



## MM S.P.A.

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## MM S.P.A.

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Paid-up share capital Euro 36,996,233

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

### Report on Operations as at 31/12/2019

#### Corporate structure and Business Units

**MM was set up in 1955 as an engineering company** wholly owned by the Municipality of Milan, of which it is a business partner, with the aim of building the city's entire underground railway system.

Since then, **it has accompanied the development of Lombardy's capital** by designing the public transport infrastructures and works, including urban and suburban road network redevelopment, surface and underground parking and interchange areas. MM's services span the entire design cycle (technical and economic feasibility projects, final and executive projects), contract management, works management, and safety coordination.

In subsequent years, **MM has diversified its business activities by expanding its scope of operations**, thanks to the expertise and professional skills developed internally.

**In 2003, the Municipality of Milan entrusted MM with the operation of the Integrated Water Service (IWS)** of Milan and of some neighbouring Municipalities until 2037<sup>1</sup>. Operations include all the stages of the process: from groundwater withdrawal, water purification and quality control before it is distributed to customers, wastewater collection and treatment at the dedicated plants, and its release back into the environment.

**Since 1 December 2014, MM has been managing the Municipality of Milan's Public Housing Property** (ERP - Edilizia Residenziale Pubblica), taking responsibility for its administrative, accounting and technical-legal management, as well as maintaining relationships with the users, from communication to relocations and routine maintenance. As of 30 June 2015, the Municipality confirmed the assignment on a 30-year basis;

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<sup>1</sup> *The initial five-year assignment was revised in 2007 on a twenty-year basis and then in 2015 on a thirty-year basis expiring in 2037, in line with the time horizon of the ATO Plan.*

moreover, in 2018 it decides to entrust to MM also the preparatory activities for the allocation of the housing units under its management. This was done without prejudice to the allocation procedure, which remains the responsibility of Municipality.

In subsequent years, the following companies were merged into MM:

- *In 2015, M.I.R. Srl<sup>2</sup>, which owns some publicly-owned movable property and real estate that are instrumental to the management of the waste collection and disposal service, made available to AMSA S.p.A., i.e. the temporary provider of hygiene services, against payment of an annual fee until 2021.*
- *In 2017, the subsidiaries Metro Engineering Srl and Napoli Metro Engineering Srl, set up in 2009 to develop and manage the projects for municipalities other than Milan and finish construction work on Naples's underground railway system under the outstanding agreement between MM and Metropolitana di Napoli.*

**In July 2018, MM inaugurated the Centrale dell'Acqua (#CAMI)**, born from the restoration work on the historic pumping station located in Via Cenisio and now a free space open to the public, entirely dedicated to the topic of water, its values, its management and anti-waste good practices<sup>3</sup>. In November of that year, the Centrale became part of Museimpresa, the network of Italian company museums and archives that brings together the most important places of the country's technical and industrial history. This is further evidence of MM's commitment to preserving, promoting, and giving access to its heritage of history and knowledge.

**In 2019, the Municipality of Milan decided to award "on demand" engineering services contracts to MM.** These concern operations related to maintenance and/or renovation work on existing property and infrastructure owned by the Municipality, which can be activated on demand based on the Municipality's needs.

As from September 2019, MM has undertaken construction management, operational management and safety coordination activities **for the facility management of the Municipality of Milan's school buildings**<sup>4</sup>, taking on responsibility, verifying and solving problems concerning drainage and hydraulic civil works. Besides the maintenance service, MM manages the entire reporting system relating to the facility management of school buildings.

Moreover, since November 2019 **MM has been supporting the Municipality of Milan in managing and**

<sup>2</sup> *The merger by incorporation of M.I.R. S.r.l. into MM was approved by the Municipality of Milan as part of the process of rationalising the equity investments held by local authorities.*

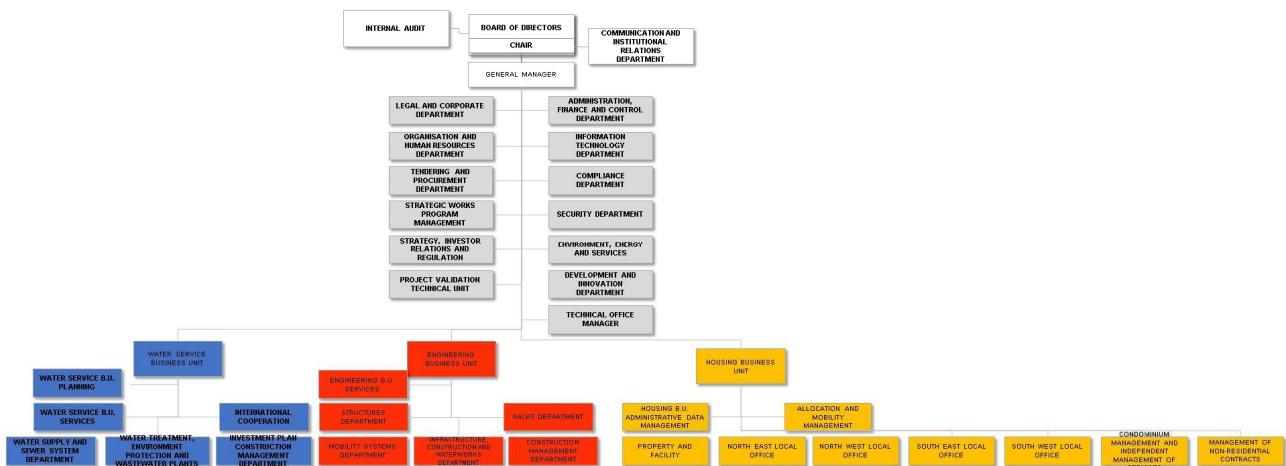
<sup>3</sup> *The Centrale dell'Acqua hosts seminars for industry experts, events featuring cultural leaders that address the topics of water from different perspectives, exhibitions, guided tours, workshops, and "immersive reality" experiences allowing to explore first-hand how Milan's water system works. One year after its inauguration, CAMI has had over 27 thousand visitors. Information on the activities and events promoted by MM at CAMI is available at [www.centraleacquamilano.it](http://www.centraleacquamilano.it) and on the dedicated Facebook page.*

<sup>4</sup> *The service contract will be formally awarded starting from 1 September 2020.*

**renovating the city’s underpasses** (numbering approximately thirty) and, after a series of initial inspections, it services the electrical systems and equipment associated with the pumps as well as command and control panels, in addition to cleaning and draining waste ponds.

Finally, since November 2019 **MM has been directly operating the Nosedo wastewater treatment plant** which became operational between 2003 and 2004 and had been operated until now by Milanodepur Spa, the company that also designed and built it<sup>5</sup>. The staff of the plant, which is considered to be a true technological and industrial marvel in the industry, is recruited by MM. MM currently controls Milan’s whole integrated water system, from the supply of drinking water to the return of treated wastewater back into the environment.

**Organisational structure**



2019 was characterised by a growth trend in terms of staff, due to the extension of the activities assigned to MM by the Municipality of Milan and the requests by the Territorial Authority (ATO) and the regulatory body (ARERA); the effects of this trend will continue in 2020, also following the new resolutions in the water segment and further new activities entrusted to the company by the Municipality of Milan.

The company engaged in a review of management processes, roles and responsibilities arising from Change Management analysis and activities necessary for an effective and efficient implementation of the SAP system aimed at achieving an integrated and synergistic management of the processes managed by the different business units.

<sup>5</sup> During the period of private management, the Municipality of Milan entrusted MM with the task of High Supervision.

In order to comply with the needs arising from the redesign of corporate processes as a consequence of the implementation of the SAP application, some Staff Departments underwent reorganisation in order to respond effectively to the new operational requirements.

One of the structures most affected by reorganisation was the Tendering and Procurement Department (DAPA). With a Service Order valid as from 1 July 2019, the Department took on a new configuration which envisages a clear distinction in managing purchases based on the specific peculiarities of MM's Businesses. The Department also took over the Supplier Registration and Registration System (QFO) function which, among other things, is in charge of managing MM's List of Suppliers and to create and maintain the details of materials and product groups.

The other Staff Department affected by reorganisation was the Administration, Finance and Control Department (DAFC). Again with validity as from 1 July 2019, the department was structured as set out below. There are three main functions reporting to the Manager: Treasury and Finance, Control Planning and Reporting, and Administration. Reporting to the Administration function, three sub-functions were created in order to enable specialist management by process of all the operational activities linked to administration, i.e.: General Accounting, Supplier Accounting and Customer Accounting.

With validity as from 25 July, as approved at the meeting of MM SPA's Board of Directors on 12 July 2019, the Internal Auditing (INA) function was allocated to report to the same.

In addition, in July, reporting directly to the General Manager, the Development and Innovation Department (DSPI) was created with the goals of defining MM's development strategies in the public housing property (ERP) sector and elsewhere, developing a portfolio of facility management opportunities outside of public housing property and following development projects aimed at increasing MM's business.

At the end of 2019, the Information Technology Department (DITC) was reorganised in order to respond effectively to the new operational needs arising from IT and system advances adopted within the company.

To this end, four new functions reporting to the Department were created: ICT Governance, to support the Department in setting and defining the guidelines for the IT strategic plan; Demand & Delivery, to act for the business as the sole ICT interface, guaranteeing the collection, identification and prioritisation of the needs expressed by the relevant structures, assessing their potential benefits and consistence with the ICT guidelines (this function has three separate sub-functions reporting to it, depending on the corporate business); Infrastructure Management and Application Operation.

At the start of the year, in the Engineering Business Unit the new Construction Management Department (DICM) was set up, with the simultaneous appointment of Francesco Venza as Head of the Department, in order to oversee the activities relating to the execution stage of the engineering services provided by the Engineering B.U. and in particular: Project Manager and Construction Manager, Construction Management and Safety Coordination during Construction.

Two functions, reporting directly to the new Department, were set up: Construction Management and Safety Coordination (DLC) and Worksite Managers (ADC). At the same time as the new Department was created, the M4 Department was closed.

In the same Business Unit, the new On-Demand Design (POD) function was set up within the Infrastructure, Construction and Waterworks Department (DIEI), in order to comply with the new procedures for assigning engineering services to MM as defined in the Service Contract of 22 March 2019.

The Water Service Business Unit was not affected by reorganisation but, thanks to the acquisition of the Nosedo wastewater treatment plant, as from 9 November 2019 the Water Treatment, Environment Protection and Wastewater Plants Department (DTA) adopted the organisational structure set out below. Reporting to the DTA, the new function Nosedo Wastewater Treatment Plant Operation (EDN) was created, which oversees the sub-functions Nosedo Maintenance (MAN) and Nosedo Management (CNN). The Wastewater Treatment Laboratory (LAD) function was subdivided to enable the synergistic management of the laboratories of the two wastewater treatment plants. Therefore, the two sub-functions San Rocco Wastewater Treatment Laboratory Analyses (LDR) and Nosedo Wastewater Treatment Laboratory Analyses (LDN), reporting to the LAD function, were created.

At the start of 2019, in order to guarantee oversight of Construction Management activities relating to the investments envisaged by the Integrated Water Service's ATO Plan, the new Investment Plan Construction Management Department (DLPI) was created, reporting to the Water Service Business Unit. Reporting to the new Department, two functions were created: Investment Plan Construction Manager (DLP) and Investment Plan Worksite Managers (ADP).

Within the Housing Business Unit, rationalisation and specialisation of activities took place for two staff functions.

The Facility function was completely reorganised to distinguish between activities and define a process that would allow the resources allocated to the function to specialise in specific process stages capable of responding effectively to the new activities required by the Agreement with the Municipality of Milan. To this end, the name of the function was changed into Property and Facility (PEF).

Reporting to the PEF function, the following sub-functions were created: Business Development and Special Projects (SPS), which mainly deals with managing the work to identify projects aimed at enhancing public housing property, to develop and design one-off projects, to manage and maintain the technical records of the assets under management; Property (PRO), which mainly manages work orders from a technical viewpoint and Facility (FAC), which mainly manages the operational stages of facility projects;

Reporting to the Property and Facility function, the Asset Safekeeping (CPA) sub-function was allocated and did not undergo any changes.

Still among the staff functions of the Housing Business Unit, in order to manage the analyses and reporting of the information contained in the Data Banks, the physical and other archives, the mass mailouts and the administrative/accounting reporting to the Municipality of Milan, the CRM and Data Bank (CBD) function was revised in terms of in-house responsibilities of the staff belonging to it. For this reason the function name was changed into Housing B.U. Administrative Data Management (GDA).

In order to manage some of the corporate strategic activities in synergy, some inter-departmental work groups were created during the year.

One of these regards the maintenance of school buildings in Milan, which was set up following the assignment by the Municipality of Milan of the routine maintenance work for school properties as part of a global service in order to manage full implementation of the operations in terms of processes, activities and mix of resources. In the coming years, the company will continue to carry out reorganisation activities aimed at optimising all the operational processes that will be affected by the implementation of the new SAP system and the new activities that have been entrusted to MM.

## **Management and control bodies**

### *Board of Directors*

Chairman Simone Dragone  
Director Alessandro Russo  
Director Loredana Bracchitta

### *Board of Statutory Auditors*

Chairman Ivano Ottolini  
Standing Statutory Auditor Myrta De Mozzi  
Standing Statutory Auditor Domenico Salerno

### *Independent Auditors*

PricewaterhouseCoopers S.p.A.



## Regulatory and tariff aspects

Two legislative proposals are currently being examined by the Commission VIII “Environment, Territory and Public Works” of the Chamber of Deputies: A.C. 52 by Parliament Member Daga setting out “Provisions on public and participating management of the water full cycle” and A.C. 773 by Parliament Member Braga setting out “Principles for the protection, governance and public management of water”.

These legislative proposals aim to establish new principles for the use, management and governance of national water resources.

In particular, legislative proposal A.C. 52 submitted by Parliament Member Daga proposes to radically change the governance of the water sector in order to fill, through this change, the infrastructure gap accumulated over the years and thus achieve greater service quality for all.

With regard to the contents of the proposals, during the hearing at the Commission VIII “Environment, Territory and Public Works” of the Chamber of Deputies held in Rome on 13 November 2018, which was attended by the Chairman and the Managing Director in representation of MM, a positive assessment was made of the objectives that the proposals aim to achieve - including the enhancement of water resources, the fair distribution of the resource in various areas of the country, the quality of water, its constant and continuous control, the protection of the environment after the use of water, the guarantee of a sustainable economic and environmental cost.

Briefly, the key strengths of these legislative proposals are:

- the focus on social equity and costs sustainability for customers;
- the protection of water resources and the definition of priority criteria for consumption;
- the acknowledgement of the importance of water infrastructure and investments;
- the transparency in data management and the principle of participation.

At the same time, a few critical aspects in some specific points of the proposals have been described, which concern:

- the enhancement of efficient and virtuous management models capable of ensuring sustainable tariffs, regardless of the nature of the provider;
- the definition of management systems with a structure and size suitable for the implementation of investments in the service and capable of attracting talents in the sector, in line with its industrial nature;
- the support to the water sector development, also with respect to innovation and technology, to ensure the long-term effectiveness of the service;

- the role of ARERA in the governance of the sector.

MM, for further reflection and for the regulatory development of the water service, also outlined the following:

- the need to ensure greater freedom of choice for local authorities in defining the form of service management, among the forms currently permitted by Community and national regulations;
- the preservation of a range of options, which would make it possible to take greater account of the specific features of different local contexts;
- the greater possibility of enhancing existing and virtuous management models for the provision of public services, which already achieve the objectives of quality and effectiveness towards the citizen expressed by the legislative proposal in a manner consistent with it, even if carried out by legal entities that, although their capital is entirely state-owned and which are dedicated only to in-house activities, are formally joint-stock companies.

Legislative proposal A.C. 52 by Parliament Member Daga identifies as integrated water service management model that of special companies or, in any case, models envisaged for public bodies and establishes, specifically, that all forms of integrated water service management entrusted to companies whose capital is entirely state-owned existing at the date of entry into force of the law, if not expired by contract, are transformed into special companies or public bodies within one year of the date of entry into force.

The possible transformation of MM into a special company model would have many organisational and managerial effects as well as a regressive shift from joint stock company to special company, also taking into account MM's in-house condition with respect to the Municipality of Milan.

What is important in the exclusive interest of citizens is the full monitoring, direction and control by the public of those subjects that manage the water resource and, in the case of MM, all this is guaranteed by the in-house nature of the Company. This structure could possibly be further strengthened by imposing restrictions on the allocation of the profits generated by the Integrated Water Service only to its management and/or to the implementation of the relevant investments, for example through the establishment of the statutory obligation to set aside a dedicated provision. During the hearing, it was mentioned that, in any case, this practice is already in use in MM with regard to any profits deriving from the management of Public Housing Property.

With regard to the role of ARERA in the governance of the sector, MM argued that it is essential to recognise the role that the National Regulator (ARERA) has played since the beginning of its regulatory activity in the water sector, which made it possible to guarantee a non-segmented governance and to concretely protect the water end user, also through Contract Quality (Resolution 655/2015/R/idr better known as RQSII) and Technical Quality (Resolution 917/2017/R/idr better known as RQTI).

Legislative proposal A.C. 773 by Parliament Member is in keeping with the law in force on water, which has been shaped in recent years by legislative interventions on the regulation, organisation and management of the water service, maintaining the three possible types of assignment as envisaged by EU law and giving priority to assignment in accordance with the in-house model. In addition, it confirms the current arrangement of regulatory and governance responsibilities for the sector and the criteria for setting tariffs, albeit introducing the need for greater institutional coordination between water district authorities and local governing bodies. Legislative proposal A.C. 52 combined with A.C. 773 is still being examined by the Environment Committee which, at its last meeting on 6 March 2019, passed a resolution to ask the Government, pursuant to article 17, paragraph 5, of Law no. 196 of 2009, to send a technical report on the text of the provision being examined in order to analyse the impact of the reform on public finances. This report is still currently awaited in order to continue the parliamentary process.

**Enrolment in the list of contracting authorities and entities operating by means of direct awards to their own in-house companies, pursuant to Article 192 of Legislative Decree no. 50 of 18 April 2016**

The enrolment of the Municipality of Milan in the list of contracting authorities and entities, envisaged by Article 192 of Italian Legislative Decree no. 50 of 18 April 2016, for the purposes of in-house providing to MM S.p.A. was successful, as per resolution passed by the Board of the National Anti-Corruption Authority no. 702 of 24 July 2018.

On this matter, please also note that the Municipality of Milan, with resolution no. 1082 of 21 June 2018, approved Appendix no. 10 to the Regulation governing Municipal Offices and Services. This measure gathers, in a coordinated and systematic manner, the provisions relating to the ways in which the Municipality of Milan exercises similar control over its in-house companies through the powers of guidance and control granted to it by the Articles of Association.

In 2018, applications were submitted for the enrolment of MM S.p.A. In the List of Contracting Authorities and Entities, pursuant to Article 192 of Italian Legislative Decree no. 50 of 18 April 2016, for in-house providing to the subsidiaries of the Municipality of Milan, i.e. AMAT S.r.l. and Milano Ristorazione S.p.A. ANAC, following the preliminary investigation undertaken in relation to the applications submitted, by means of Resolution no. 428 of 15 May 2019 and Resolution no. 1 of 15 January 2020, has ordered the enrolment of MM S.p.A. in the List of contracting authorities and entities envisaged by Article 192, paragraph 1, of Italian Legislative Decree no. 50 of 18 April 2016, for the purposes of in-house providing to the two in-house companies in

which the Municipality of Milan holds an interest, i.e. Milano Ristorazione S.p.A. and AMAT Agenzia Mobilità Ambiente e Territorio S.r.l.

### **New service contract between MM and the Municipality of Milan**

During the first half of 2018, a joint Work Group was set up by MM and the shareholder Municipality of Milan, coordinated by the Subsidiaries Department of the Municipality of Milan, with the aim of defining a new text of the Service Contract to replace the one currently in force, also in advance of the expiry date originally envisaged on 31 December 2019 and which should take into account:

- the provisions introduced by Article 192 of Italian Legislative Decree no. 50/2016, with specific regard to the “prior assessment of the consistency of the services” taken away from free competition and entrusted to in-house companies and/or bodies enrolled in the specific register established by ANAC;
- the new system envisaged by Article 14 of Italian Legislative Decree no. 175/2016 regarding public companies;
- the intention of the Municipality of Milan to introduce uniform criteria in the regulation of relations with its own in-house companies;
- the need expressed by the Municipality of Milan to regulate, also with the help of MM, the planning phase with respect to the needs to be included in the Three-year Plan of works and in the Two-year Plan of Services and Supplies.

The most significant changes introduced in the new text of the Service Contract concern in particular:

- the extension of the scope of service provisions that may be entrusted also to the Contract Performance Department activities in case of Service and Supply Contracts and to technical-cadastral activities;
- the redefinition of the fees on the basis of the results of the market surveys carried out by the Municipality of Milan, pursuant to Article 192 of Italian Legislative Decree no. 50/2016;
- the introduction of KPIs for monitoring the level of performance to be defined in the Service Contract and then to be adjusted in the individual assignment specifications, having regard to the nature of the services;

- the incorporation of the role of Project Manager within MM, in its capacity of Contracting Authority, in strict compliance with the provisions of Article 31 of Italian Legislative Decree no. 50/2016, by defining the fees for this activity and new accountability.

At its meeting of 20 July 2018, MM's Board of Directors granted the Managing Director the mandate to sign the Service Contract that will regulate future relations between the Municipality of Milan and MM, with the right to make any non-substantial additions and/or amendments that may be required.

With resolution no. 178 of 8 February 2019, the City Council approved the updating of the Service Contract Format between the Municipality of Milan and MM S.p.A. aimed at regulating the engineering and architectural activities and services to be entrusted to MM for a period of 10 years starting from its signing, with the possibility of continuing for a further maximum period of 5 years. The contract was signed on 22 March 2019.

### **Italian Public Procurement Code - Changes introduced by Law no. 55 of 14 June 2019 converting Law Decree no. 32 of 18 April 2019 (the so-called "*Sblocca cantieri*")**

Italian Law no. 55 of 2019 entailed a series of amendments to Law Decree no. 32 of 2019, the so-called "*Sblocca cantieri*" (unblock worksites), also introducing provisions that suspend on an experimental basis some rules of the Italian Public Procurement Code until 31 December 2020.

In relation to the rules which have been temporarily suspended, we note Article 59 para. 1, fourth sentence, on the prohibition of joint contract awards, i.e. the prohibition of the joint assignment of work design and execution, subject to certain exceptions; Article 77, para. 3, on the obligation to choose the commissioners from the list of experts kept by ANAC, while the obligation to identify the commissioners in accordance with competence and transparency rules remains. Finally, the Law extends, starting as from 31 December 2020, also in the ordinary sectors above and below the EU threshold value, the possibility of inverting the procedural order for examining tenders, placing it before the assessment of the tenderers' suitability (Article 133, para.8). Until 31 December 2020, a simplified regulation is envisaged for routine and non-routine maintenance work (provided that it does not envisage the renewal or replacement of structural parts of works or plants), mainly in order to enable assignment on the basis of the final design, and the execution regardless of the drafting and approval of the executive design.

Article 1, para. 20, letters g1) and g2) modifies Article 35, paragraphs 9 and 10 of the Code by introducing the obligation to calculate the overall value of lots (and not that of the individual lot) in order to establish the

tender procedures to be followed also when the individual lots are not assigned “simultaneously”.

With respect to work contracts, the idea of a gradual simplification of the procedure for low-value contracts was pursued by amending Article 36, with reference to works with a value equal to or above € 40,000.00 and below € 150,000.00, envisaging the evaluation of three quotes, where possible.

Still in the works sector, the legislator has also further divided the amount brackets in relation to the EU thresholds, envisaging for assignments of works worth between € 150,000.00 and € 349,999.00 the use of the negotiated procedure, after consultation, if existing, of at least 10 economic operators (Article 36, para. 2, lett. c); while for works worth between € 350,000.00 and € 999,999.00, it is possible to use the negotiated procedure after consultation of at least 15 economic operators (Article 36, para. 2, lett. c-bis).

As regards below-threshold works, paragraph 9-bis was added to Article 36; the criterion of the “*lowest price*” becomes an alternative which is always possible in place of the economically most advantageous offer for the awarding of “*below-threshold*” contracts. Should this criterion be used, there is the obligation to apply the automatic exclusion of anomalous offers, where the tender is not cross-border and the number of offers is not below 10.

The above-mentioned Law also affected subcontracts, envisaging temporary and permanent changes.

As for temporary changes, there is the new limit of 40% of the overall value of the contract (Article 105, para. 2), as well as the inclusion of the obligation to indicate a trio of subcontractors in the tender (Article 105 para. 6). These are currently suspended until 31 December 2020.

In addition, the provisions regarding checks on the subcontractor during the tender, envisaged by Article 80, para. 5, are suspended, as well as those included in Article 174, para. 2 fourth sentence, relating to the obligation upon the subcontractor to indicate the trio in the case of concessions.

On the other hand, as for permanent changes, the grounds for exclusion now include serious default by the subcontractor, if recognised with a definitive judgement (Article 80, para. 5, c-quater).

Conversely, as regards grounds for exclusion pursuant to Article 80, the Law did not confirm the provision of the Law Decree, which envisaged that an economic operator could be excluded from participating in a tender procedure in the case of failure to pay duties and taxes or social security contributions, even if not definitively confirmed.

Paragraph 20, letter u) of Article 1 amends Article 97 of the Italian Public Procurement Code as regards anomalous offers, should assignments be made using the lowest price criterion.

Two distinct calculation methods to identify the anomaly threshold are introduced and can be used depending on the number of offers admitted (respectively equal to or above 15 or below 15).

The same criteria can be re-determined by the decree of the “Ministry of Infrastructure and Transport”, again in order to prevent tenderers from predetermining the reference parameters for the calculation of the anomaly threshold.

As for the criterion of the economically most advantageous offer, as set out in paragraph 3 of Article 97 of the Code, the new provision under consideration limits, among other things, the application of the calculation envisaged therein to cases where three or more offers are admitted.

In Article 1, paragraph 20, letter d) there is a further amendment, whereby the second, third and fourth sentences of article 29, paragraph 1, of the Public Procurement Code, regulating the principles on transparency, are deleted. The amendment aims at excluding the publication, in the “Transparent administration” section, of the exclusion from the procedure for the award of public contracts (so-called disclosure entailing legal effects). With respect to procurement, the accelerated procedure, which required admissions and exclusions to be challenged immediately and established a fast track for the adjudicators’ decision, has *de facto* been cancelled. Finally, the arrangement of the “*Sblocca cantieri*” decree is confirmed as to the intention of replacing the ANAC Guidelines with the Single Regulation for execution, implementation and integration. Nonetheless, the Guidelines will remain in force until this Regulation is issued.

It is hereby confirmed that MM has applied all the legal provisions, as amended, and, where possible, applies the simplified procedures that are currently allowed.

### **Law Decree no. 124 of 26 October 2019 setting out “Urgent provisions on tax matters for needs that cannot be postponed” (the so-called *Decreto Fiscale*)**

With the publication of the so-called *Decreto Fiscale* (Tax Decree), extension of the reverse charge was extended to contracts and subcontracts that envisage the use of manpower.

In particular, Article 4 of Law Decree no. 124/2019 amends Leg. Decree no. 241 of 9 July 1997, by adding the new Article 17-bis, setting out “Withholding taxes and set-offs in contracts and subcontracts and extension of

the reverse charge regime to combat the illegal use of manpower”. The new Article 17-bis provides for the extension of the reverse charge to contracts and subcontracts, in relation to all withholding taxes made by the tenderer, contractor or subcontractors, over the term of the contract, on salaries paid to personnel directly employed in the execution of works or in the provision of services entrusted.

## **Integrated Water Service**

### **NATIONAL REGULATORY FRAMEWORK**

In 2019 and in the first quarter of 2020, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) continued its regulation of the sector with the issuing of the following provisions, reported by subject area and, within each of them, in chronological order.

#### **Conciliation and handling of complaints (TICO)**

With resolution 142/2019/E/idr of 17 April 2019 “Implementation in the water sector of the protection system against complaints and disputes by customers and end customers of regulated sectors”, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) identifies the water sector provider that are obliged to take part, as from 1 July 2019, in procedures voluntarily initiated by end users before the Conciliation Service (in the water sector, conciliation is still not mandatory before proceeding to ordinary justice).

Thereby, this sector sees a further step in the gradual application of the second level of the Authority’s protection system against complaints and disputes by customers and end users of the regulated sectors, with the prospect, upon full implementation, of the mandatory participation in the Conciliation Service for all providers, as already happens for providers in energy sectors.

In particular, resolution 142/2019/E/idr ordered, as from 1 July 2019:

- the mandatory participation in the Conciliation Service for providers serving a population of at least 300,000 residents, corresponding to around 68% of the national population (the list of these providers, including MM S.p.A., is attached to the resolution). End customers served by these providers may submit a second-instance complaint at the Consumer Desk only for the water social bonus;



- for below-threshold providers, the possibility of informing the Authority of their voluntary commitment to mandatory participation in the Conciliation Service, provided that this commitment is at least for two years (providers that are not under such an obligation will communicate, on a case-by-case basis, their participation in the procedures);
- for obliged providers (also on a voluntary basis), the mandatory requirement to indicate on their website, in new contracts and in responses to first-instance complaints not resolving the problem raised by the customer, the methods for activating the Conciliation Service and any other out-of-court bodies for dispute resolution, with free access, in which these providers undertake to participate.

#### Management of overdue payments (REMSI)

With consultation document 158/2019/R/IDR of 17 April 2019 “Directives for limiting overdue payments in the integrated water service. Final guidelines”, the Regulatory Authority for Energy, Networks and Environment (ARERA) set out its guidelines regarding the measures to be adopted in order to limit overdue payments in the integrated water service. In particular: the conditions to limit and suspend supply for residential household customers (other than vulnerable customers) that are overdue with payments, the procedures to manage and limit overdue payments by customers in condominiums, the forms of payment by instalment and of informing customers, to be adopted also in the case of overdue payments.

In greater detail, the consultation document 158/2019/R/IDR, which follows DCO 603/2017/R/idr and 80/2018/R/idr, foreshadowed the introduction of the following measures:

Prior cases of overdue payments.

Customers who cannot be disconnected.

Conditions to limit and suspend supply for residential household customers.

Handling of overdue payments by customers in condominiums.

General rules for paying by instalment and informing customers.

Procedure for formal notice, within ten (10) days following the deadline set for payment of the invoice for an anomalous amount.

Methods for paying by instalments amounts subject to formal notice.

Time frames and procedures for the restoration or reactivation of a supply which has been limited, suspended or discontinued due to overdue payments.

With Resolution 311/2019/R/idr, of 16 July 2019 “Regulation of overdue payments in the integrated water service”, the Authority adopted the final provision setting out the regulation of overdue payments in the integrated water service (REMSI), envisaging the application of the new regulation as from 1 January 2020, which in detail will entail that:

Fixed and equal rules will be introduced throughout Italy in the case of non-payment by customers of the water sector; standard time frames and methods have been established for formal notice, the payment of amounts by instalments, the suspension of the supply and the termination of the contract, safeguarding vulnerable customers who are in a documented state of social and economic difficulty and those public users which cannot be disconnected (such as hospitals and schools);

In cases of overdue payment involving residential household customers (other than vulnerable customers), the supply can be suspended only after non-payment of bills for amounts in excess of the annual payment due for the subsidised consumption category or, where technically feasible, only following the limitation of the water flow, guaranteeing only the minimum subsistence quantity (50 litres per inhabitant per day). For the same category of customers, the provider may discontinue the supply, and terminate the contract, only when, following limitation/suspension and with continuing non-payment, the meter has been tampered with, or should the customers have not arranged to pay the related costs for the recovery of the previous unpaid amounts;

Instead, in the case of customers in condominiums, the provider cannot limit/suspend/discontinue the water supply if, within the expiry date of the terms envisaged in the formal notice, at least half of the amount due has been paid in a single payment. It may, on the other hand, go ahead with actions on the supply if the condominium customer does not pay the balance within the following six months. Should the local governing body confirm the technical feasibility of procedures to selectively limit or disconnect customers in condominiums for whom the provider had, on the other hand, declared it impossible to intervene, the same governing body is required to apply – taking account of the causes and the related responsibilities – specific penalties and to inform the Authority, for the subsequent related decisions.

Providers must guarantee, when envisaged, the payment by instalments of the amounts subject to formal notice over 12 months, clearly informing the customer of the time frames and procedures to pay by instalments. The provider must then send the formal notice at least 25 days after the due date of the invoice, but not before having sent a reminder with a payment slip attached. Obligation to reactivate any supply that has been limited,

suspended or discontinued due to overdue payments within two working days of proof of the payment by the end customer.

Providers will also be required to pay automatic compensation to the end customer, amounting to:

€ 30, in the event of:

suspension or discontinuance of the supply due to overdue payments for an end customer who cannot be disconnected;

discontinuance of supply due to overdue payments for a residential household end customer, without prejudice to the cases envisaged in art. 7.5 of the REMSI;

limitation, suspension or discontinuance due to overdue payments without sending prior formal notice;

limitation, suspension or discontinuance due to overdue payments despite the end customer having communicated the payment of the amount due, within the time frames and according to the procedure as set out in art. 6 of the REMSI.

€ 10, should the supply have been limited, suspended or discontinued due to overdue payments, if the formal notice has been sent, but:

before the deadline set out in the formal notice;

the final customer has forwarded the request for a payment by instalment plan within the time frames and according to the procedure as set out in art. 5 of the REMSI;

the maximum time period between the issue date of the formal notice and the date of delivery of the same to the mail courier has not been respected, should the provider not be able to document the date of despatch;

the payment reminder has not been sent.

#### New Water Tariff Method (MTI-3)

With consultation document 402/2019/R/idr of 1 October 2019 “Water tariff method for the third regulatory period (MTI-3). General framework and lines of action”, the Authority set out the general indications for defining the system of the new integrated water service tariff regulation, presenting some proposals aimed at further developing the asymmetric and innovative approach – which, through schematic regulation, was a feature of the Water Tariff Method (MTI) for 2014 and 2015 and the Water Tariff Method for the second

regulatory period 2016-2019 (MTI-2) – taking account of the need to enhance the measures aimed at promoting operational efficiency in light of the levels of overall costs incurred of the efficiency levels achieved by operators.

With the MTI-3, the Authority intends to maintain a stable and definite general framework of rules, which is considered effective and credible by the various players in the water sector. In particular, the Authority wants to pursue, among other things, the goals of:

- promoting operational efficiency;
- supporting investments and controlling the construction of works;
- environmental, social and economic-financial sustainability;
- rationalising operations;
- overcoming the Water Service Divide.

The MTI-3 aims at guaranteeing the consistency of the incentive systems introduced in regulatory areas other than tariff-related ones, also considering the measures that will be adopted by the end of 2019 to:

- update contractual quality, also due to the introduction of an incentive mechanism (bonuses-penalties) linked to the performance achieved by providers;
- approve the procedures for managing the Guarantee fund for water works;
- update the base contents of the standard Agreement;
- take account of the elements that have emerged on how sewage sludge is managed and exploited, which could be considered as part of ad-hoc incentive schemes.

With consultation document 480/2019/R/idr of 19 November 2019 “Water tariff method for the third regulatory period (MTI-3). Final indications”, the Authority set out the final indications for defining the new integrated water service tariff regulation for the third regulatory period, submitting some developments and additional proposals with respect to those already included in the aforementioned DCO 402/2019/R/idr, in particular as regards the rules to calculate the costs that are admitted in the tariff recognition, as well as to the identification of the relevant macroeconomic parameters within the water sector regulation.

With subsequent Resolution 580/2019/R/idr of 27 December 2019 “Approval of the water tariff method for the third regulatory period MTI-3”, the Authority approved the Water Tariff Method (MTI-3) for the third regulatory period, confirming the indications set out in consultation documents 402/2019/R/idr and 480/2019/R/idr. In particular:

the four-year duration of the regulatory period is confirmed, with an update every two years, and the possibility of an infra-period review, linked to the request by the local governing body, to certify the extraordinary character of events that can prejudice the economic and financial balance of operations;

more instruments and control stages are introduced in order to guarantee that any tariff increases are possible only following investments that have been effectively made or certified improvements in operations. In fact, the existence of a cap on increases is confirmed, for the first time differentiated not only on the basis of operating costs, but also on revenues per inhabitant served;

environmental sustainability is promoted through a series of incentives ranging from containing electricity consumption used to supply water, to reduced plastic use in drinking water consumption, to energy and materials recovery (think in particular of the issue of treating sewage sludge), and to the reuse of purified water for agricultural and industrial purposes;

in addition to the Water Bonus envisaged since 2018, at national level, there will be incentives for actions aimed at measuring water consumption – both for condominiums and individual customers – and for choices made at local level to support vulnerable customers;

the Strategic Works Plan (POS) is introduced, a tool through which the local governing body, or another competent body, indicates infrastructure work for complex works with a useful life of over 20 years and which are considered as a priority to guarantee the quality of the service for customers. In the POS, which may include the works planned from 2020 to 2027, it is necessary to indicate the time schedule of the works and the public contributions that may be available. A better ability to plan and make the most of available funding in a coordinated way will, according to ARERA, underpin the future availability of water, also in relation to climate change;

in order to reduce the difference in service standards in the different areas of the Country, of particular importance is the introduction of the “convergence regulatory model”, which enables less efficient operators that are lagging in applying the national regulation to apply a simplified system for a set period of time and under specific conditions.

#### Evolution of the regulation on Contractual Quality (RQSII)

With consultation document 422/2019/R/idr of 23 October 2019 “Indications to integrate the regulation in force on the contractual quality of the integrated water service (RQSII)”, the Authority, in light of the outcomes of the monitoring undertaken on the contractual quality data collected in the first few years of applying the RQSII, set out the main lines of action that it intends to follow in order to update the aforementioned regulation,

with particular reference to:

the introduction of a mechanism of bonuses and penalties (to be attributed on the basis of the performance achieved by providers) aimed at providing incentives for compliance with the minimum standards identified by the RQSII;

the aspects which require an update in order to take account, among other things, of the recent developments in regulation (in relation to the new criteria for the tariff scheme introduced by the TICSII as set out in Resolution 665/2017/R/idr), as well as the law on metering and invoicing, also with regard to the exclusion from invoicing of amounts that refer to consumption dating back more than two years.

With subsequent Resolution 547/2019/R/idr of 17 December 2019 “Integration of current regulations regarding the regulation of the contractual quality of the integrated water service and provisions to enhance the protections to the benefit of end customers in cases of invoicing of amounts that refer to consumption dating back more than two years”, as a consequence of consultation document 422/2019/R/idr, the Authority defined:

An incentive mechanism of bonuses and penalties based on the creation of two macro-indicators obtained starting from the 42 simple indicators envisaged by the Regulation on the contractual quality of the integrated water service – RQSII:

Macro-indicator MC1 “Start and termination of the contractual relationship”: it consists of (18) simple indicators regarding the performance with respect to cost estimates, carrying out connections and works, activating and deactivating the supply;

Macro-indicator MC2 “Management of the contractual relationship and accessibility to the service”: it consists of (24) simple indicators regarding the performance with respect to appointments, invoicing, checks on meters and on the pressure level, responses to written requests as well as management of contact points with customers.

For each macro-indicator (MC1 and MC2), three classes of annual targets have been identified (such as to stimulate a faster improvement of providers that have lower initial levels in contractual quality).

The incentive mechanism introduced defines bonuses and penalties through subsequent assessment stages, differentiated according to assessment level (base and excellent) and starting level (maintenance of improvement goals).

Additions and updates of contractual quality, such as:

Extension of the RQSII protection also to subjects who, although not under contract, request the undertaking

of some services prior to signing a supply contract;

The right for the customer to request before the Chamber of Commerce the verification of the functioning of the metre;

The recording of the time spent to carry out complex works, if necessary works must be executed by the end customer/acts or concessions and these works/acts or concessions have been indicated in the cost estimate issued by the provider, starting from the date of notification of completion of the works and delivery of these acts.

Disclosure obligations in the event of a two-year limitation period: Law no. 205 of 27 December 2017 intervened on the limitation of the provider's right to the amount due (from "household customers", "micro-enterprises" and "professionals") for the water supply, reducing it from five to two years and ordering that the same regulation applies:

to invoices, the due date of which is subsequent to 1 January 2020 (Article 1, paragraph 10);

only if the failure to take, or the incorrect taking of, consumption data does not arise from proven liability on the part of the customer (Article 1, paragraph 5).

In this regard, the Authority ordered that:

Should the provider be liable:

The provider is required to adequately indicate the presence on the invoice of amounts dating back more than two years (through two alternative means: by sending a single invoice or an invoice containing only the statute-barred amounts). In particular, the provider supplements the invoice accounting for consumption dating back more than two years with an initial page containing:

a standard notice, inviting compilation of the specific form;

the statute-barred amounts;

a section setting out a format to object to the statute barring (also available on the website and at the customer desks open to the public);

a contact for the provider (fax, post) and an email address to send the necessary documentation to.

The statute-barred amounts are excluded from the scope of application of any contractual clauses which envisage payment methods such as pre-authorized SEPA Direct Debit – SDD (on a bank or postal account or credit card).

Should the end customer be liable: it is envisaged that the provider supplements the invoice setting out these amounts with an initial page containing:

a written notice;

the total amounts for consumption dating back more than two years;

the motivation which determined the customer's alleged liability;

a section indicating the possibility of sending a complaint to the provider, indicating a contact for the provider (fax, post) to send the complaint to. In its response to the complaint, the provider shall detail the elements which have caused the payment request, so as to enable the end customer to protect their rights.

Further provisions issued by ARERA in 2019

With Resolution 425/2019/R/idr of 23 October 2019 "Regulation of the procedures for the supply of resources for the realisation of the works contained in Annex 1 to the Prime Minister's Decree of 1 August 2019, setting out Adoption of the first excerpt of the National Plan for works in the water sector – waterworks section, adopted pursuant to Article 1, paragraph 516, of Law 205/2017", the Authority completed the measures aimed at enhancing infrastructure investment to improve the quality of water services and at increasing the completion rate of the planned works, governing the conditions, terms and procedures with respect to the supply of resources of the so-called Guarantee fund managed by CSEA to finance urgent infrastructure work.

With Resolution 472/2019/C/idr of 19 November 2019 "Partial appeal against judgement no. 1995 of 18 September 2019 of the Lombardy Regional Administrative Court (TAR), section I, for partial annulment of the Authority's Resolution 917/2017/R/idr", ARERA started the process to appeal judgement no. 1995 of 18 September 2019 of the Lombardy Regional Administrative Court, Section I, which had partially annulled the arguments as set out in Resolution 917/2017/R/idr, in particular:

with reference to the macro-indicator M1, the Regional Administrative Court acknowledged the inconsistency of applying the formula to calculate the indicator M1a, with regard to the enhancement of the length of the connections, while, with reference to the indicator M1b, it introduced the ineffectiveness of application in the presence of a value of M1a that prevails over the attribution of "class";

with reference to the macro-indicator M3, the judgement found that the inclusion, in the number of analytical non-compliances, also of those found in the control checks carried out after the detection of the first non-compliance is an excessively penalising approach in the actual attribution of a "class".



With Resolution 499/2019/R/com of 3 December 2019 “Update of ISEE (Equivalent Economic Situation Indicator) threshold value for access to social bonuses as from 1 January 2020, pursuant to the Ministry of Economic Development’s Decree of 29 December 2016”, in line with the provisions set forth in the Minister of Economic Development’s Decree of 29 December 2016, the Authority updated, from € 8,107.50 to € 8,265.00, ISEE threshold value for access to social bonuses as from 1 January 2020, thus increasing the number of entitled customers. The possibility of introducing the Waste Bonus and extending the Water Bonus to sewerage and water treatment services has also been announced, as well as the automatic recognition of bonuses in water bills as from 2021 for eligible households without the need to follow the procedure defined by Resolution 897/2017/R/idr (TIBSI).

With Resolution 512/2019/R/idr of 3 December 2019 “Start of the supply of resources for the realisation of works as set out in Annex 1 to the Prime Minister’s Decree of 1 August 2019, laying down ‘Adoption of the first excerpt of the National Plan of works in the water sector - waterworks section’”, the Authority authorised the Energy and Environmental Services Fund (CSEA) to disburse the first tranche of the financing referred to in paragraph 4. 1 letter a) of Resolution 425/2019/R/idr, for the realisation of the works included in Article 1 of the Prime Minister’s Decree of 1 August 2019, which approves the first excerpt of the “waterworks” section of the National Plan of works in the water sector, pursuant to paragraph 516, Article 1, of Law no. 205 of 2017.

#### Provisions issued by ARERA at the beginning of 2020

With Resolution 3/2020/R/idr of 14 January 2020 “Amendments to the integrated text concerning procedures for the application of the water social bonus for the supply of water to economically disadvantaged household customers (TIBSI) in accordance with Article 57-bis of Law Decree no. 124 of 26 October 2019, converted with amendments by Law no. 157 of 19 December 2019”, the Authority introduced the following amendments and additions to the TIBSI, valid as from 1 January 2020:

the eligibility for the subsidy of Citizenship Income (*Reddito di cittadinanza*) and Citizenship Pension (*Pensione di cittadinanza*) beneficiaries;

the quantification of the water social bonus as from 1 January 2020 must be calculated by each provider, taking account of the size of the household, applying to the minimum subsistence quantity (50 litres per inhabitant per day) the total sum of the following unit tariffs, defined in accordance with the criteria identified by articles

5 and 6 of the TICSİ:

the preferential tariff, determined for the purposes of quantifying the variable portion of the water supply charge (as previously ordered by the TİBSİ);

the sewerage tariff, proportional to consumption, identified to quantify the variable portion of the sewerage charge;

the water treatment tariff, proportional to consumption, identified to quantify the variable portion of the water treatment charge.

With Resolution 46/2020/R/idr of 18 February 2020 “Initiation of a procedure for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the integrated water service as set out in Title 7 of Annex A to the Authority’s Resolution 917/2017/R/idr (RQTI)”, the Authority initiated a procedure for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the integrated water service as set out in Title 7 of Annex A to the Authority’s Resolution 917/2017/R/İDR (RQTI), consisting of two stages:

the identification of the group of providers for which a complete set of information is available for the purposes of establishing the rankings for Stages III, IV and V as set out in Article 26, as well as the attribution of bonuses and penalties in reference to all the Stages, for the years 2018 and 2019;

the attribution of penalties for Stages I, II, III and IV for all the providers which, at the time of establishing the rankings, have not sent the data necessary for the assessment of the technical quality targets underpinning the macro-indicators admitted to the incentive mechanism.

ARERA envisaged that:

stage a) will end by 30 September 2020 for the attribution of the related bonuses and penalties, subject to prior establishment of eligible providers, following the closure of the relevant data collection.

stage b) will end upon approval (by the Authority) of the tariff arrangements for the providers involved.

The Authority excluded from the application of bonuses/penalties subjects experiencing long-running problems in starting the necessary planning and organisation of operations pursuant to current regulations, for which the competent subjects may adopt the rules envisaged for the regulatory convergence scheme as set out in Article 31 of Annex A to Resolution 580/2019/R/İDR.

With Resolution 59/2020/R/com of 12 March 2020 “Postponement of regulatory deadlines for environmental and energy services and initial provisions on quality in light of the COVID-19 emergency”, the Authority postponed some of the deadlines closest to such date, in order to ensure – in light of the stringent measures

adopted nationally to combat and contain the spread of the COVID-19 virus – an orderly process of transposition of the regulation.

In particular, for the integrated water service it established that:

the deadlines (as set out in paragraph 77.1 of Annex A to Resolution 655/2015/R/IDR and to the Communication of 18 February 2020) to provide contractual quality information and data as of 31 December 2019 to the Authority are postponed:

for providers, from 16 March 2020 to 15 May 2020;

for local governing bodies, from 27 April 2020 to 26 June 2020.

The following deadlines are also postponed:

from 17 April 2020 to 17 June 2020, the absolute deadline for completion of the data collection for the assessment of achievement of the technical quality targets of the integrated water service defined for each provider for the years 2018 and 2019;

from 30 September 2020 to 31 October 2020, the deadline for the attribution of the relevant bonuses and penalties envisaged by the incentive mechanism for the technical quality of the integrated water service as set out in Section 7 of Annex A to Resolution 917/2017/R/IDR.

The deadline (originally set for 30 April 2020), by which the local governing body, or other competent body, is required to transmit, for the purposes of the Authority's approval, the relevant regulatory scheme setting out the tariff arrangement for the integrated water service for the third regulatory period 2020-2023 in compliance with MTI-3, is also postponed to 30 June 2020 as set out in paragraph 5.3 of Resolution 580/2019/R/IDR.

With Resolution 60/2020/R/com of 12 March 2020 "First urgent measures and establishment of an extraordinary management account for the COVID-19 epidemiological emergency", the Authority envisaged that the procedures to suspend electricity, natural gas and water supplies due to overdue payments on the part of the customer/end user, as well as the contractual clauses relating to the suspension/interruption of the supply of gas other than natural gas distributed through the urban network do not apply in reference to the whole period in which the Prime Minister's Decree of 9 March 2020 is in effect, including between 10 March and 3 May 2020 (term updated by Resolution 124/2020/R/com). The provision also includes the establishment at the Energy and Environmental Services Fund (CSEA) of a specific management account in relation to the extraordinary needs for immediate availability of financial resources to guarantee, in the ongoing emergency stage, the sustainability of works in favour of end customers in the electricity and gas sectors and of end users in the water sector.

With Resolution 76/2020/R/com of 17 March 2020 “Urgent provisions regarding the electricity bonus, gas bonus and water social bonus in relation to the urgent measures introduced in the country connected to the COVID-19 epidemiological emergency”, the Authority ordered the postponement of some deadlines related to the management of national social bonuses and the temporary suspension of the related communication flows.

In particular, for the period 1 March - 30 April, in order to guarantee the continuity of bonus payments to entitled citizens, the measure provided that those who renew their bonus request after the original deadline envisaged by the regulation, but in any case within 60 days following the end of the aforementioned suspension period, are guaranteed the continuity of the bonuses, applicable retroactively as from the original deadline and for a period of 12 months.

In addition, the measure provided for the suspension of the various communication flows related to the management of bonuses, notifying the institutional entities that contribute to the management of these flows (ANCI and CSEA).

ARERA Communication of 30 March 2020 “Simplification of the requirements envisaged for the integrated water service” established that providers may fulfil their disclosure requirements with respect to data and information relating to the water social bonus and the supplementary water bonus referred to in Article 12 of Annex A to Resolution 897/2017/R/idr (TIBSI) by transmitting to the Authority their tariff proposal for the third regulatory period 2020-2023 in compliance with the MTI-3, the deadline for which, originally envisaged for 30 April 2020, was extended to 30 June 2020 by ARERA Resolution 59/2020/R/com.

With Resolution 117/2020/R/com of 2 April 2020 “Further urgent measures for the COVID-19 epidemiological emergency to protect customers and end users: amendments and additions to the Authority’s Resolution of 12 March 2020, 60/2020/R/com”, the Authority introduced further urgent measures for the COVID-19 epidemiological emergency to protect customers and end users with respect to the procedures for sending bills and paying amounts due by instalments.

With particular reference to the procedures for sending bills of the integrated water service, it was established that:

providers can send the bill also in electronic format to customers who have made available their email address, or mobile phone number, indicating that it is possible to pay the bill using the methods specified therein;

at the same time as sending the bill in electronic format, providers may send, at the addresses provided by end customers, a specific communication indicating to the customer, in clear and understandable language, that:

they may pay the amount invoiced on the bill through automatic payment methods, such as a bank or post

office direct debit or by credit card, communicating to this end how to make the payment;

they may request to receive the bill in electronic format in place of the paper bill, communicating to this end how to make such request;

they may address requests for additional information to the address or number indicated.

In the event of failure to pay invoices expiring in the period 10 March 2020 – 3 May 2020 (deadline updated by Resolution 124/2020/R/com), issued in the same period or which, limited to invoices issued at least quarterly, account for consumption by end customers in the above-mentioned period, integrated water service providers are required to indicate in the payment reminder, and in any case in the subsequent formal notice, as set out in articles 3 and 4 of REMSI respectively, also the possibility of paying the relevant amounts by instalments without the payment of interest by end customer. The amounts of these invoices are paid by instalments in accordance with the procedures and criteria as set out in paragraphs 5.1, 5.2 and 5.3 of the REMSI. For the purposes of paying these amounts by instalments, the provision as set out in paragraph 5.4, letter a) of the REMSI is not applied. In any case, there is no prejudice to the end customer's right to make payment not by instalments.

With Resolution 125/2020/R/com of 13 April 2020 “Request for information for the adoption of urgent measures in the integrated water service, in light of the COVID-19 emergency”, the Authority – in order to enable the sector to preserve the essential customer protection profiles, the features of industrial excellence, as well as to manage the emergency phase with adequate instruments – asked the local governing bodies (or other competent subjects) and integrated water service providers any useful information (if specifically related to the COVID-19 emergency) for the adoption of urgent measures to ensure the stability of the framework of rules developed over the years, ascertaining whether it is appropriate to calibrate certain instruments in order to make their use more effective with respect to the critical issues found.

With Resolution 136/2020/R/com of 23 April 2020 “ Report of the Regulatory Authority for Energy, Networks and the Environment to Parliament and Government on measures to support investments and protect end customers of the integrated waste (urban and similar waste) management service and of the integrated water service and electricity and natural gas end customers, as a consequence of the COVID-19 epidemiological emergency”, the Authority, after briefly illustrating the measures already adopted to mitigate, as far as possible, the difficulties and potential problems for end consumers and companies in regulated sectors, intends to draw the attention of Parliament and Government to the fact that the emergency measures approved, albeit necessary to address the problems faced by consumers and by some companies, cannot however be maintained over time in a structured way; this would, in fact, cause a loss of economic and financial stability for entire sectors, with

ultimate negative impacts on customers/users of services in regulated sectors.

With this Report, the Authority highlights the appropriateness of some regulatory interventions aimed at supporting the urgent actions that it deems necessary to adequately address the current emergency, with particular reference to the integrated water service and urban and similar waste management sectors, as well as social bonuses.

#### **LOCAL REGULATORY FRAMEWORK**

With regard to local regulations, in 2019 the Area Office of the Metropolitan City of Milan operated in accordance with ARERA provisions, including, inter alia:

Take note of the outcomes of the validation of data and information uploaded by MM on the ARERA web portal as part of the obligations related to the collection of data on the contractual quality of the integrated water service for 2018.

Take note of the outcomes of the control/validation activity on the data sent by MM in relation to the Water Social Bonus and the Supplementary Water Bonus for 2018.

Approve the result achieved by the Provider MM SpA in terms of investments made in 2018 compared to the amount envisaged in planning, taking positive note of the increase in performance achieved by providers in the sector compared to previous years.

Take note of two calls for tender based on the criterion of the economically most advantageous offer as set out in Article 95 of Legislative Decree No. 50/2016, as amended and supplemented, subject to the activation of two below-threshold negotiated procedures, in accordance with the provisions of Article 36, paragraph 2, letter b) of Legislative Decree 50/2016, aimed at assigning two specialist studies of an intellectual-technical nature concerning:

the assessment of the operational and economic/financial synergies arising from the unification of the

Integrated Water Service operations within the Optimal Territorial Area (ATO) of the Metropolitan City of Milan;

the management of stormwater separately from the sewer system and the use of surface groundwater.

Adopting the amendments to the Integrated Water Service Regulation and to the Service Quality Charter of the City of Milan – MM S.p.A. Area and resolve to obtain the mandatory and binding opinion of the Conference of Municipalities for the purposes of final approval. Both documents were approved by MM's Board of Directors on 26 November 2019; approval by the Conference of Municipalities of the ATO of the Metropolitan City of Milan is expected in 2020. The update of the Regulation will enable, among the various amendments made, the transposition of the recent Regional Regulation no. 6/2019 regarding the regulation and administrative regimes for household and urban wastewater discharges, the regulation of controls over discharges and the procedures for approving projects for urban wastewater treatment plants.

Taking note of the control/review activity on the data and information sent by MM as part of the obligations related to the collection of data on the contractual quality of the integrated water service for the first half of 2019.

Taking note of the state of implementation as at 30 June 2019 of MM's Action Program.

Adopting the draft Budget for 2020 and the Three-Year Plan for 2020-2022 and approving the Program Plan for 2020, defining, among other things, the following specific objectives for 2019 and 2020:

completing and reporting on the planned investments referred to in the Service Contract signed and defining the related financing arrangements in agreement with the competent Finance Department of the Metropolitan City of Milan by 31 December 2019;

submitting to the Metropolitan City of Milan the feasibility study from a legal, economic, financial and industrial viewpoint regarding the definition of the Integrated Water Service Sole Provider by 30 June 2020;

submitting to the Metropolitan City of Milan a pre-feasibility study from a technical, economic and financial viewpoint regarding the rational use of water resources – construction of dual networks, by 31 October 2020.

Taking note of the achievement by MM of minimum technical quality targets for 2018, as envisaged by ARERA Resolution 917/2917/R/idr, on the basis of the documentation acquired.

Starting a dialogue with ARERA, highlighting the case to apply the standard assessment criterion for wholesale services traded – both between and within areas – on which to apply, in the third regulatory period 2020-2023, an “exchange” tariff, whereby the neighbouring Area Provider receiving the service is considered as a virtual user of the Provider that provides the service, applying to it the same tariff, as approved by ARERA, which is applied to all users residing in the same Optimal Territorial Area (ATO) where the plant is located.

Approving the Control Programs for 2020 as integral parts of the Agreements regarding controls over discharges into the sewer system for the purposes of issuing administrative fines in accordance with the indications of the new Regional Regulation no. 6/2019.

Taking note of the activities undertaken by the Area Office for the realisation of the event organised by the Triulza Foundation called “Social Innovation Campus”, in line with objective no. 1 (Promotion of rational use of water resources – Promotion/implementation of the circular economy), step 4 (Identification of public and State-approved primary schools) of the Performance Plan for 2019.

### **Significant events occurred during the period**

With resolution no. 178 of 8 February 2019, the City Council approved the updating of the Service Contract Format between the Municipality of Milan and MM S.p.A. aimed at regulating the engineering and architectural activities and services to be entrusted to MM for a period of 10 years starting from its signing, with the possibility of continuing for a further maximum period of 5 years. The contract was signed on 22 March 2019.

The most significant changes introduced in the new text of the Service Contract concern in particular:

- the extension of the scope of service provisions that may be entrusted also to the Contract Performance Department activities in case of Service and Supply Contracts and to technical-cadastral activities;
- the redefinition of the fees on the basis of the results of the market surveys carried out by the Municipality of Milan, pursuant to Article 192 of Italian Legislative Decree no. 50/2016;
- the introduction of KPIs for monitoring the level of performance to be defined in the Service Contract and then to be adjusted in the individual assignment specifications, having regard to the nature of the services;
- the incorporation of the role of Project Manager within MM, in its capacity of Contracting Authority, in strict compliance with the provisions of Article 31 of Italian Legislative Decree no. 50/2016, by defining the fees for this activity and new accountability.

On 23 May 2019, the Mayor of Milan wrote to the Area Office of the Metropolitan City of Milan to notify the Municipality’s intention to extend the scope of activities conferred on MM S.p.A. as part of the Integrated Water Service, to also include management of urban infrastructures for stormwater drainage and of the culverts



of the secondary water network, as well as management of surface groundwater wells.

Subsequently, on 22 July 2019 the Area Office replied, communicating that the assessments of this request were in progress and that the transfer of the management of only the infrastructures for road stormwater drainage (cleaning and maintenance of drains, management of stormwater sewer systems) and groundwater wells, limited to infrastructures for irrigation purposes, would be the most immediate action, without prejudice to any decisions falling within ARERA's scope of responsibility.

The assignment will partially start as from 1 July 2020.

In November 2019, a support service for the Municipality of Milan aimed at managing critical situations and addressing the most evident problems of the city's underpasses was launched.

After carrying out inspections on all the underpasses (numbering approximately 30), work on the electrical systems and equipment associated with the pumps as well as command and control panels began, in addition to cleaning and draining waste ponds.

In November 2019, MM took over management of the Nosedo wastewater treatment plant.

This plant became operational between 2003 and 2004, the construction was entrusted to Milanodepur S.p.A. that represented, as a special-purpose company, the consortium of companies which designed and built the wastewater treatment plant. Milanodepur, through its operating company, then managed the plant, from its start-up up to the end of the Concession Agreement.

During the whole period of private management, the Municipality of Milan entrusted MM with the task of High Supervision.

MM currently controls Milan's whole integrated water system, from the supply of drinking water to the final return of treated wastewater.

As from September 2019, MM has undertaken, using its own resources, Construction Management, Operational Management and Safety Coordination activities for the facility management of the Municipality of Milan's school buildings, taking on responsibility, verifying and solving problems concerning drainage and hydraulic civil works. Besides the maintenance service it has been entrusted with, MM manages the entire reporting system relating to the facility management of school buildings.

During 2019 the Municipality was urged to adopt a plan to define previous accounting items relating to MM's receivables associated with orders of the Engineering Business Unit and resulting from the design and construction of infrastructure of public interest.

Generally, these receivables date back several years, and the Municipality and the Company have had numerous exchanges over time to gradually account for the stage of completion of the individual works.

The review concerned accounting items related to works that are complete and have been operational for quite some time, and brought certain mismatches to light.

This process allowed to agree on criteria to crystallise MM's receivables due from the Municipality; specifically, in accordance with the analysed documents, only the receivables due to MM corresponding to amounts that are consistent for each individual order with the funds appropriated under the relevant approved budgets and, as for co-financed Orders, subject to the Co-financers disbursing their share, shall be considered to be existing and eligible.

In these financial statements, where necessary the Company made provisions for the items as assessed; in addition, receivables due to MM have been crystallised for certain orders, and their collection will benefit the financial position of the Engineering Business Unit.

In addition, the Municipality derecognised from its 2019 financial report some receivables resulting from the arrangement dated 3 December 2008, under which the Municipality was to provide services for the operation of the Water Service.

In fact, while preparing the 2019 financial report, the Municipality confirmed that there is no evidence that such services were performed, and thus wrote off the receivable.

## **Summary of operations and economic and financial performance**

### **Definition of alternative performance indicators**

*Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)*: It is calculated by adding to the operating profit (loss) shown in the Income Statement, amortisation/depreciation, provisions and impairment (also classified in a dedicated item in the Income Statement).

*Net investments*: this is the sum of investments made in property, plant and equipment and intangible assets, net of the FoNI (Fund for New Investments, as regulated by the tariff regulation of the Integrated Water Service).

*Net fixed assets*: this is the sum of property, plant and equipment, intangible assets, equity investments and deferred tax assets and liabilities.

*Net working capital*: this is the sum of inventories, trade receivables and payables, current tax receivables and payables, and other current assets and liabilities.

*Provisions*: this is the sum of “Post-employment benefits and other benefits” and “Provisions for risks and charges”.

*Net invested capital*: this is the sum of “Net fixed assets”, “Net working capital” and “Provisions”.

*Net financial indebtedness*: this is the sum of current and non-current financial assets, cash and cash equivalents, current and non-current financial liabilities, current and non-current portion of assets and liabilities for financial instruments on rates.

*Sources of financing*: this is the sum of “Net financial indebtedness” and “Equity”.

## **Economic Results**

In 2019 MM’s main indicators declined. Specifically, EBITDA decreased by 20% and EBIT decreased by 75%.

Operating profit (loss) is affected by the consequences of the Assessment Report agreed with the Municipality of Milan and currently being finalised. This is aimed at assessing and crystallising the company’s receivables associated with orders of the Engineering Business Unit and resulting from the design and construction of infrastructure of public interest.

Generally, these receivables date back several years, and the Municipality and the Company have had

numerous exchanges over time to gradually account for the stage of completion of the individual works. The review concerned accounting items related to works that are complete and have been operational for quite some time, and brought certain mismatches to light.

This process allowed to agree on criteria to crystallise MM's receivables due from the Municipality; specifically, in accordance with the analysed documents, only the receivables due to MM corresponding to amounts that are consistent for each individual order with the funds appropriated under the relevant approved budgets and, as for co-financed Orders, subject to the Co-financers disbursing their share, shall be considered to be existing and eligible.

In these financial statements, where necessary the Company made provisions for the items as assessed; in addition, receivables due to MM have been crystallised for certain orders, and their collection will benefit the financial position of the Engineering Business Unit.

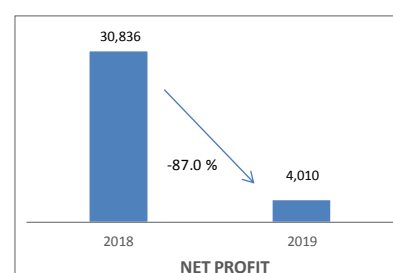
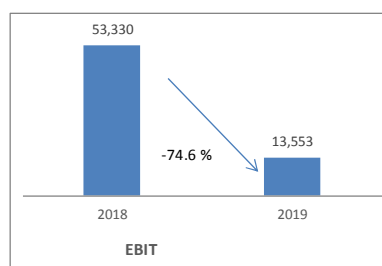
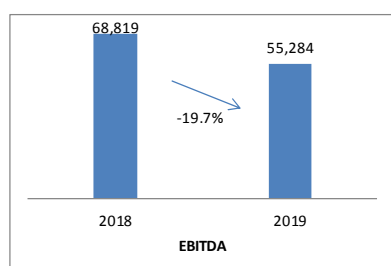
In addition, the income statement of the Integrated Water Service Division benefits from the derecognition from the Municipality of Milan's 2019 financial report of some receivables resulting from the arrangement dated 3 December 2008, under which the Municipality was to provide services for the operation of the IWS. In fact, while preparing the 2019 financial report, the Municipality confirmed that there is no evidence that such services were performed, and thus wrote off the receivable.

Pre-tax profit reflects the above trends with a decrease of 85%.

The income statement is drawn up according to IFRIC 12 "Service Concession Arrangements", therefore, in relation to the integrated water cycle, investment works are allocated to costs and revenues. This representation does not affect the results.

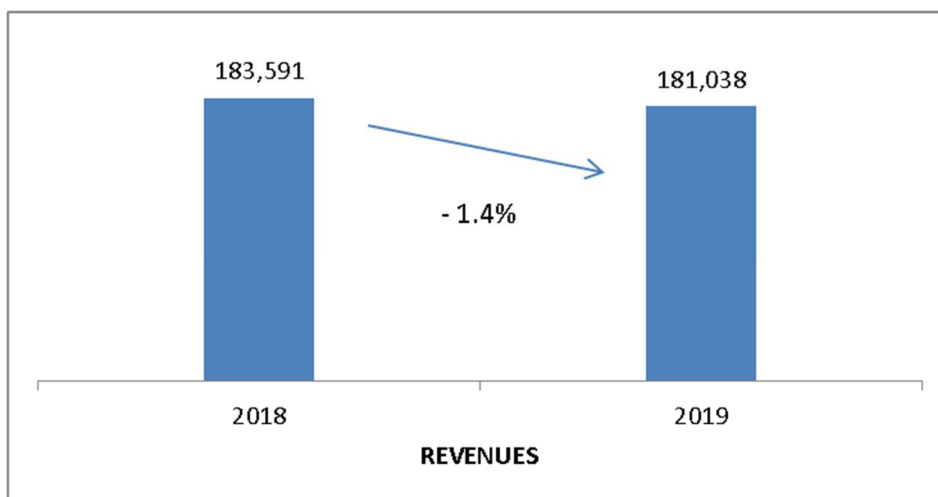
The comparison between 2019 and 2018 is shown in the table below.

| <b>Income Statement</b>   | <b>2019</b>   | <b>Inc. %</b> | <b>2018</b>   | <b>Inc. %</b> | <b>Abs. Ch.</b> | <b>Ch. %</b> |
|---|---------------|---------------|---------------|---------------|-----------------|--------------|
| Revenues  | 181,038       | 100%          | 183,591       | 100%          | (2,553)         | -1%          |
| Revenues arising from work on infrastructure subject to service concession arrangements | 64,935        | 36%           | 51,404        | 28%           | 13,530          | 26%          |
| Other operating revenues  | 28,569        | 16%           | 24,287        | 13%           | 4,282           | 18%          |
| Raw materials and consumables   | (8,583)       | -5%           | (4,727)       | -3%           | (3,856)         | 82%          |
| Costs for services  | (80,475)      | -44%          | (76,209)      | -42%          | (4,266)         | 6%           |
| Other operating expenses  | (1,594)       | -1%           | (2,598)       | -1%           | 1,004           | -39%         |
| Personnel costs   | (65,662)      | -36%          | (57,887)      | -32%          | (7,775)         | 13%          |
| Capitalised costs on infrastructure subject to service concession arrangements          | (62,858)      | -35%          | (49,021)      | -27%          | (13,837)        | 28%          |
| Losses for the sale of fixed assets   | (85)          | 0%            | (21)          | 0%            | (64)            | 306%         |
| <b>EBITDA</b>   | <b>55,284</b> | <b>31%</b>    | <b>68,819</b> | <b>37%</b>    | <b>(13,535)</b> | <b>-20%</b>  |
| Amortisation/depreciation and provisions  | (41,732)      | -23%          | (15,489)      | -8%           | (26,243)        | 169%         |
| <b>EBIT</b>   | <b>13,553</b> | <b>7%</b>     | <b>53,330</b> | <b>29%</b>    | <b>(39,778)</b> | <b>-75%</b>  |
| Financial operations  | (6,839)       | -4%           | (8,757)       | -5%           | 1,918           | -22%         |
| <b>Pre-tax profit</b>   | <b>6,714</b>  | <b>4%</b>     | <b>44,573</b> | <b>24%</b>    | <b>(37,859)</b> | <b>-85%</b>  |
| Taxes   | (2,704)       | -1%           | (13,737)      | -7%           | 11,033          | -80%         |
| <b>Ne profit for the year</b>   | <b>4,010</b>  | <b>2%</b>     | <b>30,836</b> | <b>17%</b>    | <b>(26,827)</b> | <b>-87%</b>  |



In 2019, revenues decreased by 1.4%; this result was the synthesis of different trends for each individual business unit, as can be seen in the table below:

| Revenues                      | 31.12.2019     |       | 31.12.2018     |       | Change        | Change %     |
|-------------------------------|----------------|-------|----------------|-------|---------------|--------------|
| Integrated Water Service      | 136,283        | 75.3% | 142,581        | 77.7% | -6,298        | -4%          |
| Engineering                   | 29,551         | 16.3% | 27,413         | 14.9% | 2,138         | 8%           |
| Housing                       | 13,148         | 7.3%  | 11,466         | 6.2%  | 1,682         | 15%          |
| Real Estate and Networks      | 2,030          | 1.1%  | 2,030          | 1.1%  | 0             | 0%           |
| Central Departments/Functions | 26             | 0.0%  | 101            | 0.1%  | -76           | -75%         |
| <b>Total</b>                  | <b>181,038</b> |       | <b>183,591</b> |       | <b>-2,553</b> | <b>-1.4%</b> |



The decrease in revenues is mainly connected to the Integrated Water Service and reflects both the lower quantities of water billed and the increase in the allocation to the FoNI.

Other operating revenues increased by € 4,282 thousand compared to 2019, as a result of the higher amounts relating to the IWS, due to the recalculation of payables due to the Municipality of Milan.

Costs for raw materials and consumables increased by € 3,856 thousand (82%) compared to 2018. This change was mainly due to the purchases of materials relating to the Integrated Water Service.

Costs for services were up € 4,266 thousand, making for a 6% change. This increase was mainly due to higher costs for electricity and the disposal of special waste from the treatment cycle.

Other operating expenses decreased by € 1,004 thousand compared to 2018, making for a 39% change.

Labour cost increased due to the hiring of new staff.

| <b>Labour cost</b>                           | <b>31.12.2019</b> | <b>31.12.2018</b> | <b>Change</b> | <b>Change %</b> |
|--|-------------------|-------------------|---------------|-----------------|
| Integrated Water Service Business Unit       | 25,941            | 23,255            | 2,686         | 12%             |
| Engineering Business Unit                    | 19,091            | 17,636            | 1,455         | 8%              |
| Housing Business Unit                        | 6,761             | 4,752             | 2,009         | 42%             |
| Central Departments/Functions                | 13,869            | 12,244            | 1,625         | 13%             |
| Total labour cost gross of capitalised costs | <u>65,662</u>     | <u>57,887</u>     | <u>7,775</u>  | <u>13%</u>      |

The increase in labour cost is due to:

As for the Engineering Business Unit, to the following additional activities:

Extraordinary maintenance under the Plan concerning vacant housing units and public housing property of the Municipality of Milan

Fire prevention certificates

Extraordinary maintenance of Schools and Sport facilities

As for the Integrated Water Service Business Unit:

- Acquisition of the Nosedo wastewater treatment plant (November and December 2019)
- ATO Resolution no. 5 of 11 June 2018 (annex D.2 plan for recovering water leaks from the waterworks of Milan)

As for the Housing Business Unit:

- Management of assignments
- 5<sup>th</sup> Local Office
- Support to the extraordinary maintenance under the Plan concerning vacant housing units and public housing property
- Entrusting ordinary maintenance of schools and sport facilities

Finally, as for the Central Staff Business Unit:

- Strengthening of the Purchase Department as a consequence of new activities assigned by the Municipality of Milan and the implementation of the Integrated Water Service Investment Plan

- Implementation of SAP and Company Digitisation Plan
- technical-cadastral activities on the Municipality of Milan's property.

In view of the dynamics explained above, EBITDA amounted to € 55,284 thousand.

Amortisation/depreciation and provisions increased due to the investments made and the above-mentioned Assessment Report agreed by MM and the Municipality of Milan, currently being finalised, aimed at assessing and crystallising the company's receivables associated with orders of the Engineering Business Unit and resulting from the design and construction of infrastructure of public interest.

The balance of financial operations increased by € 1,918 thousand.

Therefore, net profit for the period amounted to € 4,010 thousand.



## Equity and financial results

The analysis and comparison for the years 2019 and 2018 is shown in the table below:

| <b>Invested capital and sources of financing</b> | <b>31.12.2019</b> | <i>Inc. %</i> | <b>31.12.2018</b> | <i>Inc. %</i> | <b>Abs. Ch.</b> | <i>Abs. %</i> |
|--|-------------------|---------------|-------------------|---------------|-----------------|---------------|
| Net fixed assets                                 | <b>381,163</b>    | 98.1%         | <b>326,678</b>    | 96.0%         | <b>54,485</b>   | 16.7%         |
| Net working capital                              | <b>20,937</b>     | 5.4%          | <b>24,512</b>     | 7.2%          | <b>(3,575)</b>  | -14.6%        |
| Provisions                                       | <b>(13,446)</b>   | -3.5%         | <b>(10,975)</b>   | -3.2%         | <b>(2,471)</b>  | 22.5%         |
| <b>Net invested capital</b>                      | <b>388,655</b>    | 100.0%        | <b>340,215</b>    | 100.0%        | <b>48,440</b>   | 14.2%         |
| Equity   | <b>(217,723)</b>  | 56.0%         | <b>(213,416)</b>  | 62.7%         | <b>(4,307)</b>  | 2.0%          |
| Long-term financial payables                     | <b>(190,219)</b>  | 48.9%         | <b>(190,612)</b>  | 56.0%         | <b>393</b>      | -0.2%         |
| Short-term net financial position                | <b>19,288</b>     | -5.0%         | <b>63,813</b>     | -18.8%        | <b>(44,525)</b> | -69.8%        |
| <b>Total sources of financing</b>                | <b>(388,655)</b>  | 100.0%        | <b>(340,215)</b>  | 100.0%        | <b>(48,440)</b> | 14.2%         |

Net invested capital as at 31 December 2019 amounted to € 388,655 thousand. This was due to the increase in net fixed assets, which in turn is the result of the Integrated Water Service's investments, and the change in net working capital, which decreased from € 24,512 thousand to € 20,937 thousand.

Gross investments broken down by business area are as follows:

| <b>Total investments</b>                                   | <b>31.12.2019</b> | <b>31.12.2018</b> | <b>Changes</b> |
|--|-------------------|-------------------|----------------|
| Integrated Water Service Business Unit                     | 74,851            | 71,904            | 2,947          |
| <i>Of which contributions by the Municipality of Milan</i> |                   | 13,846            |                |
| Engineering Business Unit                                  | 1,242             | 950               | 292            |
| Housing Business Unit                                      | 695               | 346               | 349            |
| Real Estate and Networks Business Unit                     | 272               | 503               | (231)          |
| Central staff  | 240               | 86                | 154            |
| <b>Total net investments</b>                               | <b>77,300</b>     | <b>73,788</b>     | <b>3,512</b>   |

At the end of 2019, equity amounted to € 217,723 thousand, showing growth thanks to 2019 operating result.

## Analysis of the financial structure

The analysis of net financial indebtedness is shown in the table below:

|       | Net financial indebtedness             | 31.12.2019 | 31.12.2018 |
|-------|--|------------|------------|
| 1     | Cash and cash equivalents              | 88,753     | 116,677    |
| 2     | Current bank debt                      | (69,465)   | (52,864)   |
| 3=1+2 | Net current financial indebtedness     | 19,288     | 63,813     |
| 4     | Non-current bank debt and bonds issued | (190,219)  | (190,612)  |
| 5=3+4 | Net financial position                 | (170,931)  | (126,799)  |

The comprehensive value of the net financial position as at 31 December 2019 was € 170,931 thousand, up € 44,132 thousand compared to the previous year.

As at 31 December 2019, the medium/long-term debt mainly consisted of the bond issued on the European market and listed on the Dublin stock exchange, maturing in 2035, of the EIB loan and of the residual portion of pre-existing loans maturing in 2027-2028.

The bond loan, issued by the company on 23 December 2016, and the EIB loan agreement, signed on 18 November 2016, require that MM complies with specific financial covenants, calculated as ratios between income and equity variables, aimed at monitoring the company's financial and economic sustainability.

These financial covenants are the following:

- Net Financial position/EBITDA  $\leq$  **4.5**
- Net Financial Position/Fixed Assets  $\leq$  **70%**
- EBITDA/Finance Costs  $\geq$  **4.5**

They are broken down as follows:

**Covenant**

|   | <b>2019</b>           | <b>2018</b>           |
|---|-----------------------|-----------------------|
| Operating Profit (Loss)                                       | 13,553                | 53,330                |
| Amortisation/depreciation, impairment and provisions          | <u>41,732</u>         | <u>15,489</u>         |
| <b>EBITDA</b>   | <b>55,284</b>         | <b>68,819</b>         |
| <br>  |                       |                       |
| Non-current financial liabilities                             | 190,219               | 190,612               |
| Current financial liabilities                                 | 69,465                | 52,864                |
| Cash and cash equivalents                                     | <u>(88,753)</u>       | <u>(116,677)</u>      |
| <b>NET FINANCIAL POSITION</b>                                 | <b><u>170,931</u></b> | <b><u>126,799</u></b> |
| <br>  |                       |                       |
| <b>NET FINANCIAL POSITION/EBITDA</b>                          | <b>3.1</b>            | <b>1.8</b>            |
| <br>  |                       |                       |
| Rights over the infrastructure relating to service concessior | 278,385               | 238,332               |
| Other intangible assets                                       | 6,959                 | 3,687                 |
| Property, plant and equipment                                 | 68,109                | 65,172                |
| <i>Financial fixed assets (Guarantee deposits)</i>            | <u>247</u>            | <u>242</u>            |
| <b>TOTAL FIXED ASSETS</b>                                     | <b><u>353,701</u></b> | <b><u>307,330</u></b> |
| <br>  |                       |                       |
| <b>NET FINANCIAL POSITION/FIXED ASSETS</b>                    | <b>48%</b>            | <b>41%</b>            |
| <br>  |                       |                       |
| FINANCE COSTS   | 7,824                 | 9,305                 |
| <br>  |                       |                       |
| <b>EBITDA/FINANCE COSTS</b>                                   | <b>7.1</b>            | <b>7.4</b>            |

The application of IFRS 16 (lease contracts) resulted in an increase of € 2,179 thousand in non-current financial liabilities and of € 995 thousand in current financial liabilities.

Therefore, with respect to these effects, the pro-forma Net Financial Position amounted to € 167,757 thousand.

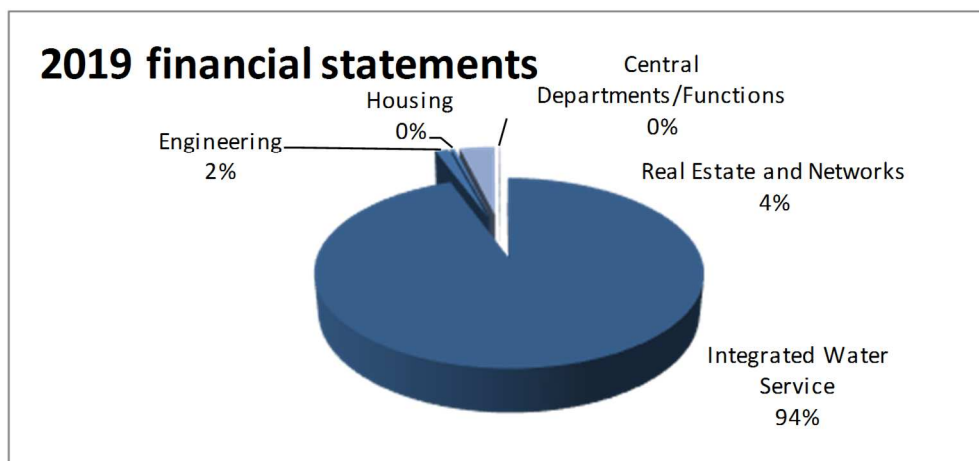
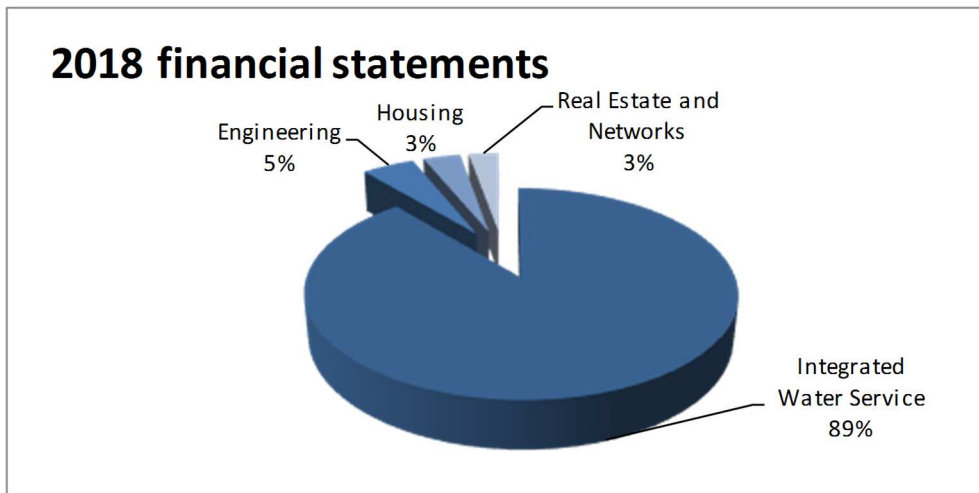
## Analysis by strategic business segments

Below is an analysis of the operating results achieved in the different business segments.

The income statements by segment include structural costs and economic exchanges between the business segments, valued at market prices.

| 2019 income statement   |                 |                |                |                          |                 |                |                       |
|---|-----------------|----------------|----------------|--------------------------|-----------------|----------------|-----------------------|
| Income Statement  | Engineering     | IWS            | Housing        | Real Estate and Networks | Staff           | Adjustments    | IFRS income statement |
| Revenues  | 29,551          | 136,283        | 13,148         | 2,030                    | 26              |                | 181,038               |
| <i>Cross-sector revenues</i>  | <i>3,091</i>    | <i>0</i>       | <i>167</i>     |                          | <i>662</i>      | <i>(3,921)</i> | <i>0</i>              |
| Revenues arising from work on infrastructure subject to service concession arrangements |                 | 64,935         |                |                          |                 |                | 64,935                |
| Other operating revenues  | 1,180           | 27,039         | 303            | 29                       | 18              |                | 28,569                |
| Raw materials and consumables   | (290)           | (7,862)        | (237)          | 0                        | (194)           |                | (8,583)               |
| <i>Cross-sector costs</i>   | <i>(269)</i>    | <i>(3,605)</i> | <i>(47)</i>    |                          |                 | <i>3,921</i>   | <i>0</i>              |
| Costs for services  | (9,048)         | (64,896)       | (2,456)        | (28)                     | (4,047)         |                | (80,475)              |
| <i>Costs for Central Staff functions</i>  | <i>(4,196)</i>  | <i>(9,603)</i> | <i>(4,131)</i> | <i>29</i>                | <i>(29)</i>     | <i>17,931</i>  | <i>0</i>              |
| Other operating expenses  | (126)           | (834)          | (201)          | (10)                     | (424)           |                | (1,594)               |
| Personnel costs   | (19,091)        | (25,941)       | (6,761)        | 0                        | (13,869)        |                | (65,662)              |
| Capitalised costs on infrastructure subject to service concession arrangements          |                 | (62,858)       |                |                          |                 |                | (62,858)              |
| Losses from disposals and divestments of fixed assets                                   | 0               | (83)           | 0              | (2)                      | 0               |                | (85)                  |
| <b>EBITDA</b>   | <b>802</b>      | <b>52,575</b>  | <b>(215)</b>   | <b>2,049</b>             | <b>(17,858)</b> | <b>17,931</b>  | <b>55,285</b>         |
| Amortisation/depreciation and provisions  | (24,391)        | (15,174)       | (490)          | (1,604)                  | (73)            |                | (41,732)              |
| <b>EBIT</b>   | <b>(23,589)</b> | <b>37,402</b>  | <b>(705)</b>   | <b>445</b>               | <b>(17,931)</b> | <b>17,931</b>  | <b>13,553</b>         |
| Financial operations  |                 |                |                |                          |                 |                | (6,839)               |
| <b>Pre-tax profit</b>   |                 |                |                |                          |                 |                | <b>6,714</b>          |
| Taxes   |                 |                |                |                          |                 |                | (2,704)               |
| <b>Net profit for the year</b>  |                 |                |                |                          |                 |                | <b>4,010</b>          |

| EBITDA                       | 31.12.2019    | 31.12.2018    | Change         | Change%     |
|------------------------------|---------------|---------------|----------------|-------------|
| Integrated Water Service     | 52,575        | 61,168        | -8,592         | -14%        |
| Engineering                  | 802           | 3,323         | -2,521         | -76%        |
| Housing                      | -215          | 2,367         | -2,582         | -109%       |
| Real Estate and Networks     | 2,020         | 1,912         | 108            | 6%          |
| Central Departments/Function | 101           | 47            | 54             | 115%        |
| <b>Total</b>                 | <b>55,285</b> | <b>68,819</b> | <b>-13,534</b> | <b>-20%</b> |



***Integrated Water Service***

The business unit is organised in two Departments assigned with specific tasks concerning the management of water infrastructures, in addition to two Staff units dedicated to inventories and customer management and to relations with sector Authorities and planning, respectively.

The Water Supply and Sewer System Department is responsible for the supply, treatment and distribution of drinking water in the city of Milan; it also assists the Municipality of Milan in the running and management of the wells for limiting the rise in the underground water table level and for irrigation.

The Water Supply and Sewer System Department organised its activities in such a way as to guarantee, also in 2019, a high level of efficiency of the service carried out for the city of Milan, as certified by the values of the reference operating parameters of the technical regulations of the Optimal Territorial Area Authority (ATO

- Autorità d'Ambito Territoriale Ottimale), and especially by the continuity and regularity of the distribution service to citizens.

The Water Treatment, Environmental Protection and Wastewater Plants Department manages the treatment of wastewater coming from the territory of the Municipality of Milan and its plants.

In November 2019, MM took over management of the Nosedo wastewater treatment plant.

This plant became operational between 2003 and 2004, the construction was entrusted to Milanodepur S.p.A. that represented, as a special-purpose company, the consortium of companies which designed and built the wastewater treatment plant. Milanodepur, through its operating company, then managed the plant, from its start-up up to the end of the Concession Agreement.

During the whole period of private management, the Municipality of Milan entrusted MM with the task of High Supervision.

MM thus controls Milan's whole integrated water system, from the supply of drinking water to the final return of treated wastewater.

During 2019, the activities carried out were aimed at ensuring the continuity and quality of the service and at protecting the environment.

| <b>Water Service Business Unit</b>     | <b>31.12.2019</b> | <b>31.12.2018</b> | <b>Change</b>  | <b>Change %</b> |
|--|-------------------|-------------------|----------------|-----------------|
| Revenues                               | 228,257           | 213,490           | 14,767         | 7%              |
| Costs                                  | 175,682           | 152,322           | 23,360         | 15%             |
| <b>EBITDA</b>                          | <b>52,575</b>     | <b>61,168</b>     | <b>-8,592</b>  | <b>-14%</b>     |
| <i>% on revenues</i>                   | <i>23.0%</i>      | <i>28.7%</i>      |                |                 |
| Amortisation/depreciation and provisio | -15,174           | -12,285           | -2,889         | 24%             |
| <b>Operating Profit (Loss)</b>         | <b>37,402</b>     | <b>48,883</b>     | <b>-11,481</b> | <b>-23%</b>     |
| <i>% on revenues</i>                   | <i>16.4%</i>      | <i>22.9%</i>      |                |                 |
| Investments                            | 74,851            | 71,904            | 2,947          | 4%              |

In 2019, the Integrated Water Service Business Unit recorded a decrease compared to 2018, both in terms of EBITDA and as absolute value of the business.

2019 is the fourth and last year of application of the water tariff method defined by ARERA for 2016-2019.

The volumes supplied via waterworks decreased compared to 2018.

The unbilled water indicator, which is representative of the effectiveness and efficiency of the distribution system and corresponds to the physical leaks and administrative losses of the civil waterworks, improved compared to 2018.

Revenues increased by € 14,767 thousand (7%). The increase is due to revenues arising from work on infrastructure subject to service concession arrangements and to other revenues.

Operating costs increased by € 23,360 thousand (15%).

EBITDA decreased by € 8,592 thousand (14%).

Gross investments in the Integrated Water Service amounted to € 74,851 thousand, with an increase of € 2,947 thousand compared to the previous year.

Interventions in relation to the water service mainly referred to extensions, reclamations and strengthening of networks and plants.

The table below shows the main technical data of the business unit:

|  | 2019                           | 2018                           | 2017                           |
|--|--------------------------------|--------------------------------|--------------------------------|
| Reference territorial area   | Municipality of Milan          | Municipality of Milan          | Municipality of Milan          |
| Housing units  | Approx. 800,000                | Approx. 800,000                | Approx. 700,000                |
| Resident inhabitants   | 1,418,329                      | 1,403,968                      | 1,397,419                      |
| Demand   | Approx. 2,000,000<br>Customers | Approx. 2,000,000<br>Customers | Approx. 2,000,000<br>Customers |
| Water released into the network (millions of m3/year)  | 216                            | 218                            | 225                            |
| Total water billed (millions of m3/year)   | 185                            | 186                            | 189                            |
| Water leaks  | 9.1%                           | 9.4%                           | 10.7%                          |
| Total length of the water distribution networks (km)   | 2,140                          | 2,136                          | 2,230                          |
| Length of supply networks (km)   | 99.5                           | 99.5                           | 98.6                           |
| Total wells (no.)  | 588                            | 588                            | 587                            |
| Length of sewer systems (km)   | 1,582.9                        | 1,579.3                        | 1,579.1                        |
| Purification plants (no.)  | 2                              | 2                              | 2                              |
| Purification plants potential (population equivalent)  | 2,286,000                      | 2,286,000                      | 2,286,000                      |
| <b>Drinking water analysis</b>   |                                |                                |                                |
| Number of samples  | 17,494                         | 17,461                         | 19,666                         |
| Number of parameters   | 191,692                        | 190,444                        | 175,852                        |
| Conformity percentage  | 99.97%                         | 99.90%                         | 99.66%                         |
| <b>Wastewater analysis</b>   |                                |                                |                                |
| Number of samples  | 8,000                          | 10,817                         | 11,140                         |
| Number of analytical determinations  | 42,800                         | 48,496                         | 54,258                         |
| Conformity percentage (only on discharge)  | 100%                           | 100%                           | 100%                           |
| Pro-capita daily supply (l/inhab./day)   | 0.416                          | 0.425                          | 0.440                          |
| <b>Wastewater treatment plants</b>   |                                |                                |                                |
| Plants with treatment capacity up to 2,000 p.e.  |                                |                                |                                |
| Plants between 2,000 p.e. and 10,000 p.e.  |                                |                                |                                |
| Plants between 10,000 p.e. and 10,000,000 p.e.   |                                |                                |                                |
| Plants over 1,000,000 p.e.   | 2                              | 2                              | 2                              |
| <b>Wastewater treatment values</b>   |                                |                                |                                |
| Volumes treated entering and leaving plant (millions of m3)  | 237                            | 236                            | 227                            |
| Volumes used for crop watering (millions of m3)  | 94                             | 89                             | 94                             |
| Percentage removal of BOD5 pollutants  | 98%                            | 98%                            | 96%                            |
| Percentage removal of SST pollutants   | 98%                            | 99%                            | 97%                            |
| Percentage removal of total Nitrogen pollutants  | 72%                            | 76%                            | 79%                            |
| Percentage removal of total Phosphor pollutants  | 80%                            | 72%                            | 73%                            |
| Volume of sludge for disposal in agriculture (thousands of tonnes)   | 43                             | 46                             | 55                             |
| Volume of sludge to be used as fuel in cement factories (thousands of tonnes)  | 16                             | 14                             | 6                              |
| Theoretical calculation of the dried volume sent to cement factories, transformed into equivalent of dehydrated sludge for agriculture (thousands of tonnes) | 35                             | 31                             | 22                             |



## Engineering

The Business Unit is organised into three business lines:

- one dedicated to Infrastructure, Construction and Waterworks (hereinafter “DIEI”) with a new On-Demand Design (POD) function, dedicated to the new operating procedures for entrusting engineering services defined in the Service Contract of 22 March 2019 to MM.
- One dedicated to Mobility Systems (hereinafter “DSMO”).
- And finally, the new Construction Management Department (DICM), with the task of overseeing the activities relating to the execution stage of the engineering services, and in particular: Project Manager and Construction Manager, Construction Management and Safety Coordination during Construction.

The structure of the Business Unit is completed by the Engineering B.U. Services function, a dedicated technical staff and finally a Sales Department entrusted with national and international development tasks.

The table below summarises the Business Unit’s results:

| Engineering Business Unit              | 31.12.2019     | 31.12.2018   | Change         | Change %      |
|--|----------------|--------------|----------------|---------------|
| Revenues                               | 33,822         | 34,876       | -1,054         | -3%           |
| Costs                                  | 33,020         | 31,553       | 1,467          | 5%            |
| <b>EBITDA</b>                          | <b>802</b>     | <b>3,323</b> | <b>-2,521</b>  | <b>-76%</b>   |
| <i>% on revenues</i>                   | <i>2.4%</i>    | <i>9.5%</i>  |                |               |
| Amortisation/depreciation and provisio | 24,391         | 799          | 23,592         | 2953%         |
| <b>Operating Profit (Loss)</b>         | <b>-23,589</b> | <b>2,524</b> | <b>-26,113</b> | <b>-1035%</b> |
| <i>% on revenues</i>                   | <i>-69.7%</i>  | <i>7.2%</i>  |                |               |
| <b>Investments</b>                     | <b>1,242</b>   | <b>950</b>   | <b>292</b>     | <b>31%</b>    |

## INFRASTRUCTURE, CONSTRUCTION AND WATERWORKS DEPARTMENT (DIEI)

The most important revenues of the Department originate from the activities carried out under the assignment entrusted to MM SpA by So.ge.mi. for the design of the new fruit and vegetable logistics platform to be built in the agrifood district and of the new fruit and vegetable pavilions.

As regards the activities undertaken for the Municipality of Milan, the overall revenues of the Department are mainly related to the Housing and School sectors.

As regards the extraordinary maintenance work on the Public Housing Property of the Municipality of Milan entrusted to MM S.p.A., the work undertaken mainly refers to:

- the recovery of vacant housing units;
- the upgrade of fire-prevention systems;
- the extraordinary maintenance of the buildings Villani - Giuffrè;
- the demolition and reconstruction of towers A and B in via Tofano.

As far as school buildings are concerned, the activities carried out mainly refer to:

- several extraordinary maintenance interventions on school buildings performed through framework agreements directly entrusted by the Municipality of Milan;
- the restoration and conservative restructuring of the school complex in via Brunacci 9;
- the construction of the secondary school in Via Adriano;
- the demolition and reconstruction of the school complex in via Crespi 40;
- extraordinary maintenance interventions on the school complex in via Console Marcello.

The many activities carried out for the Municipality of Milan in relation to the upgrade of fire-prevention

systems in the municipal administration's buildings, as well as the interventions on the waterworks and infrastructures, are also of significant importance with respect to the revenues of the Business Unit.

The most significant interventions on the water supply network of the city of Milan concern:

- consolidation works for Cavo Redefossi and the restructuring and upgrading of the sewer system from Piazza Oberdan to Piazza Cinque Giornate;
- the extraordinary maintenance of Roggia Vettabbia;
- interventions aimed at the improvement/maintenance of the static efficiency of culverts;

while, as far as infrastructure is concerned:

- the realisation of the bus lane for the trolleybus line 92;
- the redevelopment of the so-called 5 areas;
- the Eurovelo 5 cycle route.

During 2019, the activities connected with the post-Expo phase also continued, both with reference to the appointments directly assigned by the company Expo 2015 and those assigned by the company Arexpo, in particular for works/activities related to the phase of site functional requalification for future activities, notably:

- preparatory demolition works for the construction of the scientific campus of the University of Milan;
- adaptation of the perimeter road network to be used by postal services;
- construction of the Lab Incubator;
- US6 functional requalification for the settlement of the Human Technopole;
- maintenance and adaptation of Italy Pavilion.

As regards internal work orders developed during the year for the Integrated Water Service, they included inter alia:

- renovation of the Gorla water plant;
- replacement of the waterworks in Corso Sempione;
- restructuring of the sewer pipeline Milan-Nosedo;
- upgrading of the lift tank in Via Sant' Arialdo;
- replacement of water pipelines in Via Piacenza-Agnesi-Romano-S.Rocco
- replacement of water pipelines in Via Mognasco-Pelizza da Volpedo
- renovation of the Suzzani water plant;
- upgrading of the waterworks in Via Vittorini;

- works protecting the hydraulic functionality of the sewer system;
- replacement of water pipelines in P.ta Venezia-viale Abruzzi.

Finally, engineering work continued in connection with the implementation of the plan concerning MM SpA's offices and in particular the renovation of the building in Via Monviso 10 as the Company's new office complex.

## MOBILITY SYSTEMS DESIGN AND CONSTRUCTION DEPARTMENT (DSMO)

### In-house activities for the Municipality of Milan

Regarding **design activities**, herebelow are the main orders in terms of revenues for 2019:

- Milan M5 underground railway line – Extension to Monza; this important project, which consists of 11 stations and a depot/workshop, will cover an overall length of approximately 13 km, almost all underground; in 2018 the Technical and Financial Feasibility Study was drawn up and then sent by the Municipality of Milan to the Ministry of Infrastructure and Transport and then financed through an amendment to the State's Budget Law, at the end of 2018, with € 900 million as a State contribution. During 2019, the remaining € 350 million needed for the complete coverage of the economic plan (€ 1,250 million) have been thus defined through a burden-sharing agreement among the local authorities (Lombardy Region, Municipality of Milan, Municipality of Monza, Municipality of Cinisello Balsamo, Municipality of Sesto San Giovanni). Therefore, during 2019, the DSMO design team has worked both on some in-depth analyses and updates of the Technical and Financial Feasibility Study, in particular by issuing an update of the Conference of Services project, and on the start of the Final Design. In particular, in January and February 2019, the updating of the Technical and Financial Feasibility Study (PFTE) concerning the revision of the layout requested by the Municipality of Cinisello Balsamo was completed. At the same time, development of the final project started, with particular reference to layout planning and elaboration of the elevation profile and design of the stations. The plan for direct and indirect geognostic investigations, aimed at defining the mapping of geological risk and the construction measures to be implemented for each stretch of the extension, was defined. The opening meeting of the Conference of Services, aimed at acquiring relevant opinions from Administrations and Bodies concerned, was held on 27 March 2019. In May, specific meetings

were arranged with some Operators of works which risk creating interference. The examination of the requirements and observations made by the bodies invited to the Conference of Services on the Technical and Financial Feasibility Study (PFTE) began. Some of these are subject to specific in-depth analyses, while the others will be included in the development of the final project. The detailed integrated design of each station started. For some stations in the central stretch of the Municipality of Monza, the study for a new station configuration started, with a deeper rail level, owing to the geotechnical characteristics of the land it passes through. The process aimed at assessing the compliance of the project with the Envision protocol was started, in order to ensure the environmental sustainability of the work, identifying, for each applicable credit, the improvements that can be made to the project and thus the highest achievable scores.

- Milan M1 underground railway line – Extension to Baggio / Valsesia / Olmi; this important work, consisting of 3 stations and a depot/hangar, will be developed for a total length of approximately 3.5 km, all underground, except for the depot; during 2018 the Technical and Financial Feasibility Study (PFTE) was developed and then delivered to the Municipality of Milan, and by the latter to the Ministry of Infrastructure and Transport, with a request to access financing. During 2019 the State funding for € 270 million, equal to 60% of the economic plan totalling € 350 million, was confirmed. During the year, some elements of the PFTE were further analysed at the Principal's request, such as a different configuration for the Baggio station, in order to optimise accessibility, and a review of the depot floor plan, so as to improve its inclusion in the local territory and its impact on the landscape. In May 2019, the ideas drawn up were shared with the Administration in order to include them in drawing up the final project. From June to August these ideas were discussed with the Administration and ATM in technical meetings at which the Operator provided further indications regarding the functional layout of the proposed depot/hangar, and then this layout was revised. In September, on the basis of the Administration's decisions, the updating of the PFTE to be delivered to the Principal for approval by the Municipal Committee/Council, started. During October the updating of the PFTE was completed and then delivered in November. On 18 December 2019, the PFTE was set out to the Bodies at the preliminary Conference of Services. At the same time, some activities commenced to develop the final project.

- Milan M4 underground railway line: in 2019 work continued for this important contract, in two forms:
- secondment of staff to AMAT s.r.l., consisting of 9 specialised employees forming the core of the work group dedicated to providing Technical Support to the Grantor; the aforementioned specialist staff seconded by MM include the Head of the department who directly reports to the Chief Executive Officer of AMAT s.r.l. Since secondment rules provide that the cost for the seconded staff must be entirely borne by AMAT s.r.l., this arrangement resulted in a significant decrease of personnel costs for the Business Unit.
  - an agreement with AMAT s.r.l. for the provision, by MM's specialised staff, of technical support covering specific aspects that characterise the project for the construction of Line M4, and relating in particular to: rolling stock, system equipment (signalling/automation, platform automatic doors, electric traction, telecommunications, SCADA, etc.) layout, railway superstructure, ventilation systems and fire prevention issues, escalators and elevators, depot equipment, finishings and technical support to the Safety Commission appointed by the Ministry of Infrastructure and Transport.
- Anassagora – Adriano tramway extension, 1st lot: the Executive Design for the first lot of the Anassagora - Adriano tramway extension was tendered and in 2019 it was awarded and works began.
- Anassagora – Adriano tramway extension, 2nd lot: the Executive Design for the second lot of the Anassagora – Adriano tramway extension, which consists in the actual extension work, with 5 stops, an electrical substation and the terminus loop, was subject to validation during the first half of 2019 and could therefore be tendered and awarded by the end of the year.
- Adriano – Cascina Gobba tramway extension: on the basis of the choice made in December 2018 by the Municipality of Milan, among the various route layout alternatives analysed in the feasibility study, in 2019 the Technical and Financial Feasibility Study for the extension was developed. During the design stage, several aspects of particular complexity were addressed and resolved, such as the configuration of the Cascina Gobba terminus, the interference with the nearby motorway junction, the road network connected to the tramway infrastructure, the crossing of the Martesana canal (Naviglio

Martesana), etc.

- Milan Parco Nord-Seregno fast tramway line: technical support activities continued with regard to the Milan Parco Nord-Seregno fast tramway, the contracting authority (Metropolitan City of Milan) and the *Responsabile Unico del Procedimento*, i.e. Sole Project Manager (hereinafter R.U.P. - designated by the Public Works Superintendence of Liguria and Lombardy).
- Segrate – Porta Est Underground Railway Hub: the first of two parts of Phase I of the Technical and Financial Feasibility Study relating to the reorganisation of the public transport system connected to the major private commercial concern to be realised in Segrate was completed; among other things, this study includes the new “Porta Est” station of the Milan railway network and the various alternatives for connecting it with the Linate terminus of the M4 Underground Railway Line;
- Milan – Limbiate suburban tramway line: on the specific request of the Municipality of Milan, which has become the implementing body of the project as a result of a delegation by the Metropolitan City, in 2019 work continued on the revision of the Final Project approved at the time and more recently financed by the State, in order to update it to the current situation of the territory and the needs of the municipalities concerned.
- Extension of M4 underground railway line to the West: Phase I of the Technical and Financial Feasibility Study was completed with respect to this extension, going from the depot area after the terminus of San Cristoforo towards the municipalities of Buccinasco and Corsico, also to the benefit of the municipalities of Trezzano and Cesano Boscone as well as to the entire West / South-West hinterland of Milan.
- LPT system Cologno-Vimercate: Phase I of the Technical and Financial Feasibility Study that examines the different possible alternatives (extension of the underground railway, fast tramway, fast bus, etc.) for connecting the current M2 terminus of Cologno Nord with the city of Vimercate and, along the way, with the other Municipalities of this route located north-east of Milan, was completed.

- Bausan – Bovisa tramway: under a new assignment by the Municipality of Milan, the feasibility study was launched (phase I of the Technical and Financial Feasibility Study) of this tramway line stretch that will make up the westernmost section of the so-called “*interperiferica nord*” (northern inter-peripheral tramway). This study will be completed in 2020.
- Testi – Niguarda A&E tramway: under a new assignment by the Municipality of Milan, the feasibility study was launched (phase I of the Technical and Financial Feasibility Study) of this tramway line stretch that will make up a central section of the so-called “*interperiferica nord*” (northern inter-peripheral tramway). This study will be completed in 2020.
- Extension of M5 underground railway line to the West – direction of Magenta: under a new assignment by the Municipality of Milan, the feasibility study was launched (phase I of the Technical and Financial Feasibility Study) for the possible extension to the west of Line 5, considering various alternative modes and routes.
- Extension of M3 underground railway line to the North – direction of Comasina / Paderno Dugnano: under a new assignment by the Municipality of Milan, the feasibility study was launched (phase I of the Technical and Financial Feasibility Study) for the possible extension to the north of Line 3, considering various alternative modes and routes.
- Transport system along the Paullese route: under a new assignment by the Municipality of Milan, the feasibility study was launched (phase I of the Technical and Financial Feasibility Study) for the possible transport system to the west of the current San Donato terminus of Line 3 along the Paullese road (the so-called “*asta Paullese*”), considering various alternative modes (including Line 3 itself) and routes. This study will be completed in 2020.
- Hydraulic safeguarding of Line 2 in Milan: under a new assignment by the Municipality of Milan, a preliminary study was drawn up concerning the hydraulic repair of the Gioia / Garibaldi tunnel section and the static consolidation of the tunnel near Sant’Agostino station.



- Specialist collaboration due to vibration disturbance caused by the underground railway line: during 2018 and 2019, in various parts of Milan corresponding to the oldest stretches of M1 and M2 underground railway lines, the number of reports from citizens and building administrators regarding a vibration disturbance perceived in some buildings next to underground tunnels increased. In most cases this disturbance was new compared to the previous decades, and so the Municipality, to address the situation, decided to involve MM, as well as the operator ATM, in the Technical Committee that was specifically set up to analyse the phenomenon. MM's assignment, which was confirmed during the first few months of 2020, essentially involves specialist technical support and the taking of measurements in the field, especially in private buildings where, according to the reports received by the Technical Committee, the disturbance is worst.

As far as the **construction** stage is concerned, as from the start of 2019, following the corporate Service Order, Construction Management works regarding mobility systems, and with them the Construction Management staff that up to then was under the DSMO, were transferred into the newly-established DICM Department. Therefore, in 2019 worksite activities undertaken by the DSMO were limited to assistance and technical support to Construction Management.

#### Activities outside the Municipality of Milan

During 2019, the DSMO carried out several activities for orders outside the Municipality of Milan, including some in foreign countries:

- Genoa Underground railway – Brignole-Martinez extension: following a call for tenders for design services, won by MM in a consortium with another engineering company, in the second half of 2019 the final design for the extension in question was initiated under the tender procedure. This project, which according to the assignment should have been largely completed by the end of the year, was actually much more complex and far-reaching since, in order to meet the Principal's unexpected needs, it was above all necessary to substantially revise some choices contained in the preliminary project underpinning the assignment itself. The final design, although initiated in 2019, will therefore be completed in 2020.

- Riyadh underground railway (Saudi Arabia): the technical collaboration with a private subject involved in the realisation of the work continued, with two distinct tasks:
  - supervision of the executive design of the track equipment;
  - preparation of the RAMS study in support of the design choices and the choice of track components for the track equipment.
  
- automatic light underground railway line of Thessaloniki (Greece): the activity relating to the executive design of the track equipment the automatic light underground railway line of Thessaloniki (Greece) continued, and it will be concluded soon.
  
- Line 3 of underground railway line of Lima (Peru): in 2019 the management of the dispute - that arose for reasons not due to MM - between the Principal in Lima and the consortium of designers continued.

#### Activities in the Municipality of Naples

The activities of the Mobility Systems Department are carried out by the function “Progettazione e Costruzione Napoli” (Naples Design and Construction), based in Naples.

The current development of Line 1 of Naples’s underground railway is 18.5 Km with 19 stations, 18 of which in operation.

Notably, in 2019 the following works were carried out:

- works for the completion of the mezzanine floor of the Municipio station with the connection underpass to the marine station;
  
- construction of the Duomo station; currently trains pass through this station but do not stop, as important archaeological finds have been brought to light in recent years, resulting in a significant slowdown of works and preventing the completion of the development of Piazza N. Amore.

The updated works schedule provides for partial activation of the Duomo station before the end of 2020 and completion of the latter and of the Municipio station by 2021. The value of financed works as at 31/12/2019 amounts to some € 43 million.

The project for the extension of Line 1 to the airport of Capodichino was approved in the current configuration by the Municipality of Naples on 21 November 2012 and in November 2013 by the Interministerial Economic Planning Committee for a value of works at concession prices of € 568 million. The project envisages a development of approximately 3.3 Km with 4 stations, an underground storage facility for rolling stock and a park and drive facility located at the Capodichino station. On 27 November 2014, the first works related to the Centro Direzionale station were delivered, followed by the delivery of the works of the Capodichino, Poggioreale and Tribunale stations, with their related tunnels. Due to the delays already occurred relating to the delivery and acquisition of the areas of intervention, activation of this stretch will take place in 2022. The value of financed works as at 31/12/2019 amounts to € 342 million.

At the design level, as regards the extension to Capodichino, the executive design of the line systems was completed, and the executive design and the design of architectural details and finishes for the Centro Direzionale, Tribunale and Capodichino stations progressed or started.

Line 6 of the underground railway of Naples envisages a development of 6.4 Km and 8 stations. To date, the first functional stretch of 2.6 Km with 4 stations is in operation. Currently the Mergellina-Municipio stretch is under construction. Completion of works is expected in 2021. The value of financed works as at 31 December 2019 amounts to some € 99 million.

In 2019, net revenues from the above-mentioned work orders in Naples were in lines with 2018 figures.

Almost all work orders were substantially in line with budget forecasts.

In 2019 new work orders, acquired during the previous year, were developed, always in connection with the assignment by Concessionaria Metropolitana di Napoli:

- following the agreements between the Campania Region and the Municipality of Naples, with the consequent award to Metropolitana di Napoli of the works for the renovation of the Circumvesuviana tunnel (approximately € 50 million), in 2019 MM submitted the final design;
- following new agreements between the Campania region and the Municipality of Naples for the granting to Metropolitana di Napoli of a concession with respect to extension of the CDN-Capodichino stretch to the EAV Di Vittorio station (approximately € 40 million in works), this resulted in a consequent increase in MM's design and Construction Management activities also on this additional stretch from Line 1; the preliminary design was submitted in 2019.

#### Activities in the United Arab Emirates

Already in November 2016, MM set up a Branch in the Special Economic Zone called DWC / Dubai South in the United Arab Emirates.

The Branch activities actually began as from August 2017, the date on which the Managing Director moved permanently to the city of Dubai.

In 2017/2018, the Branch carried out mainly commercial and business development activities. However, already in 2018 it acquired three assignments relating to:

- Framework agreement for post-contractual support to Expo 2020 – Expo 2020 contracting authority
- Framework agreement for International Pavilion Support – Expo 2020 contracting authority
- DMRC – Assignment relating to the detailed design service for the structures, architecture and civil plant engineering of the viaducts, stations and depot buildings of line 6 of Mumbai (India) underground railway.

In 2018 there was no progress in the first two work orders, while the third one significantly progressed both in relation to the main contract and to two requests for contractual changes.

During 2018, also following the acquisition of the design service assignment for Mumbai underground railway, acquisition development activities started in India where the need for infrastructure is growing.

The result of these activities culminated in 2019 with the acquisition of 3 contracts relating to:

- CMRL – Assignment relating to the detailed design service for the structures, architecture and civil engineering works for the underground railway section of the metro called Corridor 4 in the City of Chennai – Tamil Nadu state (India) in March 2019
- CMRL – Assignment relating to the detailed design service for the structures, architecture and civil engineering works for the raised railway section to complete the metro called Corridor 5 in the City of Chennai – Tamil Nadu state (India) in July 2019
- MMRDA – Assignment relating to the feasibility study of the underground railway Line 14 in the City of Mumbai – Maharashtra state (India) in March 2019

## CONSTRUCTION MANAGEMENT DEPARTMENT (DICM)

In 2019, the most significant revenues of this Department were linked to the numerous activities as Sole Project Manager during Construction, Construction Management and Safety Coordination during Construction.

The engineering activities concerning the development of Milan's Line M4 and extraordinary maintenance of the public housing property, whose management has been entrusted to MM since the end of 2014, continued.

Total revenues are mainly related to the following interventions:

- Construction Management for the execution of Line M4 project in Milan;
- Regarding technical-administrative activities and engineering Services connected to Expo 2015 and Arexpo:
  - Construction Management and Safety Coordination during Construction for the activities related to the Agreement and the relevant supplementary deeds, as regards the implementation and management of the “fast-post-Expo” phase;
- Construction Management and Safety Coordination during Construction of structures and infrastructure:
  - Restructuring of municipal buildings in via Monviso 6;
  - Extension of Line M1 to Monza Bettola;
  - Completion of the extension of tramway line 15 to Rozzano;
  - Construction of elevators on Milan's canals (Navigli);
  - Interventions on the water supply and drainage systems of the stretches of water in the “Indro Montanelli” public park;

- Interventions on the water supply and drainage systems of the stretches of water in the “Parco Castello” public park;
- Restructuring of Cascina Nosedo;
- Trolleybus in Verona;
- Cosenza – Rende tramway.
- Construction Management and Safety Coordination during Construction of the Public Housing Property:
  - Extraordinary maintenance interventions in La Spezia neighbourhood;
  - Restoration of properties damaged by fire;
  - General extraordinary maintenance interventions for the redevelopment and functional renovation of waste premises in several buildings in the Municipality of Milan;
  - Interventions to ensure safety of the façades of a building of the complex in via Pastonchi 2 and demolition of the bus shelter in viale Omero;
  - Extraordinary maintenance and recovery of vacant housing units outside Milan;
  - Interventions for the conversion to methane of diesel oil thermal power stations serving Public Housing property;
  - Works for the restoration of housing units in the building complex in via Romanello 34 in Milan;
  - Extraordinary maintenance of the residential complex in via Palmanova 59, via Tarabella 4, via Cesana 3 and via Alex Visconti 10 and 12;
  - Extraordinary maintenance of the residential complexes in via Pastonchi 2 and viale Omero 15;
  - Works for the restoration of vacant housing units in the building complex in Largo Boccioni 10;
  - Redevelopment of spaces under the Metro National Operational Programme (Pon Metro);
  - Redevelopment of the housing unit in Sant’Erlembardo 2;
  - Redevelopment of the housing units in viale Faenza and via Alex Visconti 24;
- Construction Management and Safety Coordination during Construction - Environment and Territory of the Public Housing Property:
  - Cascina San Giuseppe – Lot 1 of Park Project;
  - Cascina San Giuseppe – Lot 2 of reclamation works;
  - Cascina San Giuseppe – Lot 2 of Park Project;
  - Adriano neighbourhood – environmental reclamation;
  - Reclamation and renovation of Precotto Depot Area;
  - Reclamation and renovation of Bovisa Gasometri Area;

- Reclamation and renovation of viale Toscana Area;
- Works to ensure the safety of Villa Caimi and expansion of Villa Scheibler Park;
- Reclamation of via Chiasserini Area;
- Reclamation of via Giambellino 129.
- Construction Management and Safety Coordination during Construction – Integrated Water Service – Watercourses
  - Static consolidation of Cavo Redefossi;
  - Relining of sewer systems;
  - Sewer system and waterworks in via Bardolino;
  - Sewer system and waterworks in via Ghidallo and via De Gasperi;
  - Extraordinary maintenance of Roggia Vettabbia;
  - Renovation of the Martesana canal (Naviglio Martesana) in via Melchiorre Gioia;
- Construction Management and Safety Coordination during Construction – Milano Sport:
  - Extraordinary maintenance of Carella Cantù swimming pool;
  - Extraordinary maintenance of Quarto Cagnino swimming pool;
  - Extraordinary maintenance of Arioli Venegoni swimming pool;
- Construction Management and Safety Coordination during Construction – Municipality of Milan:
  - Demolition of the primary school in via San Paolino;
  - Extraordinary maintenance of the residential complex in via Cilea;
  - Structural strengthening and completion of extraordinary maintenance in via Santi 6 and 8;
  - Extraordinary maintenance of the residential complex in via Giuffrè and via Villani;
  - Extraordinary maintenance of buildings in order to obtain the Fire Prevention Certificate and remove architectural barriers;

As regards the main work order, the Construction Management Department continued to guarantee the activities aimed at fulfilling the tasks assigned to MM S.p.A. in relation to Construction Management, under direct and functional control since June 2017, in compliance with the indications provided by the National Anti-corruption Authority, of Società Concessionaria SPV Linea M4 S.p.A., established on 16 December 2014, followed on 22 December 2014 by the signing of the Concession Agreement between the latter and the Grantor, i.e. the Municipality of Milan, for the “Design, Construction and Operation of Line 4 of Milan underground railway”.

MM S.p.A.’s Construction Management activities began in February 2012, with full entitlement following the

specific assignment granted by the Municipality of Milan in compliance with the tender specifications that initially provided for the latter's direct and functional control in its capacity as the Grantor, before the above-mentioned indications provided by the National Anti-corruption Authority.

The progress of works resulted, since February 2012, i.e. the delivery of works, but without setting a fixed term, in a growth trend of staff involved in Construction Management activities up to the point reached in 2018, that today should be considered stabilised, until the completion of works, to guarantee the performance of activities on all the city sites affected by the layout of the line, that will be approximately 15 km long and consist of 21 stations and 30 line items in addition to the San Cristoforo depot.

Due to unforeseen and unforeseeable events, completion of the works cannot take place as determined by the aforementioned Concession Agreement within the first half of 2022, or after 88 months from the signing of the agreement, but early opening of Functional Stretches is envisaged from February 2021 until the end of July 2023, therefore with an overall duration of the works of 103 months.

### *Housing*

The municipal housing property currently includes 39,129 real-estate units of which:

- 28,947 housing units (1,545 in neighbouring municipalities)
- 8,974 garages and parking spaces
- 1,298 real-estate units for Non-Residential Uses

2019 saw a consolidation of the management of public housing property. However, actions remain to be finalised aimed at improving quality of service and which will entail additional interventions on the processes and organisational structure (development of CRM, web channels, management system, etc.).

In 2019, the Housing Business Unit recorded a total of 325,800 contacts with customers, of which:

- 208,200 phone contacts on the toll-free number 800 01 31 91, available 24x7
- 19,903 appointments at branch offices

In 2014, the first two local offices opened to the public (North East Office in via Civitavecchia, North West Office in via Senigallia), with the task of managing relations with customers and manage the technical aspects



of routine maintenance. During 2015, other local offices were set up in other areas of the city: South East Office in via Spaventa, South West Office in via Forze Armate in addition to the office in piazzetta Capuana. In 2016, the office in via Borsieri opened, making for a total of six operative offices in the territory.

In 2018, the office in via Faenza and the office in via Strehler, dedicated to Non-Residential customers, also opened.

At the end of 2018, the Housing Business Unit was organised into 4 local hubs, 3 branch offices and a specialised office.

Alongside the Housing Business Unit, the specialised personnel of MM belonging to the Security Function has the task of monitoring the buildings managed in order to report the need for intervention, the risks of squatting, and the different potential dangers. The prevention of squatting is the first task to be performed by the Function, and is carried out together with the Police. The results from the beginning of the year were significant: reduction of the net balance of squatting positions from 1,722 to 788 (as at 31 December 2019) with a net reduction of 248 during the year.

| <b>Housing Business Unit</b>             | <b>31.12.2019</b> | <b>31.12.2018</b> | <b>Change</b> | <b>Change %</b> |
|--|-------------------|-------------------|---------------|-----------------|
| Revenues                                 | 13,618            | 12,985            | 633           | 5%              |
| Costs                                    | 13,834            | 10,618            | 3,216         | 30%             |
| <b>EBITDA</b>                            | <b>-215</b>       | <b>2,367</b>      | <b>-2,582</b> | <b>-109%</b>    |
| <i>% on revenues</i>                     | <i>-1.6%</i>      | <i>18.2%</i>      |               |                 |
| Amortisation/depreciation and provisions | 490               | 495               | -5            | -1%             |
| <b>Operating Profit (Loss)</b>           | <b>-705</b>       | <b>1,872</b>      | <b>-2,577</b> | <b>-138%</b>    |
| <i>% on revenues</i>                     | <i>-5.2%</i>      | <i>14.4%</i>      |               |                 |
| <b>Investments</b>                       | <b>695</b>        | <b>346</b>        | <b>349</b>    | <b>101%</b>     |

Revenues increased as a result of new activities.

Costs increased due to the gradual adjustment of the organisational structure.

These trends led to a significant decrease in operating profit (loss).

### *Plant and Real Estate Business Unit*

The Business Unit's movable property and real estate, instrumental to the management of the waste collection and disposal service, are mandatorily made available to the temporary provider of environmental hygiene services (AMSA S.p.A., until 2021) through a lease contract in exchange for payment of an annual fee.

| <b>Plant and Real Estate Business Unit</b> | <b>31.12.2019</b> | <b>31.12.2018</b> | <b>Change</b> | <b>Change %</b> |
|--|-------------------|-------------------|---------------|-----------------|
| Revenues                                   | 2,059             | 2,030             | 29            | 1.5%            |
| Costs                                      | 40                | 118               | -78           | -66%            |
| <b>EBITDA</b>                              | <b>2,020</b>      | <b>1,912</b>      | <b>108</b>    | <b>6%</b>       |
| <i>% on revenues</i>                       | <i>98.1%</i>      | <i>94.2%</i>      |               |                 |
| Amortisation/depreciation and provisio     | -1,604            | 1,897             | -3,501        | -184.53%        |
| <b>Operating Profit (Loss)</b>             | <b>3,623</b>      | <b>15</b>         | <b>3,608</b>  | <b>24055%</b>   |
| <i>% on revenues</i>                       | <i>175.9%</i>     | <i>0.7%</i>       |               |                 |
| <b>Investments</b>                         | <b>272</b>        | <b>503</b>        | <b>-231</b>   | <b>-46%</b>     |

## **Business outlook**

### Covid-19 emergency and related impacts

The Company has been involved in the emergency related to the Coronavirus pandemic that has swept across the world and hit Italy (specifically Lombardy) especially hard in the months of March and April 2020. Therefore, since as at the reporting date the Covid-19 emergency is still ongoing, estimating its overall economic and financial impact will require collecting more data and information in the future. To address this challenge, since the first stage of lockdown ordered by Italy's Government, MM immediately set up a Crisis Unit to implement appropriate procedures and measures for employees and suppliers. Then, in April, the Company set up a Covid-19 Steering Committee to assess the impact of the emergency and determine the

corrective actions required to mitigate its effects. To date, the work of the Covid-19 Steering Committee, which is still ongoing, has brought to light the following with respect to revenues and costs.

#### Estimated impacts of Covid-19 on MM's revenues

As for the Integrated Water Service Business Unit, the analysis of metering data from utility customers with smart meters (sample accounting for nearly 34% of customers in the month of March and 31% in the month of April) pointed to a -4.1% and -6.0% decline in March and April, respectively, compared to the average Annual Consumption (so-called AC) for 2020. MM expects this trend to continue, albeit to a lesser extent, into the upcoming months, considering the forecasts for the Italian economy for 2020 as well as the fact that the flow of people coming into the City of Milan every day (so-called city users) will remain subdued. The reduction mostly concerned non-residential utility customers, chief among them those classified as for “workshop/commercial use” and “other use”. Conversely, consumption by customers in condominiums held relatively steady. Therefore, there will be a decline in overall billing volumes in 2020. However, please note that the Water Tariff Method currently in force (MTI-3) includes adjustments to offset the volume effect at the end of two-year periods, in accordance with the principles of full cost recovery and tariff price-cap.

In addition, overall the Covid-19 emergency has halted construction work related to both the investments of the Integrated Water Service as well as works for which MM, through its Engineering Business Unit, acts primarily as construction manager. The reported amount of revenues arising from work on infrastructure subject to service concession arrangements of the IWS could be lower than expected at the start of the year, leading to savings in terms of funding needs and reducing the costs arising from work on infrastructure subject to service concession arrangements.

With respect to the Engineering Business Unit, as mentioned, revenues for the year 2020 could fall short of expectations as construction work has been halted, but it will be possible to make an estimate only in the upcoming months. The Company is monitoring also this aspect.

Overall, as far as the Housing Business Unit is concerned, considering the nature of the operations it oversees and the structure of the service concession arrangement, the Company believes that the Covid-19 emergency could have a limited impact. No changes in terms of revenues caused by the emergency are expected for the Plant and Real Estate Management Business Unit.

### Estimated impacts of Covid-19 on MM's costs

The impact of the Covid-19 emergency on revenues is accompanied by multiple expected impacts on MM S.p.A.'s cost structure; some items are forecast to rise for causes external to the Company's operations, while others could potentially experience a decline.

One example of incremental costs are the so-called "Covid-19 Costs", i.e. the expenses incurred by the company to address the emergency by enhancing its equipment or services. As part of the Covid-19 emergency MM has incurred, and will continue incurring, additional organisational costs to protect public health and ensure the continuity of the service, such as:

- purchases of Personal Protective Equipment (e.g. masks) and medical devices (e.g. infrared thermometers);
- chemicals and sanitation products (e.g. alcohol, bleach);
- enhanced office cleaning and sanitation services;
- urgent purchases of Laptops to allow employees to work remotely;
- purchases of training courses to implement smart working.

Some initial estimates for 2020 point to an expense totalling over € 600 thousand for this type of operations; it will be possible to more accurately measure the impact in the upcoming months, based also on how the measures included in future Decrees related to the Covid-19 emergency evolve.

There will also be an increase in costs associated with the Integrated Water Service, as it will be temporarily impossible to recycle sewage sludge at cement factories for agricultural use until the previously mentioned channel reopens. Some initial estimates point to an € 800 thousand increase in costs on an annual basis.

Conversely, the volumes of electricity consumption should be lower than expected in 2020, especially with respect to the Water System operations of the Integrated Water Service, because of the decline in the volumes of water consumption and, therefore, the water introduced into the system.

The slowdown in investing activities as part of the IWS due to the halt of construction work will cause part of the growth in depreciation charges recognised through profit or loss to be postponed from 2020 to 2021. In this regard, as in the case of the 2020-2021 water tariff, as at the reporting date the Area Office had not yet approved the proposed tariff and Action Program in accordance with MTI-3 regulations.

In addition, the Company is closely monitoring the actual trend in personnel costs relative to budget forecasts as well as the purchases of external services through the Covid-19 Steering Committee. Specifically, as for human resource management policies, the Company has undertaken significant initiatives, thanks to the mass

adoption of smart working, that involve nearly 800 employees, and it has entered into union agreements with the Works Councils concerning the use of the WSF.

## Personnel

As at 31 December 2019, MM's staff numbered 1,271 employees.

MM also employs 24 resources on temporary work contracts, 5 on internships and 7 on fixed-term cooperation contracts.

The breakdown of employees by category is as follows:

| Personnel broken down by category |            | 2017         | 2018         | 2019         |
|-----------------------------------|------------|--------------|--------------|--------------|
| Senior managers                   | no.        | 33           | 36           | 38           |
| Middle managers                   | no.        | 77           | 76           | 77           |
| Clerical workers                  | no.        | 665          | 710          | 795          |
| Apprentices                       | no.        | 7            | 7            | 5            |
| Workers                           | no.        | 342          | 335          | 356          |
| <b>Total</b>                      | <b>no.</b> | <b>1,124</b> | <b>1,164</b> | <b>1,271</b> |
| Internships                       | no.        | 3            | 6            | 5            |
| Temporary work contracts          | no.        | 16           | 14           | 24           |
| Fixed-term cooperation contracts  | no.        | 6            | 6            | 7            |
| <b>Total</b>                      | <b>no.</b> | <b>1,149</b> | <b>1,190</b> | <b>1,307</b> |

In 2019, the percentage of employees on permanent contracts was equal to 91.10%, slightly down on 2018.

MM believes in offering a stable employment contract and pays close attention to the needs of its employees: this is why it accompanies each and every worker through a professional growth path within the Company.

| Personnel broken down by contract type | 2017         |             | 2018         |             | 2019         |             |
|--|--------------|-------------|--------------|-------------|--------------|-------------|
|  | No.          | %           | No.          | %           | No.          | %           |
| Permanent contracts                    | 1,000        | 89%         | 1,064        | 91%         | 1,158        | 91%         |
| Fixed-term contracts                   | 124          | 11%         | 100          | 11%         | 113          | 9%          |
| <b>Total</b>                           | <b>1,124</b> | <b>100%</b> | <b>1,164</b> | <b>100%</b> | <b>1,271</b> | <b>100%</b> |

The employment campaign, launched some years ago by MM, continued also in 2019.

## **Relations with trade unions**

Considering its past, MM's staff can be classified under 5 different contract types: Collective Agreement (CCNL) for Employees of Owners of Buildings (for the Housing Business Unit), Collective Agreement (CCNL) for Construction and Related Industry (for the Engineering Business Unit and the Staff Departments/functions), Collective Agreement (CCNL) Federcasa (for the Housing Business Unit), Collective Agreement (CCNL) for the Gas and Water sector (for the Water Service Business Unit and the Staff Departments/functions) and Collective Agreement (CCNL) for Industry Managers (for all Managers).

Should significant organisational changes take place, MM has a system in place whereby the trade unions are informed in advance and meetings are held with the employees concerned, respecting the notice periods that vary depending on the contract type and the entity of the operative change envisaged. Following these actions, the company then proceeds with a Service Order.

## **Training**

The professional growth of its employees is a key factor for MM. Every year, the Company undertakes to guarantee a development and training path that is able to broaden the knowledge of its workers and stimulate their skills.

The training programme, with the exception of cases connected with legal obligations, is defined through a dialogue hinged on the training needs of the various Business Units. As a rule, courses delivered cover environmental matters, IT, specialised techniques and safety. To keep the level of the courses it offers high, MM monitors the degree of participant satisfaction using satisfaction questionnaires, tools that enable impressions and ideas to be gathered from employees who attended the lessons.

## **MM's attention towards employees**

MM has always paid close attention to creating a stimulating working environment that is attentive towards the needs of its employees. This is why the Company provides those working for it with numerous benefits. In addition to standard benefits, like meal vouchers, canteen badges and special arrangements with transport companies such as ATM and Trenord, MM offers all its employees a system of medical monitoring that also includes an internal medicine service and the presence of a doctor, on a rotation basis, at the Company's offices. The "women's package" is particularly important, offering women working in the company screening tests and preventive medicine, which is recognised as essential and constantly promoted by the World Health Organisation. In the cases envisaged by the law, MM also allows for advances on severance indemnity accrued.

The advance also applies to dependent family members.

As evidence of the major focus on its employees, in addition to the disbursement of benefits, MM also prepares a professional enhancement and performance assessment pathway within the company. As from 2010, this approach maps the roles within the company, making it possible to plan and organise activities in the best possible way. Performance mapping is followed by assessment. In fact, every year all employees meet with their Manager, who, in accordance with his/her superior and under the supervision of the Organisation and Human Resources Department, assesses the objectives achieved and the skills learned and developed compared to what was planned the previous year.

Since November 2015, MM's job posting service has been in operation, enabling employees to apply directly for jobs that have become available in the Company, taking part in the selection process together with external candidates.

## **Safety at work**

MM makes safety an essential part of its internal policy and thus methodically renews, updates and improves the instruments aimed at minimising the risk of incident or injury within its day-to-day work.

One of the tools used by MM to minimise risks is training, through which the Company raises its employees' awareness on the risks relating to the various duties, providing the tools necessary to avoid harmful events and improve general working conditions. Training on behavioural and legal obligations for the correct execution of operations is flanked by codes of conduct, aiming to inform staff on how to behave correctly in order to minimise the risk of injury and occupational diseases.

In 2019, 4 cases of work-related injuries were recorded, all with full recovery within 6 months, confirming the progressive reduction in the number of work-related events over the last two years (10 cases in 2018). The injury rate, defined as the rate between the number of work-related injuries and the total number of hours worked (frequency index), is 0.41. Also in 2019, in line with 2017-2018, no cases of occupational disease were recorded.

The monitoring and constant analysis of cases leading to injury enable MM to identify continuous, renewed corrective actions that are then disseminated within the company through the safety procedures. No occupational diseases on employees or former employees and mobbing causes, for which the company was declared definitely responsible, were reported.

For each operating office or Business Unit, MM uses formal health and safety committees, which represent 100% of the MM workforce.

## **Disclosure of non-financial information**

On 29 September 2014, the European Council adopted the Directive on disclosure of non-financial and diversity information, which had already been approved by the European Parliament in its plenary session on 15 April 2014. The directive was transposed into Italian law with Legislative Decree no. 254 of 30 December 2016.

The Non-Financial Statement addresses environmental issues, social and employee-related matters, respect for human rights, anti-corruption and bribery issues and is required to at least describe: the operating model, policies and results achieved, and the main risks generated or incurred.

MM has opted not to integrate the Non-Financial Statement in the report on operations, preparing a separate report instead, which you are hereby referred to.

Please note that the Non-Financial Statement, which has been approved by the Board of Directors, is available on the website [www.mmspa.eu](http://www.mmspa.eu) (in the section “Company – Financial information” and in the section “Sustainability – Sustainability Reports”).



## **Risk Management**

The Company's activities are exposed to the following risks: market risk (defined as foreign exchange risk and interest rate risk), credit risk (both in relation to normal commercial dealings with customers and financing activities), and liquidity risk (regarding the availability of financial resources and access to the credit market and the financial instruments market in general).

The objective of the Company is to maintain over time a balanced management of its financial exposure, so as to ensure that the structure of its liabilities is in balance with the composition of its assets and able to provide the necessary operating flexibility through use of liquidity generated by current operating activities and the use of bank loans.

The ability to generate liquidity from ordinary operations, together with its borrowing capacity, allow the Company to adequately fulfil its operating requirements, finance its operating working capital and investments, as well as comply with its financial obligations.

The Company's financial policy and financial risks management are steered and monitored centrally. In particular, the finance department is in charge of evaluating and approving provisional financial requirements, monitoring their performance, and, where necessary, taking the appropriate corrective actions.

The following section provides qualitative and quantitative reference information on the effect of such risks for the Company.

### **Market Risk**

#### *Foreign exchange risk*

The Company is mostly active on the Italian market and therefore it has a limited exposure to foreign exchange risk, which it incurs only with reference to i) certain trade receivables denominated in USD, ii) current bank accounts denominated in RON (Romanian Leu), iii), current bank accounts denominated in AED (United Arab Emirates Dirham) and trade receivables denominated in INR (Indian Rupee).

#### *Sensitivity analysis relating to foreign exchange risk*

For the purposes of the sensitivity analysis relating to the exchange rate, the statement of financial position items (financial assets and liabilities) denominated in a currency other than the Company's functional currency have been identified.

For the purposes of this analysis, two scenarios have been considered, respectively discounting an appreciation

and a depreciation equal to 10% of the exchange rate between the currency of the financial statement item and the functional currency.

(in thousands of Euro)

| Sensitivity analysis        | RON  |      | AED |      | Total |      |
|-----------------------------|------|------|-----|------|-------|------|
|                             | -10% | 10%  | 10% | 10%  | 10%   | 10%  |
| Year ended 31 December 2019 | 55   | (45) | 33  | (27) | 88    | (72) |

Note: it should be noted that the plus sign indicates higher profits and increased equity; the minus sign indicates lower profits and decreased equity.

### *Interest rate risk*

The Company is exposed to a risk connected to fluctuations in interest rates, since it uses several debt instruments depending on the nature of its financial requirements.

In particular, the Company normally takes out short-term loans to meet its working capital needs and medium to long-term loans to cover investments made in relation to ordinary and extraordinary operations. Financial liabilities exposing the Company to interest rate risk are mostly medium to long-term, index-linked, floating-rate loans. The interest rate to which the Company is mostly exposed is Euribor.

The financial transactions that took place in 2016 (EIB structured loan and bond loan), both at a fixed rate, further mitigate the interest rate risk.

To face these risks, the Company has entered into interest rate swap agreements with the aim of mitigating, at economically acceptable conditions, the potential incidence of changes in interest rates on profit (loss). The main characteristics of these agreements are as follows:

As at 31 December 2019

| Interest rate swaps (IRSs) | Start date | Maturity date | Par value              | Fair value             |
|----------------------------|------------|---------------|------------------------|------------------------|
|                            |            |               | (in thousands of Euro) | (in thousands of Euro) |
| Intesa Sanpaolo IRS        | 2006       | 2026          | 8,722                  | (1,493)                |
| BNP Paribas IRS            | 2009       | 2028          | 9,000                  | (2,632)                |

### Sensitivity analysis relating to interest rate risk

With regard to interest rate risk, a sensitivity analysis was carried out to determine the effect on the income statement and equity of a hypothetical positive and negative change in interest rates of 50 bps compared to the amounts actually recognised in each reporting period.

The analysis was carried out mainly with regard to the following items:

- cash and cash equivalents;
- short and medium/long-term financial liabilities, with derivative instruments connected to them, if any.

With regard to cash and cash equivalents, reference was made to the period average amount and return, while as regards short and medium/long-term financial liabilities, the impact was calculated as at the reference date. Fixed-rate financial debt was not included in this analysis.

The table below shows the results of the analysis:

| <i>(in thousands of Euro)</i> | Impact on profit, net of tax effect |         | Impact on equity, net of tax effect |         |
|-------------------------------|-------------------------------------|---------|-------------------------------------|---------|
|                               | -50 bps                             | +50 bps | -50 bps                             | +50 bps |
| Year ended 31 December 2019   | 96                                  | (96)    | 96                                  | (96)    |

Note: it should be noted that the plus sign indicates higher profits and increased equity; the minus sign indicates lower profits and decreased equity.

### *Credit Risk*

Credit risk represents the Company's exposure to the risk of potential losses arising from non-fulfilment of obligations by counterparties.

With reference to the Engineering Business Unit, almost all receivables are due from the Municipality of Milan, other public entities or their concessionaires, and this ensures the mitigation of the relevant risk. With respect to the receivables due from the Municipality of Milan, in 2019 the Company carried out an additional in-depth analysis and review of a series of receivables dating back several years. This process allowed to agree on criteria to crystallise MM's receivables due from the Municipality; specifically, in accordance with the analysed documents, only the receivables due to MM corresponding to amounts that are consistent for each individual order with the funds appropriated under the relevant approved budgets and, as for co-financed Orders, subject to the Co-financers disbursing their share, shall be considered to be existing and eligible.

This allowed to accurately assess receivables based on their risk profile.

As far as the Integrated Water Service is concerned, the Company manages credit risk through policies and procedures in order to monitor collections, issue reminders, grant payment term extensions where necessary, and implement the appropriate recovery actions.

Trade receivables of € 232 million as at 31 December 2019 (€ 232 million as at 1 January 2019) were recognised net of advances for works of € 2,114 million and accounted for net of the impairment calculated by the company's management by estimating expected losses broken down by type of debtor, i.e. private or public. The estimate of expected losses arises from historical experience differentiated by type of debtor, re-measured on the seniority of past due balances, and on any forward looking elements, which may affect recovery expectations. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 40,480,269 as at 31 December 2019.

With regard to Water Service customers, given the high level of customer fragmentation and the limits applicable to selecting customers, given the "essential" nature of resource on offer, the bad debt provision was measured by the company's management by estimating expected losses, determined on the basis of past experience with similar receivables, and by monitoring the performance of current and future economic conditions, in the reference market.

Furthermore, it should be noted that the receivables of the Water Service Business Unit are covered by guarantee deposits up to the amount of € 13,045 thousand.

### *Liquidity Risk*

The liquidity risk represents the risk that, due to the inability to raise new funds or sell assets on the market, the Company is unable to meet its payment commitments, generating an impact on the result of operations in the event that the Company is obliged to incur additional costs to meet its commitments or face a situation of insolvency. The Company's objective is to put in place a financial structure that, in line with business objectives and defined limits, guarantees an adequate level of liquidity thanks to the expected tariff increases, by minimising the related opportunity cost, and is balanced in terms of debt maturity and breakdown.

Still with respect to liquidity risk, the appropriate assessments allowing to exclude that cash and bank deposits could determine potential impairment losses have been carried out, including on the basis of information provided by financial counterparties, also taking into account the possibility of immediate divestment of term deposits.

The table below provides an analysis of cash flows expected in the years to come in relation to financial liabilities as at 31 December 2019:

| <i>(in thousands of Euro)</i> | Balance as at 31 December 2019 | Expected outflows |                   |              |         |
|-------------------------------|--------------------------------|-------------------|-------------------|--------------|---------|
|                               |                                | Within 1 year     | From 1 to 5 years | Over 5 years | Total   |
| Financial liabilities         | 259,684                        | 71,589            | 14,006            | 174,089      | 259,684 |
| Trade payables                | 162,512                        | 162,512           | 0                 | 0            | 162,512 |
| Other liabilities             | 67,024                         | 52,168            | 3,731             | 11,125       | 67,024  |

All the indicated flows are undiscounted nominal future cash flows, determined based on residual contractual due dates, both for the capital as well as the interest portion.

Loans were included based on their contractual repayment date. Flows from financial liabilities include those relating to existing IRSs.

### *Risks arising from the Coronavirus epidemic and corrective action by management*

Potential risks arising from the Covid-19 epidemic

The current health emergency caused by the outbreak of Covid-19 gives rise to potential risks for the company. First, there is a potential operational risk: as the current scenario negatively affects the company's ordinary operations, MM must effectively address the disruptions to and/or changes in its business, such as those arising from the suspension of construction work as a result of the measures taken to contain the virus at the national and regional level, or potential delays in the supply chain and changes in business volumes.

In addition, considering the essential nature of the service – specifically, but not exclusively, with respect to the Integrated Water Service business line – the risks associated with the health and safety of employees and customers play a significant role, and therefore require ensuring that the risks associated with the performance of essential operations are contained. Failing to manage such risks effectively could harm the company's reputation, thus giving rise to a potential reputational risk.

As for price risk, Covid-19 could have a limited impact, as the Company operates under in-house providing arrangements whereby the revenues associated with its services are determined in advance (e.g. Housing Business Unit fee, Plant and Real Estate Management Business Unit fee), are based on conventionally defined

criteria (e.g. Service Contract with the Municipality of Milan, as in the case of the Engineering Business Unit), or are calculated using algorithms defined by national and local regulations (e.g. Tariff Method for the Integrated Water Service). With respect to the IWS, a potential slowdown in investments could result in a lower tariff in the future but also reduce the Company's funding needs.

The negative impact of the epidemic on society and the economy gives rise also to a potential liquidity risk. In the case of MM, such risk is limited, because: with respect to the Integrated Water Service, the Company has already implemented a long-term funding strategy that involves issuing a fixed-rate Bond and entering into a fixed-rate loan agreement with the EIB, essentially covering its current needs; as for the remaining lines of business, most current receivables are due from the Municipality of Milan or other public-sector entities, and payment terms should not be affected by the Covid-19 emergency; in addition, these lines of business require limited investments, and therefore have modest medium/long-term funding needs.

As for the risk of late payments associated with the Integrated Water Service, the Covid-19 emergency could lead to extended bill payment periods, especially for the customers most severely affected by the economic downturn, and a higher unpaid ratio. However, as the Covid-19 emergency broke out in March and April 2020, it is too early to give estimates on its effects, as the due dates of the first bills relating to this period are still too recent to assess the consequences of the emergency. That said, late payments warrant close attention in terms of liquidity risk and potential changes in cash flows, as do – with respect to the Engineering Business Unit – the impacts of a slowdown in services performed on behalf of the Municipality of Milan and other customers as a result of the Covid-19 emergency, and the ensuing decline in revenues associated with them.

As for the receivables due from customers, MM handles late payments concerning the Water Service and Housing business lines.

The continuation of the epidemic and the emergence of potential risks associated with it could result in a potential negative impact on the company's financial position and performance. In order to achieve its business objectives, MM has mounted a timely and effective response to the emergency since the outset, taking several measures to mitigate risks.

Main risk mitigation measures implemented by MM for the management of the Covid-19 emergency.

MM's management has promptly implemented a series of actions to effectively address the Coronavirus emergency by adopting extraordinary measures to:

- ensure the health and safety of its employees;

- make new or enhanced work tools available to employees (smart working);
- provide comprehensive and timely updates on the situation;
- ensure the continuity of the services rendered to customers, including by shifting to remote work.

On 21 February 2020, the Company set up a Crisis Unit (comprised of the Head of Organisation and Human Resources, his Assistant, the Head of Internal Communication, the Head of the Prevention and Protection Service, and the Occupational Physician), which involved and coordinated the relevant corporate structures according to the situation at hand. The actions implemented by the Unit were approved by the Managing Director and reported to the Board of Directors and the Municipality of Milan; in addition, the Company opened an ongoing discussion with Works Councils and Workers' Safety Representatives.

It provided constant updates to employees and customers on the decisions made by the Government, the competent Authorities, and the Company through a series of actions:

- it sent any Official Documents issued to all employees via email, translated them into operational instructions and rules of conduct, and published a comprehensive set of documents on the corporate intranet;
- it posted the instructions related to the orders issued by the Italian Ministry of Health inside all offices as well as the Public Housing complexes it manages;
- it showed informational videos about prevention on screens inside MM's main offices;
- it circulated instructions on how to strengthen the environmental sanitation plan and vehicle sanitation inside all offices;
- it encouraged the use of online help desks.

All offices were provided with materials to sanitise environments and individuals; in addition, employees, external partners, and customers were given personal hygiene materials as well as personal protective equipment (masks and gloves for the departments).

It enhanced access control at MM's locations, requiring to fill out a specific form; it first limited, and then banned, trips and attendance at courses/conferences. It sent a certified email to all suppliers to ensure compliance with executive orders for their employees.

It immediately activated a direct channel employees can use to contact the Head of the Prevention and Protection Service and the Occupational Physician.

Starting from 27 February 2020, it launched a massive smart working campaign: following an initial meeting with the Heads of the different departments, it surveyed roles and resources and developed a qualitative and quantitative plan of the operations that can be performed remotely. It entered into 777 individual smart working agreements and prepared an emergency plan to provide employees with the required IT tools.

In the wake of the “*Cura Italia*” (Cure Italy) Decree, MM worked together with each Department Head to further enhance the plan to have employees use their accrued leave; it explained how to apply for the additional measures introduced by the Decree (parental leave, leave as per law 104) and launched an analysis together with trade unions for the creation of the Wage Subsidy Fund (WSF).

In addition, the company activated an insurance policy for all employees in the event they are hospitalised with Covid-19.

Following the Italian Prime Minister’s Decree dated 11 March 2020, the Chairman and the Managing Director announced their decision to shut down operations. The Company developed a plan to guarantee essential public services under extreme circumstances, implemented the plan for the organisation of the essential public services it operates, and issued a Company Protocol on the handling of the Covid-19 emergency.

Considering that the Coronavirus epidemic is still ongoing, in order to guarantee its economic and financial performance, MM continued developing an action plan to support its performance under a coordinated approach by setting up a Covid-19 Steering Committee with the goal of:

- monitoring the evolution of the relevant legal and regulatory framework;
  - assessing the performance of MM’s business operations;
  - identifying the problems arising in each business area;
  - defining a corrective and improvement action plan and coordinating its implementation by the Company’s structures;
  - assessing progress on the plan and analysing the impact of the initiatives introduced;
  - tracking the actions taken by MM to address the emergency.
1. The Steering Committee is chaired by the Managing Director and comprised of the Head of the Water Service Business Unit, the Head of the Engineering Business Unit, the Head of the Housing Business Unit, the Head of Organisation and Human Resources, the Head of Administration, Finance, and Control, the Head of Development and Innovation, the Head of Contracts and Procurement, and the Head of Strategy, Investor Relations and Regulation.
  2. In addition, MM is working on an extraordinary remote training plan for all employees as well as a Return-to-Work Plan, and finalising the agreements with trade unions for the WSF.



3. As part of its efforts to chart a course for gradually resuming normal business operations (so-called phase 2), and in order to oversee and coordinate a detailed operational plan, the Company has set up a Covid-19/PHASE 2 Steering Committee - chaired by the Managing Director, coordinated by the Head of Organisation and Human Resources, and comprised of the Head of the Water Service Business Unit, the Head of the Engineering Business Unit, the Head of the Housing Business Unit, the Head of the Prevention and Protection Service, and Occupational Physicians - with the goal of:
- mapping those operations that can continue being performed in whole or in part remotely;
  - defining the gradual return of employees to the company's physical locations;
  - establishing and coordinating the return of employees to work in terms of frequency, logistics, maximum number of employees present at the same time, and gatherings of people;
  - defining and verifying the implementation of all measures necessary to allow authorised employees to access offices/worksites;
  - defining and implementing a testing plan (antibody tests), setting priorities and timelines;
  - defining and promoting practices to be adopted at offices/worksites;
  - arranging for the distribution of the required personal protective equipment;
  - providing comprehensive and timely updates on the situation.

## **Corporate Governance Report**

### **Information on the ownership structure**

The share capital amounts to € 36,996,233, and it's made up of 36,996,233 shares with a par value of € 1 each, fully subscribed and paid up, held by the Municipality of Milan.

All shares carry the same rights.

### **Board of Directors**

The company is managed by a Board of Directors composed of three or five members, including the Chairman, who are appointed by the Shareholders pursuant to Article 2449 of the Italian Civil Code.

The Board members shall remain in office for a period of three years or less, as established upon appointment, and they can be re-elected. Their office expires on the date of the Shareholders' Meeting called to approve the financial statements for their last year in office.

Pursuant to the corporate purpose, the Board of Directors is responsible for managing the company, except for those powers which are reserved to the Shareholders' Meeting pursuant to the law or the Articles of Association.

The Board of Directors ensures transposition and implementation of guidelines, instructions and policy documents issued by the Municipality of Milan.

Moreover, the Board ensures the attainment of management and/or operating objectives assigned upon appointment of the Directors.

The Chairman of the Board of Directors legally represents the Company before third parties and in court. He has the power to promote judicial and administrative proceedings, in any degree of jurisdiction and before any court, including with respect to supreme court and revocation proceedings, appointing lawyers and proxies.

He may also appoint proxies for specific deeds or categories of deeds.

### **Chairman**

In its meeting on 12 July 2019, the Board of Directors resolved:

1. to grant upon the Chairman, in addition to what is provided by the Articles of Association, the powers and authorities listed below:
  - to manage the external and institutional relations of the company, taking the relevant decisions and stipulating the bilateral contracts required for implementation thereof, up to the amount of € 150,000.00 (one hundred fifty thousand/00) for each individual contract and within the limits of the expense budget

- approved by the Board of Directors. These powers also include decisions regarding the membership of the company in organisations, associations or entities of a scientific, technical, research nature in fields that are of interest to the company, involving an expense not to exceed € 100,000.00 (one hundred thousand/00) per individual membership, within the limits of the expense budgets approved by the Board of Directors and provided that this does not involve acquisition of equity investments in the joined entity;
- to represent the company in shareholders' meetings of MM S.p.A. investees, associations, entities and organisations that are not joint stock companies of which the investee is a member, with a power to issue the appropriate powers of attorney.

For the exercise of the powers and authorities indicated above, the Chairman shall avail himself of the human resources operating in the designated organisational units, which report directly to him.

### **Managing Director**

In its meeting of 7 July 2010, the Company's Ordinary Shareholders' Meeting identified and appointed the Managing Director, who is entrusted with the following functions:

- to manage and coordinate the activities of the functions that report to him, ensuring implementation of Corporate Bodies' guidelines, instructions, decisions and resolutions;
- to submit proposals to the Chairman for definition of corporate objectives and programmes of activities as well as organisational changes of the functions that report to him;
- to prepare and submit to the Chairman, together with the Administrative, Financial and Human Resources Departments, financial plans, the management plan and financial statements;
- to ensure that the preliminary documentation under his responsibility is prepared for Corporate Bodies' resolutions;
- to sign deeds that do not bind the Company contractually, which are part of the normal correspondence with third parties and also sign all deeds consequent to the execution of the powers delegated to him by the Board of Directors.

By resolution of 17 October 2018 and subsequent resolution of 12 July 2019, the Board of Directors conferred upon the Managing Director the powers and authorities listed below:

1. to define and stipulate, with all the appropriate clauses, to manage and terminate procurement contracts, in any case relating to the corporate purpose, up to the total amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract, ensuring that all legal obligations are fulfilled;
2. to perform, in compliance with the guidelines set out, the entire procedural process aimed at awarding procurement contracts resolved upon by Corporate Bodies, from the preparation of tender documents,

- up to the award and stipulation of the relevant contracts, issuing and signing all the necessary and/or appropriate deeds and declarations and in compliance with the legal obligations, informing the Board of Directors about the results of the tender procedures;
3. to manage procurement contracts resolved upon by the Corporate Bodies, ensuring that all legal obligations are fulfilled;
  4. to authorise amendments and changes in procurement contracts up to the total amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract, without prejudice to compliance with the limits established by current legislation;
  6. as part of the management of procurement contracts, to conclude transactions, also through approval of friendly agreements, up to the amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract;
  6. to issue the declaration of admissibility of the Technical-Administrative Test Certificates and the Certificates of Regular Execution or Verification of Conformity relating to procurement contracts, without limits of amount, thereafter ensuring settlement and liquidation thereof;
  7. to authorise and revoke subcontracts;
  8. to issue work execution certificates pursuant to the applicable laws for the works and services carried out;
  9. to adopt all measures and sign all deeds relating to the procedures for the permanent and/or temporary acquisition of areas, movable property and real estate, both above and under ground, including, by way of example and without limitation, the expropriation, temporary and emergency occupation procedures provided for by current legislation, aimed at the construction of public works and the management of public services, also in the name of and on behalf of the entities that entrusted the company with the relevant services, including all preliminary and preparatory measures and deeds, as well as subsequent and related deeds and measures aimed at completing the acquisition procedure, none excluded or excepted, exercising all related and consequent powers; all without limitation with respect to the value of the assets subject to the aforementioned procedures. In order to finalise the above-mentioned procedures, to sign expropriation orders, deeds relating to voluntary disposal, temporary occupancy, easement and any other type of deed, all of which up to the amount of € 250,000.00 (two hundred and fifty thousand/00) for each individual deed;
  10. to hire personnel within the context of the guidelines and annual expense budget approved by the Board of Directors; to define, stipulate, amend and terminate, including through a settlement agreement, all

- individual permanent and/or fixed-term and/or other employment contracts in the forms allowed by the applicable laws, setting the conditions therein in compliance with collective labour agreements and with the discipline as allowed by the law; to apply disciplinary measures and terminate employment contracts;
11. to define, stipulate and sign, within the context of the guidelines approved by the Board of Directors, the Trade Union Agreements for personnel of any level, in compliance with the annual expense budget approved by the Board of Directors;
  12. to settle labour disputes, in or out of court, for amounts up to € 250,000.00 (two hundred and fifty thousand/00) for each individual transaction, and to pursue any other action in the interests of the company;
  13. to handle relations with all Authorities, Entities and Institutions regarding labour issues, with the Trade Unions, Insurance and Welfare Entities in order to fulfil all obligations required by the applicable labour laws and regulations;
  14. to define and stipulate, with all the appropriate clauses, to amend and terminate, with power to settle any dispute regarding bilateral contracts of any type, in any case relating to the corporate purpose, except for the purchase and/or sale of real estate and leases that exceed nine years, up to the amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract. The total amount of these contracts must fall within the limits of the expense budget approved by the Board of Directors;
  15. to handle bilateral contracts of any type other than procurement contracts resolved upon by the Corporate Bodies, authorising amendment and changes thereto up to the total amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract, ensuring that all legal requirements are complied with;
  16. to define and stipulate, with all the appropriate clauses, to amend and terminate, with the power to settle any disputes that may arise in relation thereto, legal, administrative, fiscal and tax consultancy contracts, in any case relating to the corporate purpose, up to the amount of € 250,000.00 (two million five hundred thousand/00) for each individual contract, within the limits of the expense budget approved by the Board of Directors; the powers relating to the granting of specialised professional assignments continue to be governed as per Article 14 above;
  17. to settle, in or out of court, disputes concerning non-contractual civil liability, pursuant to and for the purposes of Article 2043 of the Italian Civil Code, which may derive from the performance of the Company's business activities, for amounts up to € 250,000.00 (two hundred and fifty thousand/00) for each individual transaction, and to pursue any other action in the interests of the company;

18. to submit bids for participation in national tenders, including negotiated procedures and public procedures in general, for taking on assignments related to the performance of activities included in the corporate purpose, both individually and as a member of temporary associations of companies, consortia, joint ventures and/or other entities without legal personality, signing all the necessary and/or appropriate deeds and documents and issuing the relevant declarations and guarantees required by current legislation, informing the Board of Directors about the participation in and results of the tender procedures;
19. to establish, modify and terminate, with all the appropriate clauses, Temporary Association of Companies, Joint Ventures, associations in general and other entities without legal personality, for the purpose of participating in financed projects and tenders for carrying out activities included in the corporate purpose, in compliance with applicable laws, with the power to grant or obtain collective mandates with representation and to settle any related dispute defining, as most appropriate, the agreements with associated or grouped companies;
20. all powers conferred upon the Managing Director for the management of the Company also apply, within the same scope and value limits, to the management of foreign branches;
21. as part of the financial policy approved by the Board of Directors, to open current accounts with Credit Institutions, Factoring Companies and Postal Offices, to negotiate and define in the best manner each related condition and contractual clause including the opening of long and/or medium-term financial and endorsement credit lines, also intended for the factoring of receivables due to the company by third parties, and to take any action relating to such relationships, signing all documents required for conclusion thereof;
22. to make deposits or withdrawals on the company's current accounts held at Credit Institutions and Postal Offices, to issue and/or request the issue of bank cheques and banker's drafts, to endorse and collect bank cheques and banker's drafts. The aforementioned power shall be exercised jointly with the Head of Administration, Finance and Control or, in the event of absence (also short-term) or momentary impediment thereof, with the Head of the Legal and Contracts Department;
23. to call for payments, collect amounts, mandates, Treasury notes, money orders, cheques, credit instruments of any type and guarantee deposits from the issuing institution, Cassa Depositi e Prestiti, the Treasury of the Republic of Italy, the Regions, Provinces and Municipalities, the Postal Offices and any Public Office or private subject in general and to release the paying parties from liability, issuing the necessary receipts and proof of payment;

24. to file requests for admission in insolvency proceedings, acceptance of arrangements and to issue third-party declarations in enforcement proceedings;
25. to make guarantee deposits in cash, securities or through bank or insurance sureties;
26. in relation to the ordinary management of the Company, to sign disciplinary measures, agreements and any other act which is required and/or useful for securing concessions, assignments, permits and authorisations in general;
27. in relation to the ordinary management of the Company, to fulfil the obligations towards any Entity and/or Public or State Authority, both central and Regional, Local and Autonomous Authorities, Associations, Welfare, Social Security and Insurance Funds and Institutions, Ministries, Prefectures, Chambers of Commerce and all Public Registers, as well as the Optimal Territorial Area offices (ATOs), the Italian Regulatory Authority for Electricity, Gas and Water, the National Anti-corruption Authority and the Health Protection Agencies, submitting appeals and requests and producing documents and declarations;
28. in relation to the ordinary management of the Company and with regard to the notices of ascertainment of administrative offences notified to the Company and/or its employees for violations committed in the exercise of their functions, to submit briefs and documents for defence and to authorise payment of pecuniary administrative sanctions levied by the Health Protection Agencies, Environmental Protection Agencies, other Agencies, Local Authorities and/or Court Authorities, up to an amount of € 25,000.00 for each individual sanction;
29. in relation to the ordinary management of the Company, to fulfil all obligations towards any Tax or Customs Office, both State and Local, also abroad, taking all necessary actions with respect to taxes, duties and contributions, to contest registrations and inspections, to issue declarations relating to direct or indirect taxes, certifications, forms and questionnaires, to file requests, questionings, appeals and claims, briefs and documents with any Tax Office or Commission, to collect refunds and interests from the Tax Authorities, issuing receipts on behalf of the Company;
30. to fulfil all obligations towards the Postal Administration and the railway, sea, air and land transport companies, with the power to issue any document and request, to sign correspondence, take delivery of letters, envelopes and/or packages from any Postal Office and any other public office, even if they should be registered and/or insured, collect refunds relative to any transport and take delivery of goods addressed to the company from railway transport companies and any other carrier and/or courier, issuing the relevant disclaimers;

31. to sign and take delivery of documents, including bank documents relating to import and export transactions, placing validations and signatures on invoices, circulation certificates and requests and declarations required for the aforementioned transactions;
32. within the scope of the powers conferred above, to grant company executives and employees the powers required to perform the functions and duties assigned to them: to revoke, amend, integrate the powers of attorney and the powers granted;
33. within the limits of the thresholds and delegated powers, to have the power to place creditors in formal default, take legal action, defend or intervene in civil or administrative proceedings, in precautionary proceedings and tax notices (including opposition proceedings), in enforcement procedures (including opposition to enforcement and enforceable acts), in eviction proceedings due to overdue payments or the end of a lease and in insolvency proceedings (including proceedings to declare bankruptcy and proceedings opposing the declaration of bankruptcy), to apply for injunctions and to adhere to any civil mediation, appointing to this end lawyers and attorneys.

Every quarter, the Managing Director shall report to the Board of Directors on the activities performed in the exercise of the powers and delegations as conferred above, and he shall also report on operations in general, on the predictable evolution with respect to the budget and the main transactions carried out, particularly with regard to the following areas:

- procurement contracts,
- personnel and trade union agreements,
- acquisition of areas, movable property and real estate for the realisation of public works and the management of public services,
- bilateral contracts,
- participation in tenders and the relevant outcomes,
- temporary associations of companies and entities without legal personality,
- new current accounts and credit lines.

### **Board of Statutory Auditors**

The Board of Statutory Auditors consists of the Chairman, two standing Auditors and two alternate Auditors appointed by the Shareholders among the individuals listed in the roll of statutory auditors, pursuant to article 2449 of the Italian Civil Code.

The Statutory Auditors remain in office for three financial years and their office expires on the date of the Shareholders' Meeting called to approve the financial statements for their last year in office, and they can be



re-elected; the Shareholders' Meeting defines their remuneration according to the criteria set by law.

The Board of Statutory Auditors is assigned the task of monitoring compliance with the law, the Articles of Association and the principles of correct administration, and, more specifically, of monitoring the suitability of the organisational, administrative and accounting structure used by the company and its practical functioning;

### **Shareholders' Meetings**

Shareholders' Meetings are ordinary and extraordinary pursuant to the law.

A regularly constituted Shareholders' Meeting represents all shareholders, and the resolutions passed in compliance with the Law and the Articles of Association are binding upon all Shareholders, even if not present in the meeting or dissenting.

The Shareholders' Meeting is convened at the company's registered office or in another location, provided it is in Italy.

Shareholders who have lodged their shares at the registered office or the banks indicated in the notice of call at least three days prior to the date set for the meeting are entitled to attend the Shareholders' Meeting.

Each share entitles the holder to one vote.

Every Shareholder who is entitled to attend the Shareholders' Meeting may be represented, pursuant to a written power of attorney, by another person that is not a Director, Statutory Auditor or Employee of the Company, without prejudice to the other prohibitions and exclusions pursuant to article 2372 of the Italian Civil Code.

It is incumbent upon the Chairman of the Shareholders' Meeting to ascertain the validity of the powers of attorney the right to attend the Shareholders' Meeting.

The ordinary and/or extraordinary Shareholders' Meeting may be held with attendees being in multiple, adjacent or remote, locations that are linked by audio and/or video systems, provided that the plenary method and the principles of good faith and equal treatment of all Shareholders are observed.

Without prejudice to the matters under the competence of Shareholders pursuant to article 2449 of the Italian Civil Code, the Shareholders' Meeting shall deliberate on the issues attributed to it by the law pursuant to article 2364 of the Italian Civil Code, in case of an ordinary meeting, and to article 2365 of the Italian Civil Code, in case of an extraordinary meeting, as well as to any other applicable legal provisions and the Articles of Association.

### **Internal control and risk management system**

The Internal Control System consists of rules, procedures and organisational structures aimed at:

- ensuring that corporate strategies are complied with;
- achieving effectiveness and efficiency of corporate processes;
- safeguarding the value of assets;
- ensuring reliability and integrity of accounting and operating information;
- ensuring compliance of operations with all existing legislation.

MM has set up its own Internal Control System (ICS) based on the classic method which provides for articulation of control along three layers, according to a pyramid structure.



The **first layer of control** identifies, evaluates, manages and monitors the risks it oversees in relation to which it identifies and implements specific treatment.

The **second layer of control** aims at ensuring the correct implementation of the risk management process, compliance with the operating limits set for the various functions and compliance of company operations with regulations, including self-regulation. The functions in charge of these controls are Risk Management and the Compliance Function.

The latter, in particular, aims at preventing and managing the risk of non-compliance with regulations and at monitoring the occurrence of conflicts of interest.

Risk Management aims at improving the process of enterprise risks identification, the relevant controls and management methods.

The **third layer of control** provides independent and unprejudiced assurance as regards adequacy and actual operation of the first and second layers of control and, in general, on MM's Internal Control and Risk Management System (SCIGR) overall.

The responsibility for this layer of control is entrusted to the Internal Audit function which assesses the completeness, functionality and adequacy of systems and procedures.

The control system also includes:

The **Supervisory Body**, with regard to the Organisational, Management and Control Model, is responsible for constantly monitoring its compliance by all recipients, the actual effectiveness in preventing the commission of offences, the implementation of the provisions contained therein and, eventually, its updating, in the event that the Model needs to be adapted due to changes in the corporate organisation or the reference regulatory framework.

Currently, the Supervisory Body consists of three members who are external to the company and meet the requirements of Legislative Decree 231/2001.

The **Board of Statutory Auditors**, whose duty is to monitor, by means of inspections and audits, compliance with the law, the Articles of Association and principles of good administration.

**Corruption Prevention and Transparency Officer** whose duty is to monitor compliance with measures suitable to prevent corruption and unlawfulness within MM. In particular, this Officer develops a three-year plan for the prevention of corruption and proposes to the Board of Directors updates thereto following regulatory and/or organisational amendments, verifies implementation and appropriateness thereof, appoints contact persons for the prevention of corruption and ensures that disclosure obligations as required by transparency regulations are complied with.

In January 2020, the Board of Directors approved the exclusion of MM from the scope of "transparency and anti-corruption" by virtue of the achievement of the status of company issuing financial instruments following the issue of the bond. As a result, the assignment to the Head of Corruption Prevention and Transparency has been revoked and the obligation to have a Three-Year Plan for the prevention of corruption and transparency has also disappeared.

At the same time, the Board of Directors approved the appointment of an Anti-corruption Referent (RAC) and took steps to equip itself with what is necessary for the operation of this figure.

**Ethics Committee**, composed of the Board of Directors' pro-tempore Chairmen, the Supervisory Body, the Board of Statutory Auditors and the Managing Director. In coordination with the Supervisory Body, the Committee promotes dissemination of the Code of Ethics to employees, associates and, in general, all third parties that come into contact with the company. It is in charge of assessing cases of Code of Ethics violations and examines potential conflicts of interests that it is informed of.

Finally, it receives reports pursuant to Law 179 of 30 November 2017 and, following a preliminary analysis

regarding the validity thereof, forwards them to the Supervisory Body or the Corruption Prevention and Transparency Officer, depending on whether the issues refer to Law 231/2001 or Law 190/2012.

**Internal Audit**, a top management unit that reports directly to the Chairman of the Board of Directors and is in charge of ensuring that auditing activities are carried out based on the work plan in order to contribute to improving the processes, with particular attention paid to the relevant control mechanisms in order to ensure effectiveness and efficiency.

**Independent Auditors**, whose duty is to verify regular keeping of accounting records and that management events are correctly reported in the accounts, as well as ensuring compliance of the financial statements with the standards regulating their preparation and representation, in this regard expressing an opinion both on the financial statements and on the consistency of the Report on Operations with the Financial Statements and compliance of the Report on Operations with the law;

#### **Enterprise Risk Management (ERM) model**

MM has adopted a process for the identification of enterprise risks, the relevant controls and management methods; it was entrusted to the risk manager, appointed in October 2018 and identified in the person of the Head of Administration, Finance and Control Department, with the aim of making the management of enterprise risks an integral and systematic part of management processes. The main tasks of the risk manager are: defining with the company's top management risk management objectives and activities relevant to the company by structuring a dedicated plan based on defined principles; identifying the risks that may impact the company and the achievement of defined targets and prioritise them in order of severity; defining, in collaboration with the impacted organisational structures, actions, tools and methods useful for the elimination, mitigation, transfer of risks and operational monitoring of risk management activities; collaborating in defining audit and compliance plans relating to the control of risk mitigation activities.

Starting in 2018, the Risk Manager, with the support of Insurance Services and Management Control, initiated a risk assessment process aimed at identifying the business areas with a higher risk profile and mapping the related risks divided into four types (strategic, economic, compliance and operational) and control procedures. This process arises from the risk assessment activities undertaken by MM in 2017, but it aims to obtain integrated management of risks and controls both in terms of methodology and cross-cutting nature of processes, disseminating a broader culture on the issue and a common and uniform means of expression. The

methodology used is that defined in the ISO 31000 Guidelines adopted by the ANRA Association (Insurance Heads and Risk Managers), which are the basis of the risk assessments envisaged by the ISO standards. In this first stage of the process, it was arranged to reassess the metrics used to assess risks, attributing a risk priority number (RPN), calculated as the residual risk in terms of impact and probability compared to the existing mitigating actions. Subsequently, the mapping of risks was integrated by analysing the existing controls and the related mitigating actions already in place and still to be developed.

The verification and updating of the risk map is a periodic activity with a view to continuous improvement and is realised in stages:

- Context analysis (definition and analysis of the internal and external context, identification of the assessment criteria, process analysis, identification of roles and responsibilities);
- Risk assessment (identification, analysis and weighting of risks, through meetings with Business Units and departments heads);
- Means of handling risks (annulment, mitigation, insurance transfer, etc.);
- Reporting and monitoring of risks (communication, re-examination and shared information flows).

In March 2019, the ERM (Enterprise Risk Management) model and the first version of the risk map were shared with MM's Board of Directors.

During the year, meetings were held with the Internal Audit and Compliance functions and the risk map was expanded on the basis of the feedback from various risk owners regarding the updating of the existing mitigating actions for each risk and the adoption of further controls.

The results of the review process were shared with MM's new Board of Directors in July 2019 and with the Supervisory Board.

A new review of future mitigation actions with all risk owners is planned for 2020, in order to verify the progress of the risk management process and to identify the priority actions to be implemented, also on the basis of the expected cost-benefit analysis. In addition, it is planned to issue a Risk Management procedure, the first draft of which was drawn up in 2019.

## **The main elements comprising MM's Internal Control System**

### **The Code of Ethics**

The Code of Ethics is the set of values, principles and lines of conduct that all collaborators, employees and

those who act in the name or on behalf of MM are required to comply with.

The Code of Ethics sets as its objectives correctness and economic efficiency in relations within the Company (e.g. directors, management, employees, etc.) and outside the Company (e.g. companies, customers, market, etc.), in order to promote unique guidelines of conduct as well as economic benefits generated by the positive corporate reputation.

The Code of Ethics is a guideline in economic, financial, social and interpersonal relations, with a special attention to issues of conflicts of interest, relations with competitors, relations with customers, with suppliers, with the Public Administration and with the Supervisory Authorities or in any case Authorities with powers of inspection and control. It also defines the ethical and moral standards of MM, indicating the lines of conduct that must be followed by all recipients.

The Code of Ethics is published on MM's website and in the dedicated section of the company's intranet.

The Ethics Committee has been established in 2017 in order to monitor correct application of the Code of Ethics and to provide, where necessary, for the periodic review thereof. It is composed of the Board of Directors' pro-tempore Chairmen, the Supervisory Body, the Board of Statutory Auditors and the Managing Director. In coordination with the Supervisory Body, the Committee is in charge of promoting the dissemination of the Code of Ethics to employees, associates and third parties that come into contact with the company, and of assessing violations of the Code of Ethics in relation to potential conflicts of interest brought to its attention. The Ethics Committee, in collaboration with the Supervisory Body, is also responsible for updating and monitoring the Code of Ethics and of what is envisaged therein.

The Code of Ethics was updated and approved by the Board of Directors in its meeting of 3 May 2017 and has been published in the "Transparent Administration" section of MM's web site.

## **The Organisational, Management and Control Model**

The Organisation, Management and Control Model of MM (MOGC) is the document that defines and formalises the rules, principles, instruments and control mechanisms adopted by MM to prevent the commission of the offences envisaged by Italian Legislative Decree 231/2001. It consists of a General Part and a Special Part; the first includes an examination of the regulations contained in Italian Legislative Decree 231/2001 and constitutes the guidelines that describe the process of adoption of the Model by MM. It describes the company's organisational system, the types of offences relevant to the Company, the system of penalties

for violations, the operation of the Supervisory Body, the obligations to disclose the Model and the training activities for the personnel.

The Special Part includes, pursuant to Italian Legislative Decree 231/2001, the general principles of conduct and prevention, sensitive activities and activities at risk of offence and the measures for controlling and mitigating offences.

Compliance with the Model, its effectiveness, implementation of the provisions contained therein and updating are the responsibility of the Supervisory Body that, in MM, is made up of three external members endowed with autonomy, independence and professionalism. All amendments/updates to the Model are approved by the Board of Directors. It was last updated on 22 January 2018, with respect to the General Part, and on 17 April 2019 with respect to the Special Part.

The MOGC is published in the “Transparency” section of MM’s institutional website, on the company’s intranet, and is brought to the attention of employees through periodic training sessions (4 classroom sessions were held in 2019 - 26 February, 5 March, 9 April, 2 October - and involved 271 employees from sensitive areas).

### **The Three-Year Corruption Prevention and Transparency Plan (“TYCPTP”)**

The TYCPTP is intended to prevent abuse of power aimed at obtaining personal advantages, that is to prevent all activities that are at risk of corruption, up to the concept of maladministration, intended as power misuse or distortion in administrative activities for the private benefit of an employee in the exercise of his or her functions.

Insofar as “identifying activities at risk of corruption” is concerned, the processing and compilation of the TYCPTP was pursued based on assessment of the Company’s internal processes aimed at identifying and preventing the possibility of the occurrence of a corruptive event and the extent of consequent damages for the company.

The TYCPTP defines specific measures for the prevention of corruption.

The main measure for the prevention of corruption is “transparency”. In this respect, the TYCPTP establishes, in accordance with the provisions of the law, in a specific and autonomous corporate process, the publication of the data required by regulations.

The Three-Year Corruption Prevention and Transparency Plan is applicable for three years but it is updated annually.

The 2019-2021 TYCPTP was approved by the Board of Directors in its meeting of 30 January 2019.

The Plan is published every year in the “Transparency” section of MM’s institutional web site before 31 January of each year.

In January 2020, the Board of Directors approved the exclusion of MM from the scope of "transparency and anti-corruption" by virtue of the achievement of the status of company issuing financial instruments following the issue of the bond. As a result, the assignment to the Head of Corruption Prevention and Transparency has been revoked and the obligation to have a Three-Year Plan for the prevention of corruption and transparency has also disappeared.

At the same time, the Board of Directors approved the appointment of an Anti-corruption Referent (RAC) and took steps to equip itself with what is necessary for the operation of this figure.

## **Procedures**

To guarantee the integrity, transparency, correctness and effectiveness of its processes, MM adopts specific procedures and operating instructions for the performance of corporate activities, ensuring compliance with the general principles of traceability and segregation.

Indeed, MM is aware of the importance of full observance of the system of internal rules by its corporate bodies, the management and all employees.

In addition to compliance with the procedures, the roles and responsibilities attributed within the company are clearly outlined, through the system of delegations and the exercise of powers.

In relation to the risk management and internal control system as part of the financial reporting process, the company adopted administrative and accounting procedures, operating practices and an administrative organisation based on the principle of segregation of duties in such a way as to guarantee reliability, accuracy and integrity in the process of preparing the financial statements.

## **Information flows to top management**

In order to monitor the performance of the various corporate structures with the end goal of achieving the strategic objectives, top management receives from level I structures specific reports on their own activities and on the activities of their executive lines.

Furthermore, it receives:

- from the Compliance Function, the “*Compliance Plan*”, the “*Half-yearly and annual reports on the activities carried out*” and the “*Compliance Reports*”;



- from the Data Protection Officer (DPO - pursuant to European Regulation 679/2016) the “*Privacy Reports*” and the “*Half-yearly and annual reports*” on privacy.
- from the Internal Audit Function, the inspection plan for its approval, the audit reports and the annual report of the activity carried out.
- from the Risk Manager, the mapping of enterprise risks and related mitigation activities.

Finally, the SB reports to the Board of Directors and the Board of Statutory Auditors on relevant facts of its office or any urgent critical issues of the Model that emerged during its supervisory activities. Every six months it presents a written report that illustrates a summary of the activities carried out, any discrepancies found in the Model, new offences, the check of reports if received, a statement of expenses incurred and any changes in the reference regulatory framework.

### **Information flows to the Supervisory Body**

The Supervisory Body receives reporting from first-level structures in order to monitor the risk areas under Italian Legislative Decree 231/2001.

Moreover, the second-level structure - Compliance Function - sends the “*Compliance Plan*”, the “*Half-yearly and annual reports on the activities carried out*” and the “*Compliance Reports*”.

The Data Protection Officer sends the “*Privacy Reports*” and the “*Half-yearly and annual reports*” on privacy.

The Internal Audit function sends the inspection plan, the audit reports and the annual report on the activity carried out.

The Risk Management sends the mapping of enterprise risks and related mitigation activities.

### **Assessment of the risk of a business crisis**

The assessment of the risk of a business crisis cannot disregard the specificities related to the different regulatory contexts and contractual types on which the activities carried out are based.

The Engineering Business Unit operates in a context of House Providing, the Integrated Water Service operates in a regulated sector whose tariff is determined on the basis of the principle of full cost recovery, the Housing Business Unit operates under a multi-year and exclusive contract.

MM adopted planning and budgeting tools that do not depend on these specificities and that allow it to monitor the performance of the various businesses and the prevention of crises and insolvencies prospectively.

MM systematically prepares the Business Plan, which shows the sustainability of the debt, the going concern basis, the determination of the financial requirements and the resources available to cover them with any corrective actions.

For monitoring the financial aspects and short-term cash flows, MM uses a Budget with an annual time horizon and a system for reporting the Net Financial Position on a quarterly basis.

It should also be considered that within the ERM model described above, MM, by adopting a Risk Assessment and Reporting process, aims to make the management of enterprise risks an integral and systematic part of management processes.

MM believes that, in order to create and protect the value of an organisation, it is essential to manage risks in a structured manner and based on well-defined principles.

Specifically, the ERM model maps and, above all, defines the actions to mitigate the various enterprise risks and, in particular, with regard to the risk of a business crisis, all the so-called strategic risks are dealt with.

Moreover, from a more operational point of view, economic and financial figures are monitored on a quarterly basis both at company level and at the level of individual departments.

In particular, for each quarter and for each business unit, the main results in terms of REVENUES, EBITDA, EBIT and variances compared to the budget, as well as the trend of the Water Service's net financial position and investments, are analysed.

In addition to measuring the aforementioned figures for the various company business units, this system collects information and data of an operational nature which, together with the former data, allow top management to implement corrective and preventive actions to eliminate and/or mitigate phenomena that could result in particularly critical situations. Specifically, for each quarter and business unit, the main operational indicators are analysed (for example: revenues accrued in relation to the individual engineering work, cubic meters of water released into the distribution network, electricity consumption, the quantity of wastewater treated in treatment plants, etc.).

Furthermore, the bond loan issued by the company on 23 December 2016 and the EIB loan, signed on 18 November 2016, require that MM comply with specific financial covenants, calculated as the ratios between

variables of an income and equity nature, aimed at monitoring the company's financial and economic sustainability.

Every year, these parameters - taken from MM's financial statements certified by the Independent Auditors - are checked and dispatched to financial counterparties.

These financial covenants are the following:

- Net Financial Position/EBITDA  $\leq 4.5$ : this index measures the sustainability of the company's debt based on the gross cash flow from operations. Indeed, if there are changes in working capital, EBITDA provides an indicative summary measure of the operating cash flows from ordinary operations that could therefore be used for the financial commitments undertaken
- Net Financial Position/Fixed Assets  $\leq 70\%$ : it expresses the ratio of asset financing and net financial indebtedness
- EBITDA/Finance Costs  $\geq 4.5$ : it measures EBITDA capacity to cover finance costs

A further aspect concerning the assessment of the risk of a business crisis is monitored within MM through relations with rating agencies that are periodically called upon to make their considerations regarding their rating of MM issued in 2016. In particular, these agencies, which in the case of our Company are two of the major worldwide rating agencies (Standard & Poor's and Moody's), meet periodically with management for presentation of the corporate data and analysis of the net financial position.

In this regard, it should be noted that in 2019 Standard & Poor's confirmed its BBB rating of MM on 13 August 2019 and the outlook was kept negative in line with that of the Municipality of Milan; on 13 January 2020 Moody's confirmed its Baa3 rating of MM with a stable outlook.

With reference to the monitoring and verification of the risk of a business crisis for 2019, reference should be made to the other sections of the report on operations and, in particular, to the chapter "Summary of operations and economic and financial performance".

## Environment

During the year, the company was not declared guilty for any damage to the environment; nor were final sanctions or penalties imposed for environmental offences or damages.

## Secondary offices

Pursuant to paragraph 4 of article 2428 of the Italian Civil Code, it is hereby specified that the company has established 28 secondary offices throughout the territory of the city of Milan.

## Relations with the controlling body and subsidiaries, associated companies and affiliated companies

### Relations with the Municipality of Milan

With reference to the provisions of Article 5 of Italian Legislative Decree 50/2016 b) regarding the percentage of the activities carried out on behalf of the Municipality of Milan, we provide below the revenues broken down between amounts from the Municipality of Milan and those from third parties.

| <b>Breakdown of 2019 revenues</b> | <b>Municipality</b> | <b>Third parties</b> | <b>Total</b> |
|-----------------------------------|---------------------|----------------------|--------------|
| <i>(thousand of Euro)</i>         | 171,059             | 9,979                | 181,038      |
|                                   | 94.5%               | 5.5%                 | 100.0%       |

It is hereby specified that in the above-indicated revenues from the Municipality of Milan, compared to what is shown in the table below, amounts representing management of services assigned by the Municipality are included, even if they refer to entities other than the Municipality itself.

During the year, the following direct relations were maintained with the Municipality of Milan:

### STATEMENT OF FINANCIAL POSITION

#### **Trade Receivables**

|   |                    |
|---|--------------------|
| Receivables from the parent company for works, net of advances  | 27,752,763         |
| Receivables for invoices issued                                 | 39,783,204         |
| Receivables for invoices to be issued for services and supplies | 42,142,854         |
| <b>Total trade receivables</b>                                  | <b>109,678,821</b> |

#### **Trade Payables**

|  |                   |
|--|-------------------|
| Invoices to be received for services and lease/rental fees | 20,931,162        |
| Other trade payables                                       | 26,805,286        |
| <b>Total trade payables</b>                                | <b>47,736,448</b> |

#### **Other current liabilities**

|          |           |
|----------|-----------|
| Advances | 4,141,598 |
|----------|-----------|

### INCOME STATEMENT

#### **Revenues from sales and services**

|  |                   |
|--|-------------------|
| Engineering services   | 16,931,263        |
| Revenues from the Housing BU - fees relating to property and facility management | 13,147,948        |
| Other revenues - supplies and services   | 10,188,631        |
| <b>Total revenues</b>  | <b>40,267,842</b> |

|                           |                  |
|---------------------------|------------------|
| <b>Costs for services</b> | <b>3,118,050</b> |
|---------------------------|------------------|

### **Relations with subsidiaries of the Municipality of Milan**

The relations with the subsidiaries of the Municipality of Milan mainly concern:

- engineering services in favour of Expo 2015 S.p.A., Milanosport S.p.A., Arexpo S.p.A. and AMAT S.r.l.;
- costs for the removal of interference of transport lines with Engineering and/or Integrated Water Service sector works, charged by ATM S.p.A. and companies of the A2A group;
- supply of water services to all the subsidiaries of the Municipality of Milan;
- provision of services for waste disposal from the A2A Group.

### **Allocation of the profit for the year**

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 4,009,670, as follows:

- € 4,009,670 to the extraordinary reserve; considering that the portion of the net profit for the year attributable to the Housing Business Unit amounts to a negative € 784,796, because of, among other things, € 1,098,354 in IT operating costs borne by the Housing Business Unit, we propose drawing down € 1,098,354 from the Optional Reserve consisting of the portion of retained earnings attributable to the Housing Business Unit.

We thank you for the trust you place in us and invite you to approve the financial statements submitted.

*For the Board of Directors  
The Chairman*

**MM S.P.A.**

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO, 8

Paid-up share capital Euro 36,996,233

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

**Financial statements as at 31/12/2019****STATEMENT OF FINANCIAL POSITION**

| <b>ASSETS</b>  | <b>Notes</b> | <b>31/12/2019</b>  | <b>31/12/2018</b>  |
|--|--------------|--------------------|--------------------|
| <b>ASSETS</b>  |              |                    |                    |
| <i>NON-CURRENT ASSETS</i>  |              |                    |                    |
| Property, plant and equipment  | 1.1          | 68,108,935         | 65,172,161         |
| Rights over the infrastructure relating to service concession arrangements | 1.2          | 278,385,278        | 238,331,555        |
| Other intangible assets  | 1.3          | 6,959,404          | 3,687,206          |
| Deferred tax assets  | 1.4          | 26,463,149         | 18,102,020         |
| Other non-current assets   | 1.5          | 1,246,257          | 1,384,641          |
| Total non-current assets   |              | 381,163,024        | 326,677,583        |
| <i>CURRENT ASSETS</i>  |              |                    |                    |
| Inventories  | 1.6          | 2,959,581          | 2,187,209          |
| Trade receivables  | 1.7          | 232,288,794        | 232,178,390        |
| Cash and cash equivalents  | 1.8          | 88,752,892         | 116,676,484        |
| Other current assets   | 1.9          | 15,224,803         | 11,625,443         |
| Total current assets   |              | 339,226,069        | 362,667,526        |
| <b>TOTAL ASSETS</b>  |              | <b>720,389,092</b> | <b>689,345,109</b> |

## STATEMENT OF FINANCIAL POSITION

| LIABILITIES                         | Notes | 31/12/2019         | 31/12/2018         |
|-------------------------------------|-------|--------------------|--------------------|
| <b>EQUITY AND LIABILITIES</b>       |       |                    |                    |
| <i>EQUITY</i>                       |       |                    |                    |
| Share capital                       |       | 36,996,233         | 36,996,233         |
| Reserves                            |       | 176,717,449        | 145,583,926        |
| Net profit (loss)                   |       | 4,009,670          | 30,835,681         |
| Total equity                        | 1.10  | 217,723,352        | 213,415,840        |
| <i>NON-CURRENT LIABILITIES</i>      |       |                    |                    |
| Non-current financial liabilities   | 1.11  | 190,219,133        | 190,611,971        |
| Provisions for risks and charges    | 1.12  | 5,013,262          | 2,544,366          |
| Employee benefits                   | 1.13  | 8,432,285          | 8,430,881          |
| Other non-current liabilities       | 1.14  | 37,736,875         | 34,059,729         |
| Total non-current liabilities       |       | 241,401,555        | 235,646,947        |
| <i>CURRENT LIABILITIES</i>          |       |                    |                    |
| Current financial liabilities       | 1.11  | 69,465,143         | 52,863,807         |
| Current tax liabilities             | 1.15  | 0                  | 4,081,241          |
| Trade payables                      | 1.16  | 162,512,305        | 155,418,792        |
| Other current liabilities           | 1.17  | 29,286,736         | 27,918,482         |
| Total current liabilities           |       | 261,264,184        | 240,282,322        |
| <b>TOTAL LIABILITIES</b>            |       | <b>502,665,739</b> | <b>475,929,269</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b> |       | <b>720,389,092</b> | <b>689,345,109</b> |



**STATEMENT OF COMPREHENSIVE INCOME**

|   | Notes | 31/12/2019         | 31/12/2018         |
|---|-------|--------------------|--------------------|
| <b>REVENUES</b>   |       | <b>273,661,212</b> | <b>259,282,159</b> |
| Revenues  | 2.1   | 181,037,505        | 183,591,145        |
| Revenues arising from work on infrastructure subject to service concession arrangements | 2.2   | 64,934,599         | 51,404,254         |
| Other revenues and income   | 2.3   | 27,689,108         | 24,286,760         |
| <b>OPERATING COSTS</b>  |       | <b>260,108,620</b> | <b>205,952,399</b> |
| Costs for raw materials, consumables and goods for resale                               | 2.4   | 7,702,913          | 4,727,212          |
| Other operating costs   | 2.5   | 1,593,915          | 2,598,639          |
| Costs for services  | 2.6   | 80,475,101         | 76,209,188         |
| Costs arising from work on infrastructure subject to service concession arrangements    | 2.7   | 62,857,575         | 49,021,134         |
| Personnel costs   | 2.8   | 65,662,162         | 57,886,619         |
| Amortisation/depreciation, impairment and other provisions                              | 2.9   | 41,731,681         | 15,488,793         |
| Losses for the sale of fixed assets   | 2.10  | 85,273             | 20,814             |
| <b>OPERATING PROFIT (LOSS)</b>  |       | <b>13,552,591</b>  | <b>53,329,760</b>  |
| Finance income  | 2.11  | 985,473            | 547,859            |
| Finance costs   | 2.11  | 7,824,201          | 9,304,816          |
| <b>NET FINANCE INCOME AND COSTS</b>   |       | <b>-6,838,728</b>  | <b>-8,756,957</b>  |
| <b>PROFIT (LOSS) BEFORE TAX</b>   |       | <b>6,713,864</b>   | <b>44,572,803</b>  |
| Taxes   | 2.12  | 2,704,194          | 13,737,122         |
| <b>NET PROFIT (LOSS) FOR THE YEAR (A)</b>   |       | <b>4,009,670</b>   | <b>30,835,681</b>  |
| <b>Other items of comprehensive income not to be reclassified to profit or loss</b>     |       |                    |                    |
| Actuarial gains/(losses) on employee benefits   |       | (187,146)          | 90,163             |
| Tax effect related to actuarial gains/(losses) on employee benefits                     |       | 42,366             | (25,096)           |
| <b>Other items of comprehensive income to be reclassified to profit or loss</b>         |       |                    |                    |
| Change in the fair value of cash flow hedges  |       | 582,402            | 3,165,844          |
| Tax effect on the change in the fair value of cash flow hedges                          |       | (139,776)          | (759,802)          |
| <b>Total other items of comprehensive income, net of tax effect (B)</b>                 |       | <b>297,846</b>     | <b>2,471,109</b>   |
| <b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR (A)+(B)</b>                           |       | <b>4,307,516</b>   | <b>33,306,790</b>  |

**CASH FLOW STATEMENT**

| <i>(in Euro)</i>   | <b>2019</b>         | <b>2018</b>         |
|--|---------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>  |                     |                     |
| Profit (loss) before tax   | 6,713,864           | 44,572,803          |
| <i>Adjustments for</i>   |                     |                     |
| Depreciation/amortisation of fixed assets  | 17,106,202          | 13,045,837          |
| Allocations to bad debt provision  | 21,286,646          | 2,000,000           |
| Allocations to provision for risks and charges   | 3,338,832           | 325,851             |
| Allocations to provision for write-down of inventories                                     | 61,211              | (5,669)             |
| Net finance costs  | 6,838,728           | 8,756,957           |
| Other non-cash items   | (315,352)           | 10,109,491          |
| <b><i>Cash flows from operating activities prior to changes in net working capital</i></b> | <b>55,030,131</b>   | <b>78,805,270</b>   |
| Cash flow generated/(absorbed) by changes in net working capital                           | 956,912             | 4,760,236           |
| Taxes paid   | (19,656,892)        | (9,238,732)         |
| Net finance costs paid   | (5,231,356)         | (8,405,784)         |
| Use of provisions  | (884,528)           | (2,346,145)         |
| <b>Cash flow generated/(absorbed) by operating activities (A)</b>                          | <b>30,214,268</b>   | <b>63,574,844</b>   |
| <b>INVESTING ACTIVITIES</b>  |                     |                     |
| Net investments in fixed assets  | (71,614,974)        | (55,286,236)        |
| <b>Cash flow generated/(absorbed) by investing activities (B)</b>                          | <b>(71,614,974)</b> | <b>(55,286,236)</b> |
| <b>FINANCING ACTIVITIES</b>  |                     |                     |
| Taking-out of medium/long-term loans   | -                   | 70,000,000          |
| Repayment of medium/long-term loans  | (2,072,185)         | (35,785,051)        |
| Changes in equity  | -                   | -                   |
| Other changes in financial liabilities   | 15,549,299          | (16,742,570)        |
| <b>Cash flow generated/(absorbed) by financing activities (C)</b>                          | <b>13,477,114</b>   | <b>17,472,379</b>   |
| <b>Increase/(decrease) in cash and cash equivalents (A)+B +(C)</b>                         | <b>(27,923,593)</b> | <b>25,760,987</b>   |
| Cash and cash equivalents at the beginning of the year                                     | 116,676,484         | 90,915,497          |
| Cash and cash equivalents at the end of the year   | 88,752,891          | 116,676,484         |

## STATEMENT OF CHANGES IN EQUITY

| <i>(In Euro)</i>   | Share capital     | Cash flow hedge reserve | Other reserves     | Net profit (loss) | Total equity       |
|--|-------------------|-------------------------|--------------------|-------------------|--------------------|
| <b>As at 1 January 2018</b>                                      | <b>23,150,576</b> | <b>(5,983,006)</b>      | <b>136,795,317</b> | <b>23,834,593</b> | <b>177,797,480</b> |
| Effect resulting from the application of IFRS 9                  | -                 | -                       | (340,613)          | -                 | (340,613)          |
| Effect resulting from the application of IFRS 15                 | -                 | -                       | (11,193,474)       | -                 | (11,193,474)       |
| <b>As at 1 January 2018 restated</b>                             | <b>23,150,576</b> | <b>(5,983,006)</b>      | <b>125,261,230</b> | <b>23,834,593</b> | <b>166,263,393</b> |
| Transfer of real estate  | 13,845,657        | -                       | -                  | -                 | 13,845,657         |
| Change in the fair value of cash flow hedges, net of tax effect  | -                 | 2,406,041               | -                  | -                 | 2,406,041          |
| Allocation of profit (loss)                                      | -                 | -                       | 23,834,593         | (23,834,593)      | -                  |
| Net profit (loss)  | -                 | -                       | -                  | 30,835,681        | 30,835,681         |
| Actuarial gains/(losses) on employee benefits, net of tax effect | -                 | -                       | 65,067             | -                 | 65,067             |
| <b>As at 31 December 2018</b>                                    | <b>36,996,233</b> | <b>(3,576,965)</b>      | <b>149,160,890</b> | <b>30,835,681</b> | <b>213,415,839</b> |

| <i>(In Euro)</i>   | Share capital     | Cash flow hedge reserve | Other reserves     | Net profit (loss) | Total equity       |
|--|-------------------|-------------------------|--------------------|-------------------|--------------------|
| <b>As at 1 January 2019</b>                                      | <b>36,996,233</b> | <b>(3,576,965)</b>      | <b>149,160,890</b> | <b>30,835,681</b> | <b>213,415,839</b> |
| Change in the fair value of cash flow hedges, net of tax effect  | -                 | 442,625                 | -                  | -                 | 442,625            |
| Allocation of profit (loss)                                      | -                 | -                       | 30,835,681         | (30,835,681)      | -                  |
| Net profit (loss)  | -                 | -                       | -                  | 4,009,670         | 4,009,670          |
| Actuarial gains/(losses) on employee benefits, net of tax effect | -                 | -                       | (144,782)          | -                 | (144,782)          |
| <b>As at 31 December 2019</b>                                    | <b>36,996,233</b> | <b>(3,134,340)</b>      | <b>179,851,789</b> | <b>4,009,670</b>  | <b>217,723,352</b> |

*For the Board of Directors  
The Chairman*

## **MM S.P.A.**

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO, 8

Paid-up share capital Euro 36,996,233

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

## **Notes to the Financial Statements as at 31/12/2019**

### **Company's structure and activities**

**MM S.P.A.** (hereinafter “MM” or the “Company”) is a company incorporated and domiciled in Italy, with registered office in VIA DEL VECCHIO POLITECNICO 8, MILAN. It is organised according to the legal system of the Republic of Italy.

The sole shareholder of the Company is the Municipality of Milan.

The company manages the Integrated Water Service (hereinafter “IWS”) of the city of Milan, pursuant to the concession granted on 28 November 2007 by the Optimal Territorial Area Authority (ATO – Autorità d’Ambito Territoriale Ottimale) of the City of Milan, currently defined as Optimal Territorial Area Management Entity (EGATO - Ente di Governo dell’Ambito Territoriale Ottimale) of the metropolitan city, as a result of an amendment made on 28 September 2015, the concession will expire in 2037.

The company is also active in the engineering services sector and provides property and facility management services for the Municipality of Milan.

### **Approval of the Financial Statements**

The draft financial statements for the year ended 31/12/2019 were approved by the Board of Directors on 12 June 2020.

The audit was performed by PricewaterhouseCoopers S.p.A. pursuant to the Shareholders’ Meeting resolution of 20 May 2016, which assigned the auditing mandate to the aforementioned company for the three-year period from 2016 to 2018, subsequently extended for an additional six years following the finalisation of the bond issue.

## **Statement of compliance with IFRSs**

These financial statements were prepared by applying the International Financial Reporting Standards (hereinafter IFRSs or IASs) issued by the International Accounting Standards Board (IASB) and the relevant interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) as endorsed by the European Union.

These financial statements are compared with those of the previous year and consist of the statement of the financial position, income statement, statement of cash flows, statement of changes in equity, statement of comprehensive income and these notes. They are also accompanied by the Directors' report on operations.

## **Accounting standards and financial statements**

These financial statements as at 31/12/2019 were prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, pursuant to the text published in the Official Journal of the European Union (OJEU).

### **Financial statements adopted**

The Company's statement of financial position includes a breakdown of current and non-current assets and liabilities, while the income statement includes cost items broken down by nature.

In the statement of cash flows, cash flows from operating activities are recognised based on the indirect method: the result for the year is adjusted for the effects of non-monetary transactions, any deferral or allocation of previous or future collections or operating payments, as well as any revenue or cost item connected to cash flows from investing or financing activities.

Moreover, the financial statements as at 31/12/2019 were prepared in compliance with the provisions adopted by Consob in relation to financial statements.

The valuation criteria are those used for the preparation of last year's financial statements.

## Measurement bases

### General principles

These financial statements have been prepared on a going concern basis, since it is reasonable to expect that the Company's operations will continue in the foreseeable future and in any case over a period equal but not limited to twelve months after the end of the reporting period.

The presentation currency for the financial statements is the Euro. The balances are shown in units of Euro. The notes to the financial statements are expressed in units of Euro unless otherwise indicated.

### Property, plant and equipment

Property plant and equipment are measured at cost and recognised at their acquisition or production cost including directly attributable costs required in order for these assets to be ready for use. Cost includes the financial expense directly attributable to the acquisition, construction or production of the asset. Furthermore, it includes any estimated dismantling or removing cost incurred pursuant to contractual obligations that require the asset to be restored to its original condition.

Expense incurred for maintenance and repairs of an ordinary and/or cyclical nature are directly recognised in profit or loss at the time they are incurred. Capitalisation of costs for expansion, upgrading or improvement of tangible assets owned or used by third parties, takes place exclusively to the extent that they comply with the requirements for separate classification as assets or parts of an asset based on the “component approach”.

Property, plant and machinery are depreciated annually on a straight-line basis based on depreciation rates determined in relation to their remaining useful life. The depreciation rates for the various categories of property plant and equipment are provided in the table below:

| <b>Engineering/Housing</b>  | <b>Depreciation rates</b> |
|---|---------------------------|
| Directly used buildings relating to the company's business activities | 3%                        |
| Plants relating to buildings  | 15%                       |
| Furniture and fixtures  | 12%                       |
| Telephone systems   | 25%                       |
| Computers   | 20%                       |
| Cars  | 25%                       |

| <b>Integrated Water Service</b>                                       | <b>Depreciation rates</b> |
|---|---------------------------|
| Directly used buildings relating to the company's business activities | 3%                        |
| Lightweight constructions   | 10%                       |
| Furniture and fixtures  | 12%                       |
| Telephone systems   | 25%                       |
| Computers   | 20%                       |
| Cars  | 25%                       |
| Transport vehicles  | 20%                       |

| <b>Plant and Property</b>   | <b>Depreciation rates</b> |
|---|---------------------------|
| Directly used buildings relating to the company's business activities | 3%                        |
| Lightweight constructions   | 10%                       |
| Specific plants for waste treatment                                   | 10%                       |
| Waste containers  | 15% - 20%                 |
| Equipment   | 20%                       |

Depreciation begins when the asset is available for use at the actual time this condition is fulfilled.

### **Leased assets**

As from 1 January 2019, tangible assets subject to lease contracts are recognised as right-of-use assets, as established by IFRS 16, with a corresponding financial liability.

“Right-of-use” assets refer to assets held under lease contracts, which convey the right to control the use of an identified asset for a period of time; they are recognised as assets of the Company and measured at fair value at the date the contract is entered into or, if lower, at the present value of the minimum lease payments due, including any amount to be paid to exercise the purchase option. The corresponding liability to the lessor is recognised in the financial statements as a financial payable.

The cost of lease payments is broken down into its components of finance cost, recognised in profit or loss over the term of the contract, and repayment of the principal, recognised as a reduction of the financial liability.

The relevant assets are depreciated by applying the previously indicated criteria and rates, except if the lease is shorter than the useful life said rates refer to and there is no reasonable certainty that the ownership of the leased asset will be transferred upon expiration of the contract. In this case, the depreciation period is the same as the lease term. The lease term shall be determined as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

In assessing whether the Company is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, it shall consider all relevant facts and circumstances that create an economic incentive for the Company to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Company shall revise the lease term if there is a change in the non-cancellable period of a lease. At the commencement date of the lease, the Company shall recognise the right-of-use asset and the relevant lease liability.

At the commencement date of the lease, the right-of-use asset shall be measured at cost. The cost of the right-of-use asset shall comprise:

- a) the amount of the initial measurement of the lease liability;
- b) any lease payments made at or before the commencement date, less any lease incentives received;
- c) direct additional costs;
- d) the estimated dismantling or restoration costs.



At the commencement date of the lease, the Company shall measure the lease liability at the present value of the lease payments that are not paid at that date. Lease payments shall comprise the following amounts:

- a) fixed payments, less any lease incentives receivable;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- c) amounts expected to be payable by the Company under residual value guarantees;
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that is not possible, the Company shall use its incremental borrowing rate, i.e. the incremental rate of interest that the Company would have to pay to obtain a loan of the same amount over the same term as the lease.

After initial recognition, the right-of-use asset shall be measured at cost:

- a) less any accumulated depreciation and any accumulated impairment losses; and
- b) adjusted for any remeasurement of the lease liability.

After initial recognition, the lease liability shall be measured by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made; and
- c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Please note that the Company uses two exemptions under IFRS 16 with respect to short-term leases (i.e. leases that have a lease term of 12 months or less from the commencement date) and leases of low-value assets (i.e. when the value of the underlying asset when new is approximately less than USD 5,000). In these cases, the Company shall not recognise the right-of-use asset and the relevant lease liability, and lease payments shall be recognised through profit or loss.

If there are specific indicators of the risk that the carrying amount of items of property, plant and equipment may not be recoverable, these shall be tested for impairment, as described below in the specific paragraph.

Items of property, plant and equipment shall be derecognised following their disposal; any gain or loss (calculated as the difference between fair value, less costs to sell, and the carrying amount) shall be recognised through profit or loss in the year of their disposal.

### **Intangible assets**

Intangible assets consist of non-monetary items that are identifiable and without physical substance, which can be controlled and are able to generate future economic benefits. These items are initially recognised at their acquisition and/or production cost, including any directly attributable expense required to prepare the asset for use.

Any interest expense accrued during or for the development of intangible assets is considered to be part of the acquisition cost. In particular, the Company has identified the following main intangible assets:

#### *Rights over the infrastructure relating to service concession arrangements*

The “Rights over the infrastructure relating to service concession arrangements” refer to the right of the Company to use the Integrated Water Service (the so-called intangible asset method) in consideration of the costs incurred for the design and construction of the asset with the obligation to return it upon expiration of the concession.

The value corresponds to the fair value of the design and construction activities plus capitalised finance costs, pursuant to the requirements of IAS 23, during the construction phase.

The fair value of the construction services of the Integrated Water Service is calculated on the basis of the costs actually incurred plus a 3.20% markup, which represents the best estimate regarding the remuneration of internal costs for construction management and design activities, carried out by the Company, which is equal to the markup that would have been applied by a general third-party constructor to carry out the same operations, as provided for by IFRIC 12. The markup is recalculated on an annual basis and the impact on the value of the investments indicated above refers to 2019.

The fair value is measured based on the fact that the operator must comply with provisions of paragraph 67 of IFRS 15. Therefore, if the fair value of the services received (in this case, the right to use the asset) cannot be determined reliably, the revenue is calculated based on the fair value of the construction services provided.

Construction services under way at the end of the reporting period are measured based on the work in progress pursuant to IFRS 15 and recognised under the income statement item “Revenues arising from work on infrastructure subject to service concession arrangements”. Assets granted under concession arrangements are

depreciated throughout the duration of the concession, as it is assumed that the future economic benefits of the asset will be used by the operator. The amount to be depreciated consists of the difference between the acquisition value of the assets provided under the concession arrangement and their residual value which is expected to be realized at the end of their useful life, according to the regulatory provisions currently in force. If any events indicating an impairment of these intangible assets occur, the difference between the carrying amount of and the recoverable value is recognised in profit and loss. If the useful life of the assets provided under the concession agreement is less than the duration of the concession, pursuant to IFRIC 12, the expenses incurred for the restoration or replacement are not capitalised, but recognised in the estimated provision for restoration of assets held under service concession arrangements.

### *Software and other intangible assets*

Software and other intangible assets are recognised at cost, as described previously, net of accumulated amortisation and any impairment. Amortisation begins when the asset becomes available for use and it is recognised systematically in relation to its estimated remaining useful life. The useful life of software estimated by the Company is 3 years.

### **Impairment of property, plant and equipment and intangible assets**

At the end of each reporting period, property, plant and equipment and intangible assets are tested for impairment. To this end, both internal as well as external sources of information are taken under consideration. With regard to the former (internal sources), the following items are considered: obsolescence or physical damage, any significant change in the use of the asset and the performance of the asset compared to expectations. As for external sources, the following items are considered: performance of market prices, any technological, market or regulatory changes, the trend of interest rates or the cost of the capital used to assess the investments. Goodwill and other intangible assets with an indefinite useful life are not subject to amortisation, but they are tested for impairment whenever specific events indicate that impairment may have taken place.

If such indications exist, the recoverable value of these assets is estimated, with any impairment compared to the carrying amount recognised in profit and loss. The recoverable value of an asset is the higher of the fair value, net of any relevant selling expenses, and its value in use, i.e. the current value of the estimated future cash flows. In order to determine the value in use, the estimated future cash flows are discounted using a discount rate gross of taxes which reflects current market valuations of the time value of money, in relation to

the investment period and the asset specific risks. For an asset that does not generate sufficiently independent cash flows, the recoverable value is determined in relation to the cash generating unit to which the asset belongs.

Impairment is recognised in profit or loss if the carrying amount of the asset, or of the relevant CGU to which it has been allocated, is higher than its recoverable value. Impairment of the CGUs initially reduces the carrying amount of any goodwill attributed and, thereafter, of assets, in proportion to their carrying amounts and up to their recoverable value. If the reasons for the impairment previously made no longer apply, the carrying amount of the asset is written back and recognised in profit and loss up to the net carrying amount that the asset would have had if the impairment had not occurred and the relevant amortisation/depreciation had been carried out.

### **Equity investments**

Equity investments in subsidiaries, jointly controlled entities, associated companies and other companies which are not classified as held for sale, are measured at their acquisition cost, decreased for impairment as appropriate and converted into Euro at historical interest rates if referring to equity investments in foreign companies whose financial statements are compiled in a currency other than the Euro.

If the reasons for impairment no longer apply, the cost is written back in subsequent financial years.

The write-downs and write-back are recognised in profit and loss.

### **Trade receivables and Other assets**

Depending on the instrument characteristics and the business model adopted for the management thereof, trade receivables and other financial assets are classified into the following three categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value through other comprehensive income (OCI); (iii) financial assets measured at fair value through profit or loss.

Trade receivables and other financial assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method.

Trade receivables and other financial assets are included in current assets, except for those which are contractually due later than twelve months from the end of the reporting period, which are classified as non-current assets.

Trade receivables are tested for impairment using an impairment model based on expected credit losses (ECL). The estimate of expected credit losses arises from historical experience differentiated by type of debtor, re-measured on the seniority of past due balances, and on any forward looking elements, which may affect

recovery expectations.

The amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of the future cash flows expected to be derived from the asset, and it is recognised in profit or loss. If the reasons for these impairments are found not to be applicable in subsequent years, the impairment loss on the assets will be reversed up to the value that would have resulted from application of the amortised cost.

Financial assets consisting of debt instruments whose business model envisages both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposal (the so-called “hold to collect and sell” business model), are measured at fair value through OCI (hereinafter also FVTOCI).

A financial asset that is not measured at amortised cost or at FVTOCI is measured at fair value through profit or loss (hereinafter FVTPL).

## **Inventories**

Inventories are recognised at the lower of cost of purchase, determined using the weighted average cost method, and net realisable value as can be determined from market performance.

Obsolete and slow moving inventories are written down based on their possibility of use or realisation through establishment of a specific provision, which directly decreases the corresponding asset item.

## **Financial liabilities, trade payables and other liabilities**

Financial liabilities (except for derivative financial instruments), trade payables and other payables are initially recognised at fair value, net of directly attributable costs, and are subsequently measured at amortised cost using the effective interest rate method. In the presence of an estimable change in expected cash flows, the value of liabilities is recalculated to reflect this change based on the present value of the new expected cash flows and the initially determined internal rate of return. Financial liabilities are classified as current liabilities, unless the Company has an unconditional right to defer payment for at least 12 months after the reference date.

Financial liabilities are removed from the financial statements when they are extinguished and when the Company has transferred all the risks and charges relating to the instrument.

### **Derivative financial instruments**

Derivative financial instruments are assets and liabilities measured at fair value. The Company uses them to hedge interest rate risk.

Derivative financial instruments are accounted for in accordance with hedge accounting principles only when, at the inception of the hedge, the hedging relationship was formally designated. The hedge is expected to be highly effective: this effectiveness can be reliably measured during the various accounting periods for which it is designated. All derivative financial instruments are measured at fair value.

For long-term financial instruments that qualify for hedge accounting, the following accounting treatments apply:

- *fair value hedge*: if a derivative financial instrument is designated as a hedge against changes in the fair value of a recognised asset or liability attributable to a particular risk that may affect profit or loss, the gain or loss deriving from the subsequent valuations of the fair value of the hedge is recognised in profit or loss; the gain or loss on the hedged item attributable to the hedged risk is recognised as part of the carrying amount of such item and as an offsetting item in profit or loss;
- *cash flow hedge*: if a financial instrument is designated as a hedge against exposure to variations in the future cash flows of a recognised asset or liability or a forecast transaction that is highly probable and could affect profit or loss, the effective portion of the gain or loss on the financial instrument is recognised in other comprehensive income; the accumulated gain or loss is reversed from equity and recognised in profit or loss in the same period in which the hedged transaction affects the income statement; the gain or loss associated with a hedge or a part of the hedge that has become ineffective is recognised in profit or loss when the ineffectiveness is recognised.

If the hedged transaction is no longer expected to occur, the unrealised gains or losses still recognised in equity are recognised in profit or loss.

If hedge accounting cannot be applied, gains or losses arising from the fair value measurement of the derivative instrument are recognised directly in profit or loss.

### **Translation of transactions in a currency other than the functional currency**

Transactions in a currency other than the functional currency of the entity that executes the transaction are translated using the exchange rate at the time of the transaction. Foreign exchange gains and losses generated from the conclusion of the transaction or the translation carried out at the end of the year for the assets and liabilities denominated in a currency other than the Euro are recognised in profit or loss.

### **Employee benefits**

Short-term benefits consist of wages, salaries, the relevant social security contributions, compensation in lieu of holidays, and incentives paid in the form of a bonus payable within 12 months after the reporting date. These benefits are recognised as personnel costs in the period in which the work activity was performed.

Benefits subsequent to the termination of the employment relationship are of two types: defined contribution plans and defined benefit plans.

For defined contribution plans, the contributions payable are recognised in profit or loss when they are incurred, based on their nominal value.

For defined benefit plans, including post-employment benefits pursuant to article 2120 of the Italian Civil Code (“**TFR**”), the amount of the benefit payable to the employee can be calculated only after termination of the employment relationship, and is connected to one or more factors such as age, years of service and remuneration. Therefore, the relating expense is recognised in the statement of comprehensive income based on the actuarial calculation that has been carried out. Liabilities recognised in the financial statements for defined benefit plans correspond to the present value of the obligation at the end of the reporting period. The obligations for defined benefit plans are determined each year by an independent actuary using the projected unit credit method.

The present value of the defined benefit plan is determined by discounting future cash flows at an interest rate equal to the rate applicable to high quality corporate bonds issued in Euro, with account taken of the duration of the relevant pension plan.

As from 1 January 2007, the so-called 2007 Budget Law and relevant implementing decrees introduced significant amendments to TFR, including allowing workers to choose where to allocate accrued TFR amounts. In particular, the new TFR flows can be allocated by the worker to preselected pension schemes or held by the

company. If external pension forms are chosen, the Company is only subject to payment of a defined contribution into the preselected fund, and as from that date, the new amounts will be considered as defined contribution plans which are not subject to actuarial valuation.

Following adoption, as from 1 January 2013, of the amended version of IAS 19 (Employee Benefits), changes in actuarial gains/losses are recognised in other comprehensive income. The new revised version of IAS 19 (Employee Benefits), as governed by EC Regulations 475-2012, was applied.

IAS 19 requires, with respect to defined benefit plans, that changes in actuarial gains / losses are recognised in other comprehensive income. Service cost as well as the interest payable on the time value component of the actuarial calculation shall continue to be recognised in the separate income statement.

### **Provisions for risks and charges**

Provisions for risks and charges are allocated to cover certain or probable losses or charges, whose amount and/or the date in which they arise cannot be determined at the end of the reporting period. Recognition only takes place if there is a current obligation (legal or implicit) for a future outflow of economic resources which result from past events and it is probable that this outflow will be required to fulfil the obligation. This amount represents the best discounted estimate of the expense required to extinguish the obligation.

When the financial effect of time is significant and the payment dates of the obligation can be reliably estimated, the provisions are measured at the present value of the expected outflow applying a rate that reflects market conditions, the change in the cost of money over time, and the specific risk connected to the obligation. The increase in the value of the provision, determined by changes in the cost of money over time, is recognised as an interest expense.

### **Grants**

Grants for plants are recognised in profit or loss during the period required to correlate them with the relevant costs; they are recognised in the statement of financial position as deferred income.

### **Recognition of revenues**

Revenues are initially recognised at the fair value of the consideration received net of discounts and rebates. Revenues related to the sale of goods are recognised when the customer obtains control of the goods. Revenues from the provision of services are recognised for an amount that reflects the amount that the Company expects to be entitled to receive upon provision of the services.



Revenues from connection of customers to the Integrated Water Service are recognised based on the duration of the supply relationship.

Revenues accrued during the year for project management and construction management are recognised in relation to the progress of the work according to the percentage of completion method.

Revenues accrued during the year relating to construction works for the Integrated Water Service are recognised according to the costs incurred for these activities, plus a 3.20% markup, which in 2019 represented the remuneration of the internal costs for project management and construction management activities carried out by the Company, which is equal to the markup that would have been applied by a general constructor (as required by IFRIC 12).

Pursuant to the requirements set forth in the IFRSs, consideration collected on behalf of third parties, which does not increase the Company's equity (as occurs in agency relations), is excluded from revenues, which only include the margin earned on the transaction.

### **Costs for the acquisition of goods and the provision of services**

The costs for the acquisition of goods and the provision of services are recognised in profit or loss on an accrual basis.

### **Taxes**

Current taxes are calculated based on the taxable income for the year, applying the tax rates in effect at the reporting date.

Deferred tax assets and liabilities are calculated against all the differences between the value of an asset or liability for tax purposes and the relevant carrying amount. Deferred tax assets, insofar as the portion which is not offset by deferred tax liabilities is concerned, are recognised to the extent that it is probable that future taxable income will exist against which they can be recovered. Deferred tax assets and liabilities are calculated using the tax rates that are expected to be applicable in the years in which the differences will be realised or extinguished, based on the tax rates that are applicable or essentially applicable at the reporting date.

Current and deferred taxes are recognised in profit or loss, except for taxes relating to items that are directly debited or credited to equity, in which case the relevant tax effect is recognised directly in equity. Taxes are offset when they are applied by the same tax authority and there exists a legal right to do so.

### **Changes to International Accounting Standards**

Pursuant to IAS 8, the following paragraph “Accounting Standards, Amendments and Interpretations that apply for the first time as from 1 January 2019” contains a brief description of the amendments effective as from 1 January 2019. The paragraphs below – “Accounting Standards, Amendments and Interpretations applicable after the end of the year, which were not adopted in advance” and “Accounting Standards, Amendments and Interpretations not yet endorsed” – contain details of accounting standards and interpretations that have already been issued, whether endorsed by the European Union or not, which are not applicable to the preparation of the financial statements as at 31 December 2019, and whose possible impacts will therefore be reflected in the financial statements of future years.

### **Accounting standards, amendments and interpretations that apply for the first time as from 1 January 2019**

As from 1 January 2019, the Company adopted IFRS 16 “Leases”, which led to changes in accounting policies. This note explains the impact of the adoption of this standard on the financial statements and explains the new accounting policies applied when different from those adopted in previous periods.

#### *Impact of changes in accounting policies*

Following the initial application of IFRS 16, as at the date of transition (1 January 2019), with respect to leases previously classified as operating leases, the Company recognised the following:

- a financial liability equal to the present value of the remaining future payments as at the date of transition, discounted using the incremental borrowing rate applicable as at the date of transition for each lease.
- a right-of-use asset equal to the financial liability as at the date of transition, less any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at the date of transition.

There were no significant impacts on the company’s Equity.

The following table shows the impacts of adopting IFRS 16 as at the date of transition:

| <i>(Euro)</i>                      | <b>01/01/2019</b> |
|------------------------------------|-------------------|
| <b>NON-CURRENT ASSETS</b>          |                   |
| Property, plant and equipment      |                   |
| - Right to use buildings           | 1,147,127         |
| - Right to use other leased assets | 3,106,565         |
| <b>Total assets</b>                | <b>4,253,692</b>  |
| <b>NON-CURRENT LIABILITIES</b>     |                   |
| Non-current financial liabilities  | 3,174,009         |
| <b>CURRENT LIABILITIES</b>         |                   |
| Current financial liabilities      | 1,079,683         |
| <b>Total liabilities</b>           | <b>4,253,692</b>  |

The Company elected to apply the standard retrospectively, recognising the cumulative effect of applying the standard in equity as at 1 January 2019 (modified retrospective approach). The comparative information for the year 2018 was not restated.

With respect to the transition provisions, the Company used the following practical expedients available under the modified retrospective transition approach:

- it classified leases whose term ends within 12 months of the transition date as short-term leases. The relevant lease payments shall be recognised through profit or loss on a straight-line basis;
- with respect to the separation of the non-lease components for cars, the Company elected not to separate them and not to account for them separately from lease components. This component has been considered together with the lease component in determining the lease liability and the relevant right-of-use asset;
- it used information available as at the date of transition in determining the lease term, specifically with respect to the exercise of options to extend and terminate a lease.

In addition, the Company used the practical expedient under the standard upon initial application that allows using past conclusions based on IFRIC 4 and IAS 17 as the basis for measuring the operating lease components for a specific contract. Such practical expedient was applied to all contracts.

The transition to IFRS 16 introduces some elements of professional judgement 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:

| (Euro)   |                  |
|--|------------------|
| Future minimum operating lease payments as at 31/12/2018   | 5,306,285        |
| Leases whose lease term is less than 12 months and leases whose underlying asset has a low value | (749,998)        |
| Discounting effect   | (302,595)        |
| <b>Payables for leases as at 01/01/2019 (IFRS 16)</b>  | <b>4,253,692</b> |

The Company elected not to apply IFRS 16 to contracts containing a lease with an intangible asset as the underlying asset;

renewal provisions in contracts shall be considered in determining the lease term, i.e. when the Company has the option to exercise them without having to obtain consent from the counterparty and their exercise is considered reasonably certain. In the event of provisions allowing the Company to unilaterally exercise multiple renewal options, only the first extension period was considered;

automatic renewal provisions whereby both parties have the right to terminate the contract are not considered in determining the lease term, as the ability to extend said term is not within the unilateral control of the Company and the potential penalty for the lessor is considered not significant. However, if the potential penalty for the lessor is significant, the Company shall consider the renewal option in determining the lease term. This assessment shall be made also by considering the level of customisation of the asset being leased: if the asset is highly customised, the lessor may incur a significant penalty should it object to the renewal;

provisions to terminate contracts; these provisions are not considered in determining the lease term if they can be exercised only by the lessor or by both parties. If they can be exercised unilaterally by the Company, the latter shall make specific assessments for each contract (e.g. the Company is already negotiating a new contract or already gave notice to the lessor that it would terminate the contract).

#### *Other accounting standards, amendments and interpretations that apply as from 1 January 2019*

##### **Amendments to IFRS 9 – “Financial Instruments”**

Endorsed on 26 March 2018 and applicable for annual periods beginning on or after 1 January 2019, the amendments allow measuring the costs related to the termination of financial instruments previously measured at “fair value through profit or loss” at amortised cost. The amendments have no impact on the company’s financial position and performance.

**Amendments to IAS 28 “Investments in associates and joint ventures”**

Endorsed on 11 February 2019, the amendments clarify that the requirements of IFRS 9 apply to investments in associates or joint ventures that cannot be measured under the equity method. The amendments have no impact on the company’s financial position and performance.

**Amendments to IAS 19 “Employee benefits”**

Endorsed on 14 March 2019, the amendments clarify that in the event of an amendment or settlement of a defined benefit plan, the company shall apply updated actuarial assumptions in redetermining the liability. The amendments have no impact on the company’s financial position and performance.

**IFRIC 23 “Uncertainty over income tax treatments”**

With Regulation no. 2018/1595, issued on 23 October 2018, the European Commission endorsed the provisions of IFRIC 23, issued by the IASB on 7 June 2017. The document provides guidance on how to calculate current and deferred tax in the event of uncertainty over the application of tax law. In determining the income taxes to be recognised in the financial statements, the entity shall consider the probability that the taxation authority will accept the tax treatment adopted by the entity. If it is not probable that the taxation authority will accept the tax treatment, the entity shall reflect the effect of uncertainty in calculating current and deferred tax by using either of the following methods: the most likely amount and the expected value; otherwise, the income taxes to be recognised in the financial statements shall be consistent with the tax treatment adopted in the entity’s income tax filings. The entity shall review the estimates of uncertainty if new information becomes available or circumstances change. These provisions are effective for annual periods beginning on or after 1 January 2019. No impacts are expected from the implementation of the new standard.

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

Issued on 31 October 2018 and applicable for annual periods beginning on or after 1 January 2020, the IASB issued amendments to IAS 1 and IAS 8 titled “definition of material”. It clarifies that information is material if omitting, misstating or obscuring it could influence the decisions that Stakeholders make on the basis of the financial statements.

**IFRS 17 “Insurance Contracts”**

Issued by the IASB on 18 May 2017 and endorsed on 15 January 2020, it shall be applicable to companies that issue insurance contracts for annual periods beginning on or after 1 January 2021. The company expects no impact on its financial position and performance.

**Amendments to IFRS 7, IFRS 9, IAS 39**

On 26 September 2019, the IASB issued amendments to IFRS 9, IAS 39, and IFRS 7, subsequently endorsed in January 2020, in which it clarifies when a derivative contract is eligible for hedge accounting in periods of interest rate benchmark reform by central banks. The company expects no impact on its financial position and performance.

**Accounting standards, amendments and interpretations not yet endorsed****Amendments to IFRS 3 – “Business Combinations”**

On 22 October 2018, the IASB issued amendments to IFRS 3 (Business Combinations) to help companies determine whether an acquisition can be defined as a group of assets or a business. Specifically, it clarifies that, to define an acquisition made as a business, there must be the ability to provide goods or services to customers, whereas the definition in the original standard focused on the ability to produce dividends or economic benefits for stakeholders. The company expects no impact on its financial position and performance.

**Risk Management**

The Company’s activities are exposed to the following risks: market risk (defined as foreign exchange risk and interest rate risk), credit risk (both in relation to normal commercial dealings with customers and financing activities), and liquidity risk (regarding the availability of financial resources and access to the credit market and the financial instruments market in general).

The objective of the Company is to maintain over time a balanced management of its financial exposure, so as to ensure that the structure of its liabilities is in balance with the composition of its assets and able to provide the necessary operating flexibility through use of liquidity generated by current operating activities and the use of bank loans.

The ability to generate liquidity from ordinary operations, together with its borrowing capacity, allow the Company to adequately fulfil its operating requirements, finance its operating working capital and investments, as well as comply with its financial obligations.

The Company's financial policy and financial risks management are steered and monitored centrally. In particular, the finance department is in charge of evaluating and approving provisional financial requirements, monitoring their performance, and, where necessary, taking the appropriate corrective actions.

The following section provides qualitative and quantitative reference information on the effect of such risks for the Company.

## **Market Risk**

### *Foreign exchange risk*

The Company is mostly active on the Italian market and therefore it has a limited exposure to foreign exchange risk, which it incurs only with reference to i) certain trade receivables denominated in USD, ii) current bank accounts denominated in RON (Romanian Leu), iii), current bank accounts denominated in AED (United Arab Emirates Dirham) and trade receivables denominated in INR (Indian Rupee).

### *Sensitivity analysis relating to foreign exchange risk*

For the purposes of the sensitivity analysis relating to the exchange rate, the statement of financial position items (financial assets and liabilities) denominated in a currency other than the Company's functional currency have been identified.

For the purposes of this analysis, two scenarios have been considered, respectively discounting an appreciation and a depreciation equal to 10% of the exchange rate between the currency of the financial statement item and the functional currency.

*(in thousands of Euro)*

| Sensitivity analysis        | RON  |      | AED |      | Total |      |
|-----------------------------|------|------|-----|------|-------|------|
|                             | -10% | 10%  | 10% | 10%  | 10%   | 10%  |
| Year ended 31 December 2019 | 55   | (45) | 33  | (27) | 88    | (72) |

Note: it should be noted that the plus sign indicates higher profits and increased equity; the minus sign indicates lower profits and decreased equity.

### *Interest rate risk*

The Company is exposed to a risk connected to fluctuations in interest rates, since it uses several debt instruments depending on the nature of its financial requirements.

In particular, the Company normally takes out short-term loans to meet its working capital needs and medium to long-term loans to cover investments made in relation to ordinary and extraordinary operations. Financial liabilities exposing the Company to interest rate risk are mostly medium to long-term, index-linked, floating-rate loans. The interest rate to which the Company is mostly exposed is Euribor.

The financial transactions that took place in 2016 (EIB structured loan and bond loan), both at a fixed rate, further mitigate the interest rate risk.

To face these risks, the Company has entered into interest rate swap agreements with the aim of mitigating, at economically acceptable conditions, the potential incidence of changes in interest rates on profit (loss). The main characteristics of these agreements are as follows:

#### **As at 31 December 2019**

| Interest rate swaps (IRSs) | Start date | Maturity date | Par value<br>(in thousands of Euro) | Fair value<br>(in thousands of Euro) |
|----------------------------|------------|---------------|-------------------------------------|--------------------------------------|
| Intesa Sanpaolo IRS        | 2006       | 2026          | 8,722                               | (1,493)                              |
| BNP Paribas IRS            | 2009       | 2028          | 9,000                               | (2,632)                              |



**Sensitivity analysis relating to interest rate risk**

With regard to interest rate risk, a sensitivity analysis was carried out to determine the effect on the income statement and equity of a hypothetical positive and negative change in interest rates of 50 bps compared to the amounts actually recognised in each reporting period.

The analysis was carried out mainly with regard to the following items:

- cash and cash equivalents;
- short and medium/long-term financial liabilities, with derivative instruments connected to them, if any.

With regard to cash and cash equivalents, reference was made to the period average amount and return, while as regards short and medium/long-term financial liabilities, the impact was calculated at the reference date.

Fixed-rate financial debt was not included in this analysis.

The table below shows the results of the analysis:

| <i>(in thousands of Euro)</i> | <b>Impact on profit, net of tax effect</b> |         | <b>Impact on equity, net of tax effect</b> |         |
|-------------------------------|--|---------|--|---------|
|                               | -50 bps                                    | +50 bps | -50 bps                                    | +50 bps |
| <b>Sensitivity analysis</b>   |  |         |  |         |
| Year ended 31 December 2019   | 96   | (96)    | 96   | (96)    |

Note: it should be noted that the plus sign indicates higher profits and increased equity; the minus sign indicates lower profits and decreased equity.

***Credit Risk***

Credit risk represents the Company's exposure to the risk of potential losses arising from non-fulfilment of obligations by counterparties.

With reference to the Engineering Business Unit, almost all receivables are due from the Municipality of Milan, other public entities or their concessionaires, and this ensures the mitigation of the relevant risk. With respect to the receivables due from the Municipality of Milan, in 2019 the Company carried out an additional in-depth analysis and review of a series of receivables dating back several years. The investigations carried out allowed to identify shared criteria for crystallising MM's receivables due from the Municipality; specifically, in accordance with the analysed documents, only the receivables due to MM corresponding to amounts that are consistent, for each individual order, with the funds appropriated under the relevant approved budgets and, as for co-financed Orders, subject to the Co-financers disbursing their share, shall be considered

to be existing and eligible. This allowed to accurately assess receivables based on their risk profile.

As far as the Integrated Water Service is concerned, the Company manages credit risk through policies and procedures in order to monitor collections, issue reminders, grant payment term extensions where necessary, and implement the appropriate recovery actions.

Trade receivables of € 232 million as at 31 December 2019 (€ 232 million as at 1 January 2019) were recognised net of advances for works of € 2,114 million and accounted for net of the impairment calculated by the company's management by estimating expected losses broken down by type of debtor, i.e. private or public. The estimate of expected losses arises from historical experience broken down by type of debtor, re-measured on the seniority of past due balances, and on any forward-looking elements, which may affect recovery expectations. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 40,480,269 as at 31 December 2019.

With regard to Water Service customers, given the high level of customer fragmentation and the limits applicable to selecting customers, given the "essential" nature of resource on offer, the bad debt provision was measured by the company's management by estimating expected losses, determined on the basis of past experience with similar receivables, and by monitoring the performance of current and future economic conditions, in the reference market.

Furthermore, it should be noted that the receivables of the Water Service Business Unit are covered by guarantee deposits up to the amount of € 13,045 thousand.

### *Liquidity Risk*

The liquidity risk represents the risk that, due to the inability to raise new funds or sell assets on the market, the Company is unable to meet its payment commitments, generating an impact on the result of operations in the event that the Company is obliged to incur additional costs to meet its commitments or face a situation of insolvency. The Company's objective is to put in place a financial structure that, in line with business objectives and defined limits, guarantees an adequate level of liquidity thanks to the expected tariff increases, by minimising the related opportunity cost, and is balanced in terms of debt maturity and breakdown.

Still with respect to liquidity risk, the appropriate assessments allowing to exclude that cash and bank deposits could determine potential impairment losses have been carried out, including on the basis of information provided by financial counterparties, also taking into account the possibility of immediate divestment of term deposits.

The table below provides an analysis of cash flows expected in the years to come in relation to financial liabilities as at 31 December 2019:

| <i>(in thousands of Euro)</i> | Balance as at<br>31 December 2019 | Expected outflows |                      |              |         |
|-------------------------------|-----------------------------------|-------------------|----------------------|--------------|---------|
|                               |                                   | Within 1<br>year  | From 1 to<br>5 years | Over 5 years | Total   |
| Financial liabilities         | 259,684                           | 71,589            | 14,006               | 174,089      | 259,684 |
| Trade payables                | 162,512                           | 162,512           | 0                    | 0            | 162,512 |
| Other liabilities             | 67,024                            | 52,168            | 3,731                | 11,125       | 67,024  |

All the indicated flows are undiscounted nominal future cash flows, determined based on residual contractual due dates, both for the capital as well as the interest portion.

Loans were included based on their contractual repayment date. Flows from financial liabilities include those relating to existing IRSs.

The bond loan, issued by the company on 23 December 2016, and the EIB loan agreement, signed on 18 November 2016, require that MM complies with specific financial covenants, calculated as ratios between income and equity variables, aimed at monitoring the company's financial and economic sustainability. The covenants are analysed in detail in the Report on Operations.

#### *Potential risks arising from the Covid-19 epidemic*

The current health emergency caused by the outbreak of Covid-19 gives rise to potential risks for the company. First, there is a potential operational risk: as the current scenario negatively affects the company's ordinary operations, MM must effectively address the disruptions to and/or changes in its business, such as those arising from the suspension of construction work as a result of the measures taken to contain the virus at the national and regional level, or potential delays in the supply chain and changes in business volumes.

In addition, considering the essential nature of the service - specifically, but not exclusively, with respect to the Integrated Water Service business line - the risks associated with the health and safety of employees and customers play a significant role, and therefore require ensuring that the risks associated with the performance of essential operations are contained. Failing to manage such risks effectively could harm the company's reputation, thus giving rise to a potential reputational risk.

As for price risk, Covid-19 could have a limited impact, as the Company operates under in-house providing arrangements whereby the revenues associated with its services are determined in advance (e.g. Housing Business Unit fee, Plant and Real Estate Management Business Unit fee), are based on conventionally defined criteria (e.g. Service Contract with the Municipality of Milan, as in the case of the Engineering Business Unit), or are calculated using algorithms defined by national and local regulations (e.g. Tariff Method for the Integrated Water Service). With respect to the IWS, a potential slowdown in investments could result in a lower tariff in the future, but also reduce the Company's current funding needs.

The negative impact of the epidemic on society and the economy gives rise also to a potential liquidity risk. In the case of MM, such risk is limited, because: with respect to the Integrated Water Service, the Company has already implemented a long-term funding strategy that involves issuing a fixed-rate Bond and entering into a fixed-rate loan agreement with the EIB, essentially covering its current needs; as for the remaining lines of business, most current receivables are due from the Municipality of Milan or other public-sector entities, and payment terms should not be affected by the Covid-19 emergency; in addition, these lines of business require limited investments, and therefore have modest medium/long-term funding needs.

As for the risk of overdue payments associated with the Integrated Water Service, the Covid-19 emergency could lead to extended bill payment periods, especially for the customers most severely affected by the economic downturn, and a higher unpaid ratio. However, as the Covid-19 emergency broke out in March and May 2020, it is too early to give estimates on its effects, as during this period there were no receipts from bills falling due of a significant amount that could be considered reliable overdue payment indicators. That said, overdue payments require close attention in terms of liquidity risk and potential changes in cash flows, as do, with respect to the Engineering Business Unit, the impacts of a slowdown in services performed on behalf of the Municipality of Milan and other customers as a result of the Covid-19 emergency, and the ensuing decline in revenues associated with them.

As for the receivables due from customers, MM handles overdue payments concerning the Water Service and Housing business lines.

The continuation of the epidemic and the emergence of potential risks associated with it could result in a potential negative impact on the company's financial position and performance. In order to achieve its business

objectives, MM has mounted a timely and effective response to the emergency since the outset, taking several measures to mitigate risks.

MM's management has promptly implemented a series of actions to effectively address the Coronavirus emergency by adopting extraordinary measures to:

- ensure the health and safety of its employees;
- make new or enhanced work tools available to employees (smart working);
- provide comprehensive and timely updates on the situation;
- ensure the continuity of the services rendered to customers, including by shifting to remote work.

On 21 February 2020, the Company set up a Crisis Unit (comprised of the Head of Organisation and Human Resources, his Assistant, the Head of Internal Communication, the Head of the Prevention and Protection Service, and the Occupational Physician), which involved and coordinated the relevant corporate structures according to the situation at hand. The actions implemented by the Unit were approved by the Managing Director and reported to the Board of Directors and the Municipality of Milan; in addition, the Company opened an ongoing discussion with Works Councils and Workers' Safety Representatives.

The Company provided constant updates to employees and customers on the decisions made by the Government, the competent Authorities, and the Company through a series of actions:

- it sent any Official Documents issued to all employees via email, translated them into operational instructions and rules of conduct, and published a comprehensive set of documents on the corporate intranet;
- it posted the instructions related to the orders issued by the Italian Ministry of Health inside all offices as well as the Public Housing complexes it manages;
- it showed informational videos about prevention on screens inside MM's main offices;
- it circulated inside all offices instructions on how to strengthen the environmental sanitation plan and vehicle sanitation;
- it encouraged the use of online help desks.

All offices were provided with materials to sanitise environments and individuals; in addition, employees, external partners, and customers were given personal hygiene materials as well as personal protective equipment (masks and gloves for the departments).

Access control at MM's premises was enhanced, requiring people to fill out a specific form; trips and attendance at courses/conferences were first limited, and then banned. A certified email was sent to all suppliers to ensure compliance with executive orders for their employees.

The Company immediately activated a direct channel employees can use to contact the Head of the Prevention and Protection Service and the Occupational Physician.

Starting from 27 February 2020, a massive smart working campaign was launched: following an initial meeting with the Heads of the different departments, MM surveyed roles and resources and developed a qualitative and quantitative plan of the operations that can be performed remotely. It entered into 777 individual smart working agreements and prepared an emergency plan to provide employees with the required IT tools.

In the wake of the “*Cura Italia*” (Cure Italy) Decree, MM worked together with each Department Head to further enhance the plan to have employees use their accrued leave; it explained how to apply for the additional measures introduced by the Decree (parental leave, leave as per law 104) and launched an analysis together with trade unions for the creation of the Wage Subsidy Fund (WSF).

In addition, the company activated an insurance policy for all employees in the event they are hospitalised with Covid-19.

Following the Italian Prime Minister’s Decree dated 11 March 2020, the Chairman and the Managing Director announced their decision to shut down operations. The Company developed a plan to guarantee essential public services under extreme circumstances, implemented the plan for the organisation of the essential public services it operates, and issued a Company Protocol on the handling of the Covid-19 emergency.

Considering that the Coronavirus epidemic is still ongoing, in order to guarantee its economic and financial performance, MM continued developing an action plan to support its performance under a coordinated approach by setting up a Covid-19 Steering Committee with the goal of:

- monitoring the evolution of the relevant legal and regulatory framework;
- assessing the performance of MM’s business operations;
- identifying the problems arising in each business area;
- defining a corrective and improvement action plan and coordinating its implementation by the Company’s structures;
- assessing progress on the plan and analysing the impact of the initiatives introduced;
- tracking the actions taken by MM to address the emergency.

The Steering Committee is chaired by the Managing Director and comprised of the Head of the Water Service Business Unit, the Head of the Engineering Business Unit, the Head of the Housing Business Unit, the Head of Organisation and Human Resources, the Head of Administration, Finance, and Control, the Head of Development and Innovation, the Head of Contracts and Procurement, and the Head of Strategy, Investor Relations and Regulation.

In addition, MM is working on an extraordinary remote training plan for all employees as well as a Return-to-Work Plan, and finalising the agreements with trade unions for the WSF.

As part of its efforts to chart a course for gradually resuming normal business operations (so-called phase 2), and in order to oversee and coordinate a detailed operational plan, the Company has set up a Covid-19/PHASE 2 Steering Committee - chaired by the Managing Director, coordinated by the Head of Organisation and Human Resources, and comprised of the Head of the Water Service Business Unit, the Head of the Engineering Business Unit, the Head of the Housing Business Unit, the Head of the Prevention and Protection Service, and Occupational Physicians - with the goal of:

- mapping those operations that can continue being performed in whole or in part remotely;
- defining the gradual return of employees to the company's physical locations;
- establishing and coordinating the return of employees to work in terms of frequency, logistics, maximum number of employees present at the same time, and gatherings of people;
- defining and verifying the implementation of all measures necessary to allow authorised employees to access offices/worksites;
- defining and implementing a testing plan (antibody tests), setting priorities and timelines;
- defining and promoting practices to be adopted at offices/worksites;
- arranging for the distribution of the required personal protective equipment;
- providing comprehensive and timely updates on the situation.

## Financial assets and liabilities by category

A breakdown of financial assets and liabilities by category as at 31 December 2019 is provided below:

| <i>(in thousands of Euro)</i> | As at 31 December 2019  |                       |                                     |   | Total   |
|-------------------------------|---|-----------------------|-------------------------------------|---|---------|
|                               | Financial assets and liabilities measured at fair value through OCI | Loans and receivables | Available-for-sale financial assets | Financial liabilities at amortised cost |         |
| <b>ASSETS:</b>                |   |                       |                                     |   |         |
| Other non-current assets      | -   | 1,246                 | -                                   | -                                       | 1,246   |
| Trade receivables             | -   | 232,288               | -                                   | -                                       | 232,288 |
| Cash and cash equivalents     | -   | 88,753                | -                                   | -                                       | 88,753  |

|                                   |       |        |   |         |         |
|-----------------------------------|-------|--------|---|---------|---------|
| Other current assets              | -     | 15,229 | - | -       | 15,229  |
| <b>LIABILITIES:</b>               |       |        |   |         |         |
| Non-current financial liabilities | 4,124 | -      | - | 186,095 | 190,219 |
| Other non-current liabilities     | -     | -      | - | 37,736  | 37,736  |
| Trade payables                    | -     | -      | - | 162,512 | 162,512 |
| Current financial liabilities     | -     | -      | - | 69,465  | 69,465  |
| Other current liabilities         | -     | -      | - | 29,286  | 29,286  |

For trade payables and receivables and other short-term receivables and payables, the carrying amount is a reasonable approximation of their respective fair values. It should also be taken into account that the carrying amount of the bond loan recognised under financial liabilities that was issued at the end of December 2016 is also a reasonable approximation of its fair value, considering that for this financial instrument there are no available market quotations, given the absence of transactions.

### Fair Value estimate

The fair value of financial instruments quoted in an active market is based on market prices at the end of the reporting period. The fair value of instruments that are not quoted in an active market is determined using measurement techniques based on a series of methods and assumptions connected to market conditions at the end of the reporting period.

The fair value hierarchy of financial instruments is provided below:

**Level 1:** the fair value is determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** the fair value is determined using observable inputs for the asset or liability in active markets;

**Level 3:** fair value is determined using unobservable inputs for the asset or liability.

The table below summarises the assets and liabilities measured at fair value as at 31 December 2019, based on the inputs used in determining the fair value:

| <i>(in thousands of Euro)</i>           | As at 31 December 2019 |         |         |
|---|------------------------|---------|---------|
|   | Level 1                | Level 2 | Level 3 |
| Derivative financial instruments (IRSs) | -                      | (4,124) | -       |



## **Estimates and assumptions**

The preparation of these financial statements requires the directors to apply accounting principles and methods which, in certain circumstances, are based on difficult and subjective assumptions and estimates based on past experience and assumptions that are from time to time considered to be reasonable and realistic depending on circumstances. Application of these estimates and assumptions influences the amounts shown in the financial statements as well as the disclosure provided. The financial statement items for which the aforementioned estimates and assumptions were used may differ from those shown in the statements that reflect the effects of the event subject to estimate, due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

A brief description of the areas requiring Directors to make more subjective interpretations than others, and for which a change in the conditions underlying the assumptions used could have a significant impact on financial data, is provided in the following paragraphs.

### *Depreciation of property, plant and equipment and amortisation of intangible assets*

Property, plant and equipment and intangible assets are depreciated/amortised on a straight-line basis over the estimated useful life of each asset. The useful life of property, plant and equipment and intangible assets is determined at the time that they are purchased and based on past experience for similar assets, market conditions and expectations regarding future events that could have an impact, including changes in technology. The actual useful life may differ from the estimated useful life. The Company assesses technological and sector changes each year as well as any changes in contractual terms and conditions and the applicable laws connected to the use of the property, plant and equipment and intangible assets, and the recoverable value for updating their residual useful life. The result of these analyses may change the depreciation/amortisation period and therefore the relevant depreciation/amortisation rate for the reporting period and future years.

### *IFRIC 12 markup*

The fair value of the construction services of the Integrated Water Service is calculated on the basis of the costs actually incurred, plus a 3.20% markup which represents the best estimate, recalculated in 2019, of the remuneration of internal costs for construction management and design activities carried out by the Company, as provided for by IFRIC 12. The markup is calculated on the basis of factors and estimates that may change over time and can therefore result in a change to this value in the financial statements.

### *Residual value upon conclusion of the Concession*

MM will receive compensation upon conclusion of the Concession of an amount equal to the residual value of the works and assets realised during the concession period. This amount, which is determined according to rules defined by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) is based on factors and estimates that may change over time, resulting in a change to this amount.

### *Impairment/reversal of impairment*

Non-current assets are tested for impairment. If there is indication that recovery will be difficult, the net carrying amount is written down. Verification that such indication exists requires subjective judgements based on information available within the Company and on the market, as well as on past experience. Furthermore, when it is believed that impairment may have occurred, this is measured using the appropriate measurement techniques. The correct identification of the elements indicating any potential impairment, as well as the estimates for determination thereof depend on factors that can change over time, producing their effects on the estimates and measurements carried out. Similar considerations in terms of impairment indication and use of estimates in measurement techniques apply to measurements to be carried out with regard to any reversal of impairment made in previous years.

### *Deferred tax assets*

Deferred tax assets are accounted for based on the expectations regarding revenue for future years. The measurement of the expected revenues for recognition of the deferred tax assets depends on factors that may change over time and result in significant effects on the measurement of this item.

### *Provisions for risks and charges*

The Company recognises contingent liabilities arising from disputes with the personnel, suppliers, third parties and, in general, expenses arising from obligations in the provisions for risks and charges. The assumptions underlying the creation of such provisions are based on factors that can change over time and can therefore generate final outcomes that may significantly differ from those considered at the time that these financial statements were prepared.

### *Bad debt provision*

The bad debt provision reflects the estimates relating to expected losses on the receivables portfolio. The

allocations for expected losses reflect credit risk estimates based on past experience with similar receivables, analysis of past due amounts (current and previous amounts), and on monitoring the performance of current and future economic conditions, in the reference markets.

#### *Measurement of derivative financial instruments*

Measurement of the fair value of unquoted financial assets, such as derivative financial instruments, takes place using commonly used financial measurement techniques which require assumptions and estimates. These assumptions may not occur within the deadlines and in the manners that were expected. Therefore, the estimates for these derivative instruments could differ from the final figures.

#### *Measurement of revenues*

As for the Engineering Business Unit, revenues related to work orders for project management and/or construction management are allocated in proportion to the percentage of work undertaken, determined by the ratio between the direct hours already used for contractual activities and total estimated hours, including those to be performed.

As for the IWS Business Unit, revenues include the estimate of revenues accrued for supplies made between the date of the last recording of the actual consumption and the end of the financial year. The recognition of these revenues is determined on the basis of the tariff regulation through the use of complex algorithms and includes a significant degree of estimation.

#### **Operating segment disclosure**

Disclosure of business segments was prepared according to IFRS 8 “Operating Segments”, which require that the information be presented consistently with the procedures adopted by the management for the taking of operating decisions. Therefore, identification of the operating segments and the disclosures made are defined based on internal reports used by management for allocating resources to the different segments and for analysis of the relevant performances.

An operating segment is defined by IFRS 8 as the component of an entity: i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); ii) whose operating results are reviewed regularly by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; iii) for which discrete financial information is available.

Management has identified the following segments:

- **Integrated Water Service (IWS):** includes the integrated water services mainly for the population of the city of Milan;
- **Engineering:** includes the provision of engineering, construction management and contracting authority services for works on the transport and the mobility systems and infrastructures of the Municipality of Milan;
- **Housing:** includes the property and facility management operations carried out in the name and on behalf of the Municipality of Milan, with regard to latter's real estate properties;
- **Real Estate and Networks:** includes the assets and the management of public assets previously carried out by MIR prior to the merger with MM;
- **Staff:** includes the activities performed by the functions supporting the operating segments whose costs are parametrically allocated to each business unit.

Monitoring of the operating segments takes place on the basis of: i) revenues; ii) EBITDA and iii) EBIT.

The management believes that EBITDA provides a good indication of the performance because it is not influenced by tax laws and amortisation/depreciation policies.

For further information at a company level and by business segment kindly refer to the Report on Operations.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### Assets

#### 1.1 Property, plant and equipment

Property, plant and equipment amounted to € 68,108,935 (€ 65,172,161 in the previous year).

Breakdown, changes in the year and other information are provided below.

#### Property, plant and equipment used in operations: changes

|   | Land and buildings | Plant and machinery | Industrial and commercial equipment | Assets under construction | Leasehold improvements | Other property, plant and equipment | IFRS 16 - Right of use | Total              |
|---|--------------------|---------------------|-------------------------------------|---------------------------|------------------------|-------------------------------------|------------------------|--------------------|
| <b>Historical cost as at 31.12.2018</b>   | <b>72,913,691</b>  | <b>25,720,966</b>   | <b>4,490,186</b>                    | <b>3,615,565</b>          | <b>3,008,265</b>       | <b>6,112,423</b>                    | <b>0</b>               | <b>115,861,096</b> |
| Accumulated depreciation as at 31.12.2018 | (17,050,171)       | (22,904,317)        | (4,079,452)                         | (193,407)                 | (1,949,976)            | (4,511,611)                         | 0                      | (50,688,934)       |
| IFRS 16 impact as at 1/01/2019            | 0                  | 0                   | 0                                   | 0                         | 0                      | 0                                   | 4,253,692              | 4,253,692          |
| Increases for the year                    | 869,820            | 0                   | 0                                   | 188,013                   | 0                      | 1,714,163                           | 0                      | 2,771,996          |
| Decreases for the year                    | 0                  | 0                   | (1,838)                             | 0                         | 0                      | 0                                   | 0                      | (1,838)            |
| Depreciation for the year                 | (1,488,256)        | (542,963)           | (338,837)                           | 0                         | (98,286)               | (541,133)                           | (1,077,602)            | (4,087,077)        |
| <b>Balance as at 31.12.2019</b>           | <b>55,245,084</b>  | <b>2,273,686</b>    | <b>70,059</b>                       | <b>3,610,171</b>          | <b>960,003</b>         | <b>2,773,842</b>                    | <b>3,176,090</b>       | <b>68,108,935</b>  |
| Historical cost as at 31.12.2019          | 73,783,511         | 25,720,966          | 4,488,348                           | 3,803,578                 | 3,008,265              | 7,826,586                           | 4,253,692              | 122,884,946        |
| Accumulated depreciation as at 31.12.2019 | (18,538,427)       | (23,447,280)        | (4,418,289)                         | (193,407)                 | (2,048,262)            | (5,052,744)                         | (1,077,602)            | (54,776,011)       |

The increases for the year, totalling € 2,772 thousand, mainly refer to:

- Purchase of furniture, office machines, sundry and small equipment and telephone systems;
- improvements made to owned properties.

It should also be noted that, as a result of the first-time adoption of IFRS 16, “Right-of-use assets” of € 4,254 thousand were recognised in the financial year.

## 1.2 Rights over the infrastructure relating to service concession arrangements

The “Rights over the infrastructure relating to service concession arrangements” amounted to € 278,385,278 (€ 238,331,555 in the previous year).

Changes in the item for the period from 1 January 2019 to 31 December 2019 are provided below:

|                                       | <b>Rights over the infrastructure relating to service concession arrangements</b> |
|---------------------------------------|---|
| <b>Balance as at 1 January 2019</b>   | <b>238,331,555</b>  |
| Historical cost                       | 342,747,004   |
| Accumulated amortisation              | (104,415,449)   |
| Increases                             | 64,934,599  |
| FoNI (Fund for New Investments)       | (13,845,724)  |
| Decreases                             | (83,436)  |
| Amortisation                          | (10,951,716)  |
| <b>Balance as at 31 December 2019</b> | <b>278,385,278</b>  |
| Historical cost                       | 393,738,022   |
| Accumulated amortisation              | (115,352,744)   |

Pursuant to IFRIC 12, rights over the infrastructure relating to service concession arrangements amounted to € 278,385 thousand as at 31 December 2019. These rights were amortised on a straight-line basis throughout the concession period; the residual value of € 35.3 million, which represents the value of the assets to be returned to the grantor at the end of the concession, was not amortised.

The item “Rights over the infrastructure relating to service concession arrangements” is recognised net of the “Fund for new investments”, which consists of an advance of funds for new actions planned subject to usage limitations, amounting to € 62,917,303 as at 31 December 2019.

Investments in 2019 amounted to € 64,934,599 (gross of the increase in the “Fund for new investments” for 2019) and mainly refer to pipelines, work on the wastewater treatment plant and on various stations, as well as the purchase of new measuring instruments.

### *Impairment test of the infrastructure relating to service concession arrangements*

As at 31 December 2019, the rights over the infrastructure relating to service concession arrangements were tested for impairment. Both internal as well as external sources of information were considered, such as any significant changes in the use of the assets, their performance compared to original expectations, any technological, market or regulatory change, the trend of interest rates or the cost of capital used to assess the investments. Since the sources of information used did not show any indication of impairment, the impairment test was not performed. Therefore, no impairment losses in relation to the rights over the infrastructure relating to service concession arrangements were recognised and the relevant assets were not subject to impairment.

### **1.3 Other intangible assets**

Changes in “Other intangible assets” for the period from 1 January 2019 to 31 December 2019 are provided below:

|                         | <b>Balance as at<br/>31/12/2018</b> | <b>Increases in 2019</b> | <b>Amortisation in 2019</b> | <b>Balance as at<br/>31/12/2019</b> |
|-------------------------|-------------------------------------|--------------------------|-----------------------------|-------------------------------------|
| Software                | 3,554,679                           | 5,339,627                | (1,991,238)                 | 6,903,068                           |
| Other intangible assets | 132,527                             | 0                        | (76,192)                    | 56,335                              |
|                         | <b>3,687,206</b>                    | <b>5,339,627</b>         | <b>(2,067,430)</b>          | <b>6,959,404</b>                    |

Investments made in 2019 mainly concerned the purchase of the new software for the integrated management of business processes. This software became operational on 1 July 2019 and it has been amortised for six months from such date.

### **1.4 Deferred tax assets**

Deferred tax assets amounted to € 26,463,149 (€ 18,102,020 in the previous year).

They have been calculated on the temporary differences between the amounts shown in the financial statements and the corresponding values recognised for tax purposes, on the basis of the rates that are expected to be applied when these differences will be eliminated.

The item is broken down as follows:

| Prepaid tax                                   | 2018                            |                   | 2019                            |                   |
|---|---------------------------------|-------------------|---------------------------------|-------------------|
|   | Amount of temporary differences | Tax effect        | Amount of temporary differences | Tax effect        |
| Provisions for risks and charges              | 2,743,801                       | 749,007           | 5,544,749                       | 1,527,315         |
| Bad debt provision                            | 0                               | 0                 | 20,010,312                      | 4,802,475         |
| IRS fair value measurement                    | 4,706,532                       | 1,129,568         | 4,124,130                       | 989,791           |
| FoNI (Fund for New Investments) contributions | 48,173,157                      | 13,584,830        | 60,071,961                      | 16,940,293        |
| Late payment interest provision               | 542,629                         | 130,231           | 497,192                         | 119,326           |
| Employee benefits                             | 664,497                         | 110,845           | 819,517                         | 154,234           |
| Write-downs of inventories                    | 389,906                         | 109,953           | 389,906                         | 109,953           |
| Interest not paid                             | 0                               | 0                 | 1,607,373                       | 385,770           |
| Deferrals for connections of customers        | 14,283,146                      | 3,649,345         | 13,531,401                      | 3,457,274         |
| Other items                                   | 2,568,618                       | 689,152           | 369,667                         | 92,491            |
| <b>Total for the Company</b>                  | <b>74,072,285</b>               | <b>20,152,931</b> | <b>106,966,208</b>              | <b>28,578,922</b> |
| Deferred tax                                  | 2018                            |                   | 2019                            |                   |
|   | Amount of temporary differences | Tax effect        | Amount of temporary differences | Tax effect        |
| Late payment interest                         | 729,220                         | 175,013           | 999,483                         | 239,876           |
| Tangible fixed assets                         | 6,723,647                       | 1,875,898         | 6,723,647                       | 1,875,898         |
| <b>Total for the Company</b>                  | <b>7,404,015</b>                | <b>2,050,910</b>  | <b>7,723,130</b>                | <b>2,115,773</b>  |
| <b>Total prepaid/deferred tax</b>             | <b>66,668,270</b>               | <b>18,102,021</b> | <b>99,243,078</b>               | <b>26,463,149</b> |

As required by IAS 12, deferred tax assets are shown net of deferred tax liabilities, since deferred assets and liabilities refer to income taxes applied by the same tax authority.

### 1.5 Other non-current assets

Other non-current assets amounted to € 1,246,257 (€ 1,384,641 in the previous year) and are broken down as follows.

|                                     | Reporting period | Previous period  |
|-------------------------------------|------------------|------------------|
| Equity investments                  | 990              | 990              |
| Accrued income and prepaid expenses | 998,074          | 1,142,095        |
| Guarantee deposits                  | 247,193          | 241,556          |
| <b>Total</b>                        | <b>1,246,257</b> | <b>1,384,641</b> |

### 1.6 Inventories

Inventories amounted to € 2,959,581 (€ 2,187,209 in the previous year).

This item only refers to spare parts and maintenance materials for the Integrated Water Service. The amount of inventories is recognised net of the provision for write-down of inventories, the amount of which is equal to € 398,001.



The change, compared to the previous year, is mainly attributable to the increase in inventories of € 772,890. A large part of the materials in stock at the end of the year were installed on the waterworks during the first months of the following year.

Inventories are broken down as follows:

|   | As at 1 January 2019 | As at 31 December 2019 |
|---|----------------------|------------------------|
| Raw materials, consumables and goods for resale | 2,584,692            | 3,357,582              |
| Provision for write-down of inventories         | (397,483)            | (398,001)              |
| <b>Total</b>                                    | <b>2,187,209</b>     | <b>2,959,581</b>       |

### 1.7 Trade receivables

Trade receivables, net of the related bad debt provision, amounted to € 232,288,794 (€ 232,178,390 in the previous year).

The item is broken down as follows.

|  | Reporting period   | Previous period    |
|--|--------------------|--------------------|
| Due from third parties                 | 164,090,704        | 153,173,300        |
| Due from parent companies              | 108,278,360        | 97,813,307         |
| <b>Total trade receivables - gross</b> | <b>272,369,064</b> | <b>250,986,607</b> |
| Bad debt provision                     | (40,080,270)       | (18,808,216)       |
| <b>Total trade receivables</b>         | <b>232,288,794</b> | <b>232,178,390</b> |

#### *Receivables due from third parties*

This item includes receivables of the Engineering and Staff Business Unit for € 44,355,131 relating to services provided to third parties, receivables arising from the management of the Integrated Water Service for € 118,520,182, receivables of the Plant and Real Estate Business Unit for € 10,186 and of the Housing Business Unit for € 1,205,205.

#### *Receivables due from parent companies*

Receivables due from parent companies are attributable to the Engineering and Staff Business Unit for already invoiced services and services which are yet to be invoiced totalling € 98,167,715, to the Integrated Water System to the tune of € 4,752,061 and to the Housing Business Unit to the tune of € 5,358,584.

The amount of receivables concerning the Engineering Business Unit is shown net of the advances of € 2,114 million received from the Municipality of Milan.

### *Bad debt provision*

The par value of receivables was adjusted to the expected realisable value by means of a specific bad debt provision; the relevant changes during the financial year were as follows:

| Description                           | Total             |
|---------------------------------------|-------------------|
| Balance as at 31 December 2018        | 18,808,216        |
| Use during the year                   | (14,593)          |
| Allocation for the year               | 21,286,646        |
| <b>Balance as at 31 December 2019</b> | <b>40,080,270</b> |

The above-mentioned provision refers for € 18,501,309 to the impairment of receivables from customers of the Integrated Water Service and for € 21,578,961 to the impairment of receivables of the Engineering Business Unit mainly due from its Parent Company.

Specifically, with respect to the bad debt provision of the Engineering Business Unit, after conducting a review during the year that will be finalised by signing an “Assessment Report” with the Municipality of Milan to assess and crystallise the company’s receivables dating back several years, MM set side € 19,582,528.

### **1.8 Cash and cash equivalents**

Cash and cash equivalents amounted to € 88,752,891 (€ 116,676,484 in the previous year).

The item is broken down as follows:

|               | Reporting period  | Previous period    |
|---------------|-------------------|--------------------|
| Cash          | 12,588            | 11,190             |
| Bank deposits | 88,740,303        | 116,665,294        |
| <b>Total</b>  | <b>88,752,891</b> | <b>116,676,484</b> |

### **1.9 Other current assets**

Other assets amounted to € 15,224,803 (€ 11,625,443 in the previous year).

The item is broken down as follows:

|   | Reporting period  | Previous period   |
|---|-------------------|-------------------|
| Receivables due from tax authorities          | 7,155,625         | 2,006,484         |
| Prepayments                                   | 6,218,510         | 7,581,695         |
| Receivables due from social security agencies | 729,764           | 663,111           |
| Other current receivables                     | 1,520,904         | 1,774,153         |
| Bad debt provision                            | (400,000)         | (400,000)         |
| <b>Total</b>                                  | <b>15,224,803</b> | <b>11,625,443</b> |

The item “receivables due from tax authorities” refers to receivables for IRES (corporate tax) and IRAP (regional business tax) refunds of € 1,968,464 and to receivables for tax down payments to be offset of € 5,077,565.

On the other hand, the item “Prepayments”, amounting to € 6,218,510, refers to contract advances paid to contractors in accordance with the provisions of the Procurement Code.

## Equity and liabilities

### 1.10 Equity

The share capital is comprised of 36,996,233 ordinary shares with a par value of € 1 each, fully subscribed and paid up, held by the Municipality of Milan.

#### Equity - origin, use and distribution

Below we provide the information required by art. 2427, no. 7-bis, pursuant to which equity items must be shown separately and broken down by availability, origin and use in previous years.

|                               | Amount             | Origin/type                    | Possibility of use                                     | Available portion  | Summary of uses in the three previous years – to cover losses | Summary of uses in the three previous years – for other reasons |
|-------------------------------|--------------------|--------------------------------|--|--------------------|---|---|
| Capital                       | 36,996,233         | subscription / capital reserve | coverage of losses                                     |                    |   |   |
| Legal reserve                 | 7,399,247          | earnings reserve               | coverage of losses                                     |                    |   |   |
| Other reserves                |                    |                                |  |                    |   |   |
| Merger surplus reserve        | 47,193,065         | Merger surplus reserve         | share capital increase, coverage of losses, allocation | 47,193,068         |   |   |
| Extraordinary reserve         | 117,540,646        | earnings reserve               | share capital increase, coverage of losses, allocation | 117,540,646        |   |   |
| Housing Business Unit reserve | 3,576,175          | earnings reserve               | share capital increase, coverage of losses, allocation | 3,576,175          |   |   |
| IFRSs transition reserve      | 4,142,656          | IFRSs transition reserve       | share capital increase, coverage of losses, allocation | 4,142,656          |   |   |
| Cash flow hedge reserve       | (3,134,340)        |                                |  | (3,134,340)        |   |   |
| <b>Total</b>                  | <b>169,318,202</b> |                                |  | <b>169,318,202</b> |   |   |
| <b>Total equity</b>           | <b>213,713,682</b> |                                |  |                    |   |   |

### 1.11 Current and non-current financial liabilities

Financial liabilities amounted to € 259,684,276 (€ 243,475,778 in the previous year).

Breakdown and distinction between current and non-current portions are provided and described below.

| Current and non-current financial liabilities | As at 31 December 2019 |                     | As at 31 December 2018 |                     |
|---|------------------------|---------------------|------------------------|---------------------|
|   | Current portion        | Non-current portion | Current portion        | Non-current portion |
| Bank loans                                    | 2,112,474              | 85,336,473          | 2,072,185              | 87,423,141          |
| Bond loan                                     | -                      | 98,529,306          | -                      | 98,431,903          |
| Other loans                                   | 60,000,000             | 50,394              | 47,929,159             | -                   |
| Bank account overdrafts                       | 5,666,241              | -                   | 1,873,747              | -                   |
| Fair value of IRSs                            | -                      | 4,124,130           | -                      | 4,706,532           |
| Payables relating to finance costs            | 691,248                | -                   | 988,717                | -                   |
| Financial liabilities for rights of use       | 995,180                | 2,178,830           | -                      | -                   |
| <b>Total</b>                                  | <b>69,465,143</b>      | <b>190,219,133</b>  | <b>52,863,807</b>      | <b>190,611,971</b>  |

Expenses incurred by the Company in relation to bank loans and the bond loan were initially recognised as a reduction in financial liabilities and subsequently transferred to profit or loss using the amortised cost method pursuant to IFRS 9.

The “Other loans” item refers to the use of “Hot Money” lines and loans with a duration of 18 months.

“Financial liabilities for rights of use” payable to third parties have been recognised starting from the current year, following the application of IFRS 16 for leases previously classified as operating leases.

Information on bank loans and the bond loan is summarised in the table below:

|  | Par value   | Start date | Maturity date | Interest rate      | As at 31 December 2019 |                   |                         |                        |
|--|-------------|------------|---------------|--------------------|------------------------|-------------------|-------------------------|------------------------|
|  |             |            |               |                    | Total                  | Due within 1 year | Due within 2 to 5 years | Due later than 5 years |
| <b>Bank loans:</b>                         |             |            |               |                    |                        |                   |                         |                        |
| Floating Rate Loan -BNL                    | 20,000,000  | 2008       | 2028          | Euribor 6m + 0.25% | 9,000,000              | 1,000,000         | 4,000,000               | 4,000,000              |
| Floating Rate Loan - Banca Intesa          | 20,000,000  | 2006       | 2026          | Euribor 6m + 0.12% | 8,722,290              | 1,112,474         | 4,883,952               | 2,725,864              |
| Fixed Rate Loan - BEI                      | 70,000,000  | 2018       | 2034          | 1.757%             | 70,000,000             | -                 | 9,130,435               | 60,869,565             |
| Amortised cost                             |             |            |               |                    |                        |                   | (139,161)               | (134,182)              |
| <b>Bond Loan:</b>                          |             |            |               |                    |                        |                   |                         |                        |
| Senior Secured Amortising Fixed Rate Notes | 100,000,000 | 2016       | 2035          | 3.15%              | 100,000,000            | -                 | -                       | 100,000,000            |
| Amortised cost                             |             |            |               |                    |                        |                   |                         | (1,470,694)            |
| <b>Total</b>                               |             |            |               |                    | <b>187,722,290</b>     | <b>2,112,474</b>  | <b>17,875,226</b>       | <b>165,990,553</b>     |

## 1.12 Provisions for risks and charges

Provisions for risks and charges amounted to € 5,013,262 (€ 2,544,366 in the previous year).

Breakdown and changes in the year are provided and described below.

|                              | Balance as at 1 January 2019 | Increase         | Uses/releases    | Balance as at 31 December 2019 |
|------------------------------|------------------------------|------------------|------------------|--------------------------------|
| Provision for risks          | 2,295,625                    | 486,767          | (614,218)        | 2,168,174                      |
| Provision for future charges | 248,741                      | 2,845,087        | (248,741)        | 2,845,087                      |
| <b>Total</b>                 | <b>2,544,366</b>             | <b>3,331,854</b> | <b>(862,959)</b> | <b>5,013,261</b>               |

The “Provision for risks”, amounting to € 2,168,174, is mainly used to cover estimated future losses on the Engineering Business Unit’s orders in progress with negative margins, insurance deductibles to be paid to insurance companies for claims to be settled and for legal actions and disputes with personnel. The allocation made during the year refers for € 231,036 to losses on job orders and for € 262,708 to insurance deductibles.

The “Provision for future charges” was used to pay the municipal property tax (IMU) for the year in relation to the parking areas under concession arrangements. The provision rose by € 2,845,087 during the year as a result of the estimated future costs associated with certain orders of the Engineering Business Unit following the finalisation of an “Assessment Report” with the Municipality of Milan, scheduled for 2020, to assess and crystallise receivables dating back several years.

## 1.13 Employee benefits

This item includes post-employment benefits and other employee benefits amounting to € 8,432,285 (€ 8,430,881 in the previous year).

|                          | Reporting period | Previous period  |
|--------------------------|------------------|------------------|
| Post-employment benefits | 6,092,156        | 6,498,008        |
| Other benefits           | 2,340,129        | 1,932,873        |
| <b>Total</b>             | <b>8,432,285</b> | <b>8,430,881</b> |

*Post-employment benefits*

Breakdown and changes in the year are provided and described below.

| <b>Employee benefits</b>              | <b>Employee benefits</b> |
|---------------------------------------|--------------------------|
| Balance as at 31 December 2018        | 6,498,009                |
| Finance costs                         | 73,284                   |
| Actuarial losses                      | 187,146                  |
| Amounts paid                          | (666,283)                |
| <b>Balance as at 31 December 2018</b> | <b>6,092,156</b>         |

The provision for post-employment benefits includes the effects of discounting as required by IAS 19. The breakdown of economic and demographic assumptions used for the actuarial valuation is provided below:

|  |   |
|--|---|
| Discount rate                                | 0.37% Engineering, IWS, Staff B.U. – 0.77% Housing B.U. |
| Inflation rate                               | 1.00%   |
| Expected mortality rate                      | Italian General Accounting Office table RG48            |
| Expected invalidity rate                     | INPS1998M/ INPS1998F tables                             |
| Expected resignations/advances<br>(annually) | 3.10%   |

*Other employee benefits*

This item totals € 2,340,130 and refers to the amount set aside so far for capitalisation policies that will be paid out to executives at the end of their employment relationship, as provided for in the supplementary contract.

**1.14 Other non-current liabilities**

Other non-current liabilities amounted to € 37,736,875 (€ 34,059,729 in the previous year).

The item is broken down as follows:

|                    | Reporting period  | Previous period   |
|--------------------|-------------------|-------------------|
| Guarantee deposits | 21,010,993        | 17,731,787        |
| Deferred income    | 16,725,882        | 16,327,942        |
| <b>Total</b>       | <b>37,736,875</b> | <b>34,059,729</b> |

Deferred income mainly refers to contributions for connections and for network strengthening operations that will be released annually on a straight-line basis up to the expiry of the Water Service concession agreement.

### 1.15 Current tax liabilities

Current tax liabilities amounted to € 0 (€ 4,081,241 in the previous year).

|                              | Reporting period | Previous period  |
|------------------------------|------------------|------------------|
| IRES (Corporate tax)         | 0                | 3,538,095        |
| IRAP (Regional business tax) | 0                | 543,146          |
| <b>Total</b>                 | <b>0</b>         | <b>4,081,241</b> |

### 1.16 Trade payables

Trade payables amounted to € 162,512,305 (€ 155,418,792 in the previous year).

The item is broken down as follows:

|                           | Reporting period   | Previous period    |
|---------------------------|--------------------|--------------------|
| Due from third parties    | 114,775,856        | 98,533,141         |
| Due from parent companies | 47,736,448         | 56,885,651         |
| <b>Total</b>              | <b>162,512,305</b> | <b>155,418,792</b> |

This item includes payables referring to the Company's ordinary commercial activities, in relation to the provision of goods, fixed assets and services. As at 31 December 2019, no payables with a residual duration exceeding five years were recognised.



*Payables due to third parties*

The balance as at 31 December 2019 includes payables related to the Engineering and Staff Business Unit of € 44,027,220, to the Integrated Water Service of € 67,829,928, to the Housing Business Unit of € 2,133,494 and to Real Estate and Networks management of € 785,215.

This balance also includes contractual deductions on work in progress, which will be paid only after the final work is tested.

*Payables to Parent Companies*

Payables to Parent Companies are fully attributable to the Municipality of Milan.

The balance as at 31 December 2019 includes payables related to the Engineering Business Unit of € 66,074, to the Integrated Water Service of € 47,672,283 and to the Housing Business Unit of (€ 1,909).

The payables of the Integrated Water Service include, in addition to the consideration for services, the portion pertaining to the Municipality of Milan of the bills issued by the Company after 30 June 2003 and the wastewater treatment portion to be acknowledged to it as Commissioner appointed for the construction of wastewater treatment plants.

**1.17 Other current liabilities**

Other current liabilities amounted to € 29,286,737 (€ 27,918,482 in the previous year).

The item is broken down as follows:

| <b>Other current liabilities</b>   | <b>Reporting period</b> | <b>Previous period</b> |
|--|-------------------------|------------------------|
| Payables due to employees  | 11,469,449              | 9,622,419              |
| Payables due to IWS customers  | 223,138                 | 220,103                |
| Advances   | 3,238,577               | 3,172,749              |
| Payables due to social security agencies   | 4,136,922               | 4,415,556              |
| VAT and other tax payables   | 5,636,821               | 6,275,193              |
| Payables due to Cassa per i Servizi energetici e ambientali (Energy and Environmental Services Fund) | 2,269,893               | 1,952,145              |
| Other liabilities  | 2,311,937               | 2,260,317              |
| <b>Total</b>   | <b>29,286,737</b>       | <b>27,918,482</b>      |

The item “Payables due to employees” mainly includes payables for holidays that had not been taken, deferred remuneration, contractual bonuses and leaving incentives yet to be paid.

The item “Payables due to IWS customers” refers to the portion of the Optimal Territorial Area tariff billed in 2012/2013 to be refunded to IWS customers.

The item “Advances” includes advances received from third-party customers for € 34,392 and from the Parent Company for € 2,741,138.

The item “Payables due to Cassa per i Servizi energetici e ambientali (Energy and Environmental Services Fund)” refers to the amounts collected from IWS customers through the tariff and periodically returned to the Cassa with the aim of implementing forms of equalisation and financing projects for the benefit of consumers.

## NOTES TO THE INCOME STATEMENT

### 2.1 Revenues

Revenues from sales and services amounted to € 181,037,505 (€ 183,591,145 in the previous year).

The item is broken down by Business Unit as follows:

|                          | Reporting period   | Previous period    |
|--------------------------|--------------------|--------------------|
| Integrated Water Service | 136,282,984        | 142,580,532        |
| Engineering and Staff    | 29,576,436         | 27,514,060         |
| Housing                  | 13,147,948         | 11,466,417         |
| Plant and Real Estate    | 2,030,137          | 2,030,137          |
| <b>Total</b>             | <b>181,037,505</b> | <b>183,591,145</b> |

Revenues of the Engineering Business Unit are shown net of the cost of work contracted on behalf of third parties, which are attributed to the principals based on concession agreements and service contracts, for an amount equal to € 46,542 thousand for the year ended 31 December 2019.

Below is the breakdown by geographic area.

| <i>Amounts in thousands of Euro</i> | Reporting period | Previous period |
|-------------------------------------|------------------|-----------------|
| Italy                               | 179,617          | 182,785         |
| Europe                              | 299              | 349             |
| Rest of the world                   | 1,122            | 457             |
| <b>Total</b>                        | <b>181,038</b>   | <b>183,591</b>  |

### 2.2 Revenues arising from work on infrastructure subject to service concession arrangements

Revenues arising from work on infrastructure subject to service concession arrangements amounted to € 64,934,599 for the year ended 31 December 2019. In compliance with IFRIC 12, these revenues correspond to the work performed on the assets of the Integrated Water Service held on the basis of a concession agreement plus a 3.20% markup, which represents the best estimate regarding the remuneration of internal costs for construction management and design activities carried out by the Company, which is equal to the markup that a general third party constructor would charge to carry out the same operations. The markup is recalculated on

an annual basis and the value indicated above refers to 2019.

### 2.3 Other revenues and income

Other revenues and income amounted to € 27,689,108 (€ 24,286,760 in the previous year).

The item is broken down as follows:

|  | Reporting period  | Previous period   |
|--|-------------------|-------------------|
| Sundry services carried out by the IWS | 1,293,188         | 1,684,939         |
| Chargebacks and expense refunds        | 530,266           | 1,406,539         |
| Increases for internal work            | 13,212,461        | 10,237,742        |
| Release of the provision for risks     | 51,649            | 1,228,978         |
| Charge of costs for seconded staff     | 637,496           | 609,828           |
| Contingent assets                      | 11,003,982        | 8,523,091         |
| Other revenues and income              | 937,860           | 573,438           |
| Grants related to assets               | 22,206            | 22,206            |
| <b>Total</b>                           | <b>27,689,108</b> | <b>24,286,760</b> |

Contingent assets included € 10.4 million reflecting the derecognition from the Municipality of Milan's 2019 financial report of some receivables resulting from the arrangement dated 3 December 2008, under which the Municipality was to provide services for the operation of the Water Service.

While preparing the 2019 financial report, the Municipality confirmed that there is no evidence that such services were performed, and thus wrote off the receivable.

The change in the item "increases for internal work" is related to the increase in investments of the Water Service.

### 2.4 Costs for raw materials, consumables and goods for resale

Raw materials and consumables amounted to € 7,702,913 (€ 4,727,212 in the previous year).

Breakdown is shown and described below.

|   | Reporting period | Previous period  |
|---|------------------|------------------|
| Fuels and lubricants                                  | 266,868          | 282,122          |
| Consumables and other                                 | 8,208,417        | 4,941,015        |
| Changes in raw materials, ancillaries and consumables | (772,372)        | (495,925)        |
| <b>Total</b>  | <b>7,702,913</b> | <b>4,727,212</b> |

The increase in the item “Consumables and other” is mainly due to significant purchases of measuring instruments connected to the plan to replace such instruments at the premises of the Water Service customers.

## 2.5 Other operating costs

Other operating costs amounted to € 1,593,915 (€ 2,598,639 in the previous year).

The item is broken down as follows:

|                                    | Reporting period | Previous period  |
|------------------------------------|------------------|------------------|
| Membership fees                    | 371,768          | 364,006          |
| Taxes and other deductible charges | 368,499          | 459,980          |
| Municipal Property Tax (IMU)       | 291,968          | 333,390          |
| Donations                          | 59,591           | 43,848           |
| Other operating costs              | 502,089          | 1,397,414        |
| <b>Total</b>                       | <b>1,593,915</b> | <b>2,598,639</b> |

## 2.6 Costs for services

Costs for services amounted to € 80,475,101 (€ 76,209,188 in the previous year).

The item is broken down as follows:

|  | Reporting period | Previous period |
|--|------------------|-----------------|
| Utilities (water, electricity)           | 23,995,509       | 21,542,683      |
| Gas                                      | 956,601          | 902,408         |
| Outsourced work                          | 145,310          | 115,869         |
| Maintenance                              | 5,221,760        | 3,320,566       |
| Technical and legal consulting           | 7,696,370        | 7,291,237       |
| Remuneration of directors                | 81,742           | 144,868         |
| Remuneration of statutory auditors       | 36,288           | 36,036          |
| Marketing and advertising                | 432,334          | 439,966         |
| Telephone and postal expense             | 855,905          | 977,996         |
| Insurance                                | 2,575,572        | 2,586,277       |
| Business trips and transfers             | 374,790          | 243,211         |
| Other costs for services                 | 7,613,952        | 7,374,146       |
| Costs for activated carbon regeneration  | 1,519,856        | 1,280,540       |
| Canteen and luncheon vouchers            | 1,758,689        | 1,731,755       |
| Services supplied by the Municipality of | 3,118,049        | 3,082,341       |

|   |                   |                   |
|---|-------------------|-------------------|
| Milan                                     |                   |                   |
| Wastewater treatment plant management fee | 15,328,712        | 16,514,237        |
| Waste disposal                            | 7,112,757         | 5,959,899         |
| Use of third-party assets                 | 1,650,907         | 2,665,151         |
| <b>Total</b>                              | <b>80,475,101</b> | <b>76,209,188</b> |

The increase in “Costs for Services” is mainly attributable to the item Utilities and it was due to the hike in energy tariffs, which, consumption being equal, impacted the Water Service’s operating costs.

Costs for Services rose also because of the greater expenses incurred to dispose of sewage sludge, included in the item “Waste disposal”.

The item “Use of third-party assets” is broken down as follows:

|   | Reporting period | Previous period  |
|---|------------------|------------------|
| Rents and leases                          | 749,999          | 2,284,113        |
| Royalties, copyrights and patent rights   | 892,514          | 377,789          |
| Other costs for use of third-party assets | 8,395            | 3,249            |
| <b>Total</b>                              | <b>1,650,907</b> | <b>2,665,151</b> |

The decrease in the item “Rents and leases” is attributable to the elimination of the rent paid by the Municipality of Milan, due to the transfer of the buildings completed during 2018.

It is also attributable to the first-time adoption of IFRS 16, which resulted in a different accounting treatment of lease contracts.

## **2.7 Costs arising from work on infrastructure subject to service concession arrangements**

Costs arising from work on infrastructure subject to service concession arrangements amounted to € 62,857,757 for the year ended 31 December 2019. This item consists of the cost for work on assets held under concession arrangements.

## **2.8 Personnel costs**

Personnel costs amounted to € 65,662,162 (€ 57,886,619 in the previous year).

The breakdown of labour costs is set out and commented on below.

|                          | Reporting period  | Previous period   |
|--------------------------|-------------------|-------------------|
| Salaries and wages       | 46,084,827        | 41,170,061        |
| Social security costs    | 14,688,667        | 12,185,611        |
| Post-employment benefits | 3,100,292         | 2,792,685         |
| Other costs              | 1,788,375         | 1,738,262         |
| <b>Total</b>             | <b>65,662,162</b> | <b>57,886,619</b> |

The change is mainly due to the increase in the number of resources for the management of a new local office of the Housing B.U., as well as to the new resources assigned to the extraordinary maintenance of public housing properties.

The breakdown of personnel by category is as follows:

| Number of employees | 2019           |              |
|---------------------|----------------|--------------|
|                     | As at year end | Average      |
| Senior managers     | 38             | 38           |
| Middle managers     | 77             | 74           |
| Clerical workers    | 795            | 762          |
| Apprentices         | 5              | 6            |
| Workers             | 356            | 341          |
| <b>Total</b>        | <b>1,271</b>   | <b>1,221</b> |

Other personnel costs include the leaving indemnities based on individual agreements with employees.

## 2.9 Amortisation/depreciation, impairment and other provisions

The item amounted to € 41,731,681 (€ 15,488,793 in the previous year).

Breakdown is shown and described below.

|   | Reporting period  | Previous period   |
|---|-------------------|-------------------|
| Depreciation of property, plant and equipment and amortisation of intangible assets | 17,106,223        | 13,045,837        |
| Impairment and provisions   | 24,625,458        | 2,442,956         |
| <b>Total</b>  | <b>41,731,681</b> | <b>15,488,793</b> |

The item “Depreciation of property, plant and equipment and amortisation of intangible assets” is broken down as follows:

|  | Reporting period  |
|--|-------------------|
| Property, plant and equipment  | 4,087,077         |
| Rights over the infrastructure relating to service concession arrangements | 10,951,716        |
| Other intangible assets  | 2,067,430         |
| <b>Total</b>   | <b>17,106,223</b> |

The item “Impairment and provisions” included € 22,427,616 arising from the Assessment Report agreed with the Municipality of Milan and currently being finalised. This is aimed at assessing and crystallising the company’s receivables associated with orders of the Engineering Business Unit and resulting from the design and construction of infrastructure of public interest.

Generally, these receivables date back several years, and the Municipality and the Company have had numerous exchanges over time to gradually account for the stage of completion of the individual works. The review concerned accounting items related to works that are complete and have been operational for quite some time, and brought certain mismatches to light.

This process allowed to agree on criteria to crystallise MM’s receivables due from the Municipality; specifically, in accordance with the analysed documents, only the receivables due to MM corresponding to amounts that are consistent for each individual order with the funds appropriated under the relevant approved budgets and, as for co-financed Orders, subject to the Co-financers disbursing their share, shall be considered to be existing and eligible.

In these financial statements, where necessary the Company made provisions for the items as assessed; in addition, receivables due to MM have been crystallised for certain orders, and their collection will benefit the financial position of the Engineering Business Unit.

## 2.10 Impairment loss on the disposal of fixed assets

The impairment loss on the assets held on the basis of a concession agreement, on property, plant and equipment and on intangible assets amounted to € 85,273 (€ 20,814 in the previous year).

The item is broken down as follows:

|   | Reporting period<br>- Losses | Reporting period<br>- Difference | Previous period -<br>Losses | Previous period -<br>Difference |
|---|------------------------------|----------------------------------|-----------------------------|---------------------------------|
| Impairment losses (Reversal of impairment losses) |                              |                                  |                             |                                 |
| - Other Property, plant and equipment             | 1,837                        | 1,837                            | 20,814                      | 20,814                          |
| Total property, plant and equipment               | 1,837                        | 1,837                            | 20,814                      | 20,814                          |



|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| - Rights over the infrastructure relating to service concession arrangements     | 83,436        | 83,436        | 0             | 0             |
| Total Rights over the infrastructure relating to service concession arrangements | 83,436        | 83,436        | 0             | 0             |
| Impairment losses (Reversal of impairment losses)                                |               |               |               |               |
| <b>Grand total</b>   | <b>85,273</b> | <b>85,273</b> | <b>20,814</b> | <b>20,814</b> |

## 2.11 Finance income and costs

Finance costs net of finance income amounted to € 6,838,728 (€ 8,756,955 in the previous year).

Breakdown is shown and described below.

| Finance income and costs                                  | Reporting period   | Previous period    |
|---|--------------------|--------------------|
| Interests on trade receivables and late payment penalties | 522,574            | 169,500            |
| Interest income on bank current accounts                  | 340,276            | 338,550            |
| Foreign exchange gains                                    | 122,623            | 39,809             |
| <b>Total finance income</b>                               | <b>985,473</b>     | <b>547,859</b>     |
| Interest expense on bank loans and borrowings             | 5,693,664          | 8,454,320          |
| Bank interest expense                                     | 424,918            | 683,397            |
| Interest cost – employee benefits                         | 73,284             | 70,386             |
| Foreign exchange losses                                   | 119,006            | 39,733             |
| Other finance costs                                       | 1,513,330          | 56,978             |
| <b>Total finance costs</b>                                | <b>7,824,201</b>   | <b>9,304,814</b>   |
| <b>Net finance income/(costs)</b>                         | <b>(6,838,728)</b> | <b>(8,756,955)</b> |

The value of finance costs mainly refers to the Water B.U. and is due to the interests payable on the bond loan and on the other loans taken out for the implementation of the investment plan.

The item “Other finance costs” mainly refers to the interest paid to contractors in relation to the construction of works. In the current year, this amount almost entirely refers to interest paid to contractors of the Engineering B.U.

## 2.12 Income taxes

Income tax expense amounted to € 2,704,194 (€ 13,737,122 in the previous year).

Breakdown, changes in the year and other information are provided below.

Below is also the breakdown of the item “Taxes” for the year ended 31 December 2019:

|                          | Reporting period | Previous period   |
|--------------------------|------------------|-------------------|
| Current taxes (IRES)     | 8,961,720        | 13,689,764        |
| Current taxes (IRAP)     | 2,190,664        | 2,970,008         |
| Prepaid / deferred taxes | (8,448,190)      | (2,922,650)       |
| <b>Total</b>             | <b>2,704,194</b> | <b>13,737,122</b> |

The table below shows the reconciliation of the theoretical tax rate to the actual impact on results:

|                                     | Year ended 31 December 2019 |               |
|-------------------------------------|-----------------------------|---------------|
|                                     |                             | %             |
| Profit (loss) before tax            | 6,713,864                   |               |
| Theoretical IRES (corporate tax)    | 1,611,327                   | 24.00%        |
| Tax effect of permanent differences | (1,097,797)                 |               |
| IRAP (Regional business tax)        | 2,190,664                   |               |
| <b>Taxes</b>                        | <b>2,704,194</b>            |               |
| <b>Actual tax rate</b>              |                             | <b>40.28%</b> |

## Other Information

### Income and expense items of exceptional size or incidence

The main non-recurring events that have had a significant impact on the current year are reported below.

- As already mentioned in the comment on “Other revenues and income”, during 2019 the Municipality of Milan derecognised a receivable of significant amount due from MM after conducting a review of certain items reported in its financial statements. This review conducted by the Municipality while preparing its 2019 financial report was reflected also in the Company’s financial statements, which recognised € 10,400,000 in income attributable to the Water Service Business Unit, which was the beneficiary of the services.
- During 2019, the Company carried out an additional in-depth analysis and review of a series of receivables due from the Municipality of Milan and arising from construction and infrastructure work performed by the Engineering Business Unit. Generally, these receivables date back several years, and the Municipality

and the Company have had numerous exchanges over time to gradually account for the stage of completion of the individual works. The review concerned accounting items related to works that are complete and have been operational for quite some time, and brought certain mismatches to light.

This process allowed to agree on criteria to crystallise MM's receivables due from the Municipality; specifically, in accordance with the analysed documents, only the receivables due to MM corresponding to amounts that are consistent for each individual order with the funds appropriated under the relevant approved budgets and, as for co-financed Orders, subject to the Co-financers disbursing their share, shall be considered to be existing and eligible.

In these financial statements, where necessary the Company made provisions for the items as assessed; in addition, receivables due to MM have been crystallised for certain orders, and their collection will benefit the financial position of the Engineering Business Unit. This caused the Company to allocate € 19,582,528 to the "Bad debt provision" and € 2,845,087 to the "Provision for charges".

The above in-depth analysis and review will be completed by formally signing an Assessment Report with the Municipality of Milan that is currently being finalised.

### **Off-balance sheet agreements**

The Company has no extant off-balance sheet agreements.

### **Sureties and guarantees in favour of third parties**

As at 31 December 2019, sureties issued by third parties totalled € 6,117 thousand, broken down as follows:

- a guarantee of € 3,300 thousand issued in favour of the Optimal Territorial Area Authority (ATO), as required by the Integrated Water Service concession agreement;
- a guarantee of € 100 thousand issued in favour of the Municipality of Milan for the ordinary upgrading of the water network;
- Guarantees of € 2,717 thousand to principals for the performance of contracts.

## Disputes

The value of disputes related to contractors' claims deriving from the performance of procurement contracts and pending as at 31 December 2019 approximately amounts to € 11,2 million at historical prices.

It should be noted that, in the event of losing the case, the related costs can be attributed to the granting bodies, since they are related and result from the works carried out, or recovered through the Water Service tariff.

## Related party transactions

The Municipality of Milan holds 100% of the Company's share capital. Therefore, the Company is entirely controlled by the Municipality of Milan.

The Company has opted for the exemption allowed by paragraph 25 of IAS 24 and therefore it is not required to comply with the disclosure obligation provided for by paragraph 18 of IAS 24 regarding related party transactions and existing balances involving the Municipality of Milan and its subsidiaries (including any commitments to them).

Below we provide a description of the Company's relations with the Municipality of Milan and its subsidiaries.

In 2019, the relations with the Municipality of Milan mainly involved:

- engineering technical support services;
- property management (administrative management, accounting management, mobility management, communications management, customer relationship management) and facility management (services, supplies, maintenance and technical management) of properties owned by the Municipality.

As at 31 December 2019, the Company's receivables from the Municipality of Milan totalled € 2.1 billion, while its payables due to the Municipality of Milan totalled € 2.1 billion. The Company's revenues collected from the Municipality of Milan totalled € 40 million, while the costs incurred as contracting authority for the Municipality of Milan amounted to Euro 46 million. The costs for services recharged by the parent company to MM amounted to € 3.3 million. It should be noted that, for engineering services, the Company has offset receivables and payables from/to the Municipality of Milan in the financial statements as well as revenues and related costs, since it acts as an intermediary between the Municipality of Milan and third-party contractors.

Pursuant to the provisions of IFRS 15, since the Company acts as an agent for the Municipality of Milan and suppliers of engineering services, revenues and receivables arising from the construction of assets are offset against the relevant costs and payables.

The relations with the subsidiaries of the Municipality of Milan mainly concern:

- engineering services in favour of Expo 2015 S.p.A., SEA S.p.A., Milanospoort S.p.A., Arexpo S.p.A., AMAT, M4 S.p.A.;
- costs for the removal of interference of the transport lines with the Engineering and/or Integrated Water Service Business Units' work charged by ATM S.p.A. and companies of the A2A Group;
- supply of water services to all the subsidiaries of the Municipality of Milan;
- purchase of waste disposal services from the Company A2A;

revenues arising from a lease agreement entered into with AMSA S.p.A., in relation to the assets provided to the temporary operator responsible for waste management services for the city of Milan.

### **Significant events after 31 December 2019**

In 2020, the Company finalised an Assessment Report with the Municipality of Milan to assess and crystallise a series of receivables due to MM from the Municipality of Milan with respect to a series of orders of the Engineering Business Unit. For more details, please see the previous paragraph "Income and expense items of exceptional size or incidence".

In addition, the Company has been involved in the emergency related to the Coronavirus pandemic that has swept across the world and hit Italy (specifically Lombardy) especially hard in the months of March and April 2020; any impacts deriving from the effects of the pandemic will not affect the values of the financial statements closed on 31/12/2019, as the event that occurred after the end of the year is not to be considered representative of a situation already in existence on the balance sheet date and so it represents a subsequent non-adjusting event. As at the reporting date, the Covid-19 emergency is still ongoing, therefore estimating its overall economic and financial impact will require collecting more data and information in the future; made this premise, on the basis of the information currently available and on the basis of the estimates, although uncertain, of the possible future impacts generated by Covid 19 (of which more details are provided in the following paragraphs) it was assessed that the company has the ability to manage the economic and financial consequences of this situation and therefore the existence of the going concern assumption on the basis of which the present financial statements have been drawn up is confirmed.

To address this challenge, since the first stage of lockdown ordered by Italy's Government, MM immediately set up a Crisis Unit to implement appropriate procedures and measures for employees and suppliers. Then, in April, the Company set up a Covid-19 Steering Committee to assess the impact of the emergency and

determine the corrective actions required to mitigate its effects. To date, the work of the Covid-19 Steering Committee, which is still ongoing, has brought to light the following with respect to revenues and costs.

#### Estimated impacts of Covid-19 on MM's revenues

As for the Integrated Water Service Business Unit, the analysis of metering data from utility customers with smart meters (sample accounting for nearly 34% of customers in the month of March and 31% in the month of April) pointed to a -4.1% and -6.0% decline in March and April, respectively, compared to the average Annual Consumption (so-called AC) for 2020. MM expects this trend to continue, albeit to a lesser extent, into the upcoming months, considering the forecasts for the Italian economy for 2020 as well as the fact that the flow of people coming into the City of Milan every day (so-called city users) will remain subdued. The reduction mostly concerned non-residential utility customers, chief among them those classified as for “workshop/commercial use” and “other use”. Conversely, consumption by customers in condominiums held relatively steady. Therefore, there will be a decline in overall billing volumes in 2020. However, please note that the Water Tariff Method currently in force (MTI-3) includes adjustments to offset the volume effect at the end of two-year periods, in accordance with the principles of full cost recovery and tariff price-cap.

In addition, overall the Covid-19 emergency has halted construction work related to both the investments of the Integrated Water Service as well as works for which MM, through its Engineering Business Unit, acts primarily as construction manager. The reported amount of revenues arising from work on infrastructure subject to service concession arrangements of the IWS could be lower than expected at the start of the year, leading to savings in terms of funding needs and reducing the costs arising from work on infrastructure subject to service concession arrangements.

With respect to the Engineering Business Unit, as mentioned, revenues for the year 2020 could fall short of expectations as construction work has been halted, but it will be possible to make an estimate only in the upcoming months. The Company is monitoring also this aspect.

Overall, as far as the Housing Business Unit is concerned, considering the nature of the operations it oversees and the structure of the service concession arrangement, the Company believes that the Covid-19 emergency could have a limited impact. No changes in terms of revenues caused by the emergency are expected for the Plant and Real Estate Management Business Unit.

### Estimated impacts of Covid-19 on MM's costs

The impact of the Covid-19 emergency on revenues is accompanied by multiple expected impacts on MM S.p.A.'s cost structure; some items are forecast to rise for causes external to the Company's operations, while others could potentially experience a decline.

One example of incremental costs are the so-called "Covid-19 Costs", i.e. the expenses incurred by the company to address the emergency by enhancing its equipment or services. As part of the Covid-19 emergency MM has incurred, and will continue incurring, additional organisational costs to protect public health and ensure the continuity of the service, such as:

purchases of Personal Protective Equipment (e.g. masks) and medical devices (e.g. infrared thermometers);

chemicals and sanitation products (e.g. alcohol, bleach);

enhanced office cleaning and sanitation services;

urgent purchases of Laptops to allow employees to work remotely;

purchases of training courses to implement smart working.

Some initial estimates for 2020 point to an expense totalling over € 600 thousand for this type of operations; it will be possible to more accurately measure the impact in the upcoming months, based also on how the measures included in future Decrees related to the Covid-19 emergency evolve.

There will also be an increase in costs associated with the Integrated Water Service, as it will be temporarily impossible to recycle sewage sludge at cement factories for agricultural use until the previously mentioned channel reopens. Some initial estimates point to an € 800 thousand increase in costs on an annual basis.

Conversely, the volumes of electricity consumption should be lower than expected in 2020, especially with respect to the Water System operations of the Integrated Water Service, because of the decline in the volumes of water consumption and, therefore, the water introduced into the system.

The slowdown in investing activities as part of the IWS due to the halt of construction work will cause part of the growth in depreciation charges recognised through profit or loss to be postponed from 2020 to 2021. In this regard, as in the case of the 2020-2021 water tariff, as at the reporting date the Area Office had not yet approved the proposed tariff and Action Program in accordance with MTI-3 regulations.

In addition, through the Covid-19 Steering Committee the Company is closely monitoring the actual trend in personnel costs relative to budget forecasts as well as the purchases of external services. Specifically, as for human resource management policies, the Company has undertaken significant initiatives, thanks to the mass adoption of smart working, that involve nearly 800 employees, and it has entered into union agreements with the Works Councils concerning the use of the WSF.

## Remuneration of corporate bodies and independent auditors

### Remuneration of corporate bodies

The table below provides information on directors and statutory auditors, pursuant to Article 2427, point 16 of the Italian Civil Code:

|                             | Amount |
|-----------------------------|--------|
| Directors                   | 81,742 |
| Board of statutory auditors | 36,288 |

### Remuneration of independent auditors

The remuneration payable to independent auditors totalled € 78,856 for the year ended 31 December 2019.

This amount relates to the following activities:

|   | Amount        |
|---|---------------|
| Audit of the financial statements and related activities    | 50,730        |
| Audit of separate annual reports                            | 4,250         |
| Audit of the "Non-financial Statement" and other activities | 23,876        |
| <b>Total as at 31 December 2019</b>                         | <b>78,856</b> |



## Allocation of the profit for the year

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 4,009,670, as follows:

- € 4,009,670 to the extraordinary reserve; considering that the portion of the net profit for the year attributable to the Housing Business Unit amounts to a negative € 784,796, because of, among other things, € 1,098,354 in IT operating costs borne by the Housing Business Unit, we propose drawing down € 1,098,354 from the Voluntary Reserve consisting of the portion of retained earnings attributable to the Housing Business Unit.

*For the Board of Directors  
The Chairman*

**ANNEX 1: INDEPENDENT AUDITORS' REPORT OF THE FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2019**



## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the shareholder of MM SpA

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### **Report on the Audit of the Financial Statements**

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#### **Opinion**

We have audited the financial statements of MM SpA (the Company), which comprise the statement of financial position as of 31 December 2019, the statement of comprehensive income, statement of changes in equity, 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 financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

#### **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 Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

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

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#### **PricewaterhouseCoopers SpA**

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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**Key Audit Matters**

**Auditing procedures performed in response to key audit matters**

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**Measurement of the bad debt provision for the water segment**

*Note 1.7 to the financial statements “Trade receivables”*

The item ‘Trade receivables’ of the financial statements as of 31 December 2019 includes receivables referred to the Integrated Water Service equal to Euro 118,520 thousand, with the relevant bad debt provision amounting to Euro 18,501 thousand.

We focused on this line item in consideration of the materiality of the balance and the high degree of judgement and subjectivity intrinsic to the valuation of that bad debt provision, mostly related to the extreme fragmentation of receivables and to the peculiarity of the segment, which is characterised by its nature of ‘essential service’.

The Company estimates the non-recoverable amount of trade receivables in accordance with the new international financial reporting standard IFRS 9 – Financial Instruments.

The measurement of the bad debt provision was performed by management through an estimate of the expected credit loss based on different criteria depending on the debtor being a private-sector or public-sector entity. The expected credit loss estimate is based on past experience, adjusted to reflect the age of overdue balances, and on forward looking elements that may affect the estimated recovery.

We paid special attention to our audit procedures in this area; in detail:

- We understood and evaluated the credit management process and the treasury cycle (collections) and verified, on a test basis, the operating effectiveness of relevant controls;
  - We performed a critical analysis of management’s assessments, through discussion with the credit manager;
  - We performed a critical analysis of the estimated loss rate, based on the nature of the debtor and the age of the overdue balance;
  - We verified the rates applied to the various types of receivables in order to determine the bad debt provision;
  - We verified, on a test basis, the classification of receivables in the various overdue categories;
  - We performed a critical analysis of overdue balances and of replies to inquiries sent to the Company’s lawyers;
  - We verified, on a test basis, collections subsequent to the reporting date
  - We analysed guarantees in place, if any;
  - Finally, we verified the consistency of the method used by the Company with the requirements of IFRS 9, and the mathematical accuracy of the calculation of expected credit losses.
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**Key Audit Matters**

**Auditing procedures performed in response to key audit matters**

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**Estimation of year-end revenues for the water segment**

*Note 2.1 to the financial statements “Revenues”*

The item ‘Revenues’ of the financial statements as of 31 December 2019 includes revenues referred to the Integrated Water Service equal to Euro 136,283 thousand. Revenues of Integrated Water Service include a component referred to the year that is estimated through systems that use complex algorithms, in particular to calculate estimated consumption.

Given the particular complexity of the algorithm underlying consumption estimates, the amounts to be recognised as receivables and revenues of the year may be determined inaccurately.

We focused our audit procedures on the risk related to the complexity of the system used to calculate and bill revenues of the water segment; in detail:

- We understood and evaluated the procedure flows of the revenue cycle, examined relevant controls and verified their operating effectiveness, on a test basis;
- We understood and evaluated the billing process of the water segment and verified relevant controls, on a test basis, with particular reference, but not limited to, the use of customer master files, controls on meter readings, consumption estimates, the accuracy of the rates applied and the valuation of water bills issued to the final customers;
- We performed substantive tests, on a sample basis, of revenues recognised for the year 2019;
- We performed a critical analysis of the ‘water balance - sources and uses’ prepared by management (the document that specifies incoming and outgoing flows – including losses – of the water resource) and verified its consistency with the figures in the financial statements;
- We performed substantive tests, on a sample basis, of the adequacy of the estimates used to calculate the amounts of bills to be issued at the year end;
- For a sample of bills, we verified the calculation of estimated consumption billed, verifying its compliance with applicable tariff regulations.



### ***Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements***

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the 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 International Standards on Auditing (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 the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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;
- We 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 Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' 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 Company'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 Company to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

#### ***Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014***

At the general meetings held on 20 May 2016, and subsequently on 28 July 2016, the shareholders of MM SpA engaged us to perform the statutory audit of the Company's financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.



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## ***Report on Compliance with other Laws and Regulations***

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### ***Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10***

The directors of MM SpA are responsible for preparing a report on operations of MM SpA as of 31 December 2019, including its consistency with the relevant financial statements and its compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of MM SpA as of 31 December 2019 and on its compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations mentioned above is consistent with the financial statements of MM SpA as of 31 December 2019 and is prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the 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 MM SpA 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.

Pursuant to 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, 3 July 2020

PricewaterhouseCoopers SpA

*Signed by*

Giulio Grandi  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*





**RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE  
AI SENSI DELL'ARTICOLO 14 DEL DLGS 27 GENNAIO 2010,  
N° 39 E DELL'ARTICOLO 10 DEL REGOLAMENTO (UE) N°  
537/2014**

**MM SPA**

**BILANCIO D'ESERCIZIO AL 31 DICEMBRE 2019**



## **Relazione della società di revisione indipendente**

ai sensi dell'articolo 14 del DLgs 27 gennaio 2010, n° 39 e dell'articolo 10 del Regolamento (UE) n° 537/2014

All'azionista di MM SpA

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### **Relazione sulla revisione contabile del bilancio d'esercizio**

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#### **Giudizio**

Abbiamo svolto la revisione contabile del bilancio d'esercizio della società MM SpA (la Società), costituito dalla situazione patrimoniale-finanziaria al 31 dicembre 2019, dal conto economico complessivo, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalle note al bilancio che includono anche la sintesi dei più significativi principi contabili applicati.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Società al 31 dicembre 2019, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05.

#### **Elementi alla base del giudizio**

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

#### **Aspetti chiave della revisione contabile**

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

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**Aspetti chiave**

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**Procedure di revisione in risposta agli aspetti chiave**

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**Valutazione della congruità del fondo svalutazione crediti del settore idrico**

*Nota Esplicativa n.1.7 del bilancio d'esercizio "Crediti Commerciali"*

Nella voce "Crediti commerciali" del bilancio al 31 dicembre 2019 sono iscritti crediti riferiti al Servizio Idrico Integrato pari a Euro 118.520 migliaia, il cui relativo fondo svalutazione crediti è pari a Euro 18.501 migliaia.

Ci siamo focalizzati sul fondo svalutazione crediti in considerazione della significatività dello stesso e dell'elevato grado di giudizio professionale e complessità insito nella sua valutazione in buona parte correlato all'estrema frammentazione dei crediti e alla tipicità del settore, che si contraddistingue per la "natura essenziale" del servizio offerto.

La Società stima il valore inesigibile dei crediti commerciali sulla base delle prescrizioni dettate dal principio contabile internazionale IFRS 9 "Financial Instruments".

La valutazione del fondo svalutazione crediti è stata condotta dal management della società mediante la stima dell'aspettativa della perdita attesa (expected loss) differenziata in base alla natura privata o pubblica del debitore. La stima dell'aspettativa di perdita attesa scaturisce dall'esperienza storica, riparametrata sull'anzianità dei saldi scaduti, e su elementi prospettici (*forward looking elements*), che possano inficiare le aspettative di recupero.

Particolare attenzione è stata prestata alle procedure di revisione in tale area, che hanno compreso:

- la comprensione e valutazione del processo di gestione del credito e del ciclo tesoreria (incassi) e la verifica, su base campionaria, dell'efficacia operativa dei controlli rilevanti;
- l'analisi critica delle valutazioni effettuate dalla Società tramite colloqui con il credit manager;
- l'analisi critica della stima del tasso di perdita atteso, differenziato in base alla natura del debitore e all'anzianità dello scaduto;
- la verifica del tasso applicato sulle differenti tipologie di crediti oggetto di valutazione per la stima del fondo svalutazione crediti;
- la verifica su base campionaria dell'imputazione dei crediti alle differenti fasce di scaduto;
- l'analisi critica dei saldi scaduti e delle risposte alle lettere di circolarizzazione inviate ai legali della Società;
- la verifica su base campionaria degli incassi successivi alla data di chiusura del bilancio;
- l'analisi delle garanzie eventualmente in essere;
- infine, abbiamo verificato la coerenza della metodologia utilizzata dalla Società con le prescrizioni dettate dal principio contabile internazionale IFRS 9 e l'accuratezza del calcolo matematico di determinazione delle perdite attese.

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**Aspetti chiave****Stima dei ricavi di fine anno del settore idrico**

*Nota Esplicativa n.2.1 del bilancio d'esercizio "Ricavi"*

La voce "Ricavi" del bilancio chiuso al 31 dicembre 2019 comprende un valore di ricavi riferiti al Servizio Idrico Integrato pari a Euro 136.283 migliaia. I ricavi riferiti al Servizio Idrico Integrato incorporano una componente maturata nell'esercizio stimata attraverso sistemi che utilizzano algoritmi complessi, in particolare per il calcolo stimato dei consumi.

Data la particolare complessità dell'algoritmo sottostante la stima dei consumi, si potrebbe generare un'errata determinazione degli importi da registrare tra i crediti ed i ricavi dell'esercizio.

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**Procedure di revisione in risposta agli aspetti chiave**

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Abbiamo indirizzato le nostre procedure di revisione sul rischio legato alla complessità del sistema di determinazione e fatturazione dei ricavi del settore Servizio Idrico Integrato svolgendo le seguenti verifiche:

- la comprensione e valutazione dei flussi procedurali del ciclo ricavi, la rilevazione dei controlli rilevanti, nonché la verifica su base campionaria dell'efficacia operativa degli stessi;
- la comprensione e valutazione del processo di fatturazione dei ricavi del settore idrico e la verifica, su base campionaria, dei controlli rilevanti, con particolare riguardo, ma non esclusivo, all'utilizzo delle anagrafiche clienti, ai controlli sulle letture dei contatori, alla stima dei consumi, alla correttezza delle tariffe applicate e alla valorizzazione delle bollette emesse ai consumatori finali;
- lo svolgimento di procedure di validità su base campionaria sui ricavi contabilizzati nell'esercizio 2019;
- l'analisi critica del "bilancio idrico a fonti-impieghi" predisposto dal management (ovvero il documento che descrive le quantità dei flussi in entrata e in uscita – comprese le perdite – della risorsa idrica) verificandone la coerenza con i dati di bilancio;
- l'esecuzione di procedure di validità su base campionaria sulla congruità delle stime che determinano l'importo delle bollette da emettere di fine esercizio;
- per un campione di bollette abbiamo verificato la determinazione dei consumi presunti presenti in bolletta, accertando la conformità degli stessi rispetto alla regolazione tariffaria.

### ***Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio***

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del D.Lgs n° 38/05 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Società di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per una adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

### ***Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio***

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche prese dagli utilizzatori sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti o eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;

- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori, inclusa la relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di una incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Società di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

#### ***Altre informazioni comunicate ai sensi dell'articolo 10 del Regolamento (UE) 537/2014***

L'assemblea degli azionisti di MM SpA del 20 maggio 2016, integrata dalla successiva assemblea degli azionisti in data 28 luglio 2016 ci ha conferito l'incarico di revisione legale del bilancio d'esercizio della Società per gli esercizi dal 31 dicembre 2016 al 31 dicembre 2024.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'articolo 5, paragrafo 1, del Regolamento (UE) 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'articolo 11 del citato Regolamento.

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***Relazione su altre disposizioni di legge e regolamentari***

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***Giudizio ai sensi dell'articolo 14, comma 2, lettera e), del DLgs 39/10***

Gli amministratori della MM SpA sono responsabili per la predisposizione della relazione sulla gestione della MM SpA al 31 dicembre 2019, incluse la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n° 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione, con il bilancio d'esercizio della MM SpA al 31 dicembre 2019 e sulla conformità della stessa alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione sopra richiamata è coerente con il bilancio d'esercizio della MM SpA al 31 dicembre 2019 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'articolo 14, comma 2, lettera e), del DLgs 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

***Dichiarazione ai sensi dell'articolo 4 del Regolamento Consob di attuazione del DLgs 30 dicembre 2016, n. 254***

Gli amministratori della MM SpA sono responsabili per la predisposizione della dichiarazione non finanziaria ai sensi del DLgs 30 dicembre 2016, n.254.

Abbiamo verificato l'avvenuta approvazione da parte degli amministratori della dichiarazione non finanziaria.

Ai sensi dell'articolo 3, comma 10, del DLgs 30 dicembre 2016, n. 254, tale dichiarazione è oggetto di separata attestazione di conformità da parte nostra.

Milano, 3 luglio 2020

PricewaterhouseCoopers SpA



Giulio Grandi  
(Revisore legale)