810,253,320
Fixed assets	Total non-current assets	901,842,643	848,696,797
Consolidated liabilities	Total non-current liabilities	276,553,382	301,527,453
Current liabilities	Total current liabilities	147,755,217	149,301,962
Loan liabilities	Current and non-current payables to banks and other lenders	157,868,877	176,477,531
Current assets	Current assets	365,796,318	412,385,939
Immediate + deferred liquidity	Cash and cash equivalents + current portion restricted a/c+trade receivables+other current receivables	358,335,722	407,519,934
Net capital employed	Total current assets - liabilities	1,119,883,745	1,111,780,774

PROFITABILITY INDICATORS	31/12/2019	31/12/2018
EBIT	52,152,525	50,947,198
EBITDA (*)	109,181,127	103,314,098
GROSS RESULT	47,266,533	46,075,485
NET RESULT	32,259,106	31,944,669
SALES REVENUES	253,949,891	240,320,141

(*) In application of Consob Communication of 3 December 2015, which transposes in Italy the guidelines on Alternative Performance Indicators (hereinafter also "IAP") issued by the European Securities and Markets Authority (ESMA) with ESMA/2015/1415 orientation, the meaning and content of the indicator "Gross operating profit (EBITDA)" is described below. EBITDA is a measure used by the Company's management to monitor and evaluate its operational performance and is not identified as an accounting measure under the IFRS ("Non-GAAP Measure") principles. The "gross operating margin" (EBITDA) is calculated as the difference between operating revenues and costs before non-monetary costs relating to depreciation/amortisation, write-downs (net of any write-backs) of current and non-current assets and provisions, identified in any item.

PROFITABILITY RATIOS		31/12/2019	31/12/2018
NET ROE	Net result / Shareholders' equity	3.8%	3.9%
GROSS ROE	Gross result / Shareholders' equity	5.6%	5.7%
ROI	Operating result / Net invested capital	4.7%	4.6%
ROS	Operating result / Sales revenues	20.5%	21.2%

FIXED ASSET FINANCING RATIOS		31/12/2019	31/12/2018
FIXED ASSETS TO EQUITY CAPITAL MARGIN	Shareholders' equity - Fixed assets	-58,512,281	-38,443,477
FIXED ASSETS TO EQUITY CAPITAL RATIO	Shareholders' equity / Fixed assets	93.5%	95.5%
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/LONG-TERM DEBT MARGIN	(Shareholders' equity + Consolidated liabilities) - Fixed assets	218,041,101	263,083,977
FIXED ASSETS TO EQUITY CAPITAL AND MEDIUM/LONG-TERM DEBT RATIO	(Shareholders' equity + Consolidated liabilities) / Fixed assets	124.2%	131.0%

RATIOS ON THE STRUCTURE OF LOANS		31/12/2019	31/12/2018
TOTAL DEBT RATIO	((Consolidated liabilities + Current liabilities)/Shareholders' equity	50%	56%
FINANCIAL DEBT RATIO	Funding liabilities / Shareholders' equity	18.7%	21.8%

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

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

SOLVENCY INDICATORS		31/12/2019	31/12/2018
LIQUIDITY MARGIN	Current assets - Current liabilities	218,041,101	263,083,977
LIQUIDITY RATIO	Current assets / Current liabilities	248%	276%
CASH MARGIN	(Deferred liquidity + Immediate liquidity) - Current liabilities	210,580,505	258,217,972
CASH RATIO	(Deferred liquidity + Immediate liquidity) / Current liabilities	243%	273%

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

Group investments

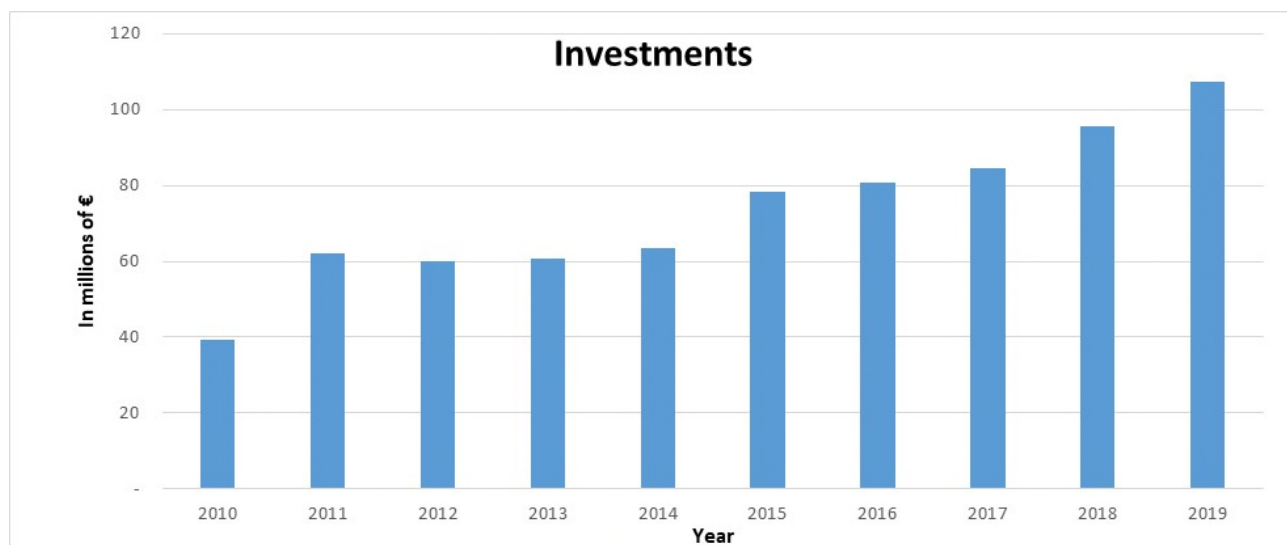
Investments in tangible and intangible fixed assets recorded by the Group in 2019 amounted to € 107,441,854 (€ 95,452,714 in 2018, € 84,623,580 in 2017, € 80,760,064 in 2016, € 78,301,805 in 2015 and € 63,539,506 in 2014).¹¹

In 2019, business units and/or universality of "used" goods (built by former operators) were not purchased unlike in previous years.

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

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

Year 2019	Investments from processing
Parent Company	107,023,220
Amiacque S.r.l.	418,634
Group Total	107,441,854



Also, the amount invested per inhabitant indicator (estimated at around 1.9 million) reported a value of € 57.53, 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 of the last few years, you are reminded that this ratio was 20.5 in 2010, 33.1 in 2014, 41 in 2015, 42.5 in 2016, 45.4 in 2017 and 51.12 in 2018.

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

¹¹ Amounts to be intended net of those acquired through the purchase of business units and/or "universality of assets built and already used by former operators"

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

With regard to the contract, during 2019 the framework agreement for a total value of € 2.3 million was published for the support and design through the implementation of "remote design teamwork" also through BIM design and the competitive dialogue with negotiation was awarded for the construction of a "Control Room for the management of the integrated water service" worth € 1.5 million, which, after several phases, will improve the performance in the management of the IS, through the integration of data from company applications and through artificial intelligence algorithms.

As in 2018, an impressive effort in terms of planning and realisation (settled) is evident again in 2019.

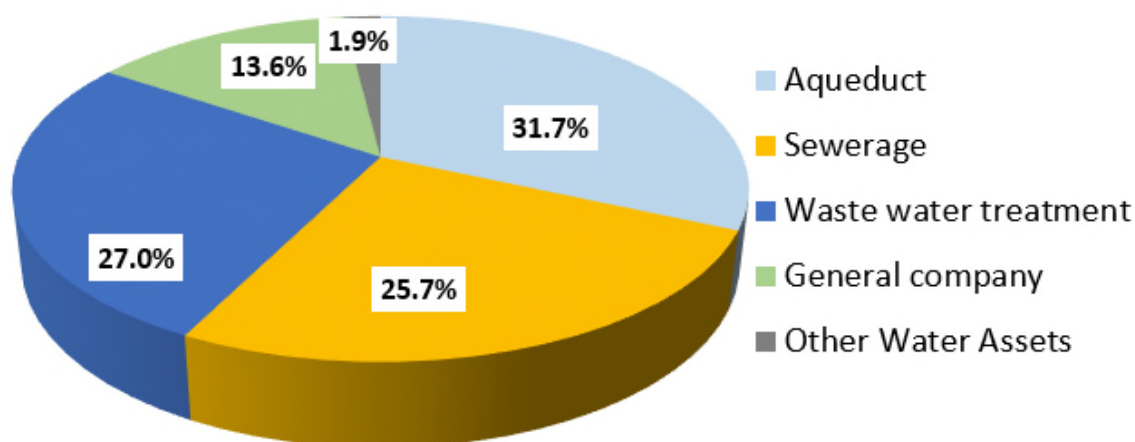
The trend was thus significant, summarised as follows:

contracted:	133,897,000	(119,617,000 in 2018)
	<i>(of which 7,300,000 for the AQs)</i>	
planned:	65,210,716	(57,593,520 in 2018)
completed:	61,106,847	(53,500,000 in 2018)

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

AQUEDUCT	SEWERAGE	WASTE WATER TREATMENT	GENERAL COMPANY	OTHER WATER ASSETS	TOTAL
34,057,331	27,655,995	29,000,876	14,638,915	2,088,738	107,441,854

2019 investment analysis by service

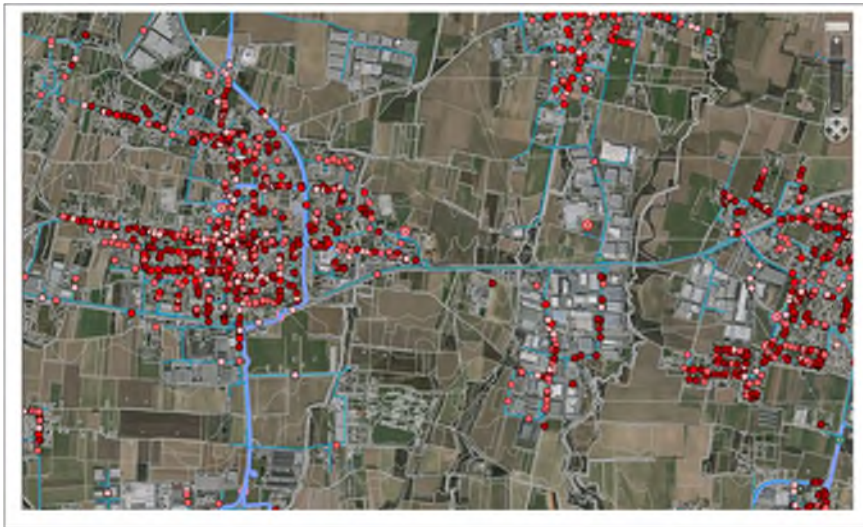


The General Company investments mainly refer to the completion of projects aimed at energy saving, Information Technology and extraordinary maintenance of premises; the investments in Other Water Activities, by contrast, mainly refer to the construction of water houses and surface groundwater wells.

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 2019, the CAP Group, as part of the "Search, recovery and control of water leaks" plan, also included in the investment plan of the contract for the assignment of the integrated water service of the municipalities of the Area of the Metropolitan City of Milan, developed the following activities:

- replacement of 45,081 old meters (more than double the meters replaced in 2015);
- 2,240 km of network subjected to leak detection (within the ATO of Milan), of which 1,037 km of network subjected to leak detection with advanced analysis based on calibrated hydraulic modelling with pressure and flow data from remote control and field meters.



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

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

In detail, the project for the replacement of old meters envisaged a commitment of €

13.6 million for the replacement of obsolete meters to be carried out in the period from 2015 to 2019, continuing the related campaign started in 2015, which has led to reporting a value for replaced meters (excluding Smart Metering) of € 7,907,572 (+15% compared with 2018 € 6,892,116).

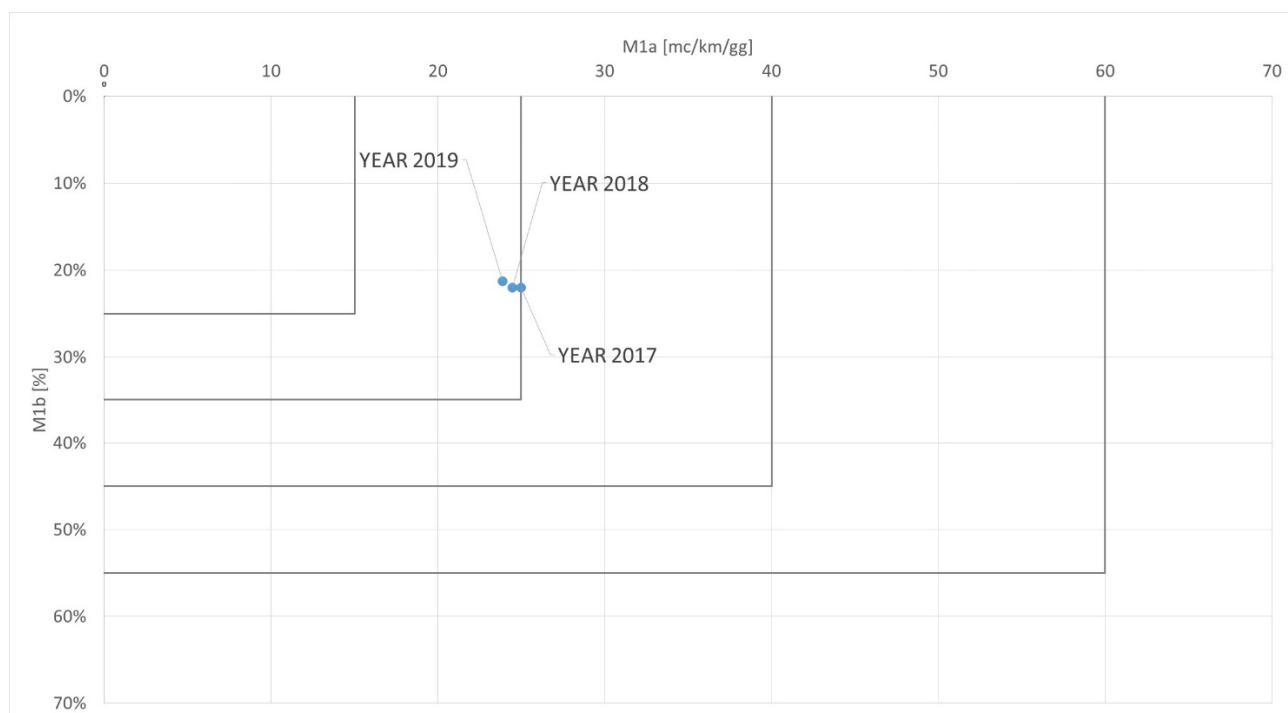
With Resolution 917/2017/R/IDR, the Authority identified specific performance indicators and regulated the technical quality of the integrated water service in order to identify the main guidelines for achieving adequate levels of performance, for an efficient and effective service, promoting benefits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

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

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

The results achieved during the year 2019 further improved the performance of the previous year, confirming the class B of the aqueducts located within the perimeter of the Milan ATO and achieving the ARERA target of a 2% reduction.

	M1a	M1b	class
Year 2017	24.999	22.03	B
Year 2018	24.454	21.99	B
Year 2019	23.867	21.47	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 as part of the Integrated Water Service in the second regulatory period”) and the prompt intervention policies described above that identified in individual SACs (closed aqueduct systems) areas for the advanced analysis of the actions carried out.

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

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

During 2019, another 30 aqueduct plants were integrated in the remote-control system, which changed from local management to remote management with the possibility of modifying the remote functioning parameters, in addition to 143 interconnection measurers between remote-controlled aqueducts, 31 network water withdrawal points for washing sewage pipes.

Therefore, at present 565 Aqueduct plants are remote-controlled out of a total of 567 (figures registered in DIM).

Overall situation as at 31 Dec. 2019		
	Number of remotely controlled aqueduct plants	Total number of aqueduct plants
MB	5	7
MI	554	554
VA	6	6
Total	565	567

In addition, 143 municipal water network interconnections out of 151 in operation and 141 water houses are also remotely controlled.

At 31 December 2019, 210 detection systems were installed for the activation of sewer overflows on 733 tanks pending closure RQTI on 28 February 2020, 36 purification plants, 318 sewage lifts and 28 floodwater culverts.

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

a) Overcoming EU infractions

Case C85/13

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

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

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

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

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

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

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

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

As at 31 December 2018, the ATO of the Metropolitan City of Milan was monitoring 9 interventions aimed at resolving EU infringements.

As at 31 December 2019, only one intervention was in the procurement phase, the other being completed or being tested as detailed below.

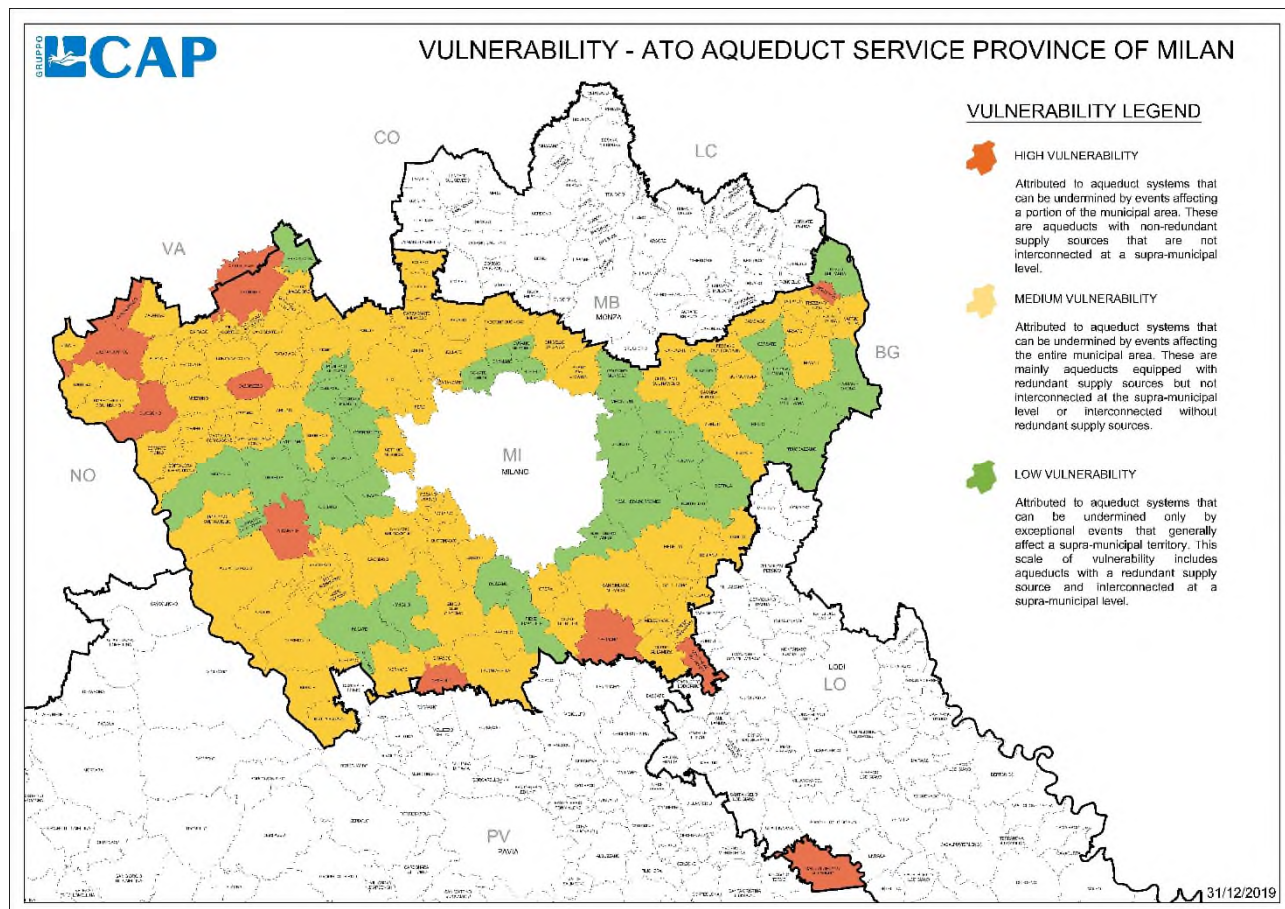
Prog.	Intervention name	Municipality	End of works	Hydraulic functionality	Testing	Status
6966	Upgrading of the purification plant of San Colombano al Lambro	San Colombano al Lambro	15/01/2022	15/01/2022	14/07/2022	TO BE CONTRACTED OUT
6960_16	Discharge resolution	Vernate	31/05/2020	18/12/2018	31/07/2020	COMPLETIONS
9290_2	Extraordinary maintenance oxidation line 1 at the Peschiera Borromeo purification plant	Peschiera Borromeo	23/03/2020	21/06/2020	19/09/2020	COMPLETIONS
9290_4	Peschiera Borromeo - nitrogen removal plant lines 1 and 2 by methanol dosing plant	Peschiera Borromeo	29/10/2019	30/09/2019	29/02/2020	TESTING IN PROGRESS
5922	Purification Sector - Extraordinary maintenance works (MSD) - Municipal purification plant in Via Manin, in the municipality of Sesto San Giovanni - Project aimed at improving the process, section of the plant concerned: biofiltration, external carbon line	Sesto San Giovanni	17/02/2017	17/02/2017	17/02/2017	TESTED
5731/2	Purification Sector - Extraordinary maintenance works (MSD) - Municipal purification plant in C.na Rancate, in the municipality of San Giuliano Milanese - Project aimed at improving the process Lot 1 Extract 2	San Giuliano Milanese	23/06/2017	23/06/2017	21/12/2017	TESTED
9290_1	Peschiera Borromeo - adaptation and upgrading of the purification plant Extract 1	Peschiera Borromeo	31/01/2018	31/01/2018		TESTED
9298_1	Fine screening, Primary sedimentation, Traditional organic treatment department and Final sedimentation	Sesto San Giovanni	15/03/2019	21/03/2019	17/12/2019	TESTED
6960_14	Discharge resolution in CIS in via XXV Aprile, Cassina De' Pecchi	Cassina De' Pecchi	12/04/2019	31/12/2018	20/12/2019	TESTED

Pre-litigation interventions

Finally, with regard to no. 15 interventions still open as at 31 December 2019, included in the internal pre-litigation settlement phase between ATO CMM and the Lombardy Region, the following results:

- 3 interventions to adapt the Peschiera Borromeo purification plant and its digesters are in the planning stage;
- work is in progress on the 2nd lot of the Rescaldina-Parabiago collector;
- the intervention in Zibido san Giacomo, which reached hydraulic functionality in October 2018, is nearing completion;
- the technical-administrative tests or the CRE of no. 10 interventions in various municipalities have been completed for some time now.

b) Availability and quality of the resource



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

- 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 pollutants introduced into the distribution network, during the year 2019, the Aqueduct Management Department maintained and implemented the plan to reduce the concentration values of the chemical parameters introduced into the distribution network. Specifically, the plan provides for monitoring the analytical weighted average entered into the distribution network of the municipalities served, for the total solvent parameters, TCE + PCE, Chromium and Nitrate.

In relation to the Chromium parameter, the regulatory value was waived at 50 microgram/litre (as total chromium) until 31 December 2019. By the end of 2019, it was expected that the limit - currently being discussed by the ISS (National Institute of Health) and the Ministry of Health and the Environment - would be changed to 25 or 50 micrograms/litre, which has not yet been defined. Pending a definition of the Italian regulatory framework, also with reference to European and WHO indications, the new regulatory limit of 10 micrograms/litre for Hexavalent Chromium came into force on 1 January 2020.

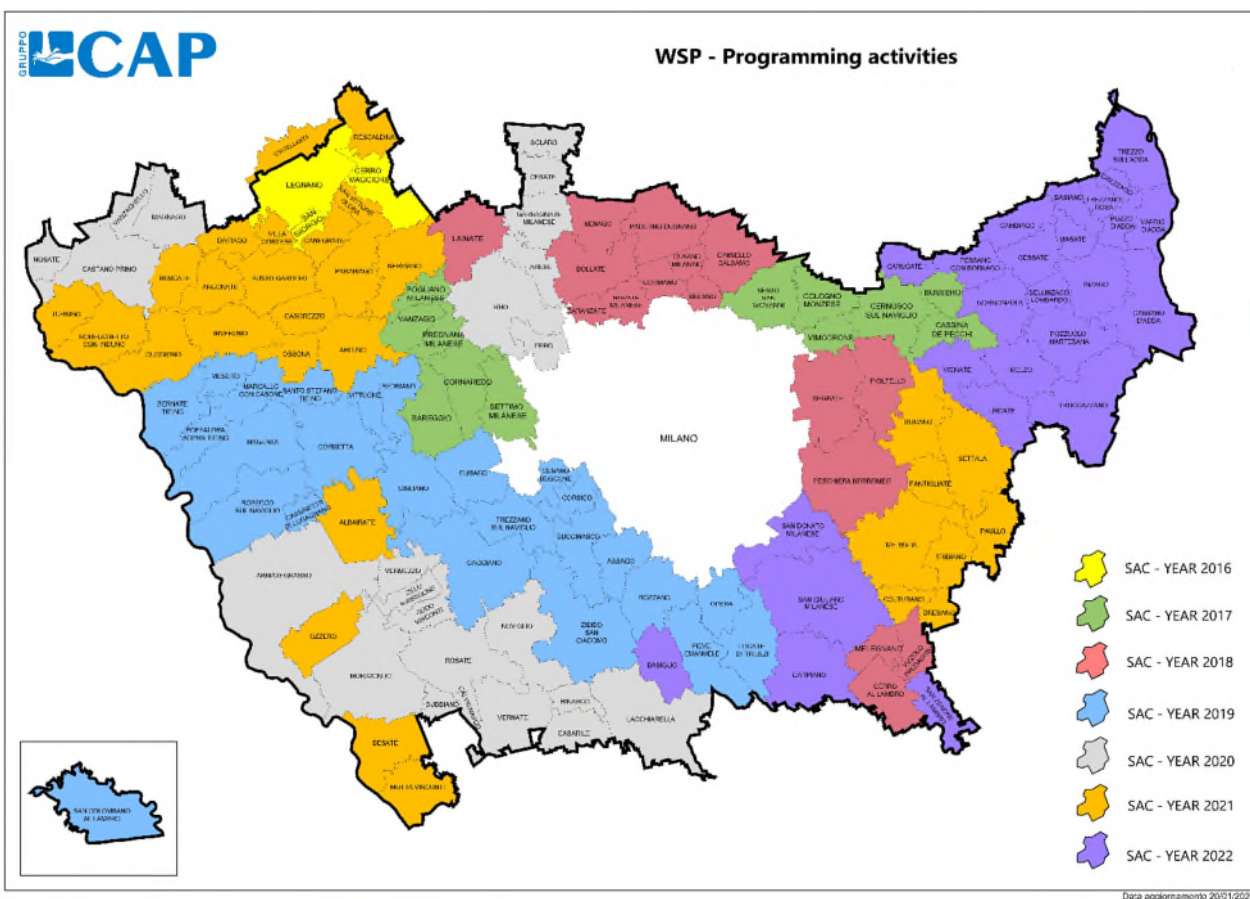
Pending a clear definition of the limit on the chromium parameter, it was decided also for 2019 to continue to maintain the target on the municipal weighted average of 5 micrograms/litre in order to further encourage the refinement of treatment technologies.

Consequently in 2019 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 on the municipal weighted average fed into the grid.

During 2019, 2 Chrome treatment plants were designed and under construction (Sesto San Giovanni via Bixio and Cusago via Fratelli Cervi), with completion of the works and activation of the plants scheduled for 2020. In 2020, also on the basis of developments in the regulatory framework for the definition of the limit for the total chromium parameter (if confirmed at 10 micrograms/litres or increased to 25 or 50), the planning for the construction of the installations will be revised accordingly.

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

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



c) Quality of the environment

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

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

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

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

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

Macro indicator	Parameter	Initial situation Year 2018		2019 objective	Expected target value	Result achieved	2019 performance
		Class to which it belongs	Indicator Value				
M6	M6 - Quality of treated water	D					C
	M6		13.148%	-20%	10.52%	-59.08%	5.38%

The difference between the value of the indicator at 2018 and 2019 results in a 59% reduction, which is a broad achievement of the target set by ARERA and the transition to class C. This improvement can be associated with management measures that the CAP Group implemented through efficiency improvement policies.

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

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

During 2018-2019, support activities for Municipalities were agreed upon with regard to the regulation containing criteria and methods for compliance with the principle of hydraulic and hydrological invariance pursuant to Article 58 bis of the regional law No. 12 of 11 March 2005, with the aim, on the one hand, of drafting the Simplified Document of the Hydraulic Risk directly as CAP Group, and on the other hand contributing to the homogenisation of all documents and analyses (including the Municipal Hydraulic Risk Study) with a view to harmonisation on a wider territorial level with a special reference to the waste water treatment agglomerations and this also in view of the imminent entry into force of the new regulation on waste water (RR 06/2018). To date, 128 municipalities have signed the conventions and 92 simplified documents have been completed.

During 2019, the Guidelines for the drafting of the Municipal Hydraulic Risk Study were also published as an additional support to municipal administrations.

In 2019, a further reconnaissance of the floodwater culverts was carried out to provide an update to the findings and reports in 2018.

Therefore, with the update, as at 31 December 2019 no. 70 floodwater culverts are managed, including no. 3 tanks recently built with works being completed by CAP (Boffalora Via A. Volta, completed as part of work order 5644, Carpiano Via dei Caduti, under construction as part of work order 5659 and San Donato Milanese Via D. Vittorio, completed as part of work order 6657).

Moreover, note that no. 3 items identified in webgis and functional to the integrated water service were recently managed following in-depth meetings with the municipal administrations:

- Inveruno - Via Europa (serving spillway 788);
- Nerviano - Via Novella/Indipendenza (serving spillway 2009);
- Nerviano - Via Novella/Montello (serving the spillway 1316);

During 2019, the provisions of the 2018-2022 PDI were implemented in terms of planning the interventions.

The interventions included, in particular, the construction of the floodwater culverts for the former Carpiano purification plants (works completed), Paullo (the demolition of the former Paullo purification plant was completed and the works on the construction of the new first rain tank were completed), in the area of the former Villastanza purification plant (the doubling of the tank feed manifold was completed, the reclamation works of the two dispersing tanks and the works for the construction of the new first rain tank were completed), in the area of the former Varedo purification plant (the conversion and the construction of the lifting station serving the first rain basin are being started), the redevelopment of the Ossona basin (completed), 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 is in progress), the redevelopment of the Sedriano dispersing tank (work completed during 2019 but not yet under management).

The design of the tanks in Marcallo with Casone, Mesero, Solaro, Vanzaghella, Parabiago via Alighieri and area via Matteotti, Trezzano Sul Naviglio and Misinto also began in 2019.

The planning activities related to upgrading the Cerro Maggiore Cantalupo tank (which is part of the reorganisation and adaptation of the municipal sewerage network functional to the disposal of the Rescaldina purification plant and the drainage of its wastewater in the Parabiago purification plant), whose works are in progress, and the new tanks for Abbiategrasso and Vittuone continued to be carried out.

Personnel and the work environment

With regard to the information pertaining to the environment and the personnel required by section 1 bis of Article 40 of Italian Legislative Decree No. 127/91, it should be noted that in 2019:

- there were no deaths in the workplace, nor charges have been made with regard to occupational diseases affecting employees or former employees or lawsuits concerning mobbing, in relation to which responsibility of the company has been definitively ascertained;
- no damages were caused to the environment for which the company has been definitively declared guilty, nor any sanctions or fines have been inflicted on the company for environmental offences or damages;
- for the accident that resulted in serious injuries to a worker in charge of the purification plant at Peschiera Borromeo that occurred on 17 January 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 an acquittal and the consequent exclusion of the administrative liability of AMIACQUE S.r.l. pursuant to Italian Legislative Decree 231/01. The acquittal has become final.

With regard to organisational development measures, the main action adopted in 2019 is illustrated below.

As part of the consolidation process of the policy and co-ordination activities of CAP Holding - which holds the twenty-year concession for managing the Integrated Water Service in the reference area - 2019 was also characterised by internal reorganisation measures aimed at making the management of said service more effective and efficient, with a view to ongoing improvement, focusing on a greater enhancement of the functions of the Parent Company.

Analysis of the trend in the number of personnel

The personnel in service as at 31 December 2019 numbered 868 employees.

The most significant changes registered for the year concern:

- no. 144 incoming employees for activation of selections pursuant to the current Recruitment Regulation;
- no. 38 outgoing employees due to termination of work contract;
- no. 26 outgoing employees for retirement requirements.

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

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

	Limits	2015	2016	2017	2018	2019
% INCIDENCE OF PERSONNEL COSTS/TOTAL COSTS	20.0%	19.50%	17.34%	14.64%	14.59%	14.44%

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 € 260,186 for a total of 34,607 hours of training with the involvement of 910 employees (including turnover), of which on safety at work € 144,003 for a total of 13,463 hours with the involvement of 699 employees.

Incentive systems adopted

With regard to the incentive systems applied for the year 2019, 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 from 2016 to 2019;
- as part of the company policy for developing the responsibilities that aims to enhance the professionalism and individual skills of management personnel, the individual incentive policy instrument launched in 2014 was strengthened, aimed at recognising and rewarding the best achievement of the business targets and the carrying-out of better performances.

As at 31 December 2019, the CAP Group was in line with the provisions envisaged by Italian Law No. 68/69, Provisions for the right of persons with disabilities to work, having entered into with the Milan Provincial Authority, on 27/05/2016, an intercompany agreement for the integration of people with disabilities pursuant to Article 11 of Italian Law No. 68/99 in favour of Groups of Companies as defined by Article 31 of Italian Decree Law No. 276/2003.

The incentive resources must not lead to the personnel cost limit of 20% of the general costs referred to above being exceeded.

Research and development activities

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

PIA – Aqueducts Infrastructure Plan:

During 2019, the PIA - Aqueducts Infrastructure Plan was used to generate two numerical models of flow and transport (for CrVI and PFAS, respectively) in two sample areas (CrVI: Martesana area, PFAS: Sesto S.G./Cinisello B.); the EWS (Early Warning System) project was also brought to full operation and further implemented with the installation of new monitoring stations in a further 11 municipalities that had so far been completely without them.

The PIA has also made it possible to populate the Geology Portal of WebGIS Acque di Lombardia with two new thematic services: the one relating to sewer - water-bearing stratum interference and the one dedicated to the census and mapping of potential danger centres in the provincial territory managed by the CAP Group.

Efficient management of aqueducts:

Furthermore, in collaboration with the University of Perugia, the Aqueduct Management Sector of the CAP Group launched an experimental project for the identification of network leaks. The innovative technique identified, which can be implemented through a transportable device, exploits the properties of pressure waves that are partially reflected during peculiarities such as leaks, partially closed line valves, inactive connections and partial obstructions. The arrival time in the measurement section of the wave reflected by the peculiarity makes it possible to determine its position; the amplitude of the reflected wave depends on the magnitude of the peculiarity. This experimentation was carried out in the Pozzuolo Martesana backbone.

Rainwater Management - Hydraulic Invariance:

As part of the research and experimentation of new solutions for the reduction of flooding phenomena due to insufficient discharge capacity of the urban drainage network downflows, especially during the occurrence of intense weather events, the CAP Group carried out the activities related to the LIFE METROADAPT project and drafted the RETHINK proposal, proposing it as Coordinator under the European LIFE Programme.

Through the LIFE METROADAPT project, the CAP Group continued the drafting of project documents for the implementation of Nature Based Solutions demonstration measures in the Municipalities of Solaro and Masate, as well as encouraging, in close collaboration with the other project partners, bottom-up initiatives and developing dissemination measures such as technical seminars and training meetings on rainwater management in urban areas.

On the other hand, with the LIFE RETHINK proposal, the CAP Group set itself the objective of producing an improved governance model of the problems related to hydraulic invariance, starting from the status quo of the application of the Lombardy regional standard (Regulation No. 7 of 27 November 2017), with the ambition to create an exportable model and to contribute to the extension of the application of the standard in still marginal sectors.

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 as part of the integrated water service and on the conversion of purification plants into biorefineries, in particular.

During 2019, the CAP Group continued to design and implement process solutions for the recovery of resources. In particular, it started a digester at the Sesto San Giovanni purification plant to obtain easily biodegradable carbon substrates (VFA) and a sludge bio-drying system at the Robecco Sul Naviglio purification plant, in collaboration with the American start-up Bioforcetech Corporation.

The following projects with universities and industrial partners also continued.

MICODEP: from sludge to biomaterials

During 2019, the Micodep project focused its activities on the characterisation of native mycological flora present in the purification plants. Two sampling campaigns, one in spring and one in autumn, were carried out at the Robecco sul Naviglio purification plant: water and mud samples were recovered from various sections of the plant and characterised.

The partner University of Pavia characterised the various species belonging to the world of fungi present in the samples, and selected and isolated those that are known to have specific assimilation properties of organic and inorganic pollutants.

Industrial symbiosis projects

During 2019, the CAP Group carried out experiments in collaboration with two companies in industrial sectors related to the world of plastics: in particular, with the FITT group, producer of PVC pipes and the NOVAMONT group, leader in the market of compostable bio-plastics.

In collaboration with FITT, preliminary studies were carried out, culminating in a full-scale production trial of PVC pipes containing bio-carbonate, a sludge derivative, to replace the mineral charge usually used.

Together with NOVAMONT, the CAP Group focused on the experimental evaluation of the use of waste cellulose, recovered from urban wastewater through an innovative technology proposed by a partner, as a starting material for the production of hydrolysates fermentable in bio-based chemicals.

Water Reuse Risk Management

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

In 2019, the project was developed on two parallel tracks: on the one hand, an analysis campaign, conducted by IRSA and Mario Negri, for the research and possible quantification of various categories of potential pollutants, carried out at various sampling points inside the Peschiera Borromeo purification plant.

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

The implementation activities of the PerFORM WATER 2030, LIFE METROADAPT and H2020 Digital Water City funded projects were also continued, and those for participation in national and European research bids were intensified. In particular, the CE4WE - Circular Economy for Water and Energy project proposal, presented with the University of Pavia as Coordinator, was the winner and eligible for funding within the Call Hub Research and Innovation of the Lombardy Region.

PerFORM WATER 2030 project

The CAP Group is the leader of the industrial research and experimental development project PerFORM WATER 2030 - Platform for Integrated Operation Research and Management of Public Water towards 2030, carried out as part of POR FESR 2014-2020. During 2019, CAP Group's activities in the project focused on supporting the development of the various pilot plants located in the purification plants selected by the CAP Group (San Giuliano Milanese Ovest, San Giuliano Milanese Est, Peschiera Borromeo, Bresso). In particular, the first experimental results produced by the pilot projects (of the SIAD and VEOLIA companies) dedicated to the removal of emerging micropollutants, obtaining extremely positive results, and those concentrated on the use of ozone and oxygen to improve digestibility and decrease the quantity of sludge, were obtained and analysed.

LIFE METROADAPT project

The METROADAPT project - enhancing climate change adaptation strategies and measures in the Metropolitan City of Milan, is co-funded by the European Commission under the LIFE 2017 Climate Action

Programme. Launched in October 2018 and coordinated by the Metropolitan City of Milan, the CAP Group is the project partner, together with Ambiente Italia, e-GEOS, Legambiente Lombardia, Association des agencies de la Democratie Locale (ALDA).

During 2019, the activities of the CAP Group focused on the definition and design of two pilot projects, located in the municipalities of Solaro and Masate. In particular, the Solaro intervention was characterised by the complete definition of the executive design on a case of application of Natural Based Solutions (NBS) to treat and drain the rainwater of a parking area serving a local sports facility, by detaching the collection from the sewer, and using drainage trenches and dispersing wells.

H2020 Digital Water City Project

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

In the Milan application case, in 2019 the CAP Group's activities focused on the evaluation of an analyser probe developed and supplied by the partner Fluidion for the determination of E.coli concentration: in the first stage, more than 100 comparative measurements were made between the instrument supplied by Fluidion and the laboratory method used by the CAP Group. Also as part of the project activities, the CAP Group, in collaboration with the Università degli Studi in Milan, used an area inside the Peschiera Borromeo purification plant to build an experimental agricultural field where to carry out irrigation tests on selected crops using treated water from the same plant.

CE4WE project

The CAP Group participated, together with the University of Pavia, leader of the consortium, a2a Servizio Idrico, ENI, Mogu and NeoruraleHub, in the writing of a draft proposal called Circular Economy for Water and Energy - CE4WE, which was submitted for co-funding on the Call Hub Research and Innovation of the Lombardy Region.

The project activities will be developed on three pillars: two technical dedicated to Water and Energy, and a more general one focused on project management, dissemination and regulatory considerations.

The project has been accepted for co-funding, with activities scheduled to start in February 2020. As part of the project, the CAP Group will assess the use of fungal membranes for purification, the development of hydrological models in pilot areas for adaptation to climate change and the recovery of the oily fraction of urban wastewater for evaluation by ENI for use as a precursor of biofuels.

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

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

For the year 2019, the tax benefit for the tax credit for research and development expenses was € 373,212.

The Gis - WebGis system

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

Finally, in December 2019, an additional service contract was signed with the company Acque Bresciane, which is part of the gis system, Acque di Lombardia.

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

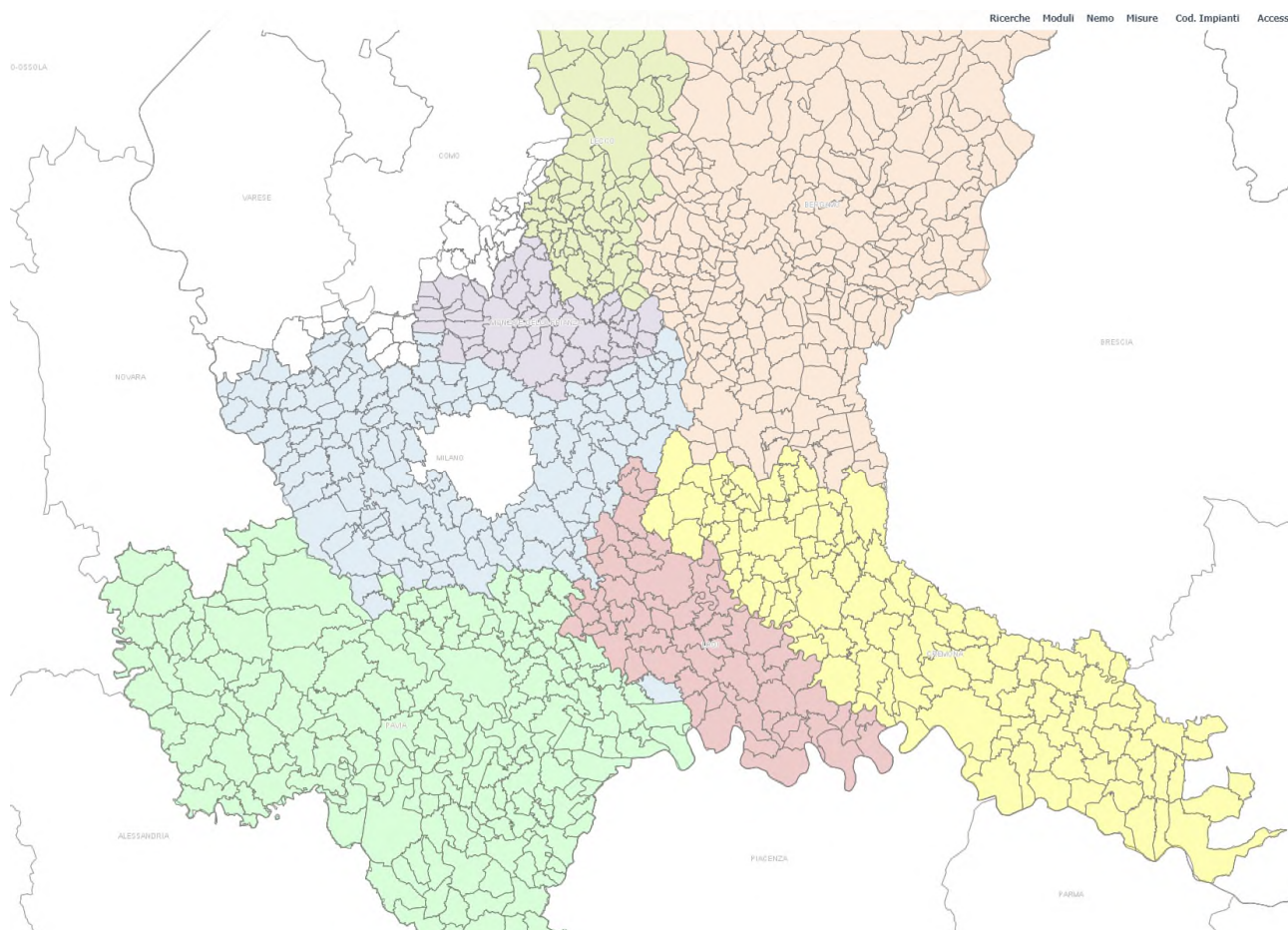
A system highly interconnected with the ERP Company Oracle E business suite, with the network maintenance software and with the mobile world for optimum geographic management.



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 WebGIS, the following quantitative data is illustrated:

WebGIS ACQUE DI LOMBARDIA	2019
km of sewer mains included in the system	24,716
km of aqueduct network included in the system;	28,744
Number of manholes of the sewerage system	509,563
Number of wells – aqueduct network	2,903



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

Focus: CAP Group WebGIS	2019
Number of investments entered on WebGIS	174
Number of sewerage drains entered on WebGIS	881
Number of industrial drains entered on WebGIS	1,662
Number of extraordinary maintenance interventions entered on WebGIS	34
Number of corrective maintenance interventions entered on WebGIS	10
Number of as built by third parties entered on WebGIS	50
Number of km of aqueduct and sewerage network entered on WebGIS	13,053
Number of well monographs entered on WebGIS	592
Number of inspection videos entered on WebGIS	77
Trap maintenance service entered on WebGIS	4,920
Number of discharge authorisations entered on WebGIS	881
Number of monographs for sewerage network manholes accessible on WebGIS	181,004

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

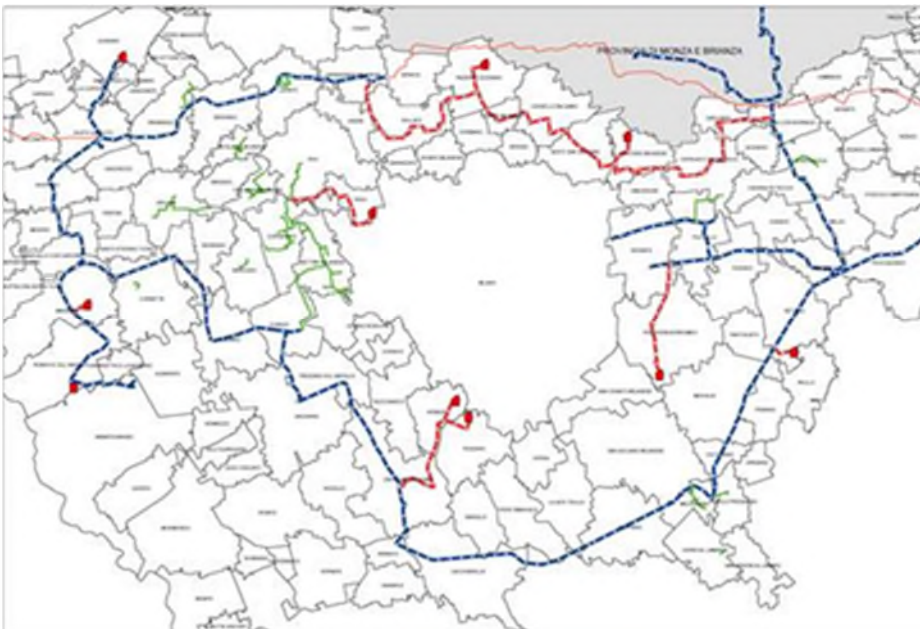
In conclusion, it is disclosed how, in a tangible manner, the project is for all purposes a virtuous example of

sharing economy and will allow the new partners to avoid long timescales and costs for the launch of software by now fundamental for the management of the service.

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

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

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



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

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

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

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

As a continuation of the project, opex's savings were consolidated in 2019, decreasing on a proportional basis, i.e. without taking into account the new locations to be connected and the organisational changes that have occurred since the start of the project to date, by € 189,430.

Business Outlook

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

The CAP Group budget, examined and approved by the Board of Directors of CAP Holding in December 2019, in 2020 shows the following trend:

<i>(units in €)</i>	2020 Budget
Total Revenues	355,328,296
(Total Costs)	(315,931,422)
Net operating result	39,396,874
Financial income (financial expense for write-down of equity investments)	(4,393,496)
Taxation	(10,501,013)
Net result for the year	24,502,365

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 operating balance indicated in the company.

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

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.

Pandemic event related to the COVID-19 emergency

The above budget was approved before the outbreak of the pandemic, declared by the World Health Organisation on 11 March 2020 and the various decrees issued by the Prime Minister's Office of the Italian Government (Prime Ministerial Decree of 8 March 2020 et sequitur).

Among the measures taken by the Italian Government, Italian Decree Law 18/2020 ("Cura Italia" decree) is particularly important, as the first organic intervention to counter the effects of the coronavirus emergency on the social and productive fabric of the Country. Since March 17, the day of its entry into force, circulars and informal interpretations on how to apply it have followed one another. Italian Decree Law no. 18/2020 introduces, among other things, some social safety valves and provides for some interventions in favour of companies, especially small and medium-sized ones.

Following the pandemic event, which occurred after the reporting period, the companies of the CAP Group adopted and are adopting measures strongly oriented towards ensuring business continuity and the availability of essential services in safe conditions, strengthening their measures for the prevention and containment of the epidemic, in line with the indications and regulations adopted by the competent authorities.

It should be emphasised that the activity of the CAP Group, operator of the integrated water service, i.e. an essential public service, cannot be interrupted. It should be noted that despite a partial reduction in the Group's activities in order to comply with the above-mentioned restrictive measures, there have been no interruptions to essential activities to date.

The measures taken include:

- The CAP Group immediately adopted measures to mitigate risks relating to safety at work including: the securing of construction sites and the closing of non-essential ones; the reorganisation of the company's spaces to ensure safety distances and intensive measures to sanitise the premises; the activation of the emergency health procedure and minimum services; the establishment and activation of the Trade Union-Company Health and Safety Committee; maximising the use of smart working (up to 87% of the workforce that can perform their duties in smart working mode, compared to a pre-crisis percentage of 33%), and immediately strengthening IT support services remotely);
- The CAP Group also implemented measures to ensure continuity in the provision of essential services, including through: reprogramming maintenance and user interventions; the reorganisation of operations and minimum services; team restrictions; analysis and monitoring of critical and essential processes; strategic supply chain planning, monitoring and redefinition of technical/commercial quality indicators; the guarantee and execution of timely payments to suppliers, also to guarantee the regular injection of liquidity into the Group's supply chain;
- The CAP Group submitted an application for accessing the measures that Italian Decree Law 18/2020 provides for employers who suspend or reduce their work due to the coronavirus for the granting of ordinary redundancy payments, although at the present date the working days with this reason have been quite limited for the CAP Group;
- With regard to customers, in view of the restrictive measures adopted by the Government, the CAP Group suspended the payment deadlines for bills sent to customers until 31 May 2020;
- With regard to liquidity requirements, so far there are no particular tensions although there are the uncertainties mentioned below.

At the moment, it is not possible to predict with sufficient reliability what further effects might affect the Group in the future, coming from the crisis that might occur mainly at macroeconomic level, but also locally and indirectly (e.g. for the customers and suppliers of the CAP Group, etc.) and therefore be reflected, subsequently, also on the company's credit management and cash and cash equivalents.

In connection with a fluid and rapidly evolving situation, it is not considered possible to date to provide a quantitative estimate of the potential impact of the Coronavirus on the Group's economic and financial position, given the many unknown and undefined factors. This impact will therefore be taken into account in the accounting estimates during 2020.

However, it may be added that the epidemic suggests prudential attitudes in order to deal with the health emergency situation that emerged in 2020 and to enable the CAP Group to play its role in promoting future investments.

Financial risk management

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

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

(a) Interest Rate Risk

The portion of financial indebtedness that has a floating rate is however somewhat contained. As at 31 December 2019, it totalled € 8,966,766, equal to around 6% of the total indebtedness outstanding as at 31 December 2019.

On the same date, part of this indebtedness, € 3,125,393 as at 31 December 2019, at floating rate, is accompanied by non-speculative purely hedging interest rate swap agreements.

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

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

(b) Liquidity risk

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

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

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

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

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

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

The facilities for liquidity amounted as at 31 December 2019 to € 2.5 million and none have yet been used.

As from June 2014, with the need to define internal procedures aimed at optimising the allocation of total financial resources at Group level and to have a sole management in the financial field in order to make 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 2019 and until 31 May 2021.

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

(c) Credit risk

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

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

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

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

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

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

(d) Covenants and Negative pledges and similar.

Part of the CAP Group's indebtedness as at 31 December 2019 derives from loan agreements or from bonds that, in line with similar market transactions, envisage a number of restrictions and commitments for the Group. These include the commitment not to grant, unless within pre-established limits, to future lenders encumbrances on its assets (negative pledge), change of control, *pari passu* and cross default clauses. A number of restrictive clauses are also envisaged on the accomplishment of specific extraordinary transactions and on the disposal of assets. Financial covenants are also envisaged, as more fully detailed in the notes, the possible non-observance of the which may lead to the operation of the acceleration clause to the detriment of the Group.

Use of financial instruments

As at 31 December 2019, the CAP Group used certain financial instruments. The company, during the years 2006 and 2007, entered into a number of Interest Rate Swap agreements (one with Banca Innovazione Infrastrutture e Sviluppo and one with BNP Paribas), and in 2013 it acquired an additional one from the merged company T.A.M. S.p.A. (of which Monte dei Paschi is the counterparty) and in 2015 it acquired a fourth IRS contract from the merged company Idra Milano S.r.l. (of which Banca Nazionale del Lavoro S.p.A. is the counterparty).

All refer to underlying liabilities of a financial type.

In detail, the CAP Group entered into four Interest Rate Swap (IRS) agreements that can be listed in terms of timing as follows (those still outstanding as at 31 December 2019 are shown below):

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. 2 November 2007: IRS for a nominal of € 20,000,000 (in repayment) expiring on 31 December 2026;

4. 16 May 2011 (agreement entered into by Idra Patrimonio S.p.A., which CAP Holding took over further to the merger of Idra Milano S.r.l. that took place in 2015): IRS for a nominal of € 6,000,000 (in repayment) expiring on 16 May 2026.

While the second and fourth 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 that is counterparty to the swap applies a spread in its favour on the interest rate curve used for the rescheduling of the instalment plan. This spread is the bank's remuneration.

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

The swaps listed from numbers 1 to 3 are characterised by the exchange of fixed amounts over time (the underlying amounts are at fixed rates and the swaps are in fixed instalments)

The only exception could be swap no. 3 that includes a Floating rate clause (with reference to the trend of a Euribor rate). Should the possibility established by it occur, the Group would benefit from a theoretical total maximum positive flow of € 1,200,000 from 31 December 2024 to 31 December 2026 (which leaves the Group the opportunity to benefit from a subsequent theoretical rate reduction).

type of derivative contract	multi-phase IRS with MPS	interest rate swap with Intesa	interest rate swap with BNP Paribas	interest rate swap with BNL
	1	2	3	4
contract date	14/06/2006	17/02/2006	22 January 2008	16/05/2011
purpose	rate hedging	loan hedging	loan hedging	rate hedging
contract number	72399	602170669	10706142	5963433
notional value	1,626,816	55,313,163	19,389,639	6,000,000
existing principal	137,060	2,897,752	9,252,123	3,000,000
settlement date	31/12/2020	31/12/2021	31/12/2026	16/05/2026
underlying financial risk			variability of interest rates	
mark to market	-5,000	-12,622,111	-1,025,235	-37,414
hedged asset/liability	MPS loan	cassa depositi e prestiti mortgages	Intesa loan (formerly Banca OPI 2006)	BNL loan (formerly Idra Patrimonio)
Type of derivative contract	multi-phase IRS with MPS	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 related to the trend in exchange rates;
- there are no significant risks related to the trend in interest rates;
- the trend in the prices of the services provided is linked to the tariffs and the Tariff Method determined by the Italian Authority for Electricity, Gas and Water System (AEEGSI).

The Chairman of the Board of Directors
Alessandro Russo



FINANCIAL STATEMENTS OF THE CAP GROUP AS AT 31 DECEMBER 2019

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

Statement of financial position

Statement of financial position	Notes	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
ASSETS					
Non-current assets					
Rights on assets under concession	7.1	795,065,306	751,770,071	43,295,235	6%
Rights of use	7.2	6,009,836	-	6,009,836	100%
Other intangible assets	7.3	15,117,156	13,788,442	1,328,713	10%
Tangible fixed assets	7.4	18,596,850	13,653,518	4,943,332	36%
Deferred tax assets	7.5	23,690,658	24,971,012	(1,280,354)	-5%
Other receivables and other non-current financial assets	7.6	43,362,837	44,513,754	(1,150,917)	-3%
Total non-current assets		901,842,643	848,696,797	53,145,847	6%
Current assets					
Trade receivables	7.7	209,955,570	191,275,922	18,679,648	10%
Inventories	7.8	3,581,893	4,801,892	(1,219,999)	-25%
Contract work in progress	7.9	4,884,259	1,564,113	3,320,147	212%
Cash and cash equivalents	7.10	134,730,710	198,254,373	(63,523,663)	-32%
Other receivables and other current financial assets	7.11	12,021,371	16,489,639	(4,468,269)	-27%
Total current assets		365,173,802	412,385,939	(47,212,137)	-11%
Non-current assets intended for sale	7.12	622,516	-	622,516	100%
TOTAL ASSETS		1,267,638,962	1,261,082,736	6,556,226	1%
SHAREHOLDERS' EQUITY					
Share capital	7.13	571,381,786	571,381,786	-	0%
Other reserves	7.13	240,678,798	207,916,193	32,762,606	16%
FTA reserve	7.13	(989,327)	(989,327)	-	0%
Net result for the year	7.13	32,259,106	31,944,669	314,437	1%
Total consolidated shareholders' equity		843,330,363	810,253,320	33,077,043	4%
LIABILITIES					
Non-current liabilities					
Provision for risks and charges	7.14	66,453,439	68,985,525	(2,532,087)	-4%
Employee Benefits	7.15	5,194,595	5,477,772	(283,176)	-5%
Non-current payables to banks and other lenders	7.16	132,939,328	151,625,126	(18,685,798)	-12%
Other non-current payables	7.17	71,966,020	75,439,031	(3,473,011)	-5%
Total non-current liabilities		276,553,382	301,527,453	(24,974,071)	-8%
Current liabilities					
Trade payables	7.18	82,833,817	76,890,597	5,943,220	8%
Current payables to banks and other lenders	7.16	24,929,549	24,852,405	77,144	0%
Current tax liabilities				0	0%
Other current payables	7.19	39,991,851	47,558,959	(7,567,108)	-16%
Total current liabilities		147,755,217	149,301,962	(1,546,745)	-1%
Non-current liabilities intended for sale	7.20	-	-	-	0%
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,267,638,962	1,261,082,736	6,556,226	1%

Statement of Comprehensive Income

Statement of comprehensive income	Notes	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
Revenues	8.1	253,949,891	240,320,141	13,629,750	6%
Increases for internal work	8.2	4,127,584	3,546,984	580,600	16%
Revenues for work on assets under concession	8.3	96,534,625	86,630,270	9,904,355	11%
Other revenues and income	8.4	14,652,965	17,664,813	(3,011,847)	-17%
Total revenues and other income		369,265,065	348,162,207	21,102,858	6%
Costs for raw materials, consumables and goods	8.5	(15,477,915)	(12,602,602)	(2,875,313)	23%
Costs for services	8.6	(128,493,077)	(124,911,661)	(3,581,416)	3%
Costs for work on assets under concession	8.7	(56,294,549)	(49,907,446)	(6,387,103)	13%
Personnel costs	8.8	(45,780,163)	(43,356,169)	(2,423,994)	6%
Amortisation, depreciation, provisions and write-downs	8.9	(58,169,963)	(51,007,329)	(7,162,634)	14%
Other operating costs	8.10	(12,896,872)	(15,429,802)	2,532,929	-16%
Total costs		(317,112,539)	(297,215,009)	(19,897,530)	7%
Operating result		52,152,525	50,947,198	1,205,328	2%
Financial income	8.11	2,025,354	2,537,863	(512,508)	-20%
Financial expense	8.11	(6,911,346)	(7,409,575)	498,229	-7%
Result before taxes		47,266,533	46,075,485	1,191,048	3%
Taxes	8.12	(14,982,838)	(14,130,817)	(852,022)	6%
Profit (loss) from assets held for sale or disposed of	8.13	(24,589)	-	(24,589)	-100%
Net result for the year (A)		32,259,106	31,944,669	314,437	1%
Components of the statement of comprehensive income that will not be subsequently reclassified in the income statement					
Actuarial gains/(losses) for employee benefits	7.14	(253,066)	151,971	(405,037)	-267%
Tax effect on actuarial gains/(losses) for employee benefits		60,736	(36,473)	97,209	-267%
Components of the statement of comprehensive income that will be subsequently reclassified in the income statement					
Fair value change deriving from cash flow hedge (IRS)		1,359,206	1,219,232	139,974	11%
Tax effect on fair value change deriving from cash flow hedge		(346,103)	(310,460)	(35,643)	11%
Total components of the statement of comprehensive income, net of tax effect (B)		820,773	1,024,270	(203,497)	-20%
Total comprehensive income for the year (A)+(B)		33,079,879	32,968,938	110,940	0%

Cash Flow Statement

CASH FLOW STATEMENT OF THE CAP HOLDING SPA GROUP YEAR (*)	Value as at 31/12/2019	Value as at 31/12/2018
Schedule No. 1: Operating cash flow determined using the indirect method		
A. Cash flows from operating activities (indirect method)		
Profit (loss) for the year	32,259,106	31,944,669
Income taxes	14,982,838	14,130,817
Interest expense/(interest income)	4,824,330	4,871,712
Interest expense IFRS 16	61,662	0
(Dividends)	0	0
Capital (gains)/losses deriving from disposal of assets	137,913	245,380
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/loss on disposal	52,265,850	51,192,577
<i>Adjustments for non-monetary elements that were not offset in net working capital</i>		
Accruals to provisions	4,075,203	11,134,039
Amortisation/Depreciations of fixed assets	46,294,248	39,101,203
Write-downs for impairment losses	152,625	272,795
Other adjustments for non-monetary elements	(2,991,523)	(5,733,965)
2. Cash flow before changes in NWC	47,530,553	44,774,073
<i>Changes in net working capital</i>		
Decrease/(increase) in inventories	(2,100,147)	(125,143)
Decrease/(increase) in receivables from customers	(16,612,940)	51,334,218
Increase/(decrease) in trade payables	6,971,890	8,264,125
Decrease/(increase) in accrued income and prepaid expenses	0	0
Increase/(decrease) in accrued expenses and deferred income	0	0
Other changes in net working capital	(5,756)	914,626
3. Cash flow after changes in NWC	(11,746,952)	60,387,826
<i>Other adjustments</i>		
Interest collected/(paid)	(5,161,901)	(5,327,676)
(Income taxes paid)	(9,483,281)	(15,819,600)
Dividends collected	0	0
Use of provisions	(1,575,954)	(2,814,043)
4. Cash flows after the other adjustments	(16,221,136)	(23,961,319)
Cash flow of income management (A)	71,828,314	132,393,157
B. Cash flow from investment activities		
<i>Tangible fixed assets</i>		
(Investments)	(7,522,556)	(3,937,172)
Realisable value of divestments	5,000	229
<i>Intangible fixed assets</i>		
(Investments)	(6,611,857)	(3,734,241)
Realisable value of divestments	0	0
<i>Fixed assets under concession</i>		
(Investments)	(93,307,441)	(91,271,479)
Realisable value of divestments	0	1,218,546
<i>Financial fixed assets</i>		
(Investments)	(145,177)	(354,850)
Realisable value of divestments	0	16,980,745
<i>Current financial assets</i>		
(Investments)	(39,837)	0
Realisable value of divestments	0	1,264,592
Cash flow from investment activities (B)	(107,621,868)	(79,833,630)
C. Cash flow from financing activities		
<i>Loan capital</i>		
Increase (decrease) in short-term payables to banks	0	0
Loans taken out	0	0
Loans repaid	(25,449,933)	(25,015,294)
Repayment of financial payables IFRS 16	(2,280,176)	0
<i>Shareholders' equity</i>		
Share capital increase against payment	0	0
Sale (purchases) of own shares	0	0
Dividends (and interim dividend payments) paid	0	0
Cash flow from financing activities (C)	(27,730,109)	(25,015,294)
<i>Increase (decrease) in cash and cash equivalents (a ± b ± c)</i>		
Cash and cash equivalents as at 1 January	198,254,373	170,710,140
Cash and cash equivalents as at 31 December	134,730,710	198,254,373
change	(63,523,663)	27,544,233

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

Changes in shareholders' equity

	Share capital	Reserve FTA	Reserve cash Flow hedge	Other reserve	Net Income	Total
Shareholders' equity 31/12/2018	571,381,786	(989,327)	(1,777,125)	209,693,318	31,944,669	810,253,321
Net result	-	-	-	31,944,669	(31,944,669)	-
Fair value change deriving from cash flow hedge net of tax effect	-	-	1,013,103	-	-	1,013,103
Actuarial gains (losses) on employee benefits, net of the tax effect	-	-	-	(178,058)	-	(178,058)
Other changes *	-	-	-	(17,109)	-	(17,109)
Profit (loss) for the year	-	-	-	-	32,259,106	32,259,106
Total shareholders' equity 31/12/2019	571,381,786	(989,327)	(764,022)	241,442,820	32,259,106	843,330,363

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

1. General information

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

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

The company is entirely publicly owned: its shareholding structure as at 31 December 2019 is solely made up of local territorial bodies.

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

These consolidated financial statements were approved by the Company’s Board of Directors on 20 April 2020.

2. Summary of the Accounting Standards

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

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

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

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

The Consolidated financial statements include the consolidated statement of financial position as at 31 December 2019 and 31 December 2018, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in shareholders’ equity for the year ended 31 December 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, at the end of the reporting period of the consolidated financial statements, were subject to approval by the European Union according to the procedure envisaged by Regulation (EU) No. 1606/2002 of the European Parliament and the European Council on 19 July 2002.

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

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

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

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 statement of financial positions as at 31 December 2019 and 31 December 2018 and the income statement for the year ended 31 December 2019 of the Company and the subsidiaries, approved by the respective management bodies. The list of the companies consolidated line-by-line by the Group as at 31 December 2019 is presented below:

- AMIACQUE S.r.l. of Milan, total share capital of € 23,667,606.16, owned for € 23,667,606.16, equal to 100.00% as at 31 December 2019 (equal to that held as at 31 December 2018 and unchanged to date).

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

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

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

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

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

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

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

presentation of the Statement of financial position and Income Statement figures of the subsidiary company as at 31 December 2019, please see explanatory note 7.6 included in these financial statements.

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

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

2.3 Measurement Criteria

The most significant accounting standards and measurement criteria 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) measured 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 that will be incurred consequent to contractual obligations that require returning the assets to the original conditions.

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

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

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

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

Intangible assets

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

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

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

The value corresponds to the fair value of the design and construction activities increased by the capitalised financial expense, in observance of the requirements envisaged by IAS 23, during the construction phase. The fair value of the construction services of the Integrated Water Service is determined on the basis of the costs effectively incurred. The logic for determining the fair value stems from the fact that the concession holder must apply the matters envisaged by IFRS 15 and therefore if the fair value of the service received (in the

specific case the right to exploit the assets) cannot be determined reliably, the revenue is calculated on the basis of the fair value of the construction services carried out.

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

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

(b) Other intangible assets

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

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

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

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

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

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

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

Trade Receivables and other Current and non-Current receivables

In accordance with IFRS 15, par. 31, the assets deriving from the contract are recognised, in correspondence with the revenues from which they originate, as the Group fulfils its 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 par. 106 of IFRS 15, presents the contract as a liability arising from the contract at the time the payment is made or (if earlier) at the time the payment is due.

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

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

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

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

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

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

Equity investments

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

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

Write-downs and write-backs are recognised in the income statement.

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

Inventories

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

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

Contract work in progress

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

Cash and cash equivalents

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

Financial liabilities, Trade and Other payables

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

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

Derivative financial instruments

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

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

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

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

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

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

Conversion of transactions Denominated in Currency other than the Reporting Currency

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

Conversion of transactions Denominated in Currency other than the Reporting Currency

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

Own shares

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

Employee Benefits

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

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

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

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

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

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

Provisions for risks and charges

Provisions for risks and charges are provided to cover known or likely losses or liabilities, the timing and extent of which however could not be determined at the end of the reporting period. Recognition takes place only when a current obligation exists (legal or implicit) for a future outgoing of economic resources as the result of past events and it is probable that said outgoing is required to fulfil an obligation. This amount represents the

best discounted estimate of the expense required to discharge the obligation. When the financial effect of time is significant and the payment dates of the obligations can be reliably estimated, the provisions are measured at the current value of the outlay envisaged using a rate that reflects the market conditions, the change in the cost of money over time and the specific risk linked to the obligation. The increase in the value of the provisions, determined by changes in the cost of money over time, is recorded as interest expense.

Contributions

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

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

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

Discontinued operations

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

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

Revenue recognition

The revenues are initially recognised at the fair value of the amount received net of any decreases and discounts. The revenues relating to the sale of goods are recognised when the company has transferred the significant risks and the benefits associated with ownership of the goods to the purchaser. Revenues from the provision of services are recognised with reference to the value of the service provided at the end of the reporting period. Reference should also be made to the previous paragraph "Trade receivables and other current and non-current receivables".

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

Costs for the purchase of goods and provision of services

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

Taxation

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

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

Current taxes, deferred tax assets and liabilities are recognised in the income statement, with the exception of those relating to items directly charged against or credited to shareholders' equity in which case the related

tax effect is recognised directly under shareholders' equity. The taxes are offset when they are applied by the same tax authorities and there is a legal right to offset

2.4 Recently issued accounting standards

On 29 November 2019, the EU approved the following documents:

- Amendments to references to the Conceptual Framework in IFRSs
- Definition of material – Amendments to IAS 1 and IAS 8

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

- Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7.

The three documents must be adopted obligatorily as from the financial statements for the financial years starting on 1 January 2020, with the possibility of early application.

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

Documents approved by the EU as at 15 January 2020

The information to be provided in the notes to the financial statements provided by these documents are included in this checklist, as their early application is allowed.

Document title	Issue Date	Effective date	Date of approval	EU Regulations and publication date	Notes and references to this list of control
Amendments to references to the Conceptual Framework in IFRSs	1 marzo 2018	1 January 2020	29/11/2019	(EU) 2019/2075 6 December 2019	Early application is permitted
Definition of material – Amendments to IAS 1 and IAS 8	1 ottobre 2018	1 January 2020	29/11/2019	(EU) 2019/2104 10 December	Early application is permitted
Interest rate benchmark reform - Amendments to IFRS 9, IAS 39 and IFRS 7	1 settembre 2019	1 January 2020	15/01/2020	(EU) 2020/34 16 January 2020	Early application is permitted

Documents STILL to be approved by the EU as at 15 January 2020

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

Document title	Issue Date by IASB	Effective date of the IASB document	Date of expected approval by the EU
Standards			
IFRS 17 Insurance Contracts	1 maggio 2017	1 January 2021 (*)	TBD
Amendments			
Definition of business (Amendments to IFRS 3)	1 ottobre 2018	1 January 2020	Q1 2020

Accounting standards, amendments, interpretations and improvements applied from 1 January 2019

On 1 January 2019, 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 16 Leases

Issued in January 2016, it replaces the previous standard on leases, IAS 17 and related interpretations, identifies the criteria for recognition, measurement and presentation and the disclosure to be provided in

relation to lease agreements 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 was off-financial statements) and financial leases (which appeared in the financial statements). The right of use of the leased asset and the commitment undertaken are shown in the financial figures of the financial statements (IFRS 16 applies to all transactions that provide for a right of use, regardless of the contractual form, i.e. lease, rent or hire). The main innovation is the introduction of the concept of control within the definition. In particular, to determine whether or not a contract is a lease, IFRS 16 requires checking whether or not the lessee has the right to control the use of a specified asset for a specified period of time. Based on this new model, the lessee must recognise:

- a) in the Statement of financial position, the assets and liabilities for all lease agreements with a duration of more than 12 months, unless the underlying asset is of low value; and
- b) in the income statement, depreciation of assets relating to leases separately from interest on related liabilities.

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

More specifically, the IFRS 16 accounting of lease contracts requires the lessee to:

- recognise in the Statement of financial position the lease liability at the date of adoption as the present value of the remaining lease payments due discounted using the lessee's marginal borrowing rate at the first-time adoption date;
- recognise in the Statement of Financial Position an asset consisting of the right of use at the first-time adoption date for long-term leases previously classified as long-term operating leases.

As allowed, the CAP Group has chosen to value the asset consisting of the right of use at a value equal to the amount of the original liability net of depreciations up to the date of first-time adoption. Moreover, with reference to the transition rules, the CAP Group made use of the practical expedient available when choosing the modified retrospective transition method, which concerns the exclusion of initial direct costs from the measurement of the right of use on 1 January 2019. The contracts falling within the scope of application of the standard for the CAP Group mainly concern the long-term rental of cars and the rental of real estate. Moreover, the Group made use of the possibility that allows not to adopt the standard for low value assets such as PCs, printers, electronic equipment (IFRS 16.5.b) and contracts with a residual maturity of less than 12 months (IFRS 16.5.a). For these contracts, the introduction of IFRS 16 will not result in the recognition of the financial liability of the lease and the related right of use, but the lease payments will be recorded in the income statement on a straight-line basis for the duration of the respective contracts.

The transition to IFRS 16 introduced some elements of professional judgement that entail the definition of certain accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the "incremental borrowing rate". The main elements are summarised below:

- discount rate: in most of the lease contracts entered into by the CAP Group, there is no implicit interest rate; therefore, the discount rate applied to future lease payments has been determined as the average rate for financial liabilities with the same term. The impact as at 1 January 2019 is an increase in financial assets and liabilities of approximately € 3,323,699, equal to the present value of future lease payments envisaged by the "lease term".
- lease term: the duration was determined based on the individual contract and consists of the "non-cancellable" period together with the effects of any extension clauses whose exercise was considered reasonably certain and taking into account the clauses of the contract itself. Specifically, for real estate, this measurement took into account the specific facts and circumstances of each asset.

Finally, in the cash flow statement, repayments of the principal portion of the lease liability are recognised in the cash flow from financing activities, while interest expense is recognised in the cash flow from operating activities if recognised in the income statement, or in the cash flow from investing activities if capitalised in that they refer to assets leased and used for the construction of other assets.

3. Financial risk management

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

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

(a) Interest Rate Risk

The portion of financial indebtedness that has a floating rate is however somewhat contained. As at 31 December 2019, it totalled € 8,966,766, equal to around 6% of the total indebtedness outstanding as at 31 December 2019.

On the same date, part of this indebtedness, € 3,125,393 at a floating rate, was accompanied by non-speculative purely hedging interest rate swap agreements.

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

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

(b) Liquidity risk

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

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

As at 31 December 2019, deposits with banks satisfy the liquidity requirements.

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

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

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

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

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

Loans	Amount disbursed	Repayable within 12 months	Repayable between 12 months and 5 years	Repayable beyond 5 years	Total repayable beyond 12 months	Total residual principal as at 31/12/2019
Payables to Banks and Bonds	237,437,152	22,663,972	74,133,849	55,223,008	129,356,857	152,020,829

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

The facilities for liquidity amount as at 31 December 2019 to € 2,550,000 million and none have yet been used.

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

(c) Credit risk

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

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

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

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

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

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

(d) Price risk

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

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

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

4. Going concern

The financial statements of the Cap Group as at 31 December 2019 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 that, under certain circumstances, lie on difficult and subjective valuations and estimates based on past experience and assumptions that are from time to time considered reasonable and realistic in relation to the related circumstances. The application of these estimates and assumptions influences the amounts indicated in the financial statement formats as well as the disclosure provided. The final results of the financial statement items for which the afore-mentioned estimates and assumptions have been used could differ from those indicated in the financial statements that reveal the effects of the occurrence of the event subject to estimation, due to the uncertainty which characterises the assumptions and the conditions on which the estimates are based.

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

(a) Amortisation and depreciation of intangible and tangible assets

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

(b) Residual value at the end of the Concession

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

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

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

(d) Deferred tax assets

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

(e) Provisions for risks and charges

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

(f) Bad debt provision

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

(g) Measurement of derivative financial instruments

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

Financial assets and liabilities by category

A classification of the financial assets and liabilities by category as at 31 December 2019 follows:

In €	Financial assets and liabilities at fair value with change to OCI	Loans and receivables/payables at nominal value	Available-for-sale financial assets	Financial assets/liabilities at amortised cost	Total
ASSETS:					
Other non-current assets	0	27,650,236	0	15,712,602	43,362,837
Trade receivables	0	209,879,175	0	76,395	209,955,570
Cash and cash equivalents	0	134,730,710	0	0	134,730,710
Other current assets	0	9,442,476	0	2,578,894	12,021,371
LIABILITIES:					
Non-current financial liabilities	7,894,428	86,681,854	0	38,363,045	132,939,328
Other non-current liabilities	0	63,854,306	0	8,111,714	71,966,020
Trade payables	0	82,833,817	0	0	82,833,817
Current financial liabilities	5,676,614	9,756,954	0	9,495,982	24,929,549
Other current liabilities	0	38,692,957	0	1,298,894	39,991,851

Financial instruments

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

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

- level 3: this level contains the classification of the financial assets/liabilities whose fair value is determined on the basis of market data that cannot be observed. The category includes the instruments measured on the basis of internal estimates, carried out using proprietary methods on the basis of the sector best practices.

The following table summarises the assets and liabilities that are measured at fair value as at 31 December 2019, on the basis of the level that reflects the inputs used to determine the fair value:

In €	As at 31 December 2019		
	Level 1	Level 2	Level 3
Derivative financial instruments (IRS)	-	13,571,042	-

The CAP Group, during the years 2006 and 2007, entered into certain Interest Rate Swap agreements; specifically, insofar as still existing as at 31 December 2019, one with Banca Innovazione Infrastrutture e Sviluppo and one with BNP Paribas. During 2013, it acquired an additional one from the merged company T.A.M. S.p.A. of which Monte dei Paschi is the counterparty. In conclusion, in 2015 it acquired a fourth from the merged company Idra Milano S.r.l., of which Banca Nazionale del Lavoro S.p.A. is the counterparty.

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

- The position acquired from the company 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: i) that undertakes entrepreneurial activities generating revenues and costs (including the revenues and costs regarding transactions with other components of the same entity); ii) whose operating results are periodically reviewed at the highest operational decision-making level of the entity for the purpose of the adoption of decisions regarding the resources to be allocated to the sector and the assessment of the results; iii) in relation to which separate financial statement information is available.

Management has identified the following operating segments:

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

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

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

7. Notes to the consolidated statement of financial position

7.1. Rights on assets under concession

The changes in the item "Rights on assets under concession" for the period from 1 January 2019 to 31 December 2019 are shown below:

In €	Value as at 31/12/2018	Increases	Decreases	account transfers	Contributions	Amortisation	Value as at 31/12/2019
Rights on assets under concession in use	648,811,852	87,652,446	(2,689,989)	(53,259)	(10,364,548)	(36,793,268)	686,563,234
Rights on assets under concession in progress	102,958,219	98,590,363	(92,935,368)	(111,142)	-	-	108,502,072
Rights on assets under concession	751,770,071	186,242,809	(95,625,357)	(164,401)	(10,364,548)	(36,793,268)	795,065,306

In accordance with IFRIC 12, rights on assets under concession for € 795,065,306 as at 31 December 2019 and € 751,770,071 as at 1 January 2019 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 € 10,364,548. The investments for 2019 amount to € 98,590,363.

Impairment test on rights on assets under concession

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

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

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

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

The discounted cash flow rate (WACC) used, which reflects the market valuations of the cost of money and the specific risks of the sector of activities and the geographic area of reference, is equal to 3.2%.

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 2019 financial year and, consequently, no write-downs were made on these assets.

7.2 Right of use

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

The adoption of IFRS 16 led to the recognition, on 1 January 2019, the date of first-time adoption, of higher fixed assets for rights of use of € 3,323,699 and lease liabilities for the same amount segmented between current and non-current financial liabilities. In 2019, the generated depreciation amounted to € 2,248,603.

The changes that occurred in 2019 are shown below:

In €	Value as at 31/12/2018	IFRS 16 FTA	Increases	Decreases	Depreciations	Value as at 31/12/2019
Right of use	-	3,323,699	4,934,741	-	(2,248,603)	6,009,836
Total Right of use	-	3,323,699	4,934,741	-	(2,248,603)	6,009,836

7.3. Other intangible assets

The changes in the item "Other intangible assets" for the period from 31 December 2019 to 31 December 2018 are shown below:

In €	Value as at 31/12/2018	Increases	Decreases	Account transfers	Amortisation	Value as at 31/12/2019
Other intangible assets in use	13,129,928	6,675,132	-	-	(5,277,615)	14,527,445
Other intangible assets in progress	658,514	2,861,610	(2,924,884)	(5,529)	-	589,711
Other intangible assets	13,788,442	9,536,741	(2,924,884)	(5,529)	(5,277,615)	15,117,156

The amount of € 14,527,445 includes € 6,577,021 equal to the residual value of the amount resulting from the recognition in the financial statements of the purchase value of the business unit of Genia, which took place on 1 July 2011 (for an initial value of € 5,813,250, subsequently revised to € 5,698,014 when adjusted and subsequently increased by € 1,654,770 following the merger in 2013 of the company T.A.S.M. S.p.A. which had a similar financial statement item).

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

The rest refers to capitalised ERP business software.

7.4. Properties, plant and machinery

As at 31 December 2019, the tangible fixed assets amount to € 18,596,850, with a difference compared to the balance as at 31 December 2018 of € 4,943,333 (€ 13,653,518 in 2018).

In €	Value as at 31/12/2018	Increases	Decreases	Account transfers	Amortisation	reclassification for disposal	Value as at 31/12/2019
Other tangible assets in use	7,400,335	5,198,342	(10,104)	29,676	(1,974,762)	(622,516)	10,020,971
Other tangible assets in progress	6,253,183	2,324,214	-	(1,518)	-	-	8,575,879
Other intangible assets	13,653,518	7,522,556	(10,104)	28,159	(1,974,762)	(622,516)	18,596,850

Other fixed assets owned by the Group for a book value as at 31 December 2019 amounting to € 1,326,256 have been given for use to unrelated parties: these include, in particular, the Casalpusterlengo (LO) warehouse, rented to the company SAL S.r.l., contractor for the management of the integrated water service in the Province of Lodi (contract renewed until 31 December 2021), with headquarters in Rozzano (MI), which as from 1 June 2016 was leased to third parties (until 31 May 2022). The related fees are parameterised to the ISTAT.

Note that in accordance with IFRS 5 the building called "Q7" located in Rozzano Palazzo Q - Scala 7, purchased in 2002 and owned by Amiacque S.r.l., was reclassified under fixed assets held for sale since the intention to sell it has been expressed. A public notice of expression of interest was published on 7 June 2019. In conclusion, it is believed that, as a whole, sufficient future economic benefits are generated to recover the carrying amount recognised by the Company.

7.5. Deferred tax assets

The breakdown of the item “Deferred tax assets” for the period from 31 December 2018 until 31 December 2019 is presented below:

DEFERRED TAX ASSETS	Value as at 31/12/201 8	Updates	Increases	Decreases	Value as at 31/12/201 9
For connection contributions from users	2,849,447	(34,067)	533,073	(61,868)	3,286,585
For amortisation of goodwill	45,620	-	-	(10,960)	34,659
For bad debts exceeding the tax limit	2,453,832	-	2,085,179	(18,187)	4,520,824
For provisions for lawsuits pending	1,386,544	-	197,964	(449,844)	1,134,664
For provisions for amicable settlements	910,304	-	-	(94,176)	816,129
For provisions for other risks	222,240	-	-	(66,837)	155,402
For provision for future plant decommissioning costs	1,491,341	-	350,178	(613,723)	1,227,795
For provision for future tank reclamation costs	1,220,614	-	134,300	-	1,354,913
For provision for future purification plant area reclamation costs	5,901,546	-	305,877	-	6,207,423
For provision for water bonus	12,912	-	-	(12,585)	326
For provision for damages from sewerage percolation	1,765,656	-	-	-	1,765,656
For provision for environmental damages	263,716	-	-	(16,950)	246,766
For provision for municipal asphalt costs	29,027	-	33,284	(11,706)	50,606
For sludge disposal expenses	111,799	-	-	(111,799)	-
For asbestos disposal expenses	1,184,058	-	-	-	1,184,058
For provision for expected financial hedge transactions	607,403	-	-	(346,103)	261,300
For provision for sundry charges	39,682	-	-	(34,024)	5,659
For undeducted excess amortisation/depreciation	212,595	-	-	-	212,595
Allocations for adjustments IAS 1 Jan. 2017	680,095	-	-	-	680,095
For inventory write-downs	-	-	149,721	-	149,721
For tax loss that can be carried forward	5,185,512	(43,201)	-	(512,360)	4,629,952
For ACE that can be carried forward	158,488	-	-	(158,488)	-
For provision for risks on personnel costs	1,149,357	-	-	-	1,149,357
For default interest payable not paid	34	-	-	(34)	0
TOTAL IRES (COMPANY INCOME TAX)	27,881,821	(77,267)	3,789,576	(2,519,644)	29,074,486
For connection contributions from users	459,932	-	93,288	(9,154)	544,065
For provision for sundry charges	5,196	-	-	(5,196)	-
For amortisation of goodwill	861	-	-	(861)	-
For provision for water bonus	2,260	-	-	(2,202)	57
For provision for future tank reclamation costs	213,607	-	23,502	-	237,110
For provision for future purification plant area reclamation costs	1,032,771	-	53,528	-	1,086,299
For provision for damages from sewerage percolation	308,990	-	-	-	308,990
For provision for municipal asphalt costs	5,067	-	5,825	(2,048)	8,843
For sludge disposal expenses	19,565	-	-	(19,565)	-
For asbestos disposal expenses	246,296	(5,962)	-	(1,673)	238,662
For provision for undeducted excess amortisation/depreciation	38,194	-	-	-	38,194
For provisions for other risks	7,207	-	-	(1,142)	6,065
TOTAL IRAP (REGIONAL BUSINESS TAX)	2,339,945	(5,962)	176,143	(41,842)	2,468,286
	30,221,767	(83,229)	3,965,719	(2,561,485)	31,542,772
DEFERRED TAX LIABILITIES					
For default interest receivable to be collected	(183,669)	-	(157,352)	122,844	(218,177)
For tax amortisation	(4,978,234)	103,793	(2,757,599)	86,954	(7,545,086)
Allocations for adjustments IAS - 1 Jan. 2017	(88,852)	-	-	-	(88,852)
TOTAL IRES (COMPANY INCOME TAX)	(5,250,755)	103,793	(2,914,951)	209,798	(7,852,114)
TOTAL DEFERRED TAX ASSETS	24,971,012	20,565	1,050,769	(2,351,687)	23,690,658

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

Amounts receivable as at 31 December 2019 for deferred tax assets, offset by deferred tax liabilities, amounted to € 23,690,658.

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

7.6. Other non-current assets

The item "Other non-current assets" as at 31 December 2019 refers to:

Other receivables and other non-current financial assets	Value as at 31/12/2019	Value as at 31/12/2018	Change
Equity investments in companies	15,257,002	15,336,124	(79,121)
Receivables from subsidiaries	0	-	0
Accrued income and prepaid expenses	9,585,129	8,646,640	938,489
Other receivables	8,751,047	9,523,330	(772,283)
Tax receivables	5,281,476	6,657,396	(1,375,920)
Receivables from companies with minority investments	2,216,876	1,440,707	776,169
Bank and postal deposits	1,206,842	1,899,029	(692,187)
Guarantee deposits	698,273	644,338	53,936
Receivables from social security institutions	125,480	125,480	-
Financial receivables	80,063	80,063	-
Other non-current financial receivables	160,649	160,649	-
Total Other non-current receivables and other financial assets	43,362,838	44,513,754	(1,150,916)

The changes made in 2019 with regard to the equity investments held in Pavia Acqua S.c.a r.l., Rocca Brivio Sforza S.r.l. in liquidation, Water Alliance – Acque di Lombardia, network contract for companies with legal status, are shown below:

In €	Value as at 31/12/2018	Increases/revaluati ons	Decreases/write- downs	Value as at 31/12/2019
<i>Pavia Acque Scarl</i>	14,392,813	-	-	14,392,813
<i>Rocca Brivio Sforza Srl in liquidation</i>	922,321	-	(104,051)	818,270
<i>Water Alliance - acqua di Lombardia, network contract</i>	20,990	66,457	(41,527)	45,920
Total equity investments	15,336,124	66,457	(145,578)	15,257,002

The equity investment in Water Alliance - Acque di Lombardia, originally registered during 2017 due to the transfer of endowment capital completed on 20 January 2017, increased in 2019 due to a further disbursement of € 66,457 in 2019. CAP Holding S.p.A.'s shareholding in Water Alliance - Acque di Lombardia is equal to 23.6% as at 31 December 2019 (€ 145,705 against the total fund of € 616,597).

The investment in Rocca Brivio Sforza S.r.l. in liquidation derives from the merger in 2013 of the company T.A.S.M. S.p.A. into CAP Holding S.p.A. During the year, the value of the equity investment decreased by € 104 thousand due to the losses incurred; the percentage held is equal to 51.04% of the shareholders' equity of Rocca Brivio Sforza S.r.l.

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

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

Note that the item "Other non-current assets" as at 31 December 2019 includes the non-current portion of the amount present in the restricted account in favour of Banca Intesa San Paolo S.p.A. for an amount of € 1,199,924 (€ 1,899,029 in 2018); as at 31 December 2019, the item also includes the non-current portion of the amount present in the escrow account in favour of Banca Nazionale del Lavoro S.p.A. for an amount of € 6,919 (zero as at 31 December 2018) pledged to guarantee a credit line granted by the Bank to Cogeser Servizi Idrici S.r.l. The latter transferred a water business segment to Cap Holding S.p.A. on 28 June 2012. For more details on the loans to which the amounts are connected, see item 7.16.

With regard to the sub-item "sundry receivables", these are credit portions whose collectability was estimated over 12 months in 2019, and relating to:

- € 7,363,842 to the company BrianzAcque S.r.l. for the sale of the branch (II° step).
- € 1,387,205 other receivables.

With regard to the sub-item “financial receivables”, these are portions of receivables whose collectability was estimated as beyond 12 months in 2019, and relating to:

- € 160,648 is represented by receivables from Cassa Depositi e Prestiti for unused loans;
- € 80,063 mainly consisting of deposits made for € 22,498 by the merged company I.A.No.Mi. S.p.A. and for € 43,032 directly by CAP Holding S.p.A., at the Provincial Treasury Section of Milan – Servizio Cassa Depositi e Prestiti - as indemnity for various properties subject to occupation and/or expropriation for the acquisition of the areas necessary to build the plants.

The item “receivables from companies with minority investments” includes receivables from Pavia Acque S.c.a.r.l. of € 838,554.

With regard to prepaid expenses, the item includes an amount of € 5,547,812 (as a non-current portion) recognised as a matching balance to the payable due to Cassa Depositi e Prestiti S.p.A. as guarantee commissions on the loan issued by the European Investment Bank backed by Cassa Depositi e Prestiti itself. The current portion is recognised under item 7.11 for an amount of € 1,059,805.

7.7. Trade receivables

Following is the breakdown of the item “Trade receivables” as at 31 December 2019:

TRADE RECEIVABLES	Value as at 31/12/2019	Value as at 31/12/2018	Change
Receivables from civil users	164,234,796	145,561,012	18,673,784
For invoices issued	129,576,848	103,802,092	25,774,756
For invoices to be issued	50,613,351	49,481,468	1,131,884
Bad debt provision	(15,955,403)	(7,722,548)	(8,232,855)
Receivables from productive users	15,440,618	14,782,727	657,891
For invoices issued	17,776,465	11,095,117	6,681,348
For invoices/Credit notes to be issued	(1,011,601)	4,104,399	(5,116,000)
Bad debt provision	(1,324,246)	(416,789)	(907,457)
Receivables from other operators for tariffs	6,389,763	870,050	5,519,714
For invoices issued	175,025	278,469	(103,444)
For invoices to be issued	6,214,738	591,581	5,623,157
Bad debt provision	0	0	0
Receivables from other wholesale operators	14,160,688	16,658,949	(2,498,260)
For invoices issued	0	0	0
For invoices to be issued	14,160,688	16,658,949	(2,498,260)
Bad debt provision	0	0	0
Other trade receivables	9,353,474	11,613,158	(2,259,683)
For invoices issued	6,634,211	2,228,633	4,405,578
For invoices to be issued	6,221,946	13,281,458	(7,059,512)
Bad debt provision	(3,502,683)	(3,896,933)	394,250
Receivables from subsidiaries (Rocca Brivio Sforza)	282	282	-
For invoices issued	282	282	-
Receivables from municipalities	375,947	1,789,745	(1,413,797)
For invoices issued	244,064	933,083	(689,019)
For invoices to be issued	511,383	1,086,109	(574,726)
Bad debt provision	(379,499)	(229,447)	(150,052)
Total	209,955,570	191,275,922	18,679,648

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 balance also includes provisions for invoices to be issued deriving from tariff adjustments for € 4,451,953. These are invoices to be issued for "guaranteed revenues", or sums that, based on the agreements for the assignment of the water service and the "tariff" regulation of the sector Authority (ARERA) constitute financial assets accrued by the date of 31 December 2019, but which may be applied to users on consumption after that date. These regulatory adjustments refer to the years 2017-2019

7.8. Inventories

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

INVENTORIES	Value as at 31/12/2019	Value as at 31/12/2018	Change during the year
Raw materials and consumables	4,205,730	4,801,892	(596,162)
Provision for stock obsolescence	(623,838)	-	(623,838)
Total inventories	3,581,893	4,801,892	(1,219,999)

The item inventories is composed of electrical and hydraulic components, electrical pumps for wells, raw materials for purification, meters and other consumable materials held in the warehouse as at 31 December 2019. In 2019, inventories were written down by € 623,838 and allocated to the obsolescence provision to take account of the loss in value of certain items.

7.9. Contract work in progress

The item amounting to € 4,884,259 includes the value of the contracts for work in progress for the planning, site supervision and construction of works for the hydraulic repairs of the Cagnola water source, on behalf of the Region of Lombardy, entrusted to the company I.A.No.Mi. S.p.A. merged in 2013.

For advances received up to 31 December 2019, see the comment on liabilities, item 7.19.

The amount as at 31 December 2019 represents the gross value of the stage of completion of said contract.

7.10. Cash and cash equivalents

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

CASH AND CASH EQUIVALENTS	Value as at 31/12/2019	Value as at 31/12/2018	Change
Bank and postal deposits	134,718,995	198,242,197	(63,523,202)
Cheques	-	2,959	(2,959)
Cash and equivalents on hand	11,715	9,216	2,498
Total cash and cash equivalents	134,730,710	198,254,373	(63,523,663)

Note that the current portion of the restricted account in favour of Banca Intesa San Paolo S.p.A. equal to € 900,000 (€ 1,500,000 as at 31 December 2018) deriving from the disbursement made on 1 December 2012 to T.A.S.M. S.p.A., merged as at 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 carrying out of the interventions indicated above.

The additional portion, considered as non-current, is commented on under item 7.6.

The same item as at 31 December 2019 also includes the amount of € 105,556 being the current portion of a current account opened at Banca Nazionale del Lavoro S.p.A. pledged to guarantee a credit line granted by the Bank to Cogeser Servizi Idrici S.r.l. The latter transferred a water business segment to Cap Holding S.p.A. on 28 June 2012.

The additional portion, considered as non-current, is commented on under item 7.6.

7.11. Other current assets

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

OTHER RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS	Value as at 31/12/2019	Value as at 31/12/2018	Change
VAT tax receivables	4,022,663	6,581,311	(2,558,647)
Receivables from companies with minority investments	1,796,320	2,113,033	(316,713)
Receivables for operating grants	1,369,386	775,412	593,974
Receivables from banks	1,114,932	1,281,802	(166,869)
Receivables from Brianzacque (disposal of business unit)	-	1,963,309	(1,963,309)
Other sundry receivables	3,250,215	2,735,453	514,761
Advances to Public Bodies	165,823	165,823	-
Receivables from social security institutions	164,762	54,999	109,763
Receivables from employees	64,351	67,284	(2,933)
Accrued income and prepaid expenses	72,919	751,214	(678,295)
TOTAL OTHER CURRENT RECEIVABLES AND OTHER FINANCIAL ASSETS	12,021,371	16,489,639	(4,468,269)

The tax credit essentially consists of VAT refunds receivable of € 3,084,553, IRES receivables to be offset of € 700,000, IRAP of € 153,418, virtual stamp duty of € 59,896 and tax credits of € 24,796.

Other receivables amounted to € 9,297,602 as at 31 December 2019 and are mainly composed of:

- receivables from investee company Pavia Acque SCARL of € 1,796,320 for services relating to commercial contracts;
- other sundry receivables of € 3,250,215 mainly refer to receivables from some companies that are counterparties to transactions involving the sale of business units;
- receivables from credit institutions of € 1,114,932 mainly refer to prepayments on commissions relating to guarantees;
- receivables from public bodies in which the preponderant part consists of receivables from the ATOs of the provinces of Milan and Monza Brianza, for a sum equal to € 1,369,386, regarding grants related to assets and/or financing amounts to cover expenses relating to projects included in the excerpt plans.

7.12 Available-for-sale assets

As at 31 December 2018, there were no assets held for sale.

In 2019, as already mentioned in the sections on fixed assets, the building in Rozzano called "Q7" was available for sale, following an expression of interest published on the CAP Group's website.

See on liabilities the disclosure provided in Note 7.20 within these financial statements.

7.13. Shareholder's equity

Share capital

The share capital (referring to the consolidating company CAP Holding S.p.A.) is made up of 571,381,786 ordinary shares with a par value of € 1 each, fully subscribed and paid-in.

Reserves

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

7.14. Provisions for risks and charges

The changes in the item "Provisions for risks and charges" are shown below:

PROVISION FOR RISKS AND CHARGES	Value as at 31/12/2018	Provision	Use/surplus	Value as at 31/12/2019
Provision for risks for future losses	866,316	-	(244,283)	622,033
Provision for risks on personal INPS contributions	4,788,991	-	-	4,788,991
Provisions for lawsuits pending	6,717,129	552,496	(2,541,857)	4,727,767
Provision for amicable settlements	3,868,984	-	(392,399)	3,476,585
Provision for risks relating to request for 2007 tax rebate	2,719,952	-	-	2,719,952
Provision for sundry charges	23,576	-	-	23,576
Total provision for other risks	18,984,948	552,496	(3,178,540)	16,358,904
Provision for company water bonus	53,799	-	(52,439)	1,360
Provision for taxes	143,023	-	(143,023)	-
Provision for environmental damage from sewers	1,124,295	-	(70,625)	1,053,670
Provision for asphalt expenses	120,642	138,684	(48,773)	210,553
Provision for future tank reclamation costs	5,085,890	559,583	-	5,645,472
Provision for purification plant area reclamation	24,589,774	1,274,488	-	25,864,262
Provision for damages from sewerage percolation	7,356,900	-	-	7,356,900
Provision for sludge disposal	465,830	-	(465,830)	-
Provision for expenses for asbestos disposal for water networks	4,933,576	-	-	4,933,576
Provision for future plant decommissioning	6,126,848	1,459,073	(2,557,180)	5,028,741
Total provision for future expenses	50,000,578			50,094,535
Total provision for risks and charges	68,985,525	552,496	(3,178,540)	66,453,439

Some notes on the most significant provisions as at 31 December 2019 are shown below:

- The provision for future expenses mainly refers to the recognition of a part of the tariff by the operator of another territorial area and various disputes;
- € 4,788,991 for "provision for risks on personnel costs": includes provisions set aside for requests made by INPS for the regularisation of payments of certain types of contributions. No further provisions were made in that the provision was considered adequate with respect to the amount of the tax-assessment notices notified by INPS, interest and penalties, in relation to which, for 6 tax-assessment notices, the Court of Cassation with judgement no. 21532/19 upheld the appeal of INPS, repealed the judgement of the Court of Appeal of Milan no. 456/13 and remanded to the same Court also for the regulation of the expenses of the judgement of legality, for other 4 tax-assessment notices, the Court of Cassation order no. 21532/19 was issued (awaiting reinstatement before the Court of Appeal of Milan) and for one last tax-assessment notice, the relative case is still pending before the Court of Cassation. The Court of Appeal, for the first six tax-assessment notices, has left to the counterparties the exact count of contributions, interest and penalties that the CAP Group will have to pay;
- the provision for lawsuits pending refers to various cases including disputes with social security institutions, disputes concerning compensation for damages in the vicinity of an area adjacent to a purification plant, disputes arising from the takeover of business units by former operators and other minor claims for damages;
- € 3,476,585, for the provision of "amicable settlements". It was formed, especially in 2010 and 2011, in compliance with Article 12 of Presidential Decree No. 207 of 5 October 2010 "Regulation for the execution and implementation of Legislative Decree No. 163 of 12 April 2006" (Procurement Code) which, following the repeal of Italian Legislative Decree 163/2006, expired with it for contracts subsequent to April 2016. Article 12 envisaged the mandatory pre-formation of a fund equal to 3% of the "economic framework" for risks related to "disputes relating to subjective rights deriving from the performance of public works contracts". As the works for which it was set aside close, the fund is progressively released;
- € 2,719,952 for "provision for risks relating to claims for 2007 tax reimbursement": includes the provision made in 2008 for the recognition of a receivable of the same amount from 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 company, then merged into Amiacque S.r.l., CAP Gestione S.p.A., and requests for reimbursement by claim pursuant to Article 38 of Italian 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 judgement No. 78/47/12. An appeal was brought against this judgement before the Regional Tax Commission that, with judgement No. 110/28/13, filed on 19 September 2013, declared the appeal inadmissible. Amiacque S.r.l. decided to appeal against

judgement No. 110/28/13 with action for annulment. Against its rejection, it was decided to lodge an appeal with the Court of Cassation. At the same time, an appeal to the Supreme Court is still pending on the merits of the case;

- € 1,360 for the provision for "social subsidised tariffs". The provision, established in past years as a result of the decision taken with resolution No. 7 of the Conference of ATO of the Metropolitan City of Milan Municipalities of 31 May 2016 approving the "regulation for the concession of social subsidised tariffs of the CAP Group" and subsequent additions, was released, for the part not used as at 31 December 2019, and no longer available for use;
- € 1.053.670 for the provision for future expenses for environmental damage (environmental restoration) due to the drainage of sewage discharges into the ground;
- € 210,553 for the provision for future expenses for "road repairs". The cost was quantified as the best estimate as at 31 December 2019 by the technicians of CAP Holding S.p.A. of the road sections for which, by the same date, the requirements that are imposed on the Operator of the IWS to intervene, in compliance with what is regulated by resolution no. 5 point 2 of the Area Office of the Metropolitan City of Milan of 25 May 2016. In summary: CAP Holding S.p.A. must repair municipal roads (when defined tolerance margins are exceeded) that have been damaged more than once by works carried out as part of the integrated water service;
- € 5,645,472 for the provision for future expenses for the reclamation of floodwater culverts (environmental restoration). It was established in view of the termination of the life cycle of said tanks with consequent re-naturalisation and recovery of the areas occupied, for which it is necessary to remedy any environmental damages potentially due to percolation into the ground;
- € 25,864,262 for the provision for reclamation and environmental restoration intervention related to the purification plant site, following the assessment, which will be the reasonably expected condition of the lands underlying the sections, in particular pre-treatment and anaerobic digestion at the end of their useful life, as well as the estimate of the charges necessary to eliminate the statistically occurring contaminations;
- € 7,356,900 for the provision for reclamation of sewerage percolation damage, through which it is believed that it is possible to face the probable costs of reclamation of the soil polluted by the drainage of wastewater from deteriorated sewage networks;
- The provision for sludge disposal of € 465,830 in 2018 was zeroed in 2019. This provision was set aside for issues related to the Lombardy Administrative Court judgement No. 1782/2018 and new urgent regulations regarding sludge, Article 41 of Italian Law Decree No. 109 of 28 September 2018 converted into Law N. 130 on 16 November 2018. The aforementioned measures led to difficulties in 2018 in the regular provision of mud for spreading in agriculture. This was essentially the estimate of the cost for future disposal of sewage sludge, accumulated beyond physiological, as at 31 December 2018, and temporarily stored awaiting disposal;
- € 4,933,576 for the provision for future removal of aqueduct networks granted to CAP Holding S.p.A., no longer in operation, which have asbestos cement among the building materials. This is essentially an estimate, as at 31 December 2019, of the cost of future excavations and removal of approximately 12 km of pipelines, surveyed in 2018 and decided as an alternative to the risk control and management activities envisaged by Article 12 of the Law No. 257 of 27 March 1992. In December 2018, the company made a public commitment to this effect towards the relevant EGA;
- € 5,028,741 for the provision for future expenses for the disposal of buildings. This mainly refers to buildings in Milan, Via Rimini 34/36. These buildings will in fact be demolished presumably in 2021 and a new building will be erected to be used as the "headquarters" of the CAP Group.

7.15. Employee Benefits

The changes in the item "Employee benefits" for the period 31 December 2018 to 31 December 2019 are shown below:

Employee Benefits	Value as at 31/12/2018	Inflows/outflows	Utilisations	Financial expense	Actuarial gains (losses)	Other changes	Value as at 31/12/2019
Employee severance indemnity	5,477,772	(9,548)	(608,247)	61,888	178,058	94,672	5,194,595
Total Employee Benefits	5,477,772	(9,548)	(608,247)	61,888	178,058	94,672	5,194,595

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

The economic and demographic assumptions used for actuarial valuations are broken down below:

	2019	2018
Inflation rate	1.50%	1.50%
Discount rate	0.37%	0.88%
Annual frequency of Advances/Leavers	1.50%	1.50%

7.16. Current and non-current financial liabilities

The breakdown of the items “Current financial liabilities” and “Non-current financial liabilities” as at 31 December 2019 and 31 December 2018 is shown below:

Current and non-current financial liabilities	Value as at 31/12/2019		Value as at 31/12/2018	
	Current portion	Non-current portion	Current portion	Non-current portion
Cassa depositi e prestiti mortgages	2,294,565	1,897,189	4,101,721	4,191,753
Intesa San Paolo mortgages	1,990,481	18,449,494	1,894,399	20,439,975
Banca nazionale del lavoro mortgages	567,094	2,538,462	567,094	3,105,556
Current account overdrafts	0	0	0	0
Monte dei paschi di siena mortgages	528,576	1,793,643	540,146	2,322,212
Finlombarda spa loans	97,115	556,059	97,115	653,174
Banca Popolare di Milano	378,275	3,807,153	532,452	4,185,428
European Investment Bank loans	4,010,335	64,008,018	1,981,647	68,018,353
Payable to Cassa Depositi e Prestiti as guarantee on EIB loan	1,059,805	5,547,812	1,095,687	6,607,617
2005 bond ISIN: IT0003853568	-	-	1,481,500	-
2017 bond ISIN: IT1656754873	5,667,760	22,765,178	5,661,032	28,432,937
Payables to banks for derivatives	5,676,614	7,894,428	6,385,975	13,668,121
Payables to banks portion of interest and mortgages	345,452	-	513,636	-
Financial payables rights of use	2,313,479	3,681,893	-	-
Current and non-current financial liabilities	24,929,549	132,939,328	24,852,405	151,625,126

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

in €	Maturity	Total	Due within one year	Due in 2 to 5 years	Due over 5 years
BANCA INTESA OPI 2006	2026	9,245,291	1,136,469	5,141,075	2,967,748
EIB (I tranche)	2029	16,444,418	1,571,255	6,444,931	8,428,231
EIB (II tranche)	2030	9,573,935	859,955	3,546,529	5,167,451
EIB (III tranche)	2030	12,000,000	1,050,431	4,281,462	6,668,107
EIB (IV tranche)	2031	12,000,000	528,694	4,286,279	7,185,027
EIB (IV tranche)	2032	18,000,000	-	5,491,772	12,508,228
2005 Bond issue	2019	-	-	-	-
2017 Bond issue	2024	28,432,937	5,667,760	22,765,178	-
BANCA INTESA EX TASM	2029	11,194,684	854,012	3,953,792	6,386,880
BNL (COGESER) 0.950	2020	105,556	105,556	-	-
BNL (IDRA merger)	2026	3,000,000	461,538	1,846,154	692,308
MPS	2022	646,437	244,283	402,154	-
MPS OOPE	2020	4,016	4,016	-	-
MPS	2020	125,393	125,393	-	-
Cdp	2022	4,191,753	2,294,565	1,897,189	-
Finlombarda	2026	346,200	53,262	213,046	79,892
Finlombarda	2026	306,973	43,853	175,413	87,706
Banco BPM (Amiacque)	2028	4,185,428	378,275	1,715,294	2,091,859
MPS (Amiacque)	2029	1,546,374	154,885	627,967	763,522
TOTAL LOANS		131,349,395	15,534,200	62,788,235	53,026,960

Bank mortgage loans

Note that the payables to banks include a loan from Monte dei Paschi Siena S.p.A. signed on 14 December 2011 by the company T.A.S.M. S.p.A. (then merged into CAP Holding S.p.A. deed of merger of 22 May 2013, Volume No. 23262 file No. 10176 Notary Public Ferrelli Milan), originally of € 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 purification plant owned by the former T.A.S.M., now CAP Holding S.p.A. (public notary deed 6 March 2012 volume 22358/9707 Notary Public Ferrelli of Milan) is found. The nominal value of the residual debt of this loan as at 31 December 2019 amounted to € 646,437.

Payables to banks also include a loan from Banca Infrastrutture Innovazione e Sviluppo S.p.A., which has now become Intesa San Paolo S.p.A., taken out on 14 October 2010 by the company T.A.S.M. S.p.A. (later merged into CAP Holding S.p.A. by merger deed dated 22 May 2013, volume No. 23262, file No. 10176, Notary Public Ferrelli of Milan), originally for € 16,000,000, with repayments from 1 January 2013 until 30 November 2029. The value of said loan was credited on a special escrow account as collateral in favour of the Bank and it will therefore be unavailable to the company financed until the Bank releases it subsequent to the progress of the expenses financed (deposits as at 31 December 2019 for a total of € 2,099,924). The balance of the above-mentioned account was recognised in item 7.6 (for the non-current portion) and 7.10 (for the current portion). The nominal value of the residual debt of said loan as at 31 December 2019 amounted to € 11,194,684.

The payables to banks as at 31 December 2019 also include:

- € 105,556 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 June 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 December 2019 totalling € 112,474). The balance of the above-mentioned account was recognised in item 7.6 (for the non-current portion) and 7.10 (for the current portion). As at 31 December 2018, the payable was € 211,111.
- € 1,546,374 at nominal value for a loan with Monte dei Paschi di Siena, acquired in 2013 by Amiacque S.r.l., with the business unit of AMAGA together with the Abbiategrosso headquarters, which was

purchased with the loan in question. A voluntary mortgage is registered as security for the loan on the Abbiategrasso building. The redemption plan expires on 1 September 2029.

Note also that the amounts due to banks also include the residual debt as principal for:

- portions of loans transferred by conferment of business unit pursuant to Article 2560 of the Italian Civil Code, in Pavia Acque S.c.a r.l. (deeds of 15 July 2008 and 23 December 2016) for which it has not yet been possible to make innovations, due to a residual debt as at 31 December 2019 of a nominal amount of € 1,136,215 and the recognition of the receivable against Pavia Acque Srl, for € 1,164,610 for residual receivable at the nominal value as at 31 December 2019. The latter amount includes the principal and interest for the second half of 2019 (portions not yet paid as at 31 December 2019) and includes € 326,056 under current financial assets (Item 7.11) and € 838,554 under non-current financial assets (Item 7.6);
- portions of loans transferred by partial demerger to Patrimoniale Idrica Lodigiana S.r.l. (deed of 28 May 2014) for a residual nominal value of € 793,442, not yet innovated, and the recognition as an asset of the receivable from Patrimoniale Idrica Lodigiana for a nominal value of € 809,795 (the company P.I.L. S.r.l. with deed of 14 December 2015 rep. 94891 collection No. 24276 Notary Public Mattea of Lodi was merged into the SAL Società Acqua Lodigiana, S.r.l.). The latter amount includes the principal and interest for the second half of 2019 (not yet paid as at 31 December 2019) and includes € 485,975 under current financial assets (Item 7.11) and € 323,820 under non-current financial assets (Item 7.6);
- portions of loans transferred for the sale of a business unit to the company BrianzAcque S.r.l. for residual nominal value of € 678,875, not yet innovated. and the recognition as an asset of the receivable from BrianzAcque S.r.l. for the same amount as at 31 December 2019. The receivable is of recognised for € 171,159 under current financial assets (Item 7.11) and € 507,717 under non-current financial assets (Item 7.6).

Payable to Cassa Depositi e Prestiti as guarantee on EIB loan

The item, amounting to € 6,607,617 as at 31 December 2019 (of which € 1,059,805 current portion and € 5,547,812 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 7.6 and 7.11) which follows the allocation to the income statement on an accrual basis.

BEI loan

With regard to the amount due to the European Investment Bank, the tranches disbursed up until 31 December 2019 were:

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

As at 31 December 2019, the total amount due to the EIB amounted to a € 68,018,353.

Bonds

The item refers to:

- € 28,432,937 for the bond (ISIN code No. XS1656754873), for a nominal € 40,000,000 admitted for listing and trading on the regulated market of the Irish Stock Exchange on 2 August 2017. The bond was fully subscribed by institutional investors. The 7-year bonds (maturing August 2024) bear interest payable on

an annual basis (first maturity in August 2018) at a fixed rate of 1.98%. The capital is repaid according to a redemption plan at constant principal, without prejudice to the cases of early repayment governed by the regulation of the Bonds.

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

As at 31 December 2019, the residual capital, at nominal value, amounted to € 28,571,432, and at amortised cost it amounted to € 28,432,937. The portion of interest pertaining to the year 2019 of € 282,857 due within the next financial year was entered among the financial liabilities.

The portion due within the following year is equal to € 5,950,617 (inclusive of the above mentioned interest portion recorded under financial liabilities); the portion due beyond the following year amounts to € 22,765,178.

Note that as at 31 December 2019, the bond (ISIN code IT003853568) with a nominal value of € 20,000,000 placed with firm commitment in 2005 by Banca per la Finanza alle Opere Pubbliche S.p.A. (now Intesa Sanpaolo S.p.A.) was fully remunerated. The interest accrued for 2019 amounted to € 1,259; of these, € 144 were recharged to the companies SAL, Pavia Acque and BrianzAcque.

The IAS derivative fair value

Reference is made to paragraph 5, point "derivative financial instruments". As at 31 December 2019, the value of the derivatives amounted to € 13,571,042, broken down as shown in the following table:

type of derivative contract	multi-phase IRS with MPS	interest rate swap with Intesa	interest rate swap with BNP Paribas	interest rate swap with BNL
	1	2	3	4
Contract date	14/06/2006	17/02/2006	22/01/2008	16/05/2011
Purpose	rate hedging	loan hedging	loan hedging	rate hedging
Contract no.	72399	602170669	10706142	5963433
Maturity	31/12/2020	31/12/2021	31/12/2026	16/05/2026
Underlying financial risk			variability of interest rates	
Book value 31/12/2019	(4,960)	(12,526,821)	(1,002,167)	(37,094)
Hedged asset/liability	MPS loan	cassa depositi e prestiti mortgages	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 BNP Paribas	interest rate swap with BNL

Accessory charges on loans

The charges incurred by the Group to obtain bank loans were initially recognised as a reduction of financial liabilities and subsequently recognised in the income statement using the amortised cost method, in accordance with IFRS 9.

It should be noted that following the application of IFRS 16, financial payables were recorded in 2019. Details of current and non-current financial payables relating to the application of the new accounting standard IFRS 16 are set out below.

In € IFRS 16 lease liability	Value as at 31/12/2018	IFRS 16 FTA	Increases	Decreases	Value as at 31/12/2019	Due within the financial year	Due beyond the financial year
Long-term rentals of cars/trucks	-	1,046,791	4,934,741	1,141,120	4,840,412	1,699,360	3,141,051
Property leases	-	2,294,016	-	1,139,057	1,154,959	614,118	540,841
Total	-	3,340,807	4,934,741	2,280,176	5,995,371	2,313,479	3,681,892

7.17. Other non-current liabilities

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

Other payables and non-current liabilities	Value as at 31/12/2019	Value as at 31/12/2018	Change
<i>Payables to municipalities for services and other</i>			
Payables to municipalities for services and other	-	528,970	(528,970)
Total non-current liabilities for payables to municipalities	-	528,970	(528,970)
<i>Payables for contributions</i>			
Payables for ert.nert connection contributions and other third party financed projects	4,821,222	3,408,382	1,412,841
Payables for aqueduct connection contributions	5,591,184	4,366,526	1,224,658
Payables for sewer connection contributions	2,661,205	1,979,966	681,239
Payables for ATO/Regional contributions on work in progress	504,483	3,870,830	(3,366,347)
Total non-current liabilities for contributions	13,578,095	13,625,704	(47,609)
<i>Payables to others</i>			
Accrued expenses and deferred income	4,384,032	4,476,726	(92,695)
Loans taken over	20,696,103	23,080,704	(2,384,601)
Guarantee deposits from users and customers	32,470,962	32,892,947	(421,985)
Other non-current payables	836,829	833,979	2,850
Total non-current liabilities to others	58,387,926	61,284,357	(2,896,432)
Total other non-current payables and liabilities	71,966,020	75,439,031	(3,473,011)

Another significant sub-item is represented by amounts due to users for the utility guarantee deposits of the integrated water services of € 32,470,962.

€ 4,384,032 refers to deferred income for contributions/connections, etc. and includes the portion of contributions received from users for the completion of aqueduct and sewer connections that will be posted under the revenues in periods after 31 December 2019 in connection with the depreciation of the related assets.

In conclusion, with regard to the loans undertaken, € 20.695.945, this involves the portions due beyond 12 months, for:

€ 18,621,451 for payables to the ATO for "take over" corresponding to the loan taken out by the Province of Milan from Cassa Depositi e Prestiti, Ref. No. 4492128/00, required for financing decree No. 3/2009 of the ATO Authority of the Province of Milan, that CAP Holding S.p.A. took over in 2013. The portion due beyond 5 years amounted to € 10,882,620;

€ 1,463,342 for a debt, recorded during 2015, for the taking over of the Cddpp loan position No. 4430124, based on agreements signed by the then Idra Patrimonio S.p.A. to finance the "Idra Fanghi" (plant sold during 2015 by Idra Milano S.r.l.). It reached CAP Holding S.p.A. due to the merger of Idra Milano S.r.l. in 2015.;

€ 611,151 for other mortgages and/or financial loans taken over, transactions that mainly took place further to the contributions in kind in CAP Holding S.p.A. (or its assignors, by CAP Gestione S.p.A. to CAP Impianti S.p.A., to its merged companies in 2013) of the assets of the water service by EELs, now shareholders. The amount due beyond five years amounted to € 327,114

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

The short-term portions of loan assumptions represent the sums due within 12 months of the loans taken over of € 2,435,455, the latter already commented on in greater detail in the item "current and non-current payables to banks and other lenders", section 7.16

7.18. Trade payables

This item includes payables relating to the normal performance of commercial activities by the Group, relating to the supply of goods, fixed assets and services of € 82,833,817. At 31 December 2019, there were no payables in the financial statements with a residual duration of more than five years.

7.19. Other current liabilities

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

Other current payables and liabilities	Value as at 31/12/2019	Value as at 31/12/2018	Change
Payables to minority companies	18,872	0	18,872
Payables to minority companies	18,872	0	18,872
Payables to municipalities for services and other	1,172,080	635,909	536,171
Payables to municipalities for invoices to be received	1,082,558	1,045,411	37,147
Payables to municipalities for services and other	2,254,638	1,681,320	573,318
Payables to local authorities for tariff quotas	945,611	1,979,158	(1,033,547)
Payables to companies and consortiums for tariff quotas	2,941,464	3,170,933	(229,470)
Payables to consortium villoresi for reclamation grants	2,367,547	2,395,130	(27,583)
Payables to EGA for tariff quotas write-off law	3,672,327	1,106,959	2,565,368
Payables to others for tariff quotas	9,926,949	8,652,181	1,274,768
Advances	5,020,443	5,205,893	(185,450)
Other payables to users and customers	534,313	346,212	188,101
Advances from users	895,424	5,641,056	(4,745,632)
Advances from municipalities for services and other	628,559	598,847	29,712
Advances on ato Mi/Lombardy region contract contributions	8,622,068	8,622,068	0
Payables to the Region and the Province for advances on loan	0	0	0
Other payables to employees	3,086,670	2,783,082	303,588
Loans taken over	2,435,455	2,368,359	67,096
Tax payables	3,553,957	8,496,577	(4,942,620)
Payables to social security institutions	2,760,409	2,599,564	160,845
Other liabilities	254,094	563,799	(309,705)
Payables to others	27,791,392	37,225,459	(9,434,066)
Total Other current liabilities	39,991,851	47,558,959	(7,567,108)

With regard to comments on the sub-items "for tariff portions" as well as utility guarantee deposits, reference is made to the matters already indicated in section 7.17 where the portions due beyond 12 months of said liabilities are indicated.

Advances amounted to € 9,250,627 as at 31 December 2019 and mainly regard advance payments for work in progress commissioned by private entities and public bodies (€ 628,559) and the Lombardy Region (€ 8,622,068).

It should be noted that part of this amount of € 8,528,005 refers to the long-term order "arrangement of the Cagnola Fontanile". Since these are advance payments, the value of work in progress on order has not been deducted from the total amount of advances.

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

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

7.20 Liabilities available for sale

They amounted to zero as at 31 December 2019, in the same way as at 31 December 2018.

8. Notes to the consolidated statement of comprehensive income

8.1 Revenues

As at 31 December 2019, revenues amounted to € 253,949,891.

The revenues achieved in relation to sales and services carried out during the year 2019, divided by the main Area Authorities, are shown below.

The Revenues recognised in the financial statements mainly comprise:

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

Revenues for tariffs of the IWS within the province of Milan determined as part of the Guaranteed Revenue Bonds amounted to € 228,258,849.

With regard to the regulated revenues of the Area of the Metropolitan City of Milan, except for the provincial capital, it should be noted that with resolution No. 503/2016/r/idr of 15 September 2016, the Italian Authority for Electricity, Gas and 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 Area Office of the Metropolitan City of Milan. 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 2016-2019 period (with a two-year tariff review for the years 2018 and 2019).

ARERA adopted Resolution 34/2019/R/idr - by which it initiated the procedure for the definition of the Water Tariff Method for the third regulatory period (MTI-3). The procedure was then concluded with resolution no. 580/2019/R/IDR of 27 December 2019.

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

With regard to regulated revenues in the area of Monza and Brianza, by means of resolution No. 523/2016/r/idr dated 22 September 2016, the Italian Authority for Electricity, Gas and Water System (AEEGSI, now ARERA) took steps to "approve the tariff provisions for the 2016-2019 period, proposed for certain providers operating in the ATO of Monza and Brianza", approving, among other things, the aqueduct wholesaler and the purification wholesaler tariffs of CAP Holding S.p.A. within 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 MTI-2, introduced by AEEGSI resolution No. 664/2015/R/idr dated 28 December 2015, which covers the 2016-2019 period (with a two-year tariff review for the years 2018 and 2019).

On the whole, revenues for the integrated water system tariffs within the province of Monza and Brianza determined as part of the VRG in question amounted to € 13,978,404 for 2019, entirely relating to the wholesaler share.

- Revenues from sales and services for the Pavia area

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

Therefore, the Company does not have revenue consisting of a tariff for that area. The CAP Holding S.p.A., as a member of S.c.a.r.l. was appointed to carry out various infrastructure activities in some municipalities of Pavia, consequently registering among their income a consideration arising from the prices recognised to it by Pavia Acque S.c.a.r.l. For 2019 the income amounted to € 2,671,119 (plant operation and maintenance).

- Other areas

These are residual presences of the Group that acts as a "wholesaler" recognised by the EGA of the Metropolitan City of Milan with effect from 1 January 2016 (see Board of Directors Resolution of the aforementioned EGA No. 1 of 31 May 2016 - Annexe A) and relating to the following cases:

- purification service carried out by means of the Group purification plant located in the municipality of San Colombano al Lambro (enclave of the Metropolitan City of Milan in the territory of Lodi) for 3 municipalities of the Lodigiano area (Borghetto Lodigiano, Graffignana, Livraga) in which the main Operator is SAL S.r.l.;
- purification service rendered to two municipalities of the ATO of Como (Cabiante and Mariano Comense, for the latter case there are very few utilities) through the Pero purification plant 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.

With reference to the services managed in the Area of the Metropolitan City of Milan, in the light of ATO resolution no. 6 of 16 December 2019, the above mentioned "wholesaler" situations, starting from 2020, will also be managed through the application of an exchange rate, unless otherwise decided by ARERA.

In 2019, revenues for the province of Lodi amounted to € 400,566, those for the province of Como amounted to € 195,747 while those for the Metropolitan City of Milan amounted to € 1,957,117.

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

Note that the item:

- other revenues includes € 3,320,146.53 for contract work in progress for the planning, site supervision and construction of works for the hydraulic repairs of the Cagnola water source, on behalf of the Lombardy Region, assigned to the company I.A.No.Mi. S.p.A. merged in 2013.

Revenues from water discharge authorisation and € 426,054 for sludge disposal are added to these, amounting to € 37,588.

8.2 Increases for internal works

The value is equal to € 4,127,584 of which for hours of personnel capitalised on investment contracts.

8.3 Revenues for works on assets under concession

Revenues for work on assets under concession amounted to € 96,534,625 for financial year ended 31 December 2019. In accordance with IFRIC 12, these revenues correspond to the works carried out on the assets under concession owned by the Group 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 2019:

Other revenues and income	Value as at 31/12/2019	Profit (loss) from assets held for sale or disposed of 07/06/2019- 31/12/2019	Value as at 31/12/2018	Change	% change
Sundry					
Rental fees received	515,043	6,528	541,982	(26,939)	-5%
Penalties from suppliers and customers	1,059,678	-	700,307	359,371	51%
Insurance premiums to cover losses	27,775	-	123,006	(95,231)	-77%
Compensation for damages and other reimbursements	1,355,237	14,000	568,977	786,261	138%
Reimbursement for seconded personnel	-	-	18,033	(18,033)	-100%
Other revenues and income	2,156,211	-	1,664,680	491,532	30%
Other contingent assets/liabilities	5,517,176	-	9,565,167	(4,047,991)	-42%
R&D receivable	743,543	-	629,523	114,020	18%
Reversal of provisions	1,888,306	-	1,123,765	764,541	68%
Total sundry	13,262,970	20,528	14,935,440	(1,672,470)	-11%
Operating grants					
Operating grants	602,330	-	645,083	(42,753)	-7%
Total contributions	602,330	-	645,083	(42,753)	-7%
Considerations					
Considerations from private parties and municipal authorities	787,665	-	2,084,290	(1,296,625)	-62%
Total considerations	787,665	-	2,084,290	(1,296,625)	-62%
Total other revenues and income	14,652,965	20,528	17,664,813	(3,011,847)	-17%

It should be noted that the item "Reversal of surplus funds" for contingent assets include reversals due to surplus of unused portions of the provision for "amicable settlements", of the provision for "sludge", the "provision for asphalt", the provision for "pending litigation" and "coverage of future losses", for € 1,888,306 (see also paragraph 7.14 above).

The item "Contingent assets" includes € 1,886,786 for the collection of receivables, acquired through the purchase of business units, for water service tariffs from productive users in past years, for a value higher than the value originally paid to the transferor of the business unit.

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 2019 is show below:

Costs for raw materials, consumables and goods	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
Consumable materials	714,558	569,646	144,911	25%
Consumable materials for safety in the workplace	420,889	566,902	(146,013)	-26%
Electrical and hydraulic components	1,741,190	1,565,584	175,607	11%
Consumption metres	993,899	375,256	618,643	165%
Materials destined for works	9,140,082	7,959,155	1,180,928	15%
Conditioning filters and raw materials for conditioning water	492	653	(161)	-25%
Electrical pumps	263,035	72,110	190,925	265%
Fuels and combustibles	757,497	611,119	146,378	24%
Wholesale water provisioning	225,901	105,629	120,272	114%
Change in inventories	596,535	776,549	(180,014)	-23%
Provision for obsolete and slow moving goods	623,838	-	623,838	100%
Total costs for raw materials, consumables and goods	15,477,915	12,602,602	2,875,313	23%

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 2019 is shown below:

Costs for services	Value as at 31/12/2019	Profit (loss) from assets held for sale or disposed of 07/06/2019- 31/12/2019	Value as at 31/12/2018	Change	% change
Costs for industrial services	48,323,922	-	40,666,502	7,657,420	19%
Works carried out for CAP, private individuals and municipalities	36,006,873	-	32,578,665	3,428,208	11%
Routine maintenance	13,629,848	-	13,248,041	381,808	3%
Work on plant and water houses	111,741	-	35,201	76,541	217%
Demolition of tanks	12,722	-	0	12,722	100%
Total cost for industrial services	98,085,107	-	86,528,408	11,556,699	13%
Other administrative, general and commercial costs	20,039,585	16,473	20,064,390	(24,805)	0%
Allocation to provision for future expenses	1,972,754	-	7,436,071	(5,463,317)	-73%
Total other administrative, general, commercial costs and provisions	22,012,340	16,473	27,500,461	(5,488,122)	-20%
Repayments of loans and concession fees	5,048,080	-	5,739,358	(691,278)	-12%
Fee for use of well and crossings	1,901,417	-	1,787,042	114,375	6%
Hiring	999,613	-	1,900,304	(900,692)	-47%
Rental and licence fees	440,052	-	1,438,651	(998,598)	-69%
Contingent liabilities	6,468	-	17,437	(10,969)	-63%
Total costs for use of third party assets	8,395,630	-	10,882,792	(2,487,162)	-23%
Total costs for services	128,493,077	16,473	124,911,661	3,581,416	3%

The services item includes € 1,972,754 in annual provisions for risks and charges:

Other provisions under this item are:

- € 138,683 for the provision for asphalt expenses as at 31 December 2019.
- € 1,274,487 for the provision for expenses for the future reclamation of the areas of the purification plants.
- € 559,583 for the provision for expenses for future tank reclamation.

Details of costs for industrial services are shown below:

Costs for industrial services	Value as at 31/12/2019	Profit (loss) from assets held for sale or disposed of 07/06/2019- 31/12/2019	Value as at 31/12/2018	Change	%
Electricity	31,282,566	-	26,986,726	4,295,841	16%
Costs for sludge disposal	10,087,865	-	8,071,024	2,016,841	25%
Cleaning networks and plants	1,732,415	-	1,584,202	148,213	9%
Wholesaler's purification contract costs	1,557,896	-	1,157,259	400,638	35%
Regeneration with active carbons	1,516,318	-	1,247,208	269,110	22%
Other industrial costs	2,146,861	-	1,620,082	526,779	33%
Total cost for industrial services	48,323,922	-	40,666,502	7,657,420	19%

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

Other administrative, general and commercial costs	Value as at 31/12/2019	Profit (loss) from assets held for sale or disposed of 07/06/2019- 31/12/2019	Value as at 31/12/2018	Change	% change
Maintenance on equipment, sw, hw, vehicles and premises	4,024,795	638	3,006,428	1,018,368	34%
Insurances	1,969,682	0	2,067,549	(97,867)	-5%
Personnel costs	1,896,806	0	1,740,336	156,470	9%
Operating expenses for premises, cleaning and security	1,842,592	13,197	1,503,744	338,848	23%
Specialist consultancy fees	1,535,167	1,481	1,126,280	408,887	36%
Advertising and propaganda expenses	1,059,534	0	860,003	199,532	23%
Hydraulic risk study	999,818	0	2,395,906	(1,396,088)	-58%
Administrative and technical professional services	689,987	0	604,636	85,351	14%
Connectivity and social networking services	520,094	0	373,450	146,645	39%
Bank charges and commissions	511,618	0	453,452	58,166	13%
Fees and costs for corporate bodies and SBs	500,525	0	508,499	(7,974)	-2%
Meter reading	487,923	0	635,937	(148,014)	-23%
Seadrome sponsoring	468,756	0	544,210	(75,453)	-14%
Water houses	311,501	0	278,092	33,409	12%
Contingencies	254,825	1,157	667,927	(413,101)	-62%
Other costs	2,965,961	0	3,297,943	(331,983)	-10%
Total other administrative, general and commercial costs	20,039,585	16,473	20,064,390	(24,805)	0%

8.7. Costs for work on assets under concession

Costs for work on assets under concession amounted to € 56,294,549 for the year ended 31 December 2019 and represent the changes relating to the work carried out on the assets under concession by third parties. Capitalised internal costs are recognised by nature within the specific Income Statement items. The item is related to € 96,534,625 in revenues for assets under concession. The difference is related to the consolidation entry for the works carried out by Amiacque S.r.l. for the parent company.

8.8. Personnel costs

The breakdown of the item "Personnel costs" for the year ended 31 December 2019 is shown below:

Personnel costs	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
Salaries and wages	32,561,505	30,552,819	2,008,686	7%
Social security charges	9,991,856	9,643,323	348,533	4%
Employee severance indemnity	2,123,092	2,052,230	70,862	3%
Retirement benefits	259,216	244,158	15,058	6%
Other costs	844,493	863,639	(19,146)	-2%
Total costs for personnel	45,780,163	43,356,169	2,423,994	6%

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

Level	Employed as at 31/12/2018	Recruits	Leavers	Employed as at 31/12/2019
<i>Executives</i>				
Permanent contracts	1	0	0	1
Term contracts	8	1	1	8
Total executives	9	1	1	9
<i>Personnel with permanent contracts / apprenticeships</i>				
Middle managers	28	6	5	29
Level 8	44	10	2	52
Level 7	47	13	9	51
Level 6	110	13	17	106
Level 5	147	50	20	177
Level 4	168	19	20	167
Level 3	148	10	18	140
Level 2	77	12	7	82
Level 1	3	0	1	2
Total permanent contracts and apprenticeships	772	133	99	806
Total term contracts	64	27	38	53
Total Gas-Water Sector CCNL	836	160	137	859
Total Employees	845	161	138	868

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 2019 is presented below:

Amortisation, depreciation, provisions and write-downs	Value as at 31/12/2019	Profit (loss) from assets held for sale or disposed of 07/06/2019- 31/12/2019	Value as at 31/12/2018	Change	% change
Amortisation/depreciation	46,269,845	24,403	39,101,203	7,168,642	18%
Bad debts	9,888,549	-	8,341,369	1,547,180	19%
Total depreciation, amortisation and write-downs	56,158,395	24,403	47,442,573	47,442,573	100%
Provisions	2,011,569	-	3,564,757	(1,553,188)	-44%
Total provisions	2,011,569	-	3,564,757	47,436,565	1331%
Total depreciation, amortisation, provisions and write-downs	58,169,963	24,403	51,007,329	7,162,634	14%

The amount relating to other provisions, amounting to € 2,011,569 refers to the adjustment of the provision for risks and charges.

The bad debt provision amounted to € 9,888,549.

8.10 Other operating costs

The item "Other operating costs" for the year ended 31 December 2019 is broken down below:

Other operating costs	Value as at 31/12/2019	Profit (loss) from assets held for sale or disposed of 07/06/2019- 31/12/2019	Value as at 31/12/2018	Change	% change
Membership fees	180,747	-	164,829	15,918	10%
Books, magazines and newspapers	18,894	-	21,406	(2,512)	-12%
Losses on loans	510,333	-	3,000	507,332	16911%
Taxes and duties	781,467	3,627	1,376,544	(595,077)	-43%
Operating expenses for ATO-AEEG entities	1,111,934	-	1,151,056	(39,122)	-3%
Costs for social welfare and donations	92,021	-	319,564	(227,542)	-71%
Fines and penalties	26,447	-	43,151	(16,704)	-39%
Expense reimbursements to third parties	323,496	-	237,518	85,977	36%
Sundry rights	295,028	613	183,743	111,285	61%
Other sundry operating expenses	70,120	-	42,203	27,918	66%
Capital losses on fixed assets	142,913	-	245,595	(102,681)	-42%
Additional water bonus	878,582	-	-	878,582	100%
Other contingent assets/liabilities	8,464,890	-	11,641,194	(3,176,304)	-27%
Total other operating costs	12,896,872	4,241	15,429,802	(2,532,929)	-16%

The item "contingent assets/liabilities" mainly refer to:

- lower revenues on tariff of € 3,582,784 and are related to adjustment when defining regulatory adjustments of invoices to be issued for revenues settled in previous years;
- higher costs for services, water police and hidden losses of € 1,661,063.
- contingent liabilities of € 614,171 relating to a settlement agreement between the Group and a production user, for the definition and settlement of the pending charges for the application of treatment tariffs for wastewater from previous periods;
- contingent liabilities of € 1,970,067 relating to the definition, reached with the Milan ATO in 2019, of amounts to be credited to the latter, in relation to ATO surcharges in previous years, to water service users.

8.11. Financial income and expense

The balance of the financial income and expense totalled - € 4,885,992. Financial income as at 31 December 2019 totalled € 2,025,354 and mainly concern default interest on bills and interest for deferred payment arrangements granted to users.

As at 31 December 2019, the financial expense amounted to € 6,911,346.

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

Financial expense	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
Bonds	623,344	739,038	(115,694)	-16%
Bank loans and mortgages	2,408,899	2,745,642	(336,743)	-12%
EIB loan charges	1,095,687	1,101,844	(6,156)	-1%
Swaps (to banks)	1,255,871	1,263,806	(7,935)	-0.6%
Assumption of loans	962,850	1,058,100	(95,250)	-9%
Financial expenses on rights of use	61,662	-	61,662	100%
Other	503,034	501,145	1,889	0%
Total financial expenses	6,911,346	7,409,575	(498,228)	-7%

The amounts indicated above include the financial effect linked to the discounting of trade receivables and payables pursuant to IFRS 9.

8.12. Taxes

The item "Taxes" for the year ended 31 December 2019 is broken down below:

Taxes	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
IRES	10,933,208	10,117,065	816,143	8%
IRAP	3,008,220	2,990,871	17,349	1%
Recovery of deferred tax assets of previous financial years	2,298,612	9,205,037	(6,906,426)	-75%
Deferred tax assets for the year	(3,965,719)	(10,761,499)	6,795,780	-63%
Recovery of deferred tax liabilities of previous financial years	(154,214)	(352,828)	198,614	-56%
Deferred tax liabilities for the year	2,777,266	3,054,755	(277,490)	-9%
Tax from previous years	85,466	(122,584)	208,050	-170%
Total taxes	14,982,838	14,130,817	852,021	6%

9. Related party transactions

The Parent Company is entirely publicly owned. As at 31 December 2019, there are 197 Shareholders¹², of which 195 Municipalities divided as follows: 133 Municipalities of the Metropolitan City of Milan, 40 Municipalities of the Province of Monza and Brianza, 20 Municipalities of the Province of Pavia, 1 Municipality of the Province of Como, 1 Municipality of the Province of Varese. The Province of Monza and Brianza, 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 (known as in house providing) of said public bodies, pursuant to article 2, paragraph 1, letter d) of Italian Legislative Decree No. 175 of 19 August 2016.

The 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.

¹² As at 31 December, they were 198. The reduction is a consequence of the merger between the municipalities of Zelo Surrigone and Vermezzo (Italian Regional Law no. 1 of 4 February 2019), which gave rise from 8 February 2019 to the new Municipality of Vermezzo con Zelo, which now holds the shares previously owned by the two merged Municipalities.

10. Contractual commitments, guarantees and concessions

Commitments amounting to € 40,548,062 of which:

- € 23,178,071 for residual instalments of mortgages to be repaid to local authorities for the use of their networks and plants in the period from 2019 to 2033; of which € 19,771,764 expiring beyond twelve months;
- € 17,369,991 as the estimated amount of the interest expense paid to lenders in the period after 1 January 2019, on loans taken out and/or taken over and to be repaid at the end of the reporting period;

Obligations vis-à-vis third parties of € 2,705,238 of which mainly:

- € 987,293 for with-recourse obligations deriving from the demerger of Idra Patrimonio S.p.A. to the benefit of Idra Milano S.r.l. (this latter merged into CAP Holding S.p.A. in 2015) and BrianzAcque S.r.l.;
- € 1,063,855 for with-recourse obligations deriving from the granting to Pavia Acque S.r.l. of the business unit pursuant to Article 2560 of the Italian Civil Code (transfer deed dated 2016);
- € 72,360 for with-recourse obligations deriving from the granting to Pavia Acque S.r.l. of the business unit pursuant to Article 2560 of the Italian Civil Code (transfer deed dated 15 July 2008).

Sureties payable of € 107,066,226, of which:

- € 96,593,287 for guarantees issued by banks in favour of various entities in the interest of the Group (including the guarantee issued by Cassa Depositi e Prestiti on EIB financing for a residual amount of € 78,221,106 as at 31 December 2019);
- € 10,472,939 as insurance sureties issued in the interest of Cap Holding for assignment conventions of the IWS in favour of the AATO of Milan and the AATO of Monza and Brianza;

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 IWS owned by the Entities and used by the CAP Group.

11. Directors' and Statutory Auditors' fees

For the year ended 31 December 2019, the fees due to directors, statutory auditors and the supervisory body are summarised in the table below.

Allowance for corporate bodies	Value as at 31/12/2019	Value as at 31/12/2018	Change	% change
Board of Directors' allowance	249,287	250,551	(1,264)	-1%
Board of Statutory Auditors' allowance	133,081	128,797	4,284	3%
Fees of the supervisory body	104,035	114,250	(10,215)	-9%
Total allowances	486,403	493,598	(7,195)	-1%

12. Independent Auditors' fees

For the financial year ended 31 December 2019, the cost incurred by the Company for the external audit in 2019 amounted to € 27,499.

The external audit of these financial statements is entrusted to the company BDO Italia S.p.A. appointed, with approval of the relevant fee, by the Shareholders' Meeting of CAP Holding S.p.A., in the meeting of 1 June 2017, on a justified proposal of the Board of Statutory Auditors and subject to experiment of a negotiated procedure with comparison of offers, for the years ending on 31 December 2017 to 31 December 2025 (subject

to the acquisition by CAP Holding S.p.A. of the status of Public Interest Entity, following the issue and listing, which then took place on 2 August 2017, of the ISIN bond loan XS1656754873, already commented on. The Shareholders' Meeting of Amiacque of 20 April 2018 resolved to confirm the mandate for the external audit to BDO Italia S.p.A., for the period from 2018 to 2020, pursuant to article 13 of Italian Legislative Decree No. 39/2010 and Article 2409 bis of the Italian Civil Code, fixing the relative fee.

In addition to these, in 2019, the following costs will be paid to these independent auditors:

- costs attributable to the Company's obligations pursuant to AEEGSI Resolution No. 137/2016/R/COM of 24 March 2016 (auditing of the "regulatory" annual separated accounts, for the purpose of unbundling, inseparably entrusted with the external audit mandate) of € 6,000;
- costs relating to the assurance of the 2018 Sustainability Report, entrusted with the mandate of November 2017 for € 13,000;
- costs for certification of expenses incurred for advertising investments from 24 June 2017 to 31 December 2017 - Prime Minister's Decree No. 90 dated 16 May 2018 of € 1,000;
- costs for Research and Development certification activities of € 5,000.

13. Transparency obligations for those who receive public funding

Article 1, paragraphs 125, third period, of Italian Law No. 124/2017, as amended by Article 35 of Italian Decree Law of 30 April 2019 (converted into Italian Law no. 58 of 28 June 2019) "Decreto crescita" (growth decree), requires Italian companies to indicate the amounts received (cashed) in the previous year (2018, which is also the year of first-time adoption, according to State Council opinion No. 1449/2018) of "grants, subsidies, advantages, contributions or aid, whether in cash or in kind, which are not of a general nature and are not of a reciprocal, remunerative or compensatory nature," of an amount equal to or greater than € 10,000, by the public administrations and other subjects (certain public companies) indicated in the first period of the aforementioned paragraph 125.

This year, with the amendment made by the "Decreto crescita", the standard is clearer than last year on disclosure requirements in the financial statements.

Specifically, from an objective point of view, it is now clear that the information concerns disbursements that are "contributions", i.e. disbursements that do not refer to synallagmatic relationships, and also excludes advantages received by the beneficiary on the basis of a general scheme, such as tax benefits and contributions that are granted to all persons who meet certain conditions.

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

However, State aid and *de minimis* aid contained in the National Register of State aid referred to in Article 52 of the Italian Law No. 234 of 24 December 2012 are expressly excluded (from Article 3-quarter, paragraph 2, of Italian Decree Law 135/2018), if and to the extent that they are declared to exist and must be published as part of the said Register.

Note that, given the very wide reference to the "lenders" made by the first period of the aforementioned paragraph 125, objective difficulties may exist in knowing the subjective social situation of some lenders (referring to the case of "companies in public participation", for which there is no comprehensive public list that can be consulted).

The information to be provided is:

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

With regard to the above, even though in our opinion they do not fall within the case referred to in Italian Law 124/2017, we inform you that CAP Holding S.p.A. has received the following contributions:

Issuing body	Amount	Description
ATO AREA OFFICE OF THE METROPOLITAN CITY OF MILAN	6,490,012	Grants related to assets
Total	6,490,012	

14. Events after the reporting period

On 24 February 2020, a preliminary purchase and sale contract was signed between the company CORE-Consorzio Recupero Energetici- S.p.A. (seller) and Cap Holding S.p.A. (purchaser) for the real estate and plant compendium owned by CORE-Consorzio Recupero Energetici- S.p.A. located in the municipality of Sesto San Giovanni (MI), Via Daniele Manin n.ri 181 and 205 as part of a larger project that envisages the construction of a sewage sludge treatment plant and a BIO-PLATFORM for the recovery of FORSU. The preliminary contract envisages the payment to the counterparty of € 4,000,000 by 31 May 2020 (of which a first tranche of € 1,500,000 was paid in January 2020) as earnest money pursuant to Article 1385 of the Italian Civil Code. The parties have undertaken to sign the final contract by 30 November 2020 at the latest. The price is provisionally € 8,200,000, but it will be definitively established by a third-party sworn expert opinion independent of the parties, expected by the month of July 2020.

In relation to the provisions of IAS 10, it should be noted that after 31 December 2019, the end of the reporting period, and until 20 April 2020, the date on which the draft financial statements were approved by the Board of Directors and authorised for presentation to the Shareholders' Meeting, no events occurred that would lead to an adjustment to the figures presented in the financial statements.

In relation to the pandemic, declared by the World Health Organization on 11 March 2020 and the various decrees issued by the Prime Minister's Office of the Italian Government (Prime Ministerial Decree of 8 March 2020 et sequitur), the companies of the CAP Group adopted and are adopting measures strongly oriented towards ensuring business continuity and the availability of essential services in safe conditions, strengthening their measures for the prevention and containment of the epidemic, in line with the indications and regulations adopted by the competent authorities. The activity of the Group, operator of the integrated water service, i.e. an essential public service, cannot be interrupted. It should be noted that despite a partial reduction in the CAP Group's activities in order to comply with the above-mentioned restrictive measures, there have been no interruptions to essential activities to date. At the moment it is not possible to predict with sufficient reliability what further effects might affect the Group in the future, coming from the crisis that might occur mainly at macroeconomic level, but also locally and indirectly (e.g. for the customers and suppliers of the CAP Holding S.p.A. Group, etc.) and therefore be reflected, subsequently, also on the company's credit management and cash and cash equivalents.

The Group considers this event to be a non-adjusting event pursuant to IAS 10. With regard to the information envisaged by paragraph 125 of IAS 1, which requires an enterprise to disclose information on assumptions concerning the future and on other main causes of uncertainty in estimates at the end of the reporting period that present a material risk of giving rise to significant adjustments to the carrying amounts of assets and liabilities within the next financial year, in connection with a fluid and rapidly changing situation, it is not considered possible to date to provide a quantitative estimate of the potential impact of the Coronavirus on the company's economic and financial position, given the many unknown and undefined factors. This impact will therefore be taken into account in the accounting estimates during 2020.

The Chairman of the Board of Directors
Alessandro Russo

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

Pursuant to Article 2429.2 of the Italian Civil Code

Dear Shareholders,

During the financial year ended 31 December 2019, we carried out our work in accordance with legal requirements and with the Rules of behaviour of the Board of Statutory Auditors issued by the National Board of Accountants; we carried out the self-assessment on each member of the Board of Statutory Auditors according to these laws and rules and the outcome was always positive.

Supervisory activities pursuant to Article 2403 et seq. of the Italian Civil Code.

We monitored the compliance with the law and with the Articles of Association and the observance of the principles of proper administration.

We attended the Shareholders' Meetings and the meetings of the Board of Directors, in relation to which, based on the available information, we did not note any violations of the law or the articles of association, or transactions that were manifestly imprudent, hazardous, in potential conflict of interest or such as to compromise the integrity of the company's assets.

During the meetings held, we acquired information on the general trend in operations and the outlook for the future as well as on the most significant transactions in terms of size or characteristics, carried out by the company and its subsidiaries.

We met with the company BDO appointed to audit the accounts and no significant data or information emerged that needs to be highlighted in this report.

We met with the Board of Statutory Auditors of the subsidiary company Amiacque S.r.l. and no significant data or information emerged that 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 the Bodies and no criticalities emerged with respect to the correct implementation of the organisational model that need to be highlighted in this report.

We acquired knowledge and monitored, to the extent of our remit, the adequacy and operation of the organisational structure of the company, also via the gathering of information from the heads of the divisions and departments and we have no particular observations to report in this regard.

Finally, we monitored, to the extent of our remit, the adequacy and operation of the administrative and accounting system as well as its reliability to correctly represent the operating events, by obtaining information from the heads of the divisions and examining company documents. We have no special observations to make in this regard.

No complaints were received from the shareholders pursuant to Article 2408 of the Italian Civil Code.

During the supervisory activity, as described above, no further significant facts emerged that need to be detailed in this report.

Comments on the financial statements

The financial statements of CAP Holding S.P.A. for the year ended 31 December 2019 were drawn up in accordance with the International Accounting Standards as envisaged for "Public Interest Bodies" pursuant to Italian Legislative Decree No. 39/2010.

The financial statements were approved by the meeting of the Board of Directors held on 20 April 2019 and show a net profit of € 31,176,416.

The appointed company BDO on 5 May 2020 issued the Additional Report for the Internal Control and Audit Committee as per Article 11 of Regulation (EU) No. 537/2014, which will be duly forwarded to the Board of Directors.

In the said report, BDO illustrated, inter alia:

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

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

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

On 5 May 2020, we have received from BDO the reports envisaged by Articles 14 of Italian Legislative Decree No. 39/2010 and 10 of said Regulation, with regard to the separate and consolidated financial statements as at 31 December 2019, in which the Independent auditors expressed a positive opinion, without remarks or requests for information.

In the opinion of the Independent auditors, the management report is consistent with the separate and consolidated financial statements, drawn up in compliance with the legal provisions with no significant errors.

During the 2020 financial year, CAP Holding S.p.A. entrusted BDO with the Certification of the Consolidated Non-financial Statement for 2019 pursuant to Article 3.10 of Italian Legislative Decree No. 254/2016 and Article 5 of CONSOB Regulation No. 20267.

We received this certificate on 5 May 2020. It shows that the non-financial statement of the CAP Group for the financial year ended 31 December 2019 was drawn up in compliance with the provisions of Articles 3 and 4 of the Decree and the GRI Standards.

Since we have not been entrusted with the external audit of the financial statements, we ascertained, via direct checks and information gathered from the Independent auditors, compliance with the legal provisions on the formation and layout of the separate and consolidated financial statements and the management report accompanying them.

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

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

Conclusions

Considering that the results of the activities carried out by the Independent auditors contained in the audit report on the financial statements, which were made available to us on 5 May 2020, the Board of Statutory Auditors proposes to the Shareholders' Meeting to approve the separate financial statements of CAP Holding

S.p.A. and the related proposal for the allocation of the operating result for the year, as well as to approve the consolidated financial statements of the CAP Group, for the period ended 31 December 2019, as proposed by the Board of Directors.

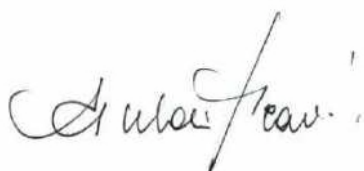
Milan, 5 May 2020



The Board of Statutory Auditors
Raffaele Zorloni, Chairman of the Board of Statutory Auditors.



Giuditta Vanara, Standing Statutory Auditor



Antonio Traviglia, Standing Statutory Auditor.



CAP Holding S.p.A.

Independent auditor's report pursuant
to article 14 of Legislative Decree n.
39, dated January 27 2010 and article
10 of EU Regulation n. 537/2014

Consolidated Financial statements at 31
december 2019

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

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

Report on the financial statements

Opinion

We have audited the consolidated financial statements of Gruppo CAP (the Group), which comprise the statement of financial position as at December 31, 2019, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the the financial position of the Group as at 31 december 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Gruppo CAP (the Group) in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Parent Company Cap Holding S.p.A or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of consolidated the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of CAP Holding S.p.A. on 1 June 2017 to perform the audits of the financial statements of each fiscal year starting from 31 december 2017 to 31 december 2025.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10

The directors of CAP Holding S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Group Cap as at 31 december 2019, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Group Cap as at 31 december 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Group Cap as at 31 december 2019 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of Cap Holding S.p.A are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016. We have verified that the directors approved the non-financial statement.

In accordance with article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 5 May 2020

BDO Italia S.p.A.

Carlo Consonni
Partner