



MM S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

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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

Report on Operations as at 31/12/2021

Corporate structure and Business Units

MM S.p.A. 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, construction management, safety coordination, testing activities and support to the Sole Project Manager (RUP – *Responsabile Unico del Procedimento*), also providing "on-demand" services, which can be activated on demand based on the Municipality's needs.

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 2037¹. Operations include all the stages of the process: from groundwater withdrawal to water purification and quality control before it is distributed to customers, from wastewater collection to treatment at the dedicated plants, up to its release back into the environment. Starting from the 2020-2023 regulatory period, MM's IWS management operations have been extended to the cleaning of the City of Milan's roadside drains and stormwater drainage infrastructure, as well as to the management of the groundwater wells for irrigation use owned by the Municipality.

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; moreover, in 2018 it decided to entrust to MM also the preparatory activities for the allocation of the housing units under its management. This was

¹ The initial five-year assignment was revised in 2007 on a twenty-year basis and subsequently in 2015 on a thirty-year basis expiring in 2037, in line with the time horizon of the Area Plan.

done without prejudice to the allocation procedure, which remains the responsibility of the Municipality.

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

- In **2015**, **M.I.R. Srl**², which owns some public movable and real estate property instrumental to the waste collection and disposal service, leased to AMSA S.p.A. (the interim provider of environmental hygiene services) for an annual fee;
- 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 the Municipality of Milan and finish construction work on Naples's underground railway system under the outstanding agreement between MM and Metropolitana di Napoli.

Since late 2019, MM has developed **additional services for the municipal group** as part of its **Field Operations**, handling facility management for the city's school buildings, the lifting systems serving underpasses, and the routine maintenance of sports facilities owned by the Municipality of Milan and operated by Milanospport; specifically:

- 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**. Furthermore, MM manages the reporting system relating to the facility management of school buildings. Following the Municipality of Milan's approval of the guidelines for entrusting MM with the **routine maintenance of municipal school buildings**, in November 2021 a draft agreement was approved to entrust MM S.p.A. with the integrated management, **according to the *global service model***, for a term of 25 years.
- Since November 2019, MM has been supporting the Municipality of Milan in **managing and renovating the city's underpasses** (numbering approximately thirty), servicing the electrical systems and equipment associated with the pumps as well as command and control panels, in addition to cleaning and draining waste ponds. In September 2021, a four-year **service agreement was entered into with the Municipality of Milan for the rainwater lifting stations** of the municipal underpasses³.
- For a period of four years starting from February 2020⁴, MM is responsible for the **management and maintenance of the sports facilities** owned by the Municipality and operated by Milanospport under a service concession arrangement. The services awarded to MM include routine, periodic, scheduled and emergency maintenance of the Facilities; in addition, the Company is to operate the heating systems and improve the energy efficiency of HVAC, plumbing and electrical systems.

In the course of 2021, following the Municipality of Milan's approval of the Guidelines for the subsequent award to MM S.p.A. of the **management of the municipal green areas**, the **management of Public Housing Property green areas got underway**. As part of this management scheme, MM is responsible for the routine and extraordinary maintenance of the green

² 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.

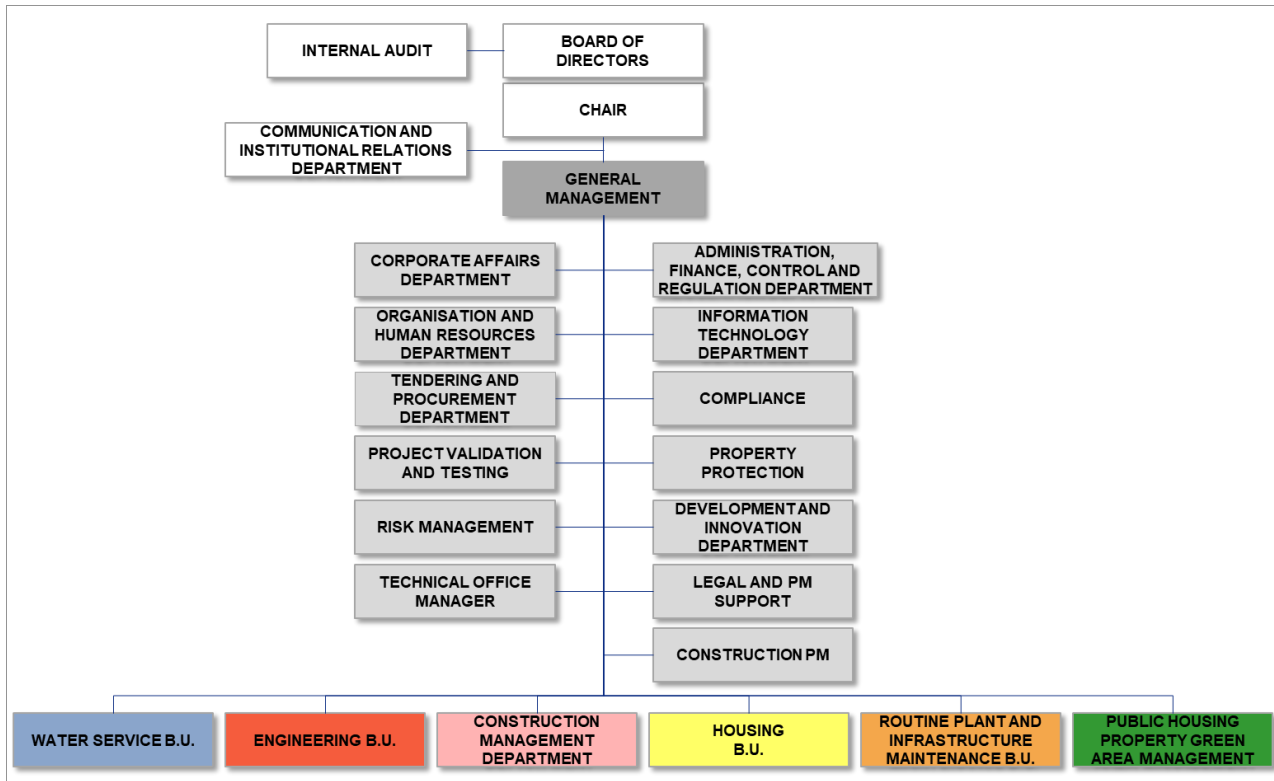
³ From the second year onwards, the Company will continue to deliver its management service only subject to confirmation by the Municipality of Milan that the commitment relating to the relevant expenditure has been undertaken.

⁴ The contract is effective as of 1 February 2020, has a term of 4 (four) years, and shall renew for an additional 4 (four) years unless terminated.

areas of Public Housing Property, management and monitoring of Emergency Response activities, maintenance and updating of the survey of Public Housing Property green assets.

Organisational structure

Below is MM’s corporate organisation chart as at 31 December 2021.



In 2021, in addition to continuing with the change management efforts necessary for an effective and efficient implementation of the new processes and responsibilities entrusted to the company functions, the Company underwent some reorganisation resulting from the expansion of its business scope following the award of new activities by the Municipality of Milan.

In the coming years, the Company will continue its reorganisation efforts with a view to streamlining the processes under management so as to respond effectively to the changes of the business in which it engages.

Staff Departments/Functions

To meet the requirements arising from the growth of the Company’s operations and effectively address new operational needs, some Staff Departments went through a reorganisation.

Effective 1 January 2021, the **Risk Management (RMA)** function was established. It is responsible for defining the risk management objectives and activities relevant to the Company, collaborating on the definition of audit and compliance plans relating to the control of risk mitigation activities, and sharing information useful for reporting to senior management in the risk management area.

Effective 15 March 2021, the function **Construction PM (RCO)**, reporting to the Managing Director, was established. It is responsible for managing the regulatory aspects of the Project Manager activities during construction.

Effective 1 May 2021, the **Tendering and Procurement Department (DAPA)** underwent internal reorganisation that resulted in a redistribution of ownerships among the existing functions:

- The Water Service Procurement Management (GAS) and Housing Procurement Management (GAQ) functions were discontinued;
- The Engineering Procurement Management (GAI) function was renamed **Engineering and Housing Procurement Management (GIC)**;
- The Cross-sector Procurement Management (GAT) function was renamed **Water Service and Staff Procurement Management (GIS)**;
- The Supplier Certification and Certification System (QFO) function was tasked with procurement planning activities and was therefore renamed **Procurement Planning and Supplier Certification (PQF)**.

Effective 1 October 2021, the **Legal and PM Support (LSR)** function was tasked with the management of criminal proceedings involving the Company or its employees.

Effective 2 November 2021, the Strategic Planning and Regulation (PSR) as part of the **Administration, Finance, Control and Regulation Department (DACR)** was discontinued. Strategic planning activities were allocated within the Department, while activities concerning regulatory matters and IWS tariff definition were allocated within the Quality Standards Monitoring and Tariff Regulation (MSQ) function, which was renamed **IWS Regulation and Tariffs (RES)**.

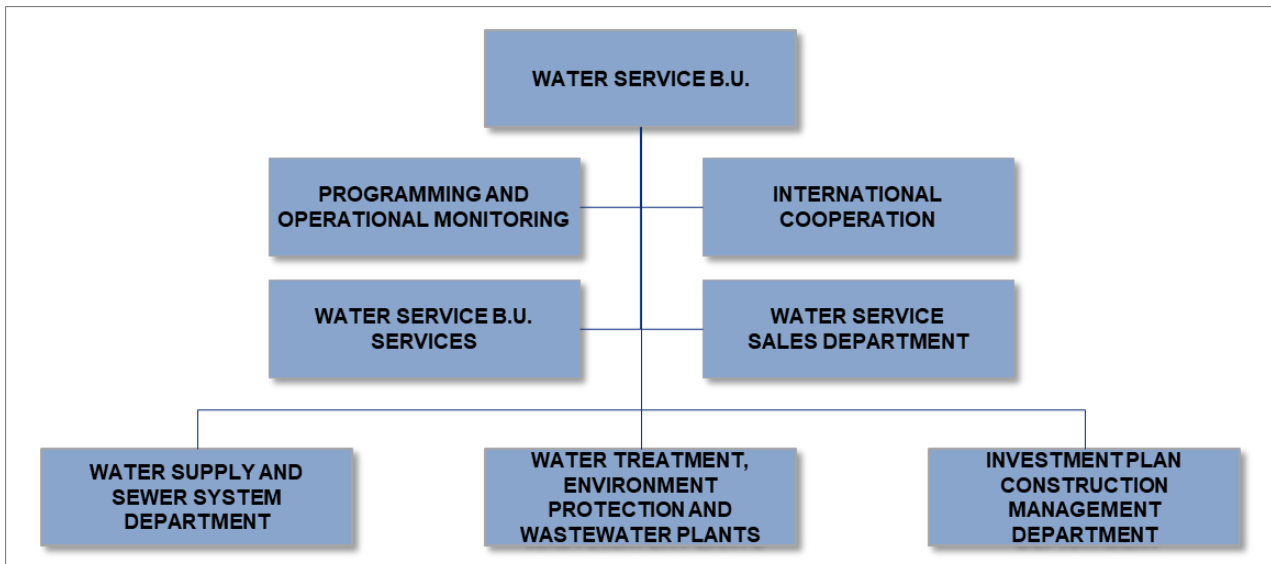
Water Service Business Unit

Effective 8 February 2021, the **Routine Maintenance (MAO)** function undertook responsibility for managing scheduled routine maintenance activities, as well as activities being reported by the relevant body in charge of roadside drain maintenance.

Effective 6 April 2021, the Water Service BU Programming (PDV) function was assigned the task of controlling and operationally monitoring the appropriate application of the requirements defined by the water regulation. The function was renamed **Water Service BU Programming and Operational Monitoring (PMD)**.

Effective 1 July 2021, the activities managed by the Remote Control (TEL) function, which was discontinued, were assigned to the **Plant Operation and Remote Control (ESI)** function.

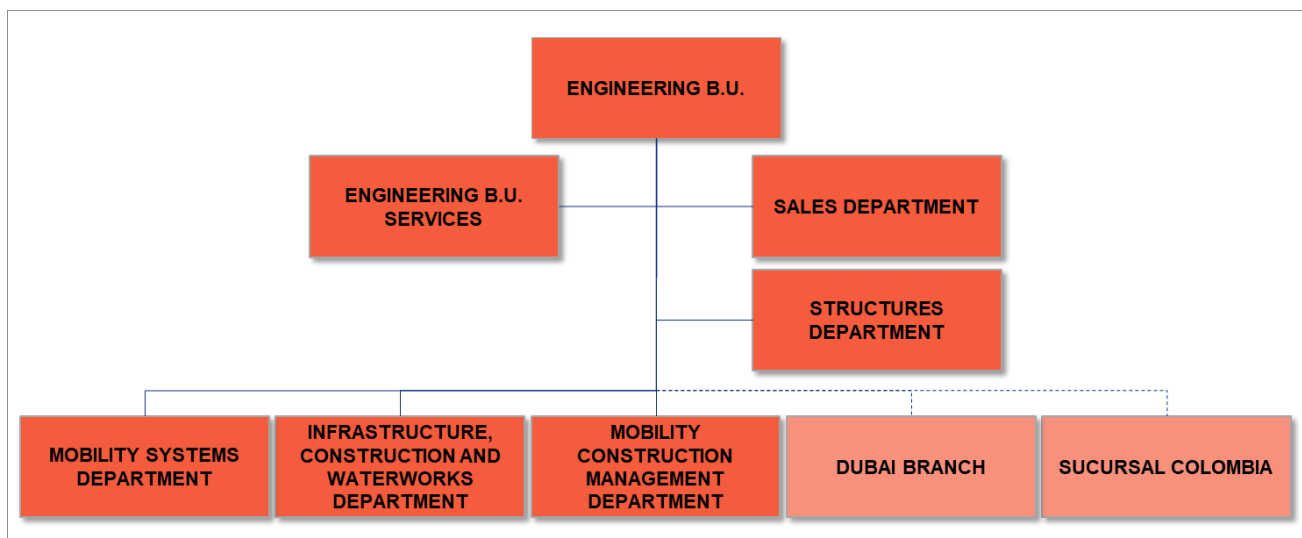
Effective 1 July 2021, the **Commercial Water Service (COS)** function was established, reporting directly to the Water Service Business Unit (DVSI), with a view to monitoring the end-to-end process, i.e. from initial contact with the customer up to invoicing and possible recovery of outstanding receivables, ensuring consistency in the management of activities concerning the commercial nature of the integrated water service. The following activities and functions were incorporated into this function: **Customers (CLI)**, **IWS Credit Management (GCI)**, **Customer Billing (BCL)**, **Metering Management (GEL)**.



Engineering Business Unit

Effective 15 March 2021, the **Dubai Branch (BDU)** and **Sucursal Colombia (SCO)** functions were established.

Effective 15 November 2021, the **Fire Prevention, Infrastructure and Construction (AIE)** function, directly reporting to the Infrastructure and Construction (PIE) function, was established within the Infrastructure, Construction and Waterworks department (DIEI).

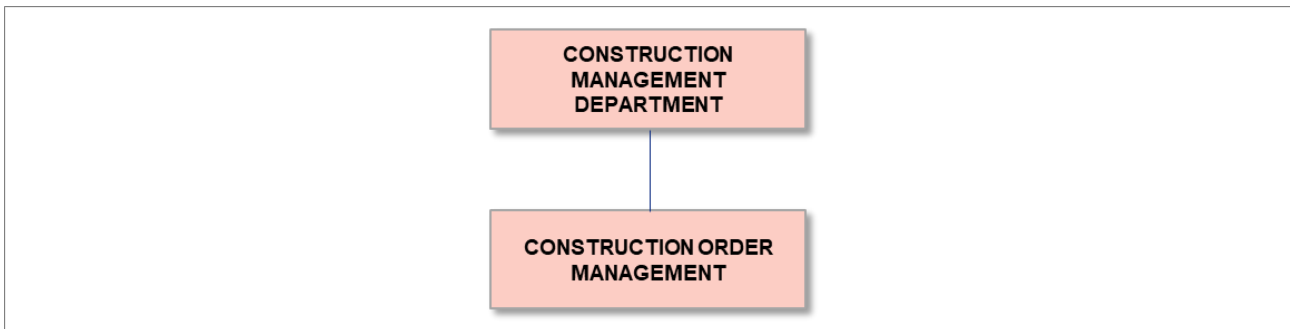


Construction Management Department

Effective 15 March 2021, the **Construction Management Department (DICM)** was allocated to report directly to the Managing Director (DG) to ensure a focused and effective delivery of the execution stage of the contracts entrusted by the Municipality of Milan and its subsidiaries concerning urban infrastructure, housing and buildings.

The **Construction Order Management (GCC)** function, reporting directly to the Construction Management Department (DICM) was established. It is responsible for coordinating the resources

and activities carried out by the Construction Manager and Safety Coordinator at the execution stage (DLC) e and Worksite Workers (ADC) functions.

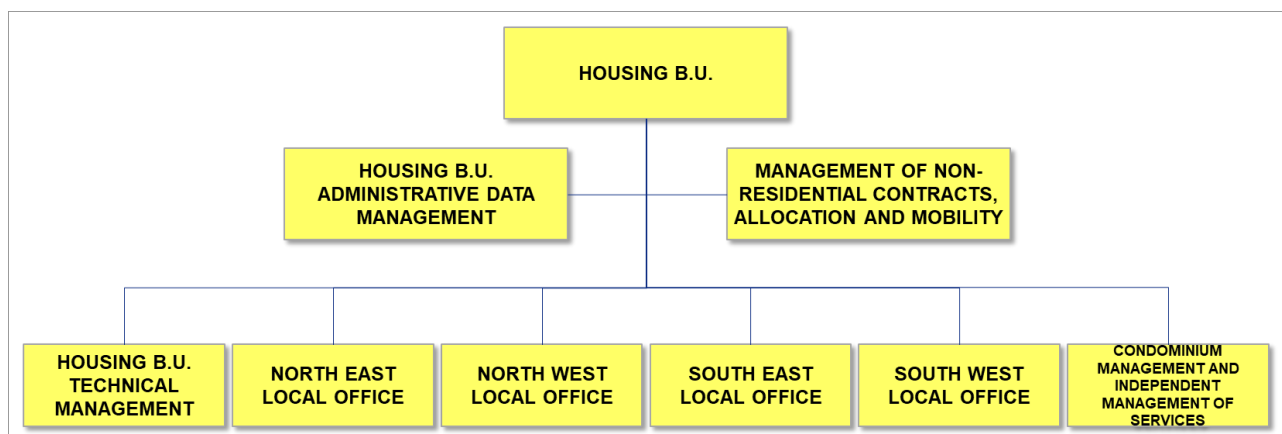


Housing Business Unit

Effective 10 January 2021, the Housing Business Unit underwent an organisational change to ensure the effective management of the activities related to the design and execution of works on Public Housing Property. Design and Construction Management activities were allocated to the **Housing BU Technical Management (GTD)** function, which resulted in the need to define a new organisational set-up for the function. Therefore, new resources were hired and existing resources were transferred to the function in order to reallocate ownerships.

The Special Projects Development (SPS) function was renamed **Housing BU Design and Planning (PPD)** and was assigned the task of planning works.

The Property (PRO) function was renamed **Housing BU Construction and Maintenance (CMD)** and entrusted with the management of the execution stage of works.



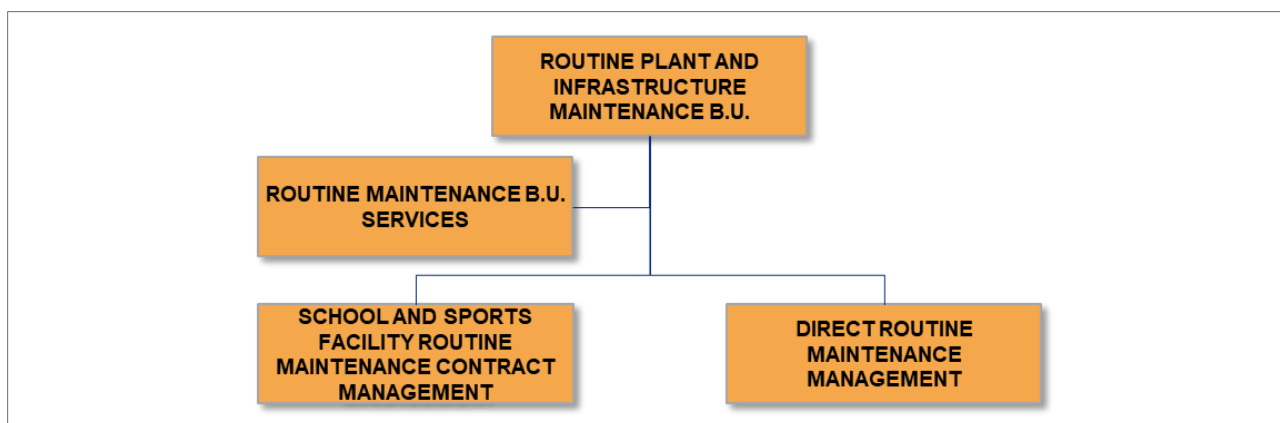
Routine Plant and Infrastructure Maintenance Business Unit

Effective 15 March 2021, the Routine Plant and Infrastructure Maintenance Business Unit underwent internal reorganisation that resulted in *ownerships* being reallocated among the existing functions.

The Routine Maintenance Contract Management (GMO) function was renamed **Routine Maintenance BU Services (SDM)** and was assigned the task of ensuring a system for managing the maintenance reporting system and relations with customers through a CRM (Customer Relationship Management) service; planning and monitoring the progress of work orders in terms of time and costs, ensuring the preparation of reports to be submitted to internal and external

stakeholders; coordinating the sourcing of external services necessary for work order activities; supervising the execution stage of maintenance agreements.

The School Routine Maintenance Contract Management (GMS) function was renamed **School and Sports Facility Routine Maintenance Contract Management (GMS)**. It was tasked with managing the activities related to the execution stage of contracts concerning routine maintenance of schools and sports facilities; defining and coordinating the planning and scheduling of maintenance works for schools and sports facilities to be carried out with external contractors or in-house teams of the Direct Routine Maintenance Management (GMD) function; monitoring the progress of contracts for routine maintenance of schools and sports facilities in terms of time and costs, ensuring the preparation of reports to be submitted to internal and external stakeholders.



Public Housing Property Green Area Management Function

Effective 20 September 2021, the **Public Housing Property Green Area Management (VER)** function was established to manage the activities related to the green areas of the Municipality of Milan.

In the initial phase, the function will monitor the activities concerning the insourcing of the management service of green areas of public housing property, delivering – either through direct maintenance and/or procurement contracts – the routine and extraordinary maintenance service for public housing property green areas, managing and monitoring Emergency Response activities, maintaining and updating the survey of public housing property green assets, supporting the Housing Business Unit in defining strategies aimed at ensuring the continuous improvement of maintenance activities concerning public housing property green assets.



Management and control bodies

Board of Directors

Chairman	<i>Simone Dragone</i>
Director	<i>Loredana Bracchitta</i>
Director	<i>Roberta Di Vieto</i>
Director	<i>Giuseppina Lanza</i>
Director	<i>Alessandro Russo</i>

Board of Statutory Auditors

Chairman	<i>Achille Lanfranchi</i>
Standing Statutory Auditor	<i>Roberto Cassader</i>
Standing Statutory Auditor	<i>Ilaria Moretti</i>

Independent Auditors

PricewaterhouseCoopers S.p.A.

Legal and regulatory aspects

Regulatory framework

Below are the main **legislative measures implemented in 2021** that impacted MM S.p.A.'s operations:

- **Italian Public Procurement Code – Changes introduced by Law no. 108 of 29 July 2021 converting Law Decree no. 77 of 31 May 2021 (the so-called “Simplifications bis” Decree)**

Law No. 108 of 2021 made a few amendments to Law Decree No. 77 of 2021 (known as “Simplifications bis” Decree), although the number of articles increased significantly from 67 to 122.

One of the changes reflected in the aforementioned Law with reference to public works is the introduction (under **paragraph 5 of Article 47** entitled “*Equal opportunities and labour inclusion in public contracts, the National Recovery and Resilience Plan and the National Plan for Complementary Investments*”) of **subparagraph d-bis** whereby the legislator indicated as a further incentive the awarding of an additional score to the bidder or applicant that “*in the past three years has complied with the obligations set forth in Law 68 of 12 March 1999*” (rules for the right to work of the disabled).

More specifically, companies with specific staffing levels are required to (i) report on the situation of male and female personnel, and (ii) comply with the provisions of current legislation on compulsory employment and recruitment obligations, with priority given to young people, women and persons with disabilities, and other incentives set forth for in public tenders.

The new features of the “Simplifications bis” Decree, explained below, remained unchanged after the Decree was written into law.

Article 47-ter extends from 31 December 2021 to 31 December 2022 the deadline from which holders of concessions – already existing at the date of entry into force of the Public Procurement Code (i.e. 19 April 2016) – are required to award, by means of public tenders, a portion equal to 80% of work and service contracts.

Article 47-quater sets out **incentives** for the protection of competition in public contracts, intended for small and medium-sized enterprises (SMEs), related to the investments set out in the National Recovery and Resilience Plan (NRRP) and the National Complementary Plan (NCP).

Article 48 introduces **simplification measures** with regard to the awarding of public contracts under the NRRP and the NCP in relation to procedures concerning public investments funded, in whole or in part, with resources set out thereunder and under schemes co-financed by EU structural funds. Specifically, this Article mentions (i) the use, under certain conditions, of a negotiated procedure without prior publication of a call for tenders, (ii) the awarding of an incentive score for the use of specific electronic methods and tools in the design stage, such as those used for construction and infrastructure modelling (aka BIM methodology), (iii) the opinion given by the Higher Council for Public Works, exclusively on technical and economic feasibility projects of public works lying within the province of the State or in any case financed by the State to an extent of at least 50%, for an amount equal to or greater than € 100 million.

Article 49 introduces amendments to the regulation of **subcontracting**, broken down into amendments with immediate effect and amendments with deferred effect as of 1 November 2021. In particular, with immediate effect from the date of entry into force of the Law Decree and until 31 October 2021, by way of derogation from Article 105(2) and (5) of the Public Procurement Code, subcontracting may not exceed 50% of the total amount of the contract (thereby abolishing Article 1(18), first sentence, of Law Decree No. 32/2018, known as the “*Sblocca Cantieri*” Decree, which, until 30 June 2021, had set said limit at 40%).

A number of amendments were also made to Article 105 of the Code to come into force from 1 November 2021 until 30 June 2023, including (i) the removal of the 30% limit regarding the subcontracting of “super-specialised works”; (ii) requiring the contracting authorities to state in the tender documents, based on appropriate grounds, the services or works covered by the contract to be performed by the successful bidder; (iii) requiring the subcontractor itself to certify compliance with the special certification requirements laid down by the Code in relation to the subcontracted service; (iv) introducing the joint and several liability of the main contractor and the subcontractor towards the contracting authorities in relation to the services covered by the subcontract. The regulation governing subcontracting was further amended by European Law 238 of 23 December 2021, as described below.

Article 50 lays down provisions on the **execution stage of public contracts** with a view to ensuring that the investments under the NRRP and the NCP as well as schemes co-financed by the EU structural funds are implemented on time. An “acceleration bonus” is also introduced for cases of early completion of works, while the amount of penalties for late completion is raised.

Article 51 covers several provisions of the previous “Simplifications decree” (Law Decree 76/2020), concerning – in particular – (i) the **direct or otherwise simplified awarding of public contracts below certain value amounts (known as sub-threshold)**, (ii) anti-mafia checks and the suspension of the execution of public works, extending these procedures until 30 June 2023, establishing – among other things – direct awarding for works below € 150,000 and for services and supplies, including engineering and architecture services and design activities, below € 139,000.

The Law being referred to also covers the regulation on the **Technical Advisory Board (TAB)**, specifying that the parties may choose its members from among their own employees, self-employed persons and collaborators. Moreover, following the amendments most recently made in order to discourage and sanction any conduct aimed at circumventing or hindering the timely execution of the TAB’s decision, in the event of civil proceedings – if the decision setting forth the judgement fully reflects the TAB’s decision – the court will rule out the recovery of the costs incurred by the successful party that did not comply with the decision, such cost referring to the period following the issuing of the aforesaid decision, ordering it to pay the costs incurred by the unsuccessful party in respect of the same period and to make a further payment to the state treasury in the same amount as that already paid in respect of fees (“*contributo unificato*” - lump sum payment in respect of court fees relating to the case payable on instituting proceedings), without prejudice to the applicability of Articles 92 and 96 of the Italian Code of Civil Procedure. Law No. 233 dated 29 December 2021 (whereby Law Decree No. No. 152 dated 6 November 2021 was written into law) introduced further amendments to the regulation governing the Technical Advisory Board, as described below.

Article 52 sets forth, among other provisions, **measures to reduce the number of contracting authorities** for procedures related to work to be completed under the NRRP and the NCP,

extending to 2023 the effectiveness of a number of rules laid down in Article 1 of Law Decree 32/2019 concerning (inter alia) the discontinuance of the prohibition of “integrated procurement” and of the obligation to provide a list of three subcontractors.

Provisions also include the abolishment of the need for the government to report to Parliament on the effects of the experimental discontinuance of rules of the Code under Article 1 of Law Decree 32/2019 for the years 2019 and 2020.

Article 53 sets forth **rules for simplifying the procurement of IT goods and services related to the implementation of the NRRP**. More specifically, reliance can be made on direct awarding for contracts below the EU thresholds, allowing however the use of this procedure when, under certain conditions, reliance on other procedures is not possible.

Article 54 requires that the regulations on the anti-mafia registry of operators – applicable to **reconstruction work relating to the earthquake occurred in Abruzzo in 2009** – are applied to reconstruction work relating to the earthquake occurred in central Italy in 2016.

Article 55 envisages **simplification measures** for new construction, upgrading and safety upgrading work **relating to public buildings used for school and educational purposes to be implemented under the NRRP** (paragraph 1(a)) as well as measures relating to the digital transition of schools, combating school drop-out and encouraging training of school personnel to be implemented under the NRRP (paragraph 1(b)).

Article 56 relates to the implementation of the programmes lying within the province of the Ministry of Health included in the NRRP concerning **healthcare buildings**.

- **Law No. 106 dated 23 July 2021 converting Law Decree No. 73 dated 25 May 2021 on “Urgent measures related to the Covid-19 emergency for businesses, employment, youth, health and local services” (Official Journal general series No. 176 of 24 July 2021)**

Attention is drawn to **Article 1-septies** containing urgent provisions on the **revision of material prices in public contracts** to cope with the exceptional price increases recorded in the first half of 2021.

In particular, in order to cope with the exceptional increases in the prices of certain construction materials, for contracts in progress on the date the aforesaid Law came into force, the Ministry for Infrastructure identified – within 31 October 2021 through an ad hoc decree – upward or downward percentage changes in excess of 8% occurring in the first six months of 2021, in respect of the individual prices of the most significant construction materials.

In the case of construction materials, upward or downward adjustments are made, including by way of derogation from the provisions of Article 106(1)(a) of Legislative Decree 50/2016 (or Article 133 of Legislative Decree 163/2006), net of any adjustments already accounted for.

With regard to work completed and accounted for in the years prior to 2021, the changes identified in the decrees adopted pursuant to Article 133(6) of Legislative Decree 50/2016 apply.

Adjustments are determined by applying to the quantities of the individual materials used in the work performed and accounted for by the construction manager from 1 January 2021 until 30 June 2021 the upward or downward changes in the relevant prices identified by the decree under paragraph 1 with reference to the date of the bid, exceeding 8% if referring only to 2021 and exceeding 10% overall if referring to several years.

As to **upward changes**, the contractor must, under penalty of forfeiture, submit a request for adjustment to the contracting authority within fifteen days from the date the Ministerial Decree is published in the Official Journal. In the case of **downward changes** the procedure is initiated as a matter of course by the contracting authority within fifteen days from the aforesaid date. The Project Manager ascertains the contracting authority's credit and proceeds with any recovery.

Each contracting authority makes adjustments to the extent of 50% of the funds specifically set aside for contingencies in the economic plan of each work, without prejudice to amounts relating to contractual commitments already entered into, as well as any further amounts available to the contracting authority in respect of the same work and allocated annually.

The amounts deriving from bidding rebates and the amounts available for other completed work pertaining to the same contracting authority and for which the relevant testing has been carried out and the certificates of proper execution have been issued in compliance with the expenditure accounting procedures may also be used, within the limits of the residual authorised expenditure available at the date of entry into force of the Law whereby the aforesaid decree was written into law.

In the event of insufficient funds, reliance will be made on a Price Adjustment Fund – with funding totalling € 100 million for 2021 – established by the Ministry of Infrastructure and Sustainable Mobility.

- **Ministry of Infrastructure Decree of 23 November 2021**

On 23 November 2021, the Decree of the Ministry of Infrastructure and Sustainable Mobility was published in the Official Journal, concerning the *“identification of upward or downward percentage changes in excess of 8% occurring in the first half of 2021 regarding individual prices of the most significant construction materials”*.

This Decree implemented the provisions of Article 1-*septies*(1) of Law Decree 73 dated 25 May 2021, as written into law and amended by Law No. 106 dated 23 July 2021, known as *“Sostegni-bis”* concerning *“Revision of material prices in public contracts”*.

The amendment – derogating from the provision of Article 106(1)(a) of Legislative Decree 50/2016 as subsequently amended and supplemented (the *“Code”*) – is of an exceptional nature, as it introduces an extraordinary upward or downward price adjustment scheme with specific reference only to work executed and accounted for in the period between 1 January 2021 and 30 June 2021.

The adjustment will be determined *“by applying to the quantities of the individual materials used (...) the upward or downward changes in the relevant prices identified (...) with reference to the date of the Bid, in excess of (i) 8% if referring to 2021 only and (ii) 10% overall if referring to several years”* (see Article 1-*septies*(3) of Law Decree 73/2021, as written into law and amended by Law 106/2021). In any case, for the purposes of payment of such adjustments, the regulations do not contemplate *“halving”* the adjustment, as is customary for work contracts.

As a result, even for this type of contract contractors will have to be paid the full amount that exceeds the reference risk – whatever that may be – and not only the relevant 50%.

With regard to the prerequisites for the application of the aforementioned legislation, the following should be noted:

- It must be a contract *“in course of performance”* on 25 July 2021;

- With regard to work performed and accounted for as of 1 July 2021, in respect of which there is still no specific revision regulation in place, the reserve mechanism will instead remain applicable;
- the application of the amendment under Article 1-*septies* of Law Decree 73/2021, as written into law and amended by Law 106/2021, also applies with respect to contracts entered into under the previous procurement code (i.e. Legislative Decree 163/2006), derogating from the provisions of Article 133(4), (5), (6) and (6-bis).

From a strictly operational perspective, upon receipt of the contractor's request the contracting authority is required to proceed with the adjustments (see Article 1-*septies*(6) of Law Decree 73/2021, as written into law and amended by Law 106/2021):

- to the “extent of 50% of the funds specifically set aside for contingencies in the economic plan of each work, without prejudice to amounts relating to contractual commitments already entered into, as well as any further amounts available in respect of the same work and allocated annually”.
- with the possibility, however, of using “the amounts deriving from bidding rebates, provided that they have not been allocated for other uses under the applicable regulations” as well as “amounts available for other completed work pertaining to the same contracting authority and for which the relevant testing has been carried out and the certificates of proper execution have been issued in compliance with the expenditure accounting procedures, within the limits of the residual authorised expenditure available on 25 July 2021”.

However, if the contracting authorities do not have the funds available for price adjustments, they may access an ad hoc Price Adjustment Fund maintained by the relevant Ministry under Ministerial Decree dated 30 September 2021, allowing contracting authorities to meet any requests for adjustment in the event of insufficient internal funds.

In order to ensure conduct uniformity and consistency, on 25 November 2021 the Ministry for Infrastructure and Sustainable Mobility published a Circular Letter on *“Procedures for the calculation and payment of price adjustments regarding the most significant construction materials pursuant to Article 1-*septies* of Law Decree 73/2021, as written into law and amended by Law 106/2021”*.

- **Law No. 206 dated 26 November 2021 – Delegation of power to the government for the efficiency of civil proceedings and for the revision of the regulation of alternative dispute resolution instruments and urgent measures for the rationalisation of proceedings concerning personal and family rights as well as execution of judgement (OJ of the Italian Republic No. 292 dated 9 December 2021)**

The Government is empowered to adopt, within one year from the date of entry into force of the law under review, one or more legislative decrees on the formal and substantive reorganisation of civil proceedings by making amendments to the Code of Civil Procedure and to the special procedural laws, with a view to the objectives of simplifying, speeding up and rationalising civil proceedings, while respecting the right to be heard, in accordance with the guiding principles and criteria laid down by this law.

- **Decree of the Ministry of Economy and Finance dated 13 December 2021 (OJ of the Italian Republic No. 297 dated 15 December 2021)**

By a special decree, the Ministry of Economy and Finance (locally known as “MEF”) – exercising its power to amend Section 1284 of the Italian Civil Code and taking into account the gross annual average yield of government bonds with a duration of no more than 12 months and the rate of inflation recorded during the year – amended the interest rate, which effective 1 January 2022 was therefore raised and set at 1.25% per annum. As a result of the entry into force of the aforesaid decree, the coefficients for calculating the value of usufruct and annuities or pensions will also have to be adjusted.

- **EU Delegated Regulations 1950, 1951, 1952 and 1953 of 2021, laying down the new Community thresholds on public procurement pursuant to Article 35 of Legislative Decree 50/2016 (OJEU No. I398 dated 11 November 2021)**

EU Regulations 1950/2021, 1951/2021, 1952/2021 and 1953/2021 updated the thresholds for the application of the European rules on the procedures for the award of contracts and concessions for the 2022-2023 two-year period. Below are the new thresholds to be applied in public tenders launched as of 1 January 2022:

- **Ordinary sectors**

- € 5,382,000 for public work contracts and concessions;
- € 140,000 for public supply contracts, public service contracts and public design competitions awarded by contracting authorities qualifying as central government authorities listed in Annex III. If supply contracts are awarded by contracting authorities operating in the area of defence, the threshold applies only to contracts concerning products listed in Annex VIII;
- € 215,000 for public supply contracts, public service contracts and public design competitions awarded by sub-central awarding authorities. This threshold will also apply to public supply contracts awarded by central government authorities operating in the area of defence if such contracts pertain to products not listed in Annex VIII;

- **Special sectors**

- € 5,382,000 for work contracts;
- € 431,000 for supply and service contracts and public design competitions;

- **Defence and security**

- € 5,382,000 for work contracts;
- € 431,000 for supply and service contracts and public design competitions;

- **Concessions**

- Euro 5,382,000.

- **European Law 238 of 23 December 2021 on “Provisions for the fulfilment of obligations arising from Italy’s membership of the European Union” (OJ of the Italian Republic No. 12 dated 17 January 2022)**

Special reference is made to Article 10 of the European Law whereby a number of important changes were made in the area of public contracts, applicable as of 1 February 2022, with regard to the topics covered by the following articles of Legislative Decree 50/2016, which were updated as follows:

With reference to the support to be provided to the Sole Project Manager (RUP) for the design activity, **Article 31(8)** sets out an extension of the scope of the activities that, in relation to their specialised nature, the appointed designer may entrust to third parties while remaining accountable (*“specialised consultancy activities related to the energy, environmental, acoustic and other sectors not pertaining to engineering and architecture in respect of which special certifications or skills are required”*).

According to **Article 46(1)(d-bis)**, the category of businesses eligible for procedures for the award of architectural and engineering services at present also includes *“other entities qualified under national law to offer engineering and architecture services on the market, in compliance with the principles of non-discrimination and equality of treatment between the various qualified entities”*;

Article 46(2) specifies that with regard to companies that have been in business for less than five years, the requirements for participation in procedures for the award of architecture and engineering services may also be documented with reference to partners, technical directors or professional employees of the entities referred to under the new *d-bis* paragraph, in respect of whom – pending the adoption of the Single Regulation – the minimum requirements will be established by decree of the Ministry for Infrastructure.

Article 80(4) gives the Contracting Authority the power to exclude businesses for infringements that have not been definitively ascertained concerning tax or social security obligations, making the necessary distinctions with respect to the cases under the first part of the paragraph relating to mandatory exclusion due to definitively ascertained infringements. With reference to infringements of tax obligations, it also contemplates the adoption of a ministerial decree clarifying the limits and conditions for applying the grounds for exclusion being referred to;

Article 105 on the subject of subcontracting, includes changes also applicable to subcontracting in concession contracts pursuant to Article 174, including: (1) discontinuance of the prohibition for the contractor to subcontract to entities that participated in the tender, (2) following full abolishment of paragraph 6 of Article 105, stating a list of three subcontractors when submitting a bid for all types of contracts is no longer mandatory, with the consequent abolishment of the provision under paragraph 8 of Law Decree 32/2019, which set forth the temporary suspension, until 31 December 2023, of the obligation to state such list of three subcontractors, and perform checks on subcontractors during the tender process, (3) the elimination of any reference to checks, including with regard to subcontractors, designed to establish the non-existence of the relevant grounds for exclusion, given the amendment of paragraphs 1, 5 and 7 of Article 80, the obligation to prove the ability to meet the general requirements remaining with the identified subcontractor;

With reference to payment terms and work progress reports, **Article 113-bis** enhances the executor’s greater driving role by introducing paragraphs from *1-bis* to *1-septies*, which set out: (1) the possibility for the executor to communicate of its own accord that the conditions for the adoption of the work progress report have been met; (2) the Construction Manager’s duty to conduct checks and conclude them, in the event of positive findings, with either the adoption of the work progress report – followed by an invoice to be issued by the executor without waiting to receive the payment certificate from the Sole Project Manager (RUP) – or the filing of the communication after discussion with the executor, in the event of negative findings.

- **Law Decree No. 152 dated 6 November 2021 written into Law No. 233 dated 29 December 2021 concerning “Urgent provisions for the implementation of the NRRP and for the prevention of mafia infiltration” (OJ of the Italian Republic No. 12 of 17 January 2022)**

Law 233/2022 sets forth NRRP implementing measures chiefly geared towards the tourism industry and the identification of new funds for investments aimed at strengthening the anti-mafia prevention system.

Other regulatory provisions introduced by the Law Decree include the provisions amended by Article 6-*quater* concerning the Technical Advisory Board, with maximum remuneration thresholds being imposed for its members in terms of percentages related to the contract value (paragraph 6, Article 6 of Law Decree 76/2020).

Paragraph 7-*bis* follows, stating that: *“In any case, the remuneration of the members of the Technical Advisory Board – as determined in accordance with paragraph 7 – may not exceed in aggregate (a) in the case of a Technical Advisory Board composed of three members, an amount corresponding to 0.5 per cent of the contract value, for contracts with a value not exceeding € 50 million; this percentage will be reduced to 0.25 per cent for the portion exceeding € 50 million and up to € 100 million and to 0.15 per cent for the portion exceeding € 100 million; (b) in the case of a Technical Advisory Board composed of five members, an amount corresponding to 0.8 per cent of the contract value, for contracts with a value not exceeding € 50 million; this percentage will be reduced to 0.4 per cent for the portion exceeding € 50 million and up to € 100 million and to 0.25 per cent for the portion exceeding € 100 million”.*

- **Law No. 234 dated 30 December 2021 on “State budget for the 2022 financial year and multi-year budget for the 2022-2024 three-year period” (OJ of the Italian Republic No. 310 of 31 December 2021 - Ordinary Supplement No. 49)**

The 2022 Budget Law covers the topic of adjustments due to price increases. More specifically, paragraphs 398 and 399 of Article 1 state that the adjustments set out in Article 1-*septies* of Law Decree 73/2021 no longer refers to the first half of 2021, but to the full 2021 period.

Due to this extension, the Adjustment Fund was increased by an additional € 100 million for 2022.

Price observations for the entire year will be completed by the Ministry of Infrastructure and Sustainable Mobility by 31 March 2022. The Ministry will issue an ad hoc decree stating the upward or downward percentage changes in excess of 8% that occurred in 2021.

The period within which the work for which compensation is claimed must have been accounted for or booked changes from 1 January 2021 to 31 December 2021.

On the other hand, the procedural rules for accessing the adjustment mechanism do not appear to have changed. As a result, the possibility of submitting a request for adjustment to the contracting authorities within 15 days of the publication of the new Price Change Decree remains in place.

Integrated Water Service

National Regulatory Framework

In 2021, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) continued its regulation of the sector with the issuing of the following provisions, which are of particular importance to the Integrated Water Service. They are listed below by topic and, then, in chronological order.

Planning and implementation of investments in the Integrated Water Service

- By **Resolution 58/2021/R/idr dated 16 February 2021**, i.e. “Simplification of the procedures for disbursement of funds – pursuant to the Authority’s resolution 425/2019/R/idr – for the realisation of the works set out in the first part of the national plan of interventions in the water sector - waterworks section”, the Authority, in the light of the continuation of the contingent health emergency, introduced simplification measures with regard to the procedures set forth in Resolution 425/2019/R/idr, in order to ensure the timely disbursement of funds for the design and realisation of the works set out in Annex 1 to Prime Minister’s Decree dated 1 August 2019 on the “Adoption of the first part of the national plan of interventions in the water sector - waterworks section”.

More specifically, with a view to ensuring the availability of funds for the timely execution of the relevant works, ARERA decided that CSEA (*Cassa per i Servizi Energetici e Ambientali* - the Energy and Environmental Services Fund), following a specific preliminary investigation aimed at establishing the necessary prerequisites, should disburse the funds to the entity implementing such actions as follows:

- a first instalment, by way of advance payment, equal to 40% of the funding to be applied to the 2019 expenditure item, following certification of fulfilment as under paragraphs 2.2, 2.3 and 2.4 of Resolution 425/2019/R/idr;
- the remaining portion of the funding, equivalent to 60% of the funding to be held under the 2019 expenditure item and 100% of the funding under the 2020 item, exceeding the advance payment and any amounts already disbursed, for which the relevant Entity certifies the actual expenditure at the time of reporting, in accordance with the procedures set out by CSEA and on the basis of the disbursement time windows duly identified by it;

The provision also stipulated that by 31 May and 31 October of each year, as well as in each request for the disbursement of funds, the relevant Entity should inform the Authority and CSEA of the progress of the works being funded, updating the financial timeline and reporting any critical issues (delays in implementation) or changes in the project of a technical or financial nature.

Provisions on the Social Bonus

- By **Resolution 63/2021/R/com dated 23 February 2021**, i.e. “Application procedures concerning the system for automatic granting of electricity, gas and water social bonuses to individuals entitled to receive them due to financial hardship”, and further pursuant to Law Decree No. 124 dated 26 October 2019, as written into law and amended by Law No. 157 dated 19

December 2019, the Authority defined the application procedures concerning the system for automatic granting of electric, gas and water social bonuses due to financial hardship, replacing the regulatory provisions of the previous demand-based system mainly contained in the *Integrated text concerning procedures for the application of offsetting schemes for expenses incurred by economically disadvantaged household customers for electricity and natural gas supplies (TIBEG)*, and in the *Integrated text concerning procedures for the application of the water social bonus (TIBSI)*.

With regard to the water social bonus, the application procedures for automatic granting require that:

- The Integrated Information System (IIS), on the basis of the information received from the National Social Security Institute (INPS) and through the Authority's Territorial register of the integrated water service (ATID), must identify the local water service Provider, to which it will provide the information necessary to locate the supply to be subsidised and to proceed with the subsequent payment of the bonus to the entitled individuals;
 - The water service Provider will then search for a supply contract in the name of one of the members of the household of age that meets the eligibility conditions. If such search is successful, the Provider will assess and disburse the bonus based on the procedure currently in force;
 - if, on the other hand, the water service Provider fails to find a water supply contract eligible for subsidy in the name of one of the members of the household but, on the basis of the information received from the IIS, the household is found to have an active and household POD code, it will be assumed that the household is (also) served by a centralised water supply system, and the Provider will then proceed to assess and disburse the relevant social water bonus;
 - Bonuses will have a duration of 12 months, while the start date will vary depending on the type of bonus;
 - Bonus application and disbursement procedures remain largely unchanged from the previous demand-based system, making it possible to minimise the impact on existing billing processes and systems;
 - Taking into account the time required for the development of the related IT systems, the mechanism is expected to come on stream as of 1 June 2021 for the activities falling under the remit of the IIS and, consequently, as of 1 July 2021 for the activities falling under the remit of the operators;
 - The timeframes according to which the National Social Security Institute (INPS) will send to the IIS Manager the notifications laid down by this measure relating to DSUs (*Dichiarazione Sostitutiva Unica* – self-declaration form containing information about family unit and any income/assets) certified from 1 January 2021 to 30 April 2021 will be defined at a later stage, in agreement with INPS itself.
- By **Resolution 223/2021/R/com dated 27 May 2021**, i.e. "Methods whereby the information necessary for the process of automatic granting of the electricity, gas and water social bonuses due to financial hardship is exchanged between the National Social Security Institute and the Integrated Information System managed by Acquirente Unico S.p.A. (AU)", the Authority regulated the technical methods by which the information identified by Resolution 63/2021/R/com is to be made available by INPS to the IWS Provider, the related security measures required and

the timeframes under which INPS will send to the IWS Provider the information relating to the DSUs certified from 1 January to 30 April 2021. ARERA also resolved to act as data controller in respect of the processing of personal data relating to the automatic granting procedure for social bonuses, appointing AU as data processor, the purpose being to allow the system for the automatic granting of social bonuses due to financial hardship to become operational in a timely manner, with financial effects as of 1 January 2021.

- By **Resolution 257/2021/R/com dated 22 June 2021**, i.e. “Amendments to the Authority’s Resolution 63/2021/R/com on the procedures for the payment of any prior instalments of social bonuses for 2021, the management of social bonuses for points of withdrawal on non-interconnected distribution networks, information for end customers and social bonuses for physical discomfort”, the Authority supplemented Resolution 63/2021/R/com on the procedures for the payment of any prior instalments of bonuses for 2021 that had already accrued, stating in particular for the water sector that social bonuses due to financial hardship pertaining to 2021 were to be granted to those entitled to them for the entire bonus period as identified by the IWS Provider pursuant to this measure, by acknowledging any bonus instalments already accrued in accordance with the following procedures, in each case guaranteeing the traceability and identification of the beneficiary.
- By **Resolution 366/2021/R/com dated 3 August 2021**, i.e. “Provisions governing automatic granting of the social water bonus, the social gas bonus to indirect household customers, and the social electricity bonus due to financial hardship to electricity end customers connected to distribution networks not interconnected with the national electricity system”, the Authority recommended an update on the status of compliance with the privacy profiles pertaining to the management of the water bonus, specifying that:
 - With reference to the processing of personal data necessary to carry out the activities for identification of water supply contracts to which the relevant tariff reduction should be applied, as well as related activities for settlement thereof, the data controllers are the local water service providers, listed in the ATID (except for the (i) identification of the provider of the relevant distribution network not interconnected locally and (ii) “verification of uniqueness”, in respect of which the data controller is AU);
 - Reliance is made on AU for the (i) performance of activities aimed at executing the agreement between the Authority, in its capacity as data controller, and the entities referred to in the previous paragraph, in their capacity as data processors, (ii) discharge of tasks necessary to ensure compliance with the requirements imposed on the data controller and (iii) for the support to be provided to the data processors;
 - By way of reform of the provisions of Resolution 63/2021/R/com, it established that accreditation of water service providers to the IWS is a necessary condition in order that AU may transmit to such providers the data made available by INPS.

[The metering regulation for the integrated water service](#)

- With **Resolution 83/2021/R/com of 2 March 2021**, i.e. “Initiation of a procedure to update the metering regulation for the integrated water service”, the Authority initiated a procedure to update the metering regulation for the integrated water service (TIMSII) at national level, highlighting the need to review some aspects such as:

- setting out the requirements concerning the installation and warranty of the meters, also considering the potential contribution from the use of new instruments equipped with water smart metering devices;
 - strengthening, also with a view to simplification, the effectiveness of the provisions concerning the collection of metering data and smart metering procedures;
 - improving transparency in periodic communication to customers about their consumption habits, including by relying on innovative communication methods developed through applications on mobile devices or accessible online;
 - introducing specific standards and automatic compensation to customers in this regard;
 - regulating the effects of delays in alerting customers about unusual consumption patterns, which can help promptly identify potential leaks, and setting out consistent procedures for the related forms of compensation to be extended to customers;
 - identifying best practices to assess solutions giving the owners of housing units access to consumption data and individual information.
- By **Consultation Document 405/2021/R/idr dated 28 September 2021**, i.e. “Guidance on the integration of the existing regulation governing the metering of the integrated water service (TIMSII)”, the Authority provided guidance for the purpose of amending the regulation governing the metering of the IWS, recommending:
 - Incentives for innovative solutions and smart technologies for service and process metering;
 - Regulatory interventions aimed at the possible introduction of general standards and specific standards for IWS providers, the purpose being to gauge the effectiveness of the metering service by relying on both purely performance-based indicators (irrespective of the underlying technology used by the providers) and indicators of deployment of state-of-the-art technologies;
 - Amending the regulation governing supply metering activities;
 - More effective management of the water network, involving the containment of network losses while reducing the risk of hidden leaks;
 - Minimising costs related to overdue payments by selectively disconnecting customers in arrears, in accordance with current REMSI regulation (the regulation of overdue payments in the integrated water service);
 - Appropriate application of customer fees and streamlined procedure for granting the water bonus to indirect customers that would result from the individualisation of consumption;
 - Increasing transparency requirements for IWS providers with regard to indirect customers connected to condominium utilities;
 - Proposal to revise the current regulation by amending or supplementing specific articles of the TIMSII (Annex A to ARERA Resolution 218/2016/R/idr);
 - Introduction of elements for unique identification of the point of supply.
- By **Resolution 609/2021/R/idr dated 21 December 2021**, i.e. “Integration of the existing regulation governing the metering of the integrated water service (TIMSII)”, the Authority

amended the regulation governing the metering of the integrated water service, implementing the guidelines already set out in the above Consultation Document (DCO) 405/2021/R/idr, by:

- Setting out safeguarding requirements for connections affected by hidden leak issues (also taking into account the potential contribution that could derive from the use of new metering instruments equipped with water smart metering devices), in respect of which Providers are required to comply with the Service Quality Charter and the Integrated Water Service Regulation within six months of adopting the measure;
- Increasing the effectiveness of the provisions on metering data collection and smart metering procedures by introducing, as of 1 January 2023, three new indicators subject to a specific standard. Failure to comply with such standard will result in an amount being paid to customers by way of compensation:
 - *SR1 indicator*, referring to compliance with the minimum number of metering attempts per year (2) for customers with average annual consumption of up to 3,000 cubic metres;
 - *SR2 indicator*, referring to compliance with the minimum number of metering attempts per year (3) for customers with average annual consumption greater than 3,000 cubic metres;
 - *SP indicator*, referring to compliance with the minimum notice period (at least 48 hours) for attempts to collect metering data from end customers with a non-accessible or partially accessible meter;
- Promoting measures to enable owners of housing units (connected to condominium utilities) to have access to consumption data and individual information by:
 - Introducing a requirement for providers to disclose specific basic water service information to indirect customers connected to condominium utilities;
 - Providing condominium customers, within six months of the entry into force of the measure, with a user-friendly calculation tool allowing invoiced amounts to be allocated among each indirect customer according to the criteria set out in the TICS (the integrated text on water services fees).
- Introducing, effective 1 January 2022, indicators measuring performance-based technical quality and deployment of state-of-the-art technologies. Notably:
 - *Performance-based indicators*, to be used to assess the reliability of the values of the “M1 Water losses” macro-indicator, will assess the:
 - Incidence, on the total number of customer, of the share in respect of which a number of validated meter readings (obtained by on-site, remote or self-reading) is available in the period, being at least 2 for customers with average annual consumption up to 3,000 cubic metres, or 3 for customers with average annual consumption greater than 3,000 cubic metres;
 - Incidence, on total process volumes, of the share in respect of which at least 12 validated meter readings are available (including those measured with automatic detection systems) in the period, each taken as an absolute value.
 - The indicators of deployment of state-of-the-art technologies, to be used for monitoring purposes, will establish the:

- Incidence, on the total number of customer, of the share measured in the year by smart metering (excluding semi-smart methods) pursuant to subsection 1.1 of TIMSII;
 - Incidence, on total process volumes, of the share measured in the year by smart metering (excluding semi-smart methods) pursuant to subsection 1.1 of TIMSII.
- Introduction, effective 1 January 2023, of the obligation for providers to assign a unique and geolocalised identification code for each service supply contract.

The tariff regulation for the integrated water service

- By **Resolution 306/2021/R/idr dated 13 July 2021**, i.e. “Start of proceedings for the definition of the rules and procedures for the biennial update (2022-2023) of the tariff arrangements applicable to the integrated water service”, the Authority initiated proceedings for the definition of the rules and procedures for the biennial update under Article 6 of Resolution 580/2019/R/IDR – for the purpose of redetermining the tariffs of the integrated water service – for the years 2022 and 2023.
- By **Resolution 416/2021/R/idr dated 5 October 2021**, i.e. “Approval of the specific regulatory schemes, containing the tariff arrangements for the 2020-2023 period, proposed by the Area Office of the Metropolitan City of Milan”, the Authority approved the tariff arrangements for the 2020-2023 period proposed by the Area Office of the Metropolitan City of Milan for the providers MM S.p.A. and CAP Holding.

Below is a summary of the main issues having an impact on MM:

- The values assumed by the Technical Quality macro-indicators were identified, together with the relevant category and the targets set for 2020-2021, pursuant to ARERA Resolution 917/2017/R/idr;
- The values assumed by the Contractual Quality macro-indicators *MC1-Start and termination of contract relationship* and *MC2-Contract relationship management and service accessibility* were identified, based on the data of the simple indicators recorded for 2018, together with the relevant categories and targets planned for 2020 and 2021;
- Upon completion of the process for verifying the deeds that make up the specific regulatory frameworks proposed by the Area Office of the Metropolitan City of Milan, the Authority resolved to position MM in Schedule VI of the matrix of regulatory frameworks pursuant to Article 5 of MTI-3, approving the tariff multiplier values for the 2020-2023 four-year period. The *thetas* to be applied to the water tariff under MTI-3 for the period under review (base year: 2019) are:

2020	2021	2022	2023
1.037	1.080	1.101	1.123

These values confirm the fees applied to the customers for the 2020-2021 two-year period, which are unchanged as compared to those previously approved by the Area Office Board of Directors' Resolution No. 6 dated 21 December 2020, with a binding favourable opinion of the Conference of Municipalities given on the same date;

- A number of issues were highlighted in relation to the approval of the tariff arrangement for the 2020-2023 four-year period under MTI-3 (ARERA Resolution 580/2019/R/idr), such as:
 - 1) The completion by 2023 of the programmes for the replacement of obsolete meters, including the installation of new meters fitted with smart metering devices, by way of derogation from the terms set out in Article 18.7 of Ministerial Decree 93/17;
 - 2) Valorisation of the FNI (Fund for New Investments) tariff component by way of an advance for the financing of new investments deemed as priorities;
 - 3) Application of financial amortisation (which requires the adoption of shorter useful lives than those set out in the regulations);
 - 4) Definition of a new tariff component to be highlighted in the bill (equal to 0.000634 €/m³ for the year 2020 and 0.000632 €/m³ from 2021 to 2023), arising from the margin resulting from the difference between the internal operating costs payable to the provider in the 2016 tariff and the value of the operating cost (subject to effectiveness) incurred in the same year;
 - 5) Recognition of cost items earmarked for specific purposes, including:
 - a) *OPnew*, for the management of new technical processes;
 - b) *OpexQT*, referring to the costs necessary to comply with Technical Quality standards;
 - c) *OPsocial*, earmarked to cover charges related to the maintenance of facilities in addition to the minimum regulatory facilities;
 - d) *OPcovid*, in relation to the costs incurred by operators in the sector for the management of the Covid-19 epidemiological emergency;
 - e) *OPmis*, earmarked to cover the costs related to the development of studies on the feasibility of consumption unbundling and selective curtailment and disconnection actions, as well as audits and on-site interventions in this area of activity, which will require specific reporting.
 - f) *COdil* share offsetting the effects of payment extensions granted or failure to activate debt collection procedures on a timely fashion, such share being assessed by applying a percentage of 0.6% to the turnover for the year (y-2).
- By **Consultation Document 489/2021/R/idr dated 11 November 2021**, i.e. “Guidelines for the biennial (2022-2023) update of the tariff arrangements for the integrated water service”, the Authority provided general guidance on the identification of the methods necessary to proceed with the biennial update under Article 6 of Resolution 580/2019/R/idr (setting forth the Water Tariff Method for the third regulatory period, known as MTI-3), for the purposes of redetermining the tariffs of the integrated water service for the years 2022 and 2023. More specifically, both the methods for updating certain cost items eligible for tariff recognition and the guidelines for introducing measures to supplement and complete the existing system of tariff rules were submitted for consultation. The main insights submitted for consultation include:

- A possible loosening of the constraints on the recognition of costs related to overdue payments;
 - A proposed update of the inflation rate and gross fixed capital formation deflators for 2020-2023;
 - A proposal, as part of the recognition of electricity costs incurred by providers, of ranges of figures submitted for consultation in order to determine an average sector cost for the 2022-2023 period;
 - The introduction of incentives for the individualisation of supplies or divisionalisation, within the *OPmis* tariff component;
 - Establishing a systemic change component to cover Covid costs for 2021;
 - A proposal for a new equalisation component related to the Council of State rulings on the transitional tariff method (known as MTT) for the years 2012-2013;
 - An effective rollout of the NRRP measures for the water service, in respect of which the Authority proposes a revision of the calculation of the M1a indicator by including a parametric estimate of the length of connections (22% of the distribution network), subject to a possible request for the inclusion of real data on connections where fully georeferenced. This results in an updating of the class ranges of the M1 macro-indicator;
 - Introduction of a mechanism for automatic granting of the Water Bonus, with the consequent upward revision of the UI3 tariff component;
 - Establishment of a special fund for the promotion of innovation, which will be regulated by subsequent measures; the fund will be financed by the Opex efficiency share calculated by the MTI-3, previously allocated to technical and contractual quality bonuses.
- By **Resolution 639/2021/R/idr dated 30 December 2021**, i.e. “Criteria for the biennial (2022-2023) update of the tariff arrangements for the integrated water service”, the Authority updated the Water Tariff Method for the 2020-2023 regulatory period (MTI-3) by:
 - Assessing the inflation rate and deflators for 2021 and 2022;
 - Redetermining, if appropriate, the $Opex_{tel}^a$ component in the case of expected additional charges in order to make the metering service more efficient, in line with Resolution 609/2021/R/idr, in the event of:
 - Supply individualisation;
 - Contracting/entrusting a complete in-house metering service (breakdown of condominium consumption).
 - Recalculating the average sector cost of electricity supply, with a value of 0.1543 €/kWh for 2022 on 2020 costs and 0.1618 €/kWh for 2023 on 2021 costs. In addition, ahead of the expected upward trend of electricity cost, ARERA introduced the forward-looking component $Op_{EE}^{exp,a}$, to be included in the component covering the cost of electricity CO_{EE}^a , which must be less than or equal to 25% of the component CO_{EE}^a already recognised;
 - Specifying that the component $CO_{\Delta f_{anghi}}^a$ will be eligible for tariff recognition for the years 2022-2023 provided that the improvement or maintenance target associated with the M5 macro-indicator is achieved, including as a result of the cumulative assessment for the 2020-2021 two-year period;

- Establishing the adjustment component RC_{ARC}^a , which can be calculated for the years 2022-2023, in order to comply with the rulings of the Council of State concerning the tariff calculation rules for the years 2012-2013, and for the period spanning 21 July - 31 December 2011, rulings that also underlined the issue of recognising tax charges on the FoNI component.
- Redetermining financial parameters with:
 - A real risk-free (r_f^{real}) rate of return of 0.13%;
 - A Water Utility Risk Premium (WRP) of 1.7%;
 - A rate of return on fixed assets, including the Debt Risk Premium (K_d^{real}) of 2.4%.
- Redetermining, as of 1 January 2022, the UI3 equalisation component, totalling € 1.79 cents/cubic metre, and setting up with the CSEA an “Account for provisioning the Fund for the promotion of innovation in the integrated water service”, such account being provisioned by the component defined for the purposes of calculating internal operating costs to which, in the initial activation phase, the funds already paid to CSEA for the 2020-2021 period as part of the mechanism for the gradual recovery of management efficiency will be allocated;
- Increasing flexibility in assessing contract and technical quality performance, specifying that targets for the 2022-2023 two-year period will be assessed cumulatively on a two-year basis, in the application of reward (or penalty) factors.

With this measure, ARERA also amended the legislation concerning the regulation of technical quality (RQTI) by requiring, in compliance with Council of State Ruling No. 2672/2021, the updating of the calculation of the “Linear water leak” M1a indicator, with user connections being also included in the overall length of the network. User connections can be determined parametrically according to the length of the distribution network or by taking the measured value into account; this resulted in an updating of the class ranges of the M1 macro-indicator.

[Billing of amounts referring to consumption dating back more than two years](#)

- By **Resolution 461/2021/R/idr dated 26 October 2021**, i.e. “Start of proceedings for compliance with Rulings No. 1442, 1443 and 1448 dated 14 June 2021 of the Lombardy Regional Administrative Court on the billing of amounts referring to consumption dating back more than two years”, the Authority started proceedings in order to:
 - Increase clarity, transparency and certainty of the regulatory framework in force regarding the protection of end customers in the billing of amounts referring to consumption dating back more than two years, in the light of the repeal of Article 1(5) of the 2018 Budget Law;
 - Ensure adequate information to end customers in cases in which the IWS provider considers that it can invoice amounts referring to consumption dating back more than two years, assuming, in such cases, that a cause exists preventing the statute of limitations from being applied pursuant to the primary and general reference legislation (under Articles 2935 and 2941 of the Italian Civil Code).
- By **Consultation Paper 462/2021/R/idr dated 26 October 2021**, i.e. “Guidance on compliance with Rulings No. 1442, 1443 and 1448 dated 14 June 2021 of the Lombardy Regional Administrative Court, regarding the billing of amounts referring to consumption dating back more

than two years”, ARERA illustrated its guidelines aimed at implementing the provisions of the 2020 Budget Law and in compliance with the Rulings No. 1442, 1443 and 1448 of 2021 of the Lombardy Regional Administrative Court, regarding the billing of amounts referring to consumption dating back more than two years. In the aforementioned rulings, the Lombardy Regional Administrative Court annulled, for lack of consultation, ARERA Resolution 186/2020/R/idr dated 26 May 2020 implementing the provisions of the 2020 Budget Law, which established the inapplicability of the provisions on the two-year statute of limitations in the event of failure or erroneous collection of consumption data resulting from established responsibility of the end customer.

The Authority therefore intends to update the disclosure obligations set forth in ARERA Resolution 547/2019/R/idr in favour of end customers deemed eligible for enhanced protection (household customers, micro-businesses and professionals), setting them out on the basis of two cases:

- a) Billing of amounts relating to consumption dating back more than two years that may be declared time-barred, confirming in this case the provisions of the regulation in force and the provisions relating to the introduction of means of support to protect the end customer in order to contest the statute of limitations;
 - b) Billing of amounts relating to consumption dating back more than two years that may be declared time-barred, but for which the provider considers that there is a cause for suspension of the limitation period set forth in the primary and general applicable regulations. In this event, the Authority intends to introduce a specific obligation binding the providers to adequately inform the end customer of the precise reasons preventing the limitation period from being applied in respect of the right to payment of the amounts due.
- By **Resolution 610/2021/R/idr dated 21 December 2021**, i.e. “Amendments to the Authority’s Resolution 547/2019/R/idr on the billing of amounts referring to consumption dating back more than two years”, the Authority updated the regulatory provisions on the billing of amounts referring to consumption dating back more than two years, concluding the proceedings, already initiated with Consultation Paper 462/2021/R/idr, confirming the guidelines already set forth in such Paper. The new provisions will be effective with reference to invoices issued in the first useful billing cycle following the date of publication of the measure, without prejudice to the validity of the actions already implemented by the providers to implement the provision of Article 1(295) of the 2020 Budget Law in respect of invoices already issued between 1 January 2020 and the aforesaid cycle.

[Other provisions issued by ARERA](#)

- By **Consultation Paper 572/2021/R/com dated 14 December 2021**, i.e. “Update of the methods of checking commercial quality data of electricity and natural gas distribution, metering and sale services and contractual quality of the integrated water service”, the Authority set out its guidelines in connection with the replacement of the current method of calculating penalties as a result of the second audit on the basis of the non-valid/non-compliant performances found following the recalculation of penalties in re-application of the statistical method already considered to determine the outcome of the first audit.

According to the regulation in force, the additional audit following the first inspection conducted by ARERA with the simplified method referred to in the Regulation on the contractual quality of the integrated water service (RQSII) would be extended to a sample size reflecting as much as possible the population. Upon identifying the actual non-validity/non-compliance, ARERA would apply to the provider the actual amount of the penalties due (€ 800 for each non-valid service and € 300 for each non-compliant service), without reduction and without any allowance, arisen from the first audit.

The guidelines set out in Consultation Paper 572/2021/R/com, on the other hand, stipulate that, after an initial audit phase according to the statistical method already explained in Resolution 655/2015/R/idr, a second audit by ARERA would follow should the provider so request. Such audit would be conducted according to the criteria of the simplified method, already applied in the first phase, with the following differences:

- extension of audits to a second sample larger than the first one (but not tending to match the size of the population);
- application of a reduction to the total penalty amount of less than the current 75% (ARERA proposed 25% in this measure).

On the other hand, the application of the allowance (0.5% for non-validity, 1% for non-compliance) to the total number of non-valid/non-compliant contractual quality services estimated with reference to the population, including in the second audit, would remain consistent with the first inspection phase.

Local Regulatory Framework

With regard to local regulations, in 2021 the Area Office of the Metropolitan City of Milan operated in accordance with ARERA provisions, including, inter alia:

- approving the **2021 programme of controls of discharges into the public sewerage system**. These controls are carried out by the Area Office and by the IWS Providers under agreement for the MM S.p.A. and Cap Holding S.p.A. tariff area for the purpose of inflicting administrative fines;
- approving the **2021 Performance Plan**, which is a policy, strategic and operational document whereby the Area Office provides the main information on how it intends to take action across the area in order to deliver its services to the citizens, customers and stakeholders and on the interventions it plans to carry out internally. The main goals include:
 - Promoting a rational use of water resources;
 - Implementing the interventions financed by the Lombardy Region under Regional Council Resolution No. XI/3771 of 3 November 2020 and No. XI/4040 of 14 December 2020, consisting of works jointly pertaining and unrelated to the IWS for which MM has received to date an amount of € 209,319 out of a total of € 2,055,802.81 allocated to the relevant area;
 - Organising and optimising the data, information and activities relating to the control and regulation of the IWS carried out by the Area Office;
 - Increasing the monitoring of the Action Programme by conducting inspections at the worksites set up by the IWS Providers;
 - Optimising and monitoring administrative authorisation procedures;

- Acknowledging the (i) **performance achieved by the Providers MM and CAP Holding** with respect to the data provided as part of the **2020 Contractual Quality** monitoring, and (ii) outcome of the control and validation of the data transmitted by the Providers in relation to the **Social Water Bonus** and **Supplementary Water Bonus** for the year **2020**;
- Approving the **results achieved by the Providers MM and Cap Holding** in terms of **investments realised in 2020** with respect to the amount set out in the planning (structural target pursuant to the Technical Specifications attached to the Award Agreement);
- Approving the **redistribution – in favour of artisanal and commercial customers particularly hit by the effects of the Covid-19 epidemiological emergency** – of the difference between the amount of the resources allocated in 2018 and 2019 for the disbursement of the supplementary water bonus and the amount actually disbursed in those years pursuant to Article 27.1(k) of the MTI-3 annexed to ARERA Resolution 580/2019/R/idr, such Article stating “The recovery of the difference between the assessment of the *OPsocial* component and the amount actually used for the disbursement of the supplementary water bonus to eligible individuals [...] the Local Area Authority has the right to allocate any differences between the assessment of the component relating to the years 2018 and 2019 and the amount actually used in the same years for the disbursement of the water bonus to eligible individuals, to further subsidies (in favour of people most affected by the effects of the Covid-19 epidemiological emergency), compared to the minimum subsidies laid down by the regulation”;
- Acknowledging the **results of the specialised study**, entrusted to the **Politecnico di Milano**, regarding the “**Separate management of rainwater from sewers and use of groundwater**”, on the basis of which the Optimal Territorial Area Management Entity (EGATO) has approved the inclusion within the Investment Programmes connected to the 2020-2023 tariff arrangements, in respect of the interventions set out in the aforesaid study.

The pursuit of a rational water management that promotes the development and implementation of systems for the supply/distribution and collection of “technical (non-drinking) water” for compatible uses is a structural objective of the Area Office strategically defined by the Metropolitan City of Milan;

- Approving the **Programme for the reorganisation of the networks and spillways of the Optimal Territorial Area Authority (ATO) of the Metropolitan City of Milan**, such programme being drafted pursuant to Article 14 of Regional Regulation No. 06/2019, the contents of which will reflect an update of the Local Area Plan, the related Action Programme, the Strategic Work Plan and the Economic-Financial Plan;
- Adopting the **proposed 2022 Budget**, the **2022-2024 Three-Year Plan** and the **2022 Programme Plan**;
- Acknowledging the **performance achieved by the Providers MM and CAP Holding** on the data provided as part of the **Contractual Quality** monitoring **concerning H1 2021**;
- Acknowledging the **status of implementation as at 30 June 2021 of the 2020-2023 Action Programme applicable to the Providers MM and CAP**.

Significant events occurred during the period

Continuation of the Covid-19 health emergency

During 2021, MM's commitment to the management of the Covid-19 health emergency continued.

Following the issuance of Law Decree No. 127 dated 21 September 2021, and Law Decree No. 139 dated 8 October 2021, the Company – in compliance with the requirements – adopted the following **measures and actions**:

- Disclosing the **updated regulation** to all employees by email and publication on the intranet;
- Drafting the “**Protocol for managing checks on access to company premises**” and sharing the document with all employees;
- Updating the **Data processing register** (Hopex platform);
- Updating the **information on the processing of personal data** and posting it in all MM offices;
- Installing **digital Green Certificate control systems** and drafting proxies for external and internal Green Certificate controlling officers;
- Sending the **communication concerning the Green Certificate** to all suppliers by certified email (PEC).

The obligation to implement the contents of the “**Anti-Covid Protocol (Guidelines)**” continued in 2021.

Green Certificate checks are carried out daily on all those who have access to MM's premises (workers and suppliers) by relying on:

- A certified technological solution (readers at temperature and/or presence detection points);
- Designated personnel;
- App (caretakers, readers, staff in the branch offices of the City of Milan and in the Gregorovius corporate office).

Checks are carried out by scanning the QR code on screens equipped with “certified keys” (software) from the Ministry of Health.

By **Resolution 639/2021/R/idr** concerning the Water Tariff Method, in the light of the continuing effects of the epidemiological emergency, **ARERA** stipulated **recognition of the additional charges to cope with the covid-19 emergency for the year 2021**, to be achieved **by means of an adjustment in the year 2023**.

Significant events relating to the Integrated Water Service

At the end of 2020, with Resolution No. 6 dated 21 December 2020, the Conference of the Municipalities of the Area of the Metropolitan City of Milan resolved – in conjunction with the update to the Area Plan through 2037 – to approve the tariff proposal for the 2020-2023 third regulatory period; the **regulatory schemes containing the tariff arrangements for the 2020-2023 period** submitted by the Area Office of the Metropolitan City of Milan were **approved by ARERA on 5 October 2021, with Resolution No. 416/2021**.

The proposed tariff also included the extension of the scope of activities managed by MM as part of the IWS to the cleaning of roadside drains in the Municipality of Milan, the management of road stormwater drainage infrastructure and the management of the groundwater wells for irrigation use owned by the Municipality.

Following the enactment by the Lombardy Region of Regional Council Resolution No. XI/4040 dated 14 December 2020, during 2021 the first tranches of the funding provided as capital subsidies for the design and related deployment of infrastructural work pertaining to the IWS were disbursed and paid to MM to the extent of € 340,837.87, against funding to be granted on a multi-year basis up to € 1,659,451.22.

Significant events relating to the management of Public Housing Property (ERP)

Following exchanges started in 2020 with the Municipality of Milan for the purpose of revising the remuneration paid to MM S.p.A. for the activities carried out in the context of the management of Public Housing Property, pursuant to Article 16.7 of the Agreement dated 30 June 2015 and the Municipal Council Resolution No. 1530 dated 30 December 2020 whereby the Municipality approved the Guidelines relating to the revision of the remuneration, by Resolution No. 808 dated 15 February 2021 the Municipality approved a **draft private agreement between the Municipality of Milan and MM S.p.A. partially amending the Agreement entered into between the Municipality and the Company, in the sections where remuneration is determined.**

In 2021, the updating of Annex 3 to the Agreement was also confirmed, pursuant to Article 42(2)(e) of Legislative Decree No. 267/2000, awarding to MM S.p.A. the management of the municipal housing property with various uses connected thereto. The Agreement was signed on 30 June 2015 and pertained to the **award of services designed to support the administration in the management of the allocation of housing units.** The award was confirmed for a **3-year term** by Executive Resolution No. 9405 of the Head of the Public Housing Property Management Area dated 3 November 2021.

Significant events relating to Engineering

By Executive Resolution No. 7487 dated 16 September 2021, the Municipality approved the updating of the draft Service Agreement between the Municipality of Milan and MM S.p.A., the **revision of the range of adequacy to be applied for the purpose of determining the fees for the technical and administrative activities and services subject to professional fees**, and further postponed to 31 December 2021 the updating of the rates and cost analysis criteria for its activity as Contracting Authority for the next two years.

The new range of adequacy to be applied to engineering and architecture services and further activities is between 30.24% and 32.24%; the previous range was between 26.83% and 28.83%.

During 2021, the process of setting up the Indian Branch (Chennai), which was undertaken after the acquisition of major projects in that country related to the underground railway lines in Chennai and Mumbai, was also completed.

Significant events relating to Plant and Real Estate Management

In anticipation of the end of the waste management and street cleaning agreement with Amsa S.p.A., in late 2020 the Municipality of Milan issued a **European invitation to tender for the award of environmental hygiene services starting from 2021** and for the following 7 years. However, with the subsequent orders no. 226/2021 and no. 227/2021, issued on 26/02/2021, the Lombardy Regional Administrative Court granted a number of interlocutory applications and suspended the tender, scheduling a public hearing for 21/10/2021.

Having evaluated the contents of the suspension ordered by the Lombardy Regional Administrative Court, on 17 September 2021 the Municipality of Milan **cancelled the call for tenders by issuing a new call for tenders**, published in the Official Gazette of the Italian Republic No. 2 of 5 January 2022, with the deadline for the submission of bids being set on 5 July 2022.

To ensure the continuity of the environmental hygiene service, pending the completion of the tender, **the lease contract between MM and Amsa dated 24/07/2017, already extended on 08/02/2021 to 31/05/2021, was further extended to 30/04/2022**, in line with the extension of the environmental hygiene service concession arrangement with the Municipality of Milan.

Significant events relating to Routine Plant and Infrastructure Maintenance

With reference to the activities for the **facility management of school buildings**, by **Council Resolution No. 62 dated 20 July 2021** the Municipality of Milan approved the **Guidelines for the subsequent award to MM S.p.A. of the routine maintenance service for the school buildings of the Municipality of Milan**. The service had already been awarded to MM since the second half of 2019 as part of a transitional management phase, in which MM operated mainly through contractors. The Municipal Administration, with a view to making the service more efficient, chose to entrust the service to MM on a direct management basis for an annual fee totalling € 7.953 million.

The management of the service will be carried out by recruiting suitable human resources and provisioning appropriate equipment, setting up a dedicated corporate structure and ensuring municipality-based monitoring.

By Municipal Council Resolution No. 1465 dated 24 November 2021, a draft agreement was approved to entrust MM with the integrated management – according to the so-called **global service model** – of **routine maintenance services for the school buildings of the Municipality of Milan** (approximately 572 buildings), with service due to start on 1 January 2022. The term of the agreement is 25 years.

By Municipal Council Resolution No. 451 dated 23 April 2021, the *Guidelines for entering into the service agreement between the Municipality of Milan and MM S.p.A. governing the services relating to the rainwater lifting stations of the municipal underpasses* were approved. By Executive Resolution No. 6654 dated 12 August 2021, a draft agreement and the related expenditure were approved. Under the four-year term agreement signed by the parties in September 2021, the Municipality awarded to MM S.p.A., for a period of 4 years, the **management, cleaning, control and periodic maintenance, including due to breakdown, of the rainwater lifting stations**.

Expansion of the scope of MM S.p.A.'s activities: management of public green areas

In July 2021, by **Municipal Council Resolution No. 63 dated 20 July 2021**, approval was given to the **guidelines for the subsequent award to MM S.p.A. of the management of the Municipality of Milan's green areas**. The aforesaid resolution also amended Article 4.1 of MM's Articles of Association, by inserting under point a) the phrase "*the management of green areas, including all redevelopment and maintenance work in the aforesaid areas*", in order that it may reflect the activities performed to a more accurate extent.

The award calls for the service to be managed with similar characteristics to those currently required under the global service agreement in terms of performance, managed square footage and guaranteed standards, in the pursuit, moreover, of innovative objectives of enhancing and improving the quality of the city's green areas through potential energy improvement endeavours, circularity of materials and development of dedicated plant engineering, as well as the creation of green infrastructure. Such management will require recruiting suitable human resources and provisioning appropriate equipment, setting up a dedicated corporate structure and ensuring municipality-based monitoring.

The contract will be awarded based on a 25-year term for a fixed annual fee of € 12.8 million for routine maintenance, and up to € 3.5 million for extraordinary maintenance. A variable performance-based fee may be added to the above fee to the extent of € 320,000.

MM S.p.A. will gradually take over the management of the municipal green areas, with a start-up phase in which the company will take over from the current operator. Following this resolution, during the year efforts for **managing Public Housing Property green areas** got underway for the routine and extraordinary maintenance of such areas, as well as managing and monitoring of Emergency Response activities, maintaining and updating the survey of public housing property green assets. The award to MM of the management of the municipal green areas for a period of 25 years will subsequently be formalised by means of a special agreement.

In September 2021, an appeal was **lodged with the Lombardy Regional Administrative Court (TAR) against the Municipality of Milan and against MM S.p.A. for the annulment of Resolution No. 63 of 20 July 2021** of the Council of the Municipality of Milan and ensuing measures. At the reporting date, the dispute is ongoing.

Management objectives assigned to the Company by the Municipality of Milan for the years 2021-2023

By Municipal Council Resolution No. 350 dated 2 April 2021, the Municipal Administration – without prejudice to the strategic objectives already defined under Municipal Council Resolution No. 2379 dated 28 December 2018 and taking into account the economic and social context brought about by the health emergency related to covid-19 – deemed it appropriate to set, for the years 2021-2023, new specific objectives for the containment of operating expenses of the Companies in which it holds an interest, implementing the provisions of Article 19(5) of Legislative Decree No. 175 dated 19 August 2016 and updating and amending those already covered under the aforesaid Resolution No. 2379.

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”.

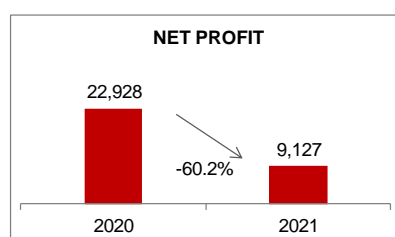
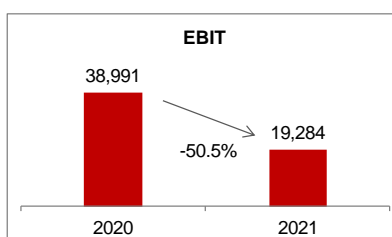
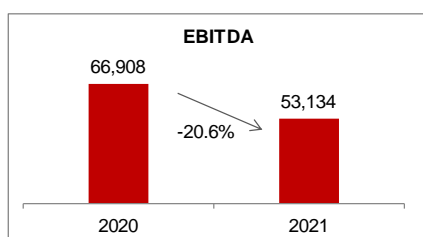
Economic Results

In 2021, **MM’s main indicators decreased** compared to the previous year; in particular, EBITDA fell by 21%, EBIT by 51% and net profit by 60% compared to the original 2020 financial statements. If compared to the restated 2020 financial statements, EBITDA decreased by 12%, EBIT by 41% and net profit by 51%.

The income statement is drawn up according to IFRIC 12 “Service Concession Arrangements”; therefore, in relation to the Integrated Water Service, investment works are allocated to costs and revenues. This representation does not affect the results.

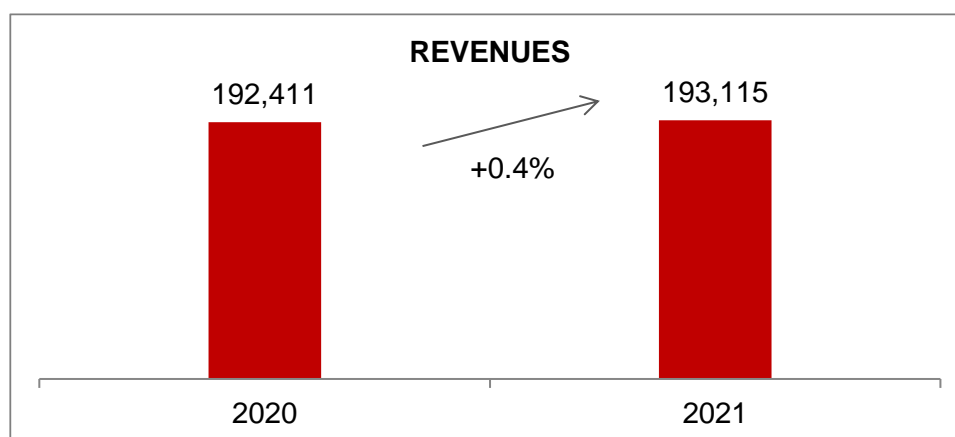
The **comparison between 2021 and 2020** is shown in the table below.

Income Statement (€/000)	2021	Inc. %	Restated		2020	Inc. %	Restated			
			2020	Inc. %			Abs. Ch.	Ch. %	Abs. Ch.	Ch. %
Revenues	193,115	100%	185,733	100%	192,411	100%	7,383	4%	704	0%
Revenues arising from work on infrastructure subj	57,393	30%	53,674	29%	53,674	28%	3,719	7%	3,719	7%
Other operating revenues	16,427	9%	22,052	12%	22,052	11%	(5,625)	-26%	(5,625)	-26%
Raw materials and consumables	(6,560)	-3%	(7,418)	-4%	(7,418)	-4%	858	-12%	858	-12%
Costs for services	(76,242)	-39%	(72,445)	-39%	(72,445)	-38%	(3,797)	5%	(3,797)	5%
Other operating expenses	(2,848)	-1%	(2,345)	-1%	(2,345)	-1%	(503)	21%	(503)	21%
Personnel costs	(72,484)	-38%	(67,835)	-37%	(67,835)	-35%	(4,649)	7%	(4,649)	7%
Capitalised costs on infrastructure subject to servic	(55,500)	-29%	(51,107)	-28%	(51,107)	-27%	(4,392)	9%	(4,392)	9%
Losses from disposals and divestment of fixed ass	(169)	0%	(78)	0%	(78)	0%	(91)	116%	(91)	116%
EBITDA	53,134	28%	60,230	32%	66,908	35%	(7,096)	-12%	(13,774)	-21%
Amortisation/depreciation and provisions	(33,850)	-18%	(27,420)	-15%	(27,917)	-15%	(6,430)	23%	(5,933)	21%
EBIT	19,284	10%	32,810	18%	38,991	20%	(13,526)	-41%	(19,707)	-51%
Financial operations	(5,853)	-3%	(6,114)	-3%	(6,114)	-3%	261	-4%	261	-4%
Pre-tax profit	13,431	7%	26,696	14%	32,877	17%	(13,265)	-50%	(19,447)	-59%
Taxes	(4,304)	-2%	(8,206)	-4%	(9,950)	-5%	3,903	-48%	5,646	-57%
Net profit for the year	9,127	5%	18,489	10%	22,928	12%	(9,362)	-51%	(13,800)	-60%



In 2021, **revenues increased** by 0.4%; this result was the result of different trends for each individual Business Unit, as shown in the table below:

Revenues (€/000)	31.12.2021	Inc. %	31.12.2020	Inc. %	Abs. Ch.	Ch. %
Integrated Water Service	137,684	71.3%	140,577	73.1%	(2,893)	-2.1%
Engineering	34,226	17.7%	32,218	16.7%	2,008	6.2%
Housing	14,023	7.3%	13,842	7.2%	180	1.3%
Plant and Real Estate Managem	2,035	1.1%	2,030	1.1%	5	0.2%
Routine Plant and Infrastructure I	4,979	2.6%	3,743	1.9%	1,235	33.0%
Public Housing Property Green /	0	0.0%	0	0.0%	0	
Staff	169	0.1%	0	0.0%	169	
Total	193,115	100.0%	192,411	100.0%	704	0.4%



The increase in revenues is mainly due to the Engineering Business Unit (up € 2,008 thousand) and to the Routine Plant and Infrastructure Maintenance Business Unit (up € 1,235 thousand).

Other operating revenues decreased by € 5,625 thousand compared to 2020 (-26%), mainly due to lower capitalisation of labour costs and the non-release of a portion of the provision for risks compared to the previous year.

Costs for raw materials and consumables decreased by € 858 thousand (-12%) compared to 2020. This change was mainly due to the purchases of materials relating to the Water Service Business Unit.

Costs for services increased by € 3,797 thousand, making for a 5% change, which is partly due to the expansion of MM's scope of operations related to the management of Green areas and partly to the increase in some operating costs.

Other operating expenses increased by € 503 thousand compared to 2020 (21%).

Labour cost increased due to the hiring of new staff.

Labour cost (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Integrated Water Service	28,831	26,607	2,224	8%
Engineering	21,748	19,988	1,760	9%
Housing	6,437	6,755	(318)	-5%
Routine Plant and Infrastructure Maint.	1,164	688	476	69%
Public Housing Property Green Areas	93	0	93	
Staff	14,211	13,797	414	3%
Total labour cost gross of capitalised costs	72,484	67,835	4,649	7%

The increase in labour cost is due to several factors, including:

- the expansion of the scope resulting from the progressive development of the Routine Plant and Infrastructure Maintenance Business Unit;
- the expansion of the scope to include the management of Public Housing Property green areas;

- an increase in the volumes of activities already carried out by MM S.p.A.: increase in engineering orders; development of Water Service activities (e.g. roadside drain management);
- the development of additional operations to comply with ARERA's regulatory standards, including a reorganisation of the Integrated Water Service business processes.

In view of the dynamics explained above, **EBITDA** amounted to € 53,134 thousand.

Amortisation/depreciation and **provisions** increased by € 5,933 thousand. This increase mainly relates to software depreciation, which is also connected to the further development of the company's ERP system.

The balance of **financial operations** increased by € 261 thousand.

Therefore, **Net Profit** for the period amounted to € 9,127 thousand.

Equity and financial results

The analysis and **comparison for the years 2021 and 2020** are shown in the table below:

Invested capital and Sources of financing (€/000)	Restated				Restated					
	31.12.2021	Inc. %	31.12.2020	Inc. %	31.12.2020	Inc. %	Abs. Ch.	Abs. %	Abs. Ch.	Abs. %
Net fixed assets	436,783	96.5%	405,433	95.8%	417,751	95.9%	31,350	7.7%	19,032	4.6%
Net working capital	27,433	6.1%	29,656	7.0%	29,656	6.8%	(2,223)	-7.5%	(2,223)	-7.5%
Provisions	(11,454)	-2.5%	(11,731)	-2.8%	(11,731)	-2.7%	278	-2.4%	278	-2.4%
Net invested capital	452,762	100.0%	423,358	100.0%	435,675	100.0%	29,404	6.9%	17,087	3.9%
Equity	(238,708)	-52.7%	(228,762)	-54.0%	(241,079)	-55.3%	(9,947)	4.3%	2,371	-1.0%
Long-term financial payables	(203,441)	-44.9%	(207,061)	-48.9%	(207,061)	-47.5%	3,620	-1.7%	3,620	-1.7%
Short-term net financial position	(10,612)	-2.3%	12,465	2.9%	12,465	2.9%	(23,078)	-185.1%	(23,078)	-185.1%
Total sources of financing	(452,762)	-100.0%	(423,358)	-100.0%	(435,675)	-100.0%	(29,404)	6.9%	(17,087)	3.9%

Net Invested Capital as at 31 December 2021 amounted to € 452,762 thousand. The increase is attributable to higher net fixed assets, which in turn resulted from Integrated Water Service investments.

Investments broken down by business area are as follows:

Investments (€/000)	31.12.2021	31.12.2020	Abs. Ch.
Integrated Water Service	65,550	60,937	4,613
<i>of which covered by FoNI</i>	<i>(16,246)</i>	<i>(8,159)</i>	<i>(8,088)</i>
Engineering	1,201	1,709	(508)
Housing	1,576	2,601	(1,025)
Plant and Real Estate Management	1,326	1,839	(513)
Routine Plant and Infrastructure Ma	86	0	86
Public Housing Property Green Are	0	0	0
Staff	1,683	2,314	(631)
Total Investments before FoNI	71,423	69,401	2,022

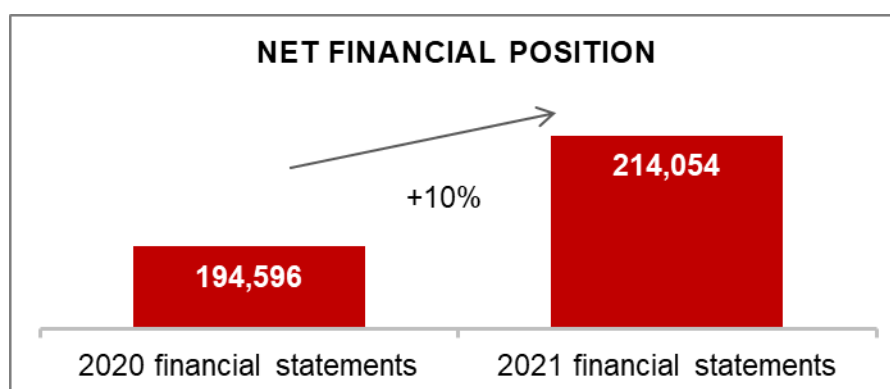
At the end of 2021, **Equity** amounted to € 238,708 thousand, down by 1% compared to the previous year, but up 4.3% compared to the restated 2020 financial statements.

Analysis of the financial structure

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

	31.12.2021	Restated 31.12.2020	31.12.2020
A Cash	55,625	50,269	50,269
B Cash equivalents			
C Other current financial assets			
D Total cash and cash equivalents (A+B+C)	55,625	50,269	50,269
E Current financial payables	65,229	36,788	36,788
F Current portion of non-current financial payables	1,009	1,016	1,016
G Current financial indebtedness (E+F)	66,238	37,804	37,804
H Net current financial indebtedness (G-D)	10,612	(12,465)	(12,465)
I Non-current financial payables	202,233	205,344	205,344
J Debt instruments			
K Trade payables and other non-current payables	1,208	1,717	1,717
L Non-current financial indebtedness (I+J+K)	203,441	207,061	207,061
M Total financial indebtedness (H+L)	214,054	194,596	194,596

The comprehensive value of the **Net Financial Position** as at 31 December 2021 was € 214,054 thousand, up € 19,457 thousand compared to the previous year (+10%). This increase is due to a higher rate of investment and to the impact of an increase in working capital related to the management of the receivables of the Integrated Water Service and the Engineering BU active cycle.



As at 31 December 2021, the medium/long-term debt mainly consisted of the bond issued on the regulated market of the Dublin Stock Exchange (Euronext Dublin) maturing in 2035, of the European Investment Bank (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 (€/000)	2021	Restated		Target
		2020	2020	
Operating Profit (Loss)	19,284	32,810	38,991	
Amortisation/depreciation, impairment and provisions	33,850	27,420	27,917	
EBITDA	53,134	60,230	66,908	
Non-current financial liabilities	203,441	207,061	207,061	
Current financial liabilities	66,238	37,804	37,804	
Cash and cash equivalents	(55,625)	(50,269)	(50,269)	
NET FINANCIAL POSITION	214,054	194,596	194,596	
NET FINANCIAL POSITION/EBITDA	4.0	3.2	2.9	\leq 4.5
Rights over the infrastructure relating to service concession arrang	319,598	293,095	310,251	
Other intangible assets	12,519	13,216	13,216	
Property, plant and equipment	69,304	68,061	68,061	
<i>Financial fixed assets (Guarantee deposits)</i>	267	246	246	
TOTAL FIXED ASSETS	401,689	374,618	391,774	
NET FINANCIAL POSITION/FIXED ASSETS	53%	52%	50%	\leq 70%
FINANCE COSTS	6,001	6,420	6,420	
EBITDA/FINANCE COSTS	8.9	9.4	10.4	\geq 4.5

Management objectives assigned to the Company by the Municipality of Milan for the years 2021-2023

In 2021, by Municipal Council Resolution No. 350 dated 2 April 2021, the Municipality of Milan updated Resolution No. 2379 dated 28 December 2018, defining, pursuant to Article 19(5) of Legislative Decree No. 175 19 of August 2016, the annual and multi-year targets on the total operating costs of subsidiaries.

Without prejudice to the strategic management objectives already defined, the Municipality deemed it appropriate to set **new specific objectives to contain operating expenses for the years 2021-2023**, updating and adjusting those set forth in the aforementioned Resolution 2379/2018, with account also being taken of the economic and social context brought about by the covid-19-related health emergency and in accordance with the particular nature of the services and activities carried out by each of the subsidiaries.

Cross-cutting targets

With reference to the **cross-cutting targets already set by Municipal Council Resolution No. 2379 dated 28 December 2018 and relating to 2021**, MM is required to report on:

Target I	Revision of the procurement policies based on a Municipality of Milan Group-wide coordinated approach for the supplies, services, and instrumental activities of each Company (such as, by way of example, personnel management, maintenance, supply-related activities, tax obligations) that can be awarded/managed in a bundled form or awarded by taking advantage of the opportunities afforded by Article 5 of Legislative Decree No. 50 of 19 April 2016 (known as horizontal in house).
Purpose	Improving cost-effectiveness of outsourced supplies/services/instrumental activities also by seeking economies of scale in procurement processes.
KPI 2021	Launch of at least two joint calls for tenders and/or intra-group procurement arrangements in the manner outlined above, resulting in economies of scale.
Target II	Containment of expenses for missions and business trips of the governing body and staff.
Purpose	Containment of operating costs.
KPI 2021	Cost lower than the average value of the expenditure incurred in this respect in the two financial years preceding the year under review. <i>The calculation does not include cost items related to the covid-19-related epidemiological emergency.</i>

With regard to **Cross-cutting target No. 1** concerning the revision of the procurement and horizontal in-house approach, for 2021 the Municipality planned – as a whole for the above-mentioned subsidiaries – the “launch of at least two joint calls for tenders/internal group procurement arrangements based on the procedure outlined above, with the achievement of consequent economies of scale”.

MM’s contribution to achieving this target in 2021 at the Municipal Group-wide level is summarised below:

- MM performed activities in the field of engineering services for the following companies: Amat S.r.l.; Arexpo S.p.A.; Milano Ristorazione S.p.A.; Milanospoort S.p.A.; So.Ge.M.I. S.p.A.; SPV M4 S.p.A.;

- As part of the facility management business, MM carried out the Routine Maintenance service for Milanospport S.p.A.. Maintenance operations covered the buildings housing the sports facilities owned by the Municipality of Milan and managed by Milanospport itself, in respect of which a multi-year agreement is in place. The agreement also includes the discharge of tasks relating to the operation of thermal plants and energy efficiency upgrading of the technological systems. Activities carried out with Milanospport also include the joint acquisition of temporary staff leasing and recruiting services relating to non-managerial profiles;
- Following MM's entry into the network of public companies known as "Water Alliance", which brings together the in-house providers of the Integrated Water Service in Lombardy, in 2021 the Company subscribed to the procurement procedure established within this network for both electricity and natural gas. This choice was made taking into consideration the consistency of the requirements that can be found in other regional companies that engage in the Integrated Water Service and are part of the network, including Cap Holding S.p.A. in which the Municipality of Milan holds an equity interest, albeit a very limited one (approx. 0.4%).

With regard to **Cross-cutting target No. 2** concerning the containment of expenses for missions and business trips, reaching a cost lower than the average value of the expenditure incurred for this purpose in the two financial years preceding the year under review, it should be stressed that the origin of the expenses for missions and business trips for the whole of MM's activities should be broken down into two separate groups:

- Expenses of a "general" nature that arise from MM's day-to-day activities, i.e. costs incurred in the absence of a direct correlation with the development of the business pertaining to the Company;
- Expenses of a "specific" nature, related to works outside the Municipality of Milan, which are incurred, and covered in terms of job order costs, in the context of business development activities that MM carries out for entities other than the Municipality of Milan (e.g., engineering activities on a national or international level), with regard to which it is deemed that the evaluation with respect to the target set by the Municipality should not take into account this second cost item, inasmuch as it is included in a specific stream of revenue generation and activities, and therefore in a logic of "self-financing".

As a result, mission and business trip expenses are shown below, with account also being taken of the value net of this component. As can be seen from the summary table below, the containment target was achieved.

Mission and travel expenses (€/000)	2019	2020	2021
Expenditure for the year	361	143	148
Expenditure net of component related to works outside the Municipality of Milan	234	95	101
Saving vs. average in 2 previous years			104
Saving vs. average in 2 previous years net of component related to works outside the Municipality of Milan			63

Targets of a specific nature

With reference to the **specific targets on total operating expenses for the years 2021-2023**, the aforementioned Municipal Order No. 350/2021 identifies for MM S.p.A.:

Target 2021-2023	Improving the ratio of operating costs to production value.
Purpose	Containment of operating costs.
KPI	Over the 2018-2020 three-year period, the expected average percentage ratio of operating costs to value of production ⁵ stood at 76.8%. In 2021, 2022 and 2023, this value must reach the following maximum percentages, respectively: 76.8%, 76.6% and 76.4% – Minimum percentage of improvement, also taking into account forward-looking management scope expansions, i.e. maintenance for 2021, 0.2% for 2022 and 0.4% for 2023, respectively.

The **indicator for 2021** is **75.0%**⁶.

Operating costs (€/000)	156,721
Revenues (€/000)	209,055
KPI 2021 (%)	75.0%

Below is a breakdown of the revenue and cost items that were excluded from the KPI calculation pursuant to the provisions of the aforementioned Resolution:

Operating costs excluded from KPI calculation (€/000)	
Amortisation/depreciation, impairment and provisions	33,850
Costs arising from work on infrastructure subject to service concession arrangements	55,500
Costs related to Covid-19 health emergency management	264
Losses from disposals and divestment of fixed assets	169
Stamps and local taxes, deductible and non-deductible taxes and duties	788
Contingent liabilities	218
Salary increases attributable to national collective bargaining	142
Revenues excluded from KPI calculation (€/000)	
Revenues arising from work on infrastructure subject to service concession arrangements	57,393
Contingent assets	492
IRAP/IRES pertaining to previous years	-4

If it were calculated on the basis of an unchanged MM's business scope compared to 2020 (i.e., the last year considered in assessing the reference average), thus excluding the Green Areas Business Unit, the indicator would be **74.5%**.

⁵For the purpose of calculating the indicator, the cost and revenue items set out in the aforementioned Order are to be excluded.

⁶Costs incurred for compulsory safety measures are included in operating costs.

Operating costs (€/000)	155,655
Revenues (€/000)	209,055
KPI 2021 (%)	74.5%

In both cases, the minimum percentage of improvement envisaged for 2021 is therefore met.

Analysis by strategic business segments

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

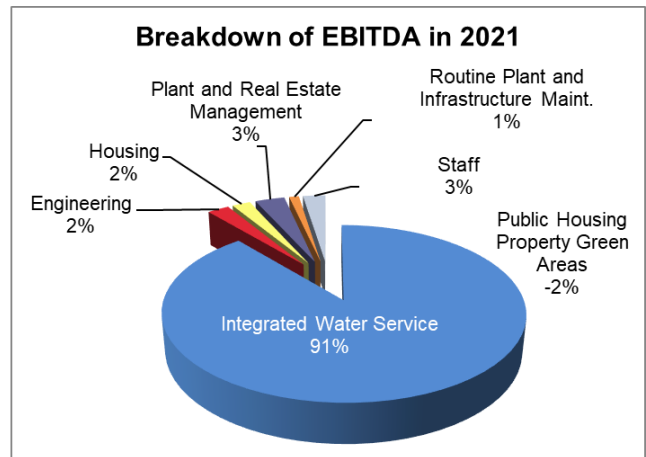
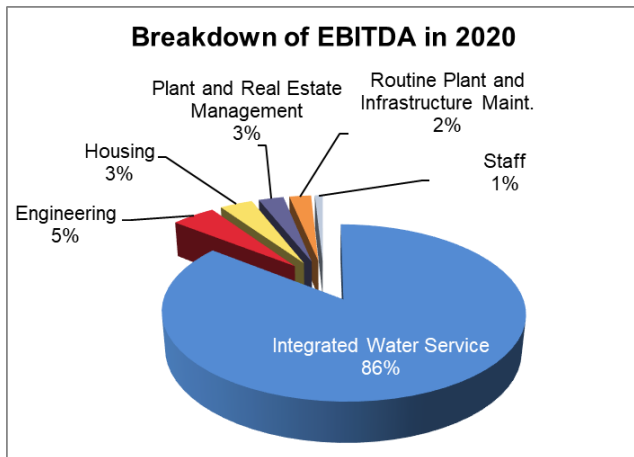
The income statements by segment include **structural costs** and **economic exchanges between the business segments**, valued at market prices.

Income Statement (€/000)	Engineering	Integrated Water Service	Housing	Plant and Real Estate Management	Routine Plant and Infrastructure Maint.	Public Housing Property Green Areas	Staff	Adjustments	IFRS income statement
Revenues	34,226	137,684	14,023	2,035	4,979		169		193,115
Cross-sector revenues	2,507	179	124				80	(2,890)	0
Revenues arising from work on infrastructure subject to service concessions		57,393							57,393
Other operating revenues	1,930	10,442	1,882		86		2,088		16,427
Raw materials and consumables	(803)	(1,836)	(1,740)		(110)	(94)	(1,977)		(6,560)
Cross-sector costs	(155)	(2,501)		(39)	(195)			2,890	0
Costs for services	(8,345)	(54,982)	(1,881)	(43)	(2,595)	(800)	(7,595)		(76,242)
Costs for Central Staff functions	(5,721)	(12,613)	(4,263)	(201)	(421)	(80)		23,299	0
Other operating expenses	(609)	(1,074)	(630)	(9)	(0)	0	(527)		(2,848)
Personnel costs	(21,748)	(28,831)	(6,437)		(1,164)	(93)	(14,211)		(72,484)
Capitalised costs on infrastructure subject to service concession arrangements		(55,500)							(55,500)
Losses from disposals and divestment of fixed assets		(169)							(169)
EBITDA	1,282	48,192	1,079	1,744	578	(1,067)	(21,973)	23,299	53,134
Amortisation/depreciation and provisions	(3,979)	(26,049)	(1,230)	(1,270)	(16)		(1,306)		(33,850)
EBIT	(2,698)	22,144	(151)	474	562	(1,067)	(23,279)	23,299	19,284
Financial operations	(473)	(5,387)	(7)	29	(0)		(15)		(5,853)
Pre-tax profit	(3,171)	16,757	(158)	503	562	(1,067)	(23,294)		13,431
Taxes	158	(4,208)	(206)	(127)	(167)	252	(5)		(4,304)
Net profit for the year	(3,013)	12,549	(364)	376	395	(815)	(23,299)	0	9,127

In 2021, MM S.p.A.'s EBITDA amounted to € 53,134, down by 13,774 (-20.6%) compared to 2020.

EBITDA (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Integrated Water Service	48,192	57,295	(9,103)	-16%
Engineering	1,282	3,204	(1,923)	-60%
Housing	1,079	2,407	(1,328)	-55%
Plant and Real Estate Management	1,744	1,833	(88)	-5%
Routine Plant and Infrastructure Maint.	578	1,592	(1,013)	-64%
Public Housing Property Green Areas	(1,067)	0	(1,067)	
Staff	1,326	578	748	129%
Total	53,134	66,908	(13,774)	-21%

The breakdown of MM S.p.A.'s EBITDA in 2020 and 2021 is outlined below:



The largest contribution to the company's EBITDA came from the Integrated Water Service; the figures for 2021 compared to 2020 confirm the EBITDA breakdown for the different BUs.

Integrated Water Service

The Water Service Business Unit operates the City of Milan's integrated water service, i.e., the set of infrastructure and operations used to extract, treat, and distribute drinking water, and subsequently collect wastewater through the sewer system and treat it before returning it into the environment.

The Business Unit is comprised of two Line Departments that are responsible for the operation of the water supply and sewer systems and water treatment plants, respectively, in addition to a Department dedicated to implementing investments and renovating the systems. In July 2021, a new **Commercial function** dedicated to customer management, meter readings, billing and debt collection was established with the aim of integrating the meter-to-cash technical and commercial processes.

The organisation also comprises Staff functions dedicated to B.U. Services, Warehousing, Planning and International Cooperation.

More specifically, operational departments include:

- The **Water Supply and Sewer System Department**, which operates the water service's systems as well as drinking water pumping and treatment plants.
- The **Water Treatment, Environment Protection and Wastewater Plants** function, which operates wastewater pumping and treatment plants, serving a potential 2,250,000 equivalent residents overall.

MM thus **controls Milan's whole integrated water service**, from the supply of drinking water to the final return of treated wastewater and the reuse of water for irrigation.

In 2021, the Business Unit pursued initiatives and investments aimed at achieving the **Technical and Contractual Quality Targets** under the regulatory framework defined by ARERA.

In 2021, after consultation with the regulatory bodies, the **scope of the water service was expanded to include the management of urban drainage infrastructure** (rainwater networks and roadside drains) and the management of **irrigation wells with non-drinking water**. Milan's Integrated Water Service therefore manages the city's internal urban drainage system, providing an integrated response to emerging issues related to intense weather events caused by climate change.

The year 2021, as well as 2020, saw a **significant decline in water consumption** (-2.7% compared to 2019), associated with the impact of the pandemic on the City of Milan (e.g., business closures, remote work, reduction in tourist flows, university closures, etc.).

As for investments, the Company carried on with the massive plan to **replace and/or rehabilitate water supply and sewer systems** in order to renovate infrastructure under a scheduling approach based on the break rates of each line.

The use of **No-Dig technologies** allowed boosting the productivity of construction sites, resulting in a net reduction in works and inconveniences on the road.

In order to constantly improve water leaks and the energy efficiency associated with the operation of the water supply system's pumping stations, in 2021 the IT **Decision Support System (DSS)**, aimed at optimising the operation and control of pumping systems, was enhanced with a new module dedicated to system pressure management. To achieve this, the level of **network digitisation** had to be increased during the year. To this end, reliance was made on new IoT sensors for pressure

measurement and on distributed fibre optics for qualitative and quantitative monitoring of the sewerage network.

The installation of 30 new **water houses** also increased the digitisation of Milan waterworks, as each house contains a real digital analysis laboratory that allows real-time data to be collected from the field and supplied to the water quality control laboratory.

Still on the subject of digitisation, 2021 saw the completion of the new IoT BEAM business platform, which is capable of collecting all digital data from the field and feeding them with dedicated algorithms and artificial intelligence systems in vertical applications. The most significant application launched during the year was the processing of metering data from the **smart meters** for consumption control, billing and continuous water balance, with a view to identifying areas with potential network losses.

With regard to **circular economy**, the experimental system for the energy recovery from sewage sludge was completed at the Milano San Rocco wastewater treatment plant. It includes a section capable of converting sewage sludge into bio-carbon and a subsequent thermal recovery phase with a fluidised bed furnace and recovery of phosphorus from residual ash.

The table below summarises the **Business Unit's results**:

Integrated Water Service (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Revenues	205,698	212,654	(6,956)	-3.3%
Costs	(157,506)	(155,359)	(2,147)	1.4%
EBITDA	48,192	57,295	(9,103)	-15.9%
% on revenues	23.4%	26.9%		
Amortisation/depreciation and provisions	(26,049)	(23,062)	(2,986)	12.9%
Operating Profit (Loss)	22,144	34,232	(12,089)	-35.3%
% on revenues	10.8%	16.1%		
Investments	65,550	60,937	4,613	7.6%

In terms of financial performance, in 2021 the Water Service Business Unit reported a decline in EBITDA of € 9,103 thousand (-15.9%) compared to 2020.

Revenues decreased by € 6,956 thousand (-3.3%).

Operating costs increased by € 2,147 thousand (1.4%).

Operating profit (loss) decreased by € 12,089 thousand (-35.3%) compared to 2020.

Investments in the Integrated Water Service amounted to € 65,550 thousand, up by € 4,613 thousand (+6.2%) compared to the previous year.

The table below shows the **main technical data of the Business Unit:**

Integrated Water Service technical data	2021	2020	2019	2018
Reference territorial area	City of Milan	City of Milan	City of Milan	City of Milan
Housing units	Approx. 800,000	Approx. 800,000	Approx. 800,000	Approx. 800,000
Resident inhabitants	1,403,314	1,436,544	1,418,329	1,403,968
Demand	Approx. 2,000,000 Customers	Approx. 2,000,000 Customers	Approx. 2,000,000 Customers	Approx. 2,000,000 Customers
Water released into the network (millions of m3/year)	210	209	216	218
Total water billed (millions of m3/year)	178	178	185	186
Water leaks*	15.5%	14.4%	14.1%	15.0%
Total length of the water distribution networks (km)	2,146	2,141	2,140	2,136
Length of supply networks (km)	99.8	99.5	99.5	99.5
Total wells (no.)	588	588	588	588
Length of sewer systems (km)	1,585.0	1,584.2	1,582.9	1,579.3
Purification plants (no.)	2	2	2	2
Purification plants potential (population equivalent)	2,286,000	2,286,000	2,286,000	2,286,000
Drinking water analysis				
Number of samples**	3,701	3,095	17,494	17,461
Number of parameters	211,838	175,083	191,692	190,444
Conformity percentage	99.99%	99.98%	99.97%	99.90%
Wastewater analysis				
Number of samples	6,700	6,400	8,000	10,817
Number of analytical determinations	39,200	38,200	42,800	48,496
Conformity percentage (only on discharge)	100%	100%	100%	100%
Per capita daily supply (m³/inhab./day)	0.390	0.395	0.416	0.425

Wastewater treatment plants

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.

Integrated Water Service technical data	2021	2020	2019	2018
Plants over 1,000,000 p.e.	2	2	2	2
Wastewater treatment values				
Volumes treated entering and leaving plant (millions of m3)	220	226	237	236
Volumes used for crop watering (millions of m3)	62	55	94	89
Percentage removal of BOD5 pollutants	98%	98%	98%	98%
Percentage removal of SST pollutants	99%	99%	98%	99%
Percentage removal of total Nitrogen pollutants	84%	80%	72%	76%
Percentage removal of total Phosphor pollutants	77%	72%	80%	72%
Volume of sludge for disposal in agriculture (thousands of tonnes)	42	48	43	46
Volume of sludge to be used as fuel in cement factories (thousands of tonnes)	15	13	16	14
Theoretical calculation of the dried volume sent to cement factories, transformed into equivalent of dehydrated sludge for agriculture (thousands of tonnes)	35	34	35	31

(*) As regards the figure relating to water leaks, it refers to the macro indicator M1b "Percentage water leaks" calculated for the waterworks network of Milan in accordance with the provisions of Article 8 of Annex A to ARERA Resolution 917/2017/R/idr (RQTI).

(**) Starting from the year 2020, the Area Office of the Metropolitan City of Milan decided that, for the purposes of RQTI (technical quality) regulations, the sample of one or more portions of water, taken in a given sampling point, on a given date, shall be considered as the only sample, regardless of the number of containers used in accordance with sampling methods. Such reclassification leaves the volume of daily water quality analyses and the structure of the sampling plans carried out by MM unchanged.

Engineering

In 2021, the Engineering Business Unit encompasses the operations of the **Engineering Department (DVIN)** and the **Construction Management Department (DICM)**:

- The Engineering Department is, in turn, organised into three business lines:
 - one dedicated to Infrastructure, Construction and Waterworks (DIEI);
 - one dedicated to Mobility Systems (DSMO);
 - and finally the Mobility Construction Management Department (DCMM).

The structure of the Engineering Business Unit is completed by: the Engineering BU Services function, a Sales Department entrusted with national and international business development tasks, and the Structures technical function.

The foreign branches also report to the Business Unit: **Dubai Branch** (EAU), set up in January 2017 to develop business initiatives in the Middle East and North Africa (MENA) Region and South Asia as well as to handle contracts in the United Arab Emirates, and **Sucursal Colombia**, based in Bogotá, set up in July 2020. An additional Branch (**India Branch**) was set up in 2021 in Chennai, following the acquisition of major projects in that country related to the underground railway lines in Chennai and Mumbai.

- As of March 2021, the Construction Management Department (DICM) was allocated to report directly to the Managing Director (DG) to ensure a focused and effective delivery of the execution stage of the contracts entrusted by the Municipality of Milan and its subsidiaries concerning urban infrastructure, housing and buildings.

The Engineering BU also operates in other international markets and is present, in partnership with other companies, in Romania (high speed railway corridor), Greece (Thessaloniki underground railway) and Saudi Arabia (Riyadh underground railway).

The table below summarises the **Business Unit's results**:

Engineering (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Revenues	38,663	37,945	718	1.9%
Costs	(37,381)	(34,741)	(2,640)	7.6%
EBITDA	1,282	3,204	(1,923)	-60.0%
<i>% on revenues</i>	3.3%	8.4%		
Amortisation/depreciation and provision	(3,979)	(1,965)	(2,015)	102.6%
Operating Profit (Loss)	(2,698)	1,240	(3,937)	-317.6%
<i>% on revenues</i>	-7.0%	3.3%		
Investments	1,201	1,709	(508)	-29.7%

In terms of financial performance, in 2021 the Engineering Business Unit saw EBITDA decrease from € 3,204 thousand to € 1,282 thousand (-60%).

Revenues were up by € 718 thousand (1.9%); **operating costs** rose by € 2,640 thousand (7.6%).

Investments of the Engineering Business Unit amounted to € 1,201 thousand (-29.7% compared to the previous year).

Infrastructure, Construction, and Waterworks Department (DIEI)

The most significant actions taken within the Department in 2021 concerned:

- the completion of the **technical and financial feasibility study** for the **underground tunnel to carry water from the Martesana to Darsena** under the project assigned to MM by the Municipality of Milan;
- the completion of the **final design to be put out to tender** for joint contract award pertaining to the first pavilion and the **executive design** of the second pavilion hosting the **new fruit and vegetable logistics platform** to be built within the agri-food district, and the new fruit and vegetable pavilions under the contract awarded by So.Ge.Mi. to MM S.p.A.;
- the technical and financial feasibility study and final design of works for **demolition and reconstruction of the Public Housing Property in Via Giaggioli** developed pending the formalisation of the assignment in order to allow the Municipality of Milan to apply for funding under the National Innovative Housing Quality Programme (PINQuA), now incorporated into the NRRP;
- the design of **MiMa: new repository of archives in via Gregorovius, 15** as part of the assignment given by the Municipality of Milan;

As regards the activities undertaken for the Municipality of Milan, the overall revenues of the Department are mainly related to the Housing and School and Sport facilities 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: upgrade of fire-prevention systems; extraordinary maintenance work on properties; renewal and adaptation, or the construction of facilities; renovation of the courtyards in Via Solari 40; extraordinary maintenance and energy efficiency improvement of the building in Via Padre Luigi Monti 18/24.

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;
- extraordinary maintenance on holiday homes owned by the Municipality of Milan;
- extraordinary maintenance on the primary school 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 of significant importance with respect to the revenues of the Infrastructure, Construction, and Waterworks Department.

The most significant interventions concern:

- extraordinary maintenance and retrofitting works for state-owned and social policy buildings;
- the functional and energy upgrading of the "Sandro Pertini" civic centre in Via Oglio, 18 and the "Polo Ferrara" multifunctional centre in Via Mincio, 23;

- works for hydraulic protection of the local area in the floodplain sections of the Lambro river and improvement of the landscape and naturalistic aspects;
- the new lamination basin for the railway underpass in Via Negrotto and works for restoring the static and hydraulic functionality of the damaged watercourse culverts.

As regards **internal work orders** developed during the year **for the Integrated Water Service** under the Action Programme, they included, among others:

- renovation of buildings and electromechanical systems at the Cantore drinking water plant;
- replacement of waterworks pipelines: Via Padova from Via Giocosa to Via Bassano del Grappa; Via Mecenate – Phase 2;
- works protecting the hydraulic functionality of the sewer system – Lot 2 – installation of metering instruments;
- works to upgrade the sewer system in Via della Chiesa Rossa – Lot 2;
- renovation of the sewer pipelines: Via Fatebenefratelli and Via Candiani; Via Rubens and Via Parmigianino; Via Celoria.

Finally, engineering work continued in connection with the **implementation of the plan concerning MM S.p.A.'s offices** and, in particular, the design for the renovation and expansion of the drinking water plant in Via Espinasse as the company's new office building was started.

Mobility Systems Department (DSMO)

In-house activities for the Municipality of Milan

As regards the **in-house activities for the Municipality of Milan**, the main orders in 2021 in terms of revenues were the following:

- **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 (MIT), with a request to access financing in December 2018. In 2019, the Municipality of Milan sent to the MIT the supplementary documentation required in connection with the above-mentioned request and the State funding for € 270 million, equal to 60% of the economic plan totalling € 350 million, was therefore confirmed. In 2019 the Company also carried out in-depth design studies at the Principal's request, updating the PFTE accordingly and presenting it at the preliminary Conference of Services. In 2020, MM S.p.A. drew up and submitted to the Municipality of Milan a further update to the PFTE, which was then approved by a Council Resolution, with particular reference to issues related to compliance with town planning requirements in relation to the approval of the new territorial zoning plan (PGT - "*Piano di governo del territorio*"). In the same year, the process designed to establish exemption from undergoing Environmental Impact Assessment (VIA, *Valutazione di Impatto Ambientale*) also got underway. After a number of supplementary deliveries following requests from the Lombardy Region and the Metropolitan

City, the aforesaid process was completed with the issuance of Executive Decree No. 643 of January 2021, which confirmed that the project was not subject to any VIA procedure, provided that certain requirements were met. In the second part of 2020, the Final Project was also developed ahead of a special decision-making Service Conference.

In February 2021, the Final Project was submitted to the Municipality of Milan for compliance assessment. To this end, a decision-making Service Conference was held to approve the project and issue the Declaration of Public Utility. By means of Executive Resolution No. 3655 dated 19 May 2021, the Municipality of Milan formalised the successful completion of the Service Conference and subsequently, by Municipal Council Resolution No. 1063 dated 1 September 2021, approved the Final Project.

In September 2021, the technical and administrative process for receiving the opinion of the Council for Public Works (CSLP) on the project got underway (still ongoing at the reporting date).

In conjunction with the finalisation and approval of the Final Project, the Executive Design for the M1 Extension using BIM methodology started to be developed. At the same time, a process for defining a forthcoming tender that would take into account all the particularities of a tender based on a BIM project also got underway.

- **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 (PFTE) was drawn up and sent by the Municipality of Milan to the MIT 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 and the Municipalities of Milan, Monza, Cinisello Balsamo and Sesto San Giovanni). In 2019, MM also completed the update to the PFTE associated with a route change requested by the Municipality of Cinisello Balsamo, which was followed by a special Conference of Services; meanwhile, the Company started developing the final design, and specifically worked on the functional design of the stations as well as the buildings of the depot, using the BIM approach. In 2020, geognostic investigations continued to be conducted to gain further geotechnical insights into some of the most critical sections of the line in relation to the presence of natural underground cavities ("*occhi pollini*"). Technical think tanks organised by the Lombardy Region responded to some of the requirements put forth by the Authorities during the preliminary Service Conference. Most notably, reference is made to the layout of the terminal stretch of the line at Monza's Institutional Hub, the definition of the mitigation measures for the depot, the process to ensure the compliance of town planning instruments (which will be included in the administrative procedure of the Single Regional Authorisation - PAUR), the location of the Parco-Villa Reale station and the design of the access route to Monza FS underground station interchanging with the railway line.

The location of the Parco-Villa Reale station within the Monza Park, a protected natural area of the Lambro Valley Park, requires, pursuant to Article 7 of Legislative Decree No. 152 of 2006, compliance with the Environmental Impact Assessment (VIA) administrative procedure, or rather the VIA/PAUR procedure, lasting approximately one year.

In 2021, the geognostic campaign was completed, leading to some layout enhancements, the most relevant of which concerns the line crossing to the east of the Royal Villa (Villa Reale), thus avoiding underpassing the Serrone of the Royal Villa of Monza. Other activities included:

- the functional, structural and plant engineering design of the stations and buildings of the Casignolo depot-workshop. These buildings were designed in compliance with ATM's comments made during the preliminary service conference and they implement environmental sustainability choices with a view to obtaining the LEED certification;
- the study of construction sites, resolution of interferences and stormwater control and management works to ensure compliance with hydraulic invariance;
- the final landscaping and greening of certain station areas and the depot area.

In order to fully define the contents of the Environmental Impact Study (SIA - "*Studio di Impatto Ambientale*"), the preliminary consultation phase of the Authorities took place during the spring, pursuant to Article 21 of Legislative Decree 152/2006. It consisted of a number of technical meetings held with the Regional Investigation Board for the VIA and with the relevant Authorities.

Following this consultation phase, which ended in July 2021, the General Directorate for the Environment and Climate of the Lombardy Region submitted to MM the comments and guidance provided by the aforementioned Authorities, which will be incorporated into the SIA.

In the course of 2021, some of the important external project constraints were resolved or started to be resolved. The definition of the overall layout of Monza's Institutional Hub and the definition of the scope of the Monza's territorial zoning plan transformation, known as AcT_1 Bettola - Parco del Casignolo, remained pending at the end of 2021.

- **Milan M4 underground railway line**

Also in 2021 work continued in a twofold manner:

- 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.; secondment rules provide that the cost for the seconded staff must be entirely borne by AMAT s.r.l.;
- 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 MIT. This agreement, under which fees are to be paid based on the services actually provided, terminated in the course of 2021 and was therefore renewed, under the same conditions, with the ceiling being amended as appropriate so that technical assistance could be guaranteed until the end of 2023.

In 2021, as part of the specialist technical support service under the agreement with AMAT s.r.l., the Company focused on field tests and the safety case process to support the Safety Commission appointed by the MIMS (Ministry of Infrastructure and Sustainable Mobility, the former MIT), in anticipation of the opening of the first functional stretch of Line 4 in spring 2021.

In particular, this process required MM's specialist staff to see to the organisation and technical management of the Commission's meetings, which specifically increased in the period between the end of 2020 and the spring of 2021. The process resulted in the Safety Commission providing a final positive opinion (complete with provisions), which was ratified by submitting to the Ministry of Infrastructure and Transport (MIT) the Commission's final reports on the System and Subsystems by letter of the USTIF (the special office for fixed-installation transport), Ref. No. U.0028431.08-02-2021.

The reports submitted to the Ministry of Infrastructure and Sustainable Mobility (MIMS) by the Safety Commission made it possible to complete the Ministerial process to obtain Technical Clearance on the Project of the entire M4 line pursuant to Article 3 of Presidential Decree No. 753 of 1980, and on the closure of the "Third Key Point" (i.e. in-field demonstration of the correct implementation of all the safety measures set out in the project) specifically for the First Functional Stretch. This step was ratified by measure issued by the MIMS, Ref. No. R.0000157 of 28 May 2022.

In conjunction with and subsequent to this activity, MM's technical staff performed in-field checks with a view to establishing whether the necessary conditions ensuring compliance with safety standards for the First Functional Stretch were met, such checks being performed as part of the Working Groups set up by the Safety Commission.

At the end of this period of functional tests and inspections and of the pre-commissioning period, the USTIF was able to issue – following the request of the Municipality – the clearance certificate for the commissioning (under Articles 4 and 5 of Presidential Decree No. 753/80) of the First Functional Stretch on 15 July 2021 with measure Ref. No. 00160324.

The line was however not opened to the public on the basis of the assessments carried out by the Municipality in respect of the slowdown in operations experienced by Linate Airport due to the continuing pandemic situation (covid-19).

- **Milan – Limbiate suburban tramway line**

In 2021, design work continued on the redevelopment of the existing suburban tramway line as a modern light rail, as part of the project assigned to MM by the Municipality of Milan, which is the implementing body of the project, for the "final design, the conduct of inspections, safety coordination during the design stage, and support to the Sole Project Manager (RUP) for the functional redevelopment of the Milano Comasina–Limbiate Ospedale LTR".

Following the preliminary Conference of Services held in summer 2019 on the basis of the PFTE for lot 1 Milan–Varedo, the Company updated the configuration of the design. In 2020, the Municipality of Milan submitted the relevant dossier to the other Authorities that are party to the agreement for the project. On 14 November 2020, the Municipality of Milan assigned the lot 2 Varedo–Limbiate project, similar to the one mentioned above concerning lot 1, to MM. On 9 December 2020, MM delivered the PFTE for the redevelopment of the whole line, including the new depot-workshop in Mombello (Limbiate). Milan's Municipal Council approved said PFTE with resolution no. 1461 of 18/12/2020 to incorporate it into the draft 2021 Annual List of the Three-Year Public Works Programme for 2021-2023.

On 29 July 2021, the final project for the entire line (lot 1 + lot 2), including the new depot-workshop at Mombello (Limbiate), was delivered. On the basis of the final project, the decision-making Service Conference was convened in September 2021, ending on 21 November 2021. MM supported the Sole Project Manager (Municipality of Milan) in conducting the Conference

and in assessing the decisions reached by the many stakeholders involved, starting the ensuing process for updating the final design ahead of the work construction tender.

- **Transport system along the Paullese route**

Following delivery of phase 1 of the PFTE, in-depth studies were conducted during 2021 to support the Municipal Administration in applying for project-related funds based on the new Budget Law. More specifically, the current scenario assumed for upgrading the Paullese route includes the extension of Line M3 to Peschiera and a new LRT line between Peschiera and Paullo TEEM.

- **Testi – Niguarda A&E tramway**

In April 2021, the PFTE was handed over to the Municipality of Milan. In November 2021, it was then submitted again for approval by the Council in order that it may be included in the first year of the 2022-2024 Work Technical Plan (PTO).

MM worked with the Municipality of Milan to file an application with the Ministry of Infrastructure and Sustainable Mobility (MIMS) in order that this project, together with the Quartiere Adriano–Cascina Gobba M2 tramway extension, may gain access to rapid mass transit funding, as per the 2019 Budget Law, available under the Fund for “reviving Central Government investments and Italy’s growth”, established pursuant to Article 1(95) of Law No. 145 dated 30 December 2018.

In the second half of the year, the preliminary environmental study was drafted to establish whether an Environmental Impact Assessment (VIA) was required, while efforts to prepare the final project got underway, ahead of a Service Conference scheduled for spring 2022.

In the meantime, the “Northern Interdistrict LTR - Niguarda–Cascina Gobba functional stretch”, consisting of lot 3: Quartiere Adriano–Cascina Gobba M2 and lot 4: Niguarda A&E–viale Testi, was included among the works eligible for funding under the NRRP.

- **Bausan – Bovisa tramway**

In May 2021, the PFTE was handed over to the Municipality of Milan. In November 2021, it was submitted again for approval by the Council. At the same time, meetings were held with Ferrovienord and the Municipality’s Town Planning Department to coordinate work with other ongoing projects (including the Reinventing Cities call for tenders) and to address any incompatibility between the respective projects. More specifically, interface points were defined with FNM, which is completing the final project to upgrade the Bovisa station. In November, MM was awarded the assignment for final design of the work, which was then officially included among the works funded under the NRRP and, as such, to come on stream by 2026.

- **Milan Parco Nord-Seregno tramway**

With regard to the Milan Parco Nord-Seregno tramway, technical support activities provided to the Contracting Authority (Metropolitan City of Milan) and to the Sole Project Manager (RUP – *Responsabile Unico del Procedimento* – designated by the Public Works Superintendence of Liguria and Lombardy) continued throughout 2021.

More specifically, audits conducted to validate the executive project (technical part and financial part related to variants) were completed in July 2021.

In the last months of 2021, as part of the technical support to be provided to the Metropolitan City of Milan/Sole Project Manager, a technical analysis of the estimated metric calculation of the executive project developed by the Contracting Authority was conducted.

In 2021, a bid was submitted to the Metropolitan City Council for the preparation of a feasibility study designed to improve the integration of the tramway terminus into the Seregno railway junction. The contents of such bid were then reflected in the Supplementary Agreement between the local authorities, MM and the Public Works Department.

- **Extension of Line 1 of Milan underground railway from Sesto SG to Cinisello/Monza**

In 2021, the Mobility Systems Department essentially provided the required technical and specialist support to the “settlement negotiation” as per Article 239 of Italian Legislative Decree 163/2006 that MM S.p.A. and the contractor entered into in December 2019.

Despite some difficulty, partly due to the spread of the pandemic, the work of the Commission established under Article 239 came to a conclusion after almost two years, at the end of complex operations aimed, among other things, at redefining the contract scope by adopting a general contractual change appraisal, including the agreement on New Prices and the updating of the contract timeline.

Subject to review and approval by the Board of Directors of MM S.p.A. at its meetings on 24 September 2021 and on 22 October 2021, respectively, the agreement between the parties, i.e. MM S.p.A. and Impresa De Sanctis Costruzioni S.p.A., was executed on 26 October 2021, such agreement addressing in fact (i) problems that arose during the performance of the contract in question – with special reference to the introduction of the above-mentioned “Bettola Area Variation under the Integrated Action Plan” after work had got underway on the above-mentioned contract for the extension of Milan M1 underground line to Monza Bettola – and, as a result, (ii) the main criticalities and their impact on the general completion date and the cost of works.

To meet the new financial requirements, additional funding was sourced other than the expected refinancing from the Ministry (€ 15,000,000.00) and from the Lombardy Regional Authority (€ 9,200,000.00). As a result, by Municipal Council Resolution No. 1017 dated 06 August 2021, it was resolved that the Municipality of Milan should, for the purposes of carrying out the works at issue, provide additional funding to the extent of € 7,100,000.00.

Following the execution of the agreement between MM and the Contractor De Sanctis Costruzioni S.p.A., works resumed towards the end of 2021 regarding surface and road refurbishment in the Municipality of Sesto San Giovanni, while works got underway for the restoration of damaged parts of the Cinisello Station by a new Contractor identified by MM for this specific activity.

Once the above-mentioned restoration works will be completed, construction sites may be set up in the areas and works may get underway on the unfinished building of the Cinisello-Monza Station by the contractor implementing the Bettola Area Variation under the Integrated Action Plan, presumably starting in the first few months of 2022, followed by plant engineering and finishing works. The latter will be carried out by the company De Sanctis Costruzioni S.p.A., which, in any case, starting in January 2022 will proceed with the completion of all the remaining contract works that do not interfere with the operations of the Cinisello-Monza Station implementing contractor.

- **Extension of Line 4 of Milan underground railway from Linate to Segrate**

During 2021, the Technical and Financial Feasibility Study (PFTE) started to be developed, consolidating the horizontal and vertical layout, the construction methods, with particular focus on the configuration of the cavern called “*Camerone di attacco*” at Linate and the terminus at Porta Est at Segrate. The safety criteria were then reviewed (fire-fighting and evacuation according to the Technical Regulation issued under Ministerial Decree of 2015) in order to consolidate the type and location of the open-air structures, which were also required in order to start environmental analyses.

- **LPT system Cologno-Vimercate**

Following completion of the first phase of the PFTE, new meetings were held with the Working Group of Local Authorities and a decision was reached to continue to look into the Cologno-Vimercate Light Rail Transit (LRT) solution. A proposal was submitted for the conduct of an in-depth study, which started in November 2021, with a view to consolidating the layout, taking into account the demands and different expectations of the area, and updating the economic and transport effects of such solution.

- **Adriano – Cascina Gobba tramway extension**

By Resolution no. 1398 dated 11 December 2019, Milan’s Municipal Council approved the PFTE, along with the authorisation to apply for mass rapid transit funding, as per the 2019 Budget Law, available under the Fund for “reviving Central Government investments and Italy’s growth”, established pursuant to Article 1(95) of Law No. 145 dated 30 December 2018, to build the Quartiere Adriano-Cascina Gobba M2 Light Rail.

In 2020, MM assessed the proposed infrastructure with respect to the flood risk posed by the Lambro river. Among other things, this study outlined the additional works required to make the new infrastructure compatible with said flood risk.

In the second half of 2021, the preliminary environmental study was drafted to establish whether an Environmental Impact Assessment (VIA) was required, while efforts to prepare the final project got underway, ahead of the Service Conference scheduled for spring 2022.

The “Northern Interdistrict LTR - Niguarda–Cascina Gobba functional stretch”, consisting of lot 3: Quartiere Adriano–Cascina Gobba M2 and lot 4: Niguarda A&E–viale Testi, was included among the works eligible for funding under the NRRP.

- **Hydraulic safeguarding of Line 2 in Milan**

In December 2020, phase 1 of the Technical and Financial Feasibility Study (PFTE), relating to the renovation of the M2 tunnel along the “S. Ambrogio-Porta Genova station stretch”, was delivered to the Municipality of Milan, so as to include it in the “2021-2023 Work Technical Plan (PTO) / year 2021”. In June 2021 the final PFTE was submitted and, at the beginning of 2022, the Municipal Administration decided to entrust MM with the final and executive design of the work in progress.

- **Renovation of Line 2 viaducts from Cascina Gobba to Cologno Monzese, with works for monitoring the Cologno viaduct starting ahead of time**

In December 2020, the PFTE relating to the “renovation of Line 2 viaducts from Cascina Gobba to Cologno Monzese”, concerning 9 viaducts, was delivered to the Municipality of Milan, so as to include it in the “2021-2023 PTO / year 2021”. Thereafter, in October 2021 the Municipal

Administration decided to bring forward some works on the Gerber joints of the 1.8 km long Cologno viaduct, i.e. one of the longest. In the final quarter of 2021, MM – who was in charge of all the design phases as well as the contracting and construction management – developed the PFTE of this monitoring work, the final and executive design of which will continue in 2022 with the aim of contracting out and executing the works by the summer of the same year.

- **Surface work for Milan’s Line 4 – Western Section and Central Section**

As part of the construction of Milan’s Line M4, the Municipal Government has decided to enhance the surface work for some stations with high-quality finishes, tasking MM with the final and executive design as well as construction management for some areas of the line’s western section, based on a PFTE prepared by the Municipality. These works add to and complement the works of the Line M4 Concessionaire, which broadly involve restoring the places concerned to their original condition before the works. In 2020, pending the assignment received in December, considering the importance of these works, MM started discussing certain aspects of the project with the Municipal Government and the Line M4 Concessionaire, and preparing the tender documentation in order to award these works under a framework agreement. In December 2020, MM received a similar assignment concerning the central section of the line, along the “Cerchia dei Navigli” ring.

In January, February and March 2021, following a request from the Municipal Administration, MM developed the “Final project for surface works for Line M4” with a view to participating in the “*Qualità dell’abitare*” (Quality of Living) public competition launched by the Ministry of Infrastructure and Transport (MIT). The project was evaluated positively by the Commission and received full state funding.

Again at the specific request of the Municipal Administration, MM started to develop the documentation required to obtain the necessary authorisations for the other areas of landscape interest in the western and central stretch, planning the activities also in relation to the information provided by the Constructor. In July, the relevant authority (*Soprintendenza*) issued the landscape authorisation for the completion of surface works of the San Protaso Oratory.

The final design of the San Cristoforo area, as under the “Through San Cristoforo” tender, is nearing completion and is expected to be delivered in early 2022.

Apart from the aforementioned activities, executive design activities could not start due to the lack of input data, with special reference to the executive design prepared by the Line M4 Concessionaire for the areas falling under its own jurisdiction (which generally also include road circulation), which is essential to ensure seamless integration between the two distinct works.

- **Specialist collaboration due to vibration disturbance caused by the underground railway line**

During 2021, MM continued to provide support to the Municipality in relation to measures, studies and projects aimed at addressing, from a design perspective, vibration disturbance caused by the passage of underground trains, especially along the historic sections of the M1 and M2 lines. MM is responsible for, among other things, carrying out on-site measurements near the buildings concerned by this issue. This work is carried out by MM’s specialised staff using specific certified tools. In the course of 2021, projects were started, again at the request of the Municipal Administration, for works on certain sections of the railway track, with the aim of field-testing different approaches to minimise the disturbance perceived by receptors.

- **Segrate Porta Est railway station**

In the first months of 2021, work continued on the definition of the station track layout (“master town-planning scheme”) taking into account the requests of the provider RFI. In June, the final layout was formally shared by the Working Group of Local Authorities, allowing functional and structural design to get underway. The main design activities then continued, with priority being given to the definition of the construction stages, which mainly focused on moving the tracks. The architectural-functional design was started by defining the characteristics of the plate and underpass, and the vertical connections to the platforms (distribution and sizing of staircases and escalators). Finally, the main structural works (new freight connection trench, diaphragms, jacked and open-air underpasses, Segrate section tunnel extension) were defined and verified, while tests on overhead works (elevated plate and large roof) were started in synergy with RFI.

- **M5 ramification north of Bignami and development scenarios for North Milan’s main network**

During 2021, the study for the extension of Line M5 towards Bresso and extension of Line M3 towards Paderno Dugnano was completed, including scenarios for upgrading the north-bound LRT network. The study was delivered in July 2021 to the Municipality of Milan and, together with the studies delivered in 2019, completed the two M3/M5 Phase-1 PFTEs.

- **Extension of Tramway Line 24 from Selvanesco to IEO**

In August 2021, Phase 1 of the PFTE was delivered, including several scenarios for the extension of south-bound tramway Line 24 (IEO, Noverasco, Opera and Locate Triulzi). Subsequently, in agreement with the Municipality of Milan, the Phase-2 design started on the chosen solution, which included a 1.1 km extension to the IEO with a terminus loop. Efforts continued, complete with the details required for a preliminary project, regarding the study of the layout, road network changes, and the resolution of interference with underground utilities. All other specialist endeavours got underway – with a special focus on environmental aspects since the project falls within the *Parco Agricolo Sud* (i.e. the agricultural park in Milan’s southern area) – concerning the design of hydraulic works and, for the plant engineering part, the line power supply diagram.

- **Extension of Line 5 of Milan underground railway from San Siro to Settimo Milanese**

In December 2021, MM delivered phase 1 of the PFTE, considering several alternatives for extending Line M5 west of the current San Siro terminus, some of which within the city of Milan while others extending as far as the borders between Settimo and Cornaredo, including different construction hypotheses. In the last part of the study, further to completion of the cost-benefit analysis (CBA), insights were gained into the effect of certain adjustments on the analysis parameters (most notably, set of external effect values and depot investment).

- **Public transport system connecting the former Alfa Romeo, Arese, Rho/Fiera interchange, MIND area and Milan**

During 2021, the study (Phase-1 PFTE) for the LPT connection between Lainate, Arese and the MIND area was developed. The study relied on a “multi-system” approach to evaluate several public transport solutions for this corridor in the area north-west of Milan, with account also being taken of the proposal for the FN Garbagnate-Lainate rail link. It also considered several solutions for connection to the MIND site, including in relation to the safeguard corridor defined by Arexpo with the local Administrations: innovative solutions were also studied for MIND (overhead, such as cable-cars). The findings of the CBA highlighted the effectiveness of the proposed

infrastructure, particularly with respect to decongesting a heavily trafficked road network, and – more importantly – placed emphasis on complete tramway solutions, preferring them to “combined” scenarios (LRT+railway).

- **Transport system Municipality of Milan, *Città della Salute* and IAP (Integrated Action Plan) Municipality of Sesto San Giovanni**

During 2021, the study (Phase-1 PFTE) on the upgrading of LPT connections in the former Falck and *Città della Salute* (i.e. Health City) areas was developed. As agreed in the Local Authorities Agreement, the first part of the study focused on the feasibility of the implementation of the LPT network upgrades (high-speed bus lines and LRTs) in relation to ongoing urban development. To this end, a number of meetings were held with the operator, municipalities and the Region. Following the delivery of the first part of the work (August 2021), activities continued in order to gather insights aimed at building the transport analysis model to be used for demand simulations. In-depth studies were therefore also conducted with the LPT Agency (*Agenzia di Bacino*) and AMAT to define the expected structure of LPT by road in the reference scenario of IAP implementation, which at the reporting date was still virtually undefined in the LPT Plan. This second part, to be completed in early 2022, will close Phase I of the PFTE.

- **M1 underground railway line – Work on ventilation grille adjacent to Palazzo Giureconsulti (via Mercanti)**

In 2020, the Municipality of Milan entrusted MM with the design of this work, which involves moving the air outlet grilles from the ventilation chamber located in Via Mercanti, approximately halfway between the Duomo and Cordusio stations of the M1 underground railway line. The purpose of this move, which also entails redesigning the ventilation chamber’s interior areas, is to direct the air flow, coming from the tunnel, away from the façade of Palazzo Giureconsulti, which is currently undergoing extraordinary maintenance, in order to prevent any blackening of the façade itself.

In 2021, the PFTE, which also includes the 3D fluid-dynamic study of the flow of air expelled by the grilles, and the Final Project were drafted. In the second part of 2021, drafting of the Executive Design began, with delivery thereof being expected in early 2022.

[Activities outside the Municipality of Milan](#)

During 2021, the Mobility Systems department (DSMO) carried out activities also in relation to **orders outside the Municipality of Milan**, i.e. in other Italian and foreign cities, including:

- **Genoa Underground railway – Brignole-Martinez extension**

Following a call for tenders for design services, won in 2019 in partnership with another company, in 2020 the final design for the extension in question, for the purpose of the tender procedure, was developed.

In 2021, upon receipt of the comments of the Verification Body submitted by the Principal (i.e., the Municipality of Genoa) for the purpose of validating the project, the ensuing activities were carried out (review of comments, counter-arguments and consequent updating of the drawings), thus virtually completing the assignment tasks. Following negotiation concerning a request for a financial adjustment of the assignment that had already been submitted in 2020, an increase in contract revenue was obtained in 2021.

- **Riyadh underground railway (Saudi Arabia):**

In 2021, 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.

Activities in the Municipality of Naples

The activities of the DSMO are carried out by the “Naples Design and Construction” (*Progettazione e Costruzione Napoli*) Department, based in Naples, with some specialist input from the “Mobility Systems Design” (*Progettazione Sistemi per la Mobilità*) Department, based in Milan.

The current development of Line 1 of Naples’s underground railway is 18.5 Km with 19 stations, all in operation. Two of the nineteen stations (Municipio and Duomo) became operational with a temporary configuration as archaeological excavations are still ongoing in some sections. The Municipio and Duomo stations are scheduled for completion in 2023.

With the new funding for the Municipio archaeological park and the Duomo museum area, the overall value of the works in progress as at 31/12/2021 amounts to approximately € 38 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 concerning 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 handover and acquisition of the areas of intervention, the land reclamation works at Poggioreale station, and the agreements with EAV, the activation will take place in stages, with a first stretch including the Centro Direzionale and Tribunale stations to be activated by 2023 and the rest to be completed by 2026. The value of financed works as at 31/12/2021 amounts to € 279 million.

At the design level, as regards the extension to Capodichino, in 2021 the executive design of the Rolling Stock Storage Facility and 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 started. During 2021, projects were also developed for the external arrangements of the Centro Direzionale station and the connection to Capodichino airport. The executive design of the terminal section connecting the Capodichino station to the Di Vittorio station (granted to EAV under concession) is currently underway.

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: the stretch between the Mergellina and Municipio stations is currently under construction. Completion of the works is scheduled for 2023, and the opening of the Arco Mirelli and S. Pasquale stations is scheduled for 2022. The value of financed works as at 31/12/2021 amounts to some € 10 million.

In 2019 and 2020, the development of the new work orders, always in connection with the assignment involving Metropolitana di Napoli, continued:

- 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 € 58 million), in 2019 MM submitted the final design and a modification is currently underway concerning the Poggioreale EAV station;
- “Compensatory” car park in the Capodichino area, with a contract value in the region of € 10 million. The final design of this work was developed and sent to the Municipality of Naples for approval.

In 2021, a new assignment was awarded by EAV (Ente Autonomo Volturno) as part of a joint venture with other engineering firms. It includes a framework agreement for engineering and architecture services for the Phlegrean lines (*Linee Flegree*) operated under concession by the above Entity. The duration of the assignment awarded to MM is 48 months, with a contract value totalling € 18 million (MM’s share amounts to € 7 million).

Construction Management Department (DICM)

In 2021, the most significant revenues of this Department, while still impacted, albeit partially, by the pandemic, continued to be generated by the numerous **activities as Sole Project Manager during Construction, Construction Management and Safety Coordination during Construction.**

Engineering operations continued with a view to providing support to the various Business Units and Departments of the Company and the different Technical Areas of the Municipality of Milan. Some activities outside the Municipality of Milan also continued to support external customers other than the Municipality, mainly concerning **extraordinary maintenance.**

At the reporting date, personnel of the Construction Management Department were performing the following tasks:

- **Routine maintenance of vacant housing units (Public Housing Property): Construction Management and Safety Coordination during Construction entrusted to us by the Company for the following facilities:** recovery of vacant housing units 6÷8; conversion to methane of thermal power stations; extraordinary maintenance of lifts; Torre Cogne; Cilea; Saint Bon; Omero; Pascarella; Pastonchi Fleming; Tofano demolition; Tofano reconstruction;
- **Integrated Water Service (IWS): Construction Management and Safety Coordination during Construction for the following facilities:**
 - Works on the drinking water plants: Feltre; Suzzani; Gorla;
 - Static consolidation of Cavo Redefossi;
 - Sewer system: piazza Mistral/Cassinis; via Bardolino; via Ghisallo and via De Gasperi; renovation of the Nosedo sewer pipeline;
 - Upgrading of waterworks: via Piacenza, via Agnesi, via Romano and via San Rocco;
 - Replacement of waterworks: via Bardolino; via Ghisallo and via De Gasperi; via Uruguay; via Padova; from piazza Napoli to via Giambellino;
 - New installation of sewer system and waterworks in corso Sempione;

- Water network in Montanelli and Sempione parks;
- **Environmental reclamation on behalf of the Municipality of Milan: Construction Management and Safety Coordination during Construction for the following areas:** Bovisa Gasometri Area; via Chiasserini Area; via Giambellino Area; Adriano school Area.
- **Surface arrangements and road layouts in the Municipality of Milan: Construction Management and Safety Coordination during Construction in the following areas:**
 - Piazza Dergano, Angilberto, Corso Sempione, Padre Luigi Monti and via Padova;
 - Naviglio Pavese Eurovelo 5 cycle route from piazza Napoli to via Giambellino.
- **School buildings of the Municipality of Milan; Construction Management and Safety Coordination during Construction for the following schools:** Adriano; Airaghi; Bergognone; Catone; Console Marcello; Crespi (Demolition and Construction); Diaz; Greni and Graf; Narcisi; Martinetti; Rasori; Salici; Sicilia; Trilussa; Venini; Zuara.
- **State-owned Real Estate property of the Municipality of Milan: Construction Management and Safety Coordination during Construction for the following buildings:** “Casva” Museum of Visual Arts; Piazzale Accursio; Andora holiday houses; ensuring the safety of the Villani Giuffrè residential complex; Padiglione Grazioli; Statuto Façades.
- **Milanosport S.p.A.: Construction Management and Safety Coordination during Construction entrusted to us by the Company for the following facilities:** Saini; Cambini Fossati; Palalido; XXV Aprile small track; Murat.
- **SO.GE.MI: Construction Management and Safety Coordination during Construction for the following infrastructures:** Building NP01; Building PLO.
- **Arexpo S.p.A.: Technical-administrative activities and engineering Services connected to “Post Expo 2015”, ended at the end of 2021.**

[Operations in Romania](#)

Lastly, MM S.p.A. continued operations in its capacity as contracting agent of a Joint Venture that was awarded the **assignment, on behalf of the Romanian Ministry of Transport (CFR), of “Consultancy in the area of management of the execution of works and installations pertaining to the objective of upgrading the Brasov-Simeria railway line**, a component of the Pan-European Corridor IV to ensure the circulation of trains at a speed of 160 km/h, Sighisoara-Coslariu section (Lot 2)”, such operations being expected to reach completion by 2022.

[Mobility Construction Management Department \(DCMM\)](#)

The Department’s revenues in 2021 mainly relate to the following activities:

- **Construction Management** for the execution of **Line M4 project in Milan**;
- **Construction Management and Safety Coordination during Construction of structures and infrastructure:**
 - Extension of Line M1 to Monza Bettola, work on which restarted in September 2021 after a long pause;

- Construction of elevators on Milan's canals (Navigli);
- Trolleybus in Verona;
- Cosenza – Rende tramway;
- Anassagora – Adriano tramway, and related preparatory reclamation works in via Tremelloni.

As regards the main work order concerning Line M4, the activities aimed at fulfilling the tasks assigned to MM in relation to Construction Management, continued. As from 2012, these activities had been carried out under the direct and functional control of the Grantor, i.e. the Municipality of Milan, while, since the new assignment in June 2017, they have been carried out under the control of the Line M4 Concessionaire, in compliance with the indications provided by the National Anti-corruption Authority, of Società Concessionaria SPV Linea M4 S.p.A., established on 22 December 2014 after 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 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.

Since February 2012 (i.e. the delivery of the works, but without any time limit), the progress of works resulted 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 line layout, 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, including the ongoing pandemic event, works cannot be completed as set out in the aforementioned Concession Agreement by the first half of 2022, i.e. after 88 months from execution thereof.

Sucursal Colombia

Sucursal Bogotá continued its activity for the development of the assignment concerning project control, construction management, testing & commissioning, and pre-operation support services related to the construction of the first line of the Bogotá Metro, awarded to MM by Empresa Metro de Bogotá S.A. (EMB) in 2020.

Activity in 2021 concerned the preliminary phase, where the JV of which MM is part was responsible for the **project control phase**.

Activities in the United Arab Emirates and in India

Already in early 2017, 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.

Between 2017 and 2018, the Branch carried out mainly commercial and business development activities; already in 2018 it acquired three contracts 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.

Design efforts resumed during the second quarter, with the start of the preparatory phase for the tenders for the Kanjurmargh depot and station civil installations.

In 2021, the contracting authority acknowledged a first contract variation in order to incorporate the requests of the JV concerning the extension of design activities pertaining to elevated stations.

Again in 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 for the underground railway Line 14 in the City of Mumbai – Maharashtra state (India) in March 2019.

During 2019, the following orders were started:

- Framework agreement for post-contractual support to Expo 2020 – Expo 2020 contracting authority; start in late November 2019 and completion in April 2020, with end of assignment due to Covid-19;
- New Support Contract (Project Management) for the realisation of the Czech Republic Pavilion at Expo 2020: start in late November 2019 and completion in October 2020.

The activities ended in the first quarter of 2021.

- 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.

Activities grew organically thanks to the development of the preliminary and final design for International Donor ADB (Asian Development Bank) in 2019.

During 2020, activities increased, leading to the achievement of major goals in early 2021: the planned tendering procedures for the execution of civil works of the underground metro system

were completed in respect of works related to the execution of station building shells and tunnels as well as fitting-out activities, in November 2021.

Contractual revisions were underway to change the scope and duration of services.

Activities related to the tendering procedures for civil station installations and tunnel ventilation systems were scheduled for the last quarter of 2022 and will lead to the completion of design activities.

- 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.

The business grew organically thanks to the development of the preliminary and final design for International Donor ADB (Asian Infrastructure Development Bank) in 2019.

During 2020, activities increased, leading to the achievement of major goals in early 2021: the planned tendering procedures for the execution of civil works of the elevated metro system were completed in respect of works related to the execution of station building shells and tunnels as well as fitting-out activities, in July 2021.

Contractual revisions are underway to change the scope and duration of services.

Activities related to the tendering procedures for civil station installations were scheduled for the last quarter of 2022 and will lead to the completion of design activities.

- MMRDA – Assignment relating to the feasibility study for the underground railway Line 14 in the City of Mumbai – Maharashtra state (India) in July 2019.

The development of the Technical and Financial Feasibility Plan was all but completed in 2019, but was then significantly disrupted by the Covid-19 health emergency: as a result, geognostic and topographical surveys and the discussions with the authorities involved were put on hold until late December 2020. During 2021, PFTE development endeavours were completed, with the final document being submitted to the relevant authorities for approval and subsequent development for implementation.

In 2021, the process for establishing the India Branch was completed: in March 2019, the Board of Directors of MM S.p.A. had resolved to establish **a branch office / local unit in India** for the development of the contracts won in this country; the opening of the branch office was authorised by the relevant authority (RBI - Reserve Bank of India) in July 2020. In June 2021, the relevant authority, the Ministry of Corporate Affairs ROC (Registrar of Companies), certified the place business of MM S.p.A. in India effective 7 September 2020.

In 2021, **the Dubai Branch** reported € 1,378 thousand in revenues and € 1,426 in costs; the net loss for the year amounted therefore to € 48 thousand.

Housing

The municipal housing property currently includes **38,990 real-estate units** of which:

- **28,748 housing units** (of which 783 in neighbouring municipalities);
- **8,864 garages and parking spaces**;
- **1,378 real-estate units for Non-Residential Uses.**

2021 saw a consolidation of the management of Public Housing property and the start of interventions on processes and organisational structure (development of CRM, web channels, management system, etc.).

In addition, the Business Unit took additional steps to make the service more efficient, such as the implementation of an online portal dedicated to tenants (<https://casa.mmspa.eu/>), the continuation of activities to adopt an advanced tool for the technical census of the property using innovative technologies, and the launch of the system for the remote control of facilities through IoT technology.

In 2021, the Business Unit recorded a total of **262,615 contacts** with customers, of which:

- **144,087 phone contacts** on the toll-free number 800 01 31 91, available 24x7;
- **28,897 appointments at branch offices** or by virtual means;
- **89,631 contacts through standard or registered mail.**

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 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.

Since the end of 2018, the Housing Business Unit has been 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 Property Protection department 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 department, and is carried out together with the Police. Results observed since the start of operations have been significant: **reduction of the net balance of squatting positions from 1,722 to 632** (as at 31/12/2021) with a **net reduction of 29** during 2021.

The following is a summary of the **Business Unit's results**:

Housing (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Revenues	16,029	17,114	(1,085)	-6.3%
Costs	(14,950)	(14,707)	(243)	1.7%
EBITDA	1,079	2,407	(1,328)	-55.2%
<i>% on revenues</i>	6.7%	14.1%		
Amortisation/depreciation and provision	(1,230)	(870)	(359)	41.3%
Operating Profit (Loss)	(151)	1,537	(1,688)	-109.8%
<i>% on revenues</i>	-0.9%	9.0%		
Investments	1,576	2,601	(1,025)	-39.4%

Revenues decreased by € 1,085 thousand (-6.3%), while operating costs increased by € 243 thousand (1.7%).

These trends led to a decrease in the Operating Result, down from a profit of € 1,537 thousand to a loss of € 151 thousand.

Investments of the Housing Business Unit amounted to € 1,576 thousand, down by € 1,025 thousand compared to the previous year.

Plant and Real Estate Management

The movable property and real estate of the Plant and Real Estate Management Business Unit (DVGI), 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.) through a lease contract in exchange for payment of an annual fee of € 2,030,137 plus VAT.

In 2021, the activities governed by the outstanding 2017-2021 lease contract continued.

In anticipation of the end of the waste management and street cleaning agreement with Amsa S.p.A., in late 2020 the Municipality of Milan issued a European invitation to tender for the award of environmental hygiene services for a period of 7 years starting in 2021. However, the tender procedure was suspended following the Lombardy Regional Administrative Court's granting of a number of interlocutory applications. In September 2021, the Municipality of Milan cancelled the call for tenders and prepared the issuing of a new call for tenders, to be published in January 2022, with a deadline for the submission of bids set on 5 July 2022.

To ensure the continuity of the environmental hygiene service, pending the completion of the tender, the lease contract between MM and Amsa dated 24/07/2017, already extended on 08/02/2021 to 31/05/2021, was further extended to 30/04/2022, in line with the extension of the environmental hygiene service concession arrangement with the Municipality.

Following a recent ruling by the Lombardy Regional Administrative Court, which suspended the tender procedure for the environmental hygiene service, the Municipality of Milan will be required to arrange for a new extension of the assignment presumably until April 2023. At the same time, MM will proceed with the execution of a new extension of the existing lease agreement.

The table below summarises the **Plant and Real Estate Management Business Unit's results**:

Plant and Real Estate Management (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Revenues	2,035	2,061	(26)	-1.3%
Costs	(291)	(229)	(62)	27.1%
EBITDA	1,744	1,833	(88)	-4.8%
% on revenues	85.7%	88.9%		
Amortisation/depreciation and provisions	(1,270)	(1,321)	51	-3.9%
Operating Profit (Loss)	474	512	(37)	-7.3%
% on revenues	23.3%	24.8%		
Investments	1,326	1,839	(513)	-27.9%

In financial terms, in 2021 EBITDA declined from € 1,833 thousand to € 1,744 (-4.8%); while **revenues remained stable**, costs were up € 62 thousand (+27.1%).

Routine Plant and Infrastructure Maintenance

School buildings

Activities relating to the **maintenance of school buildings** continued in 2021 by relying mainly on external contractors for management operations. In this connection, an initial core of internal resources responsible for the direct management of works was established. On 28 December 2021, a contract was signed whereby **MM S.p.A. was awarded the service**, according to the model known as “Global Service”, with a term of 25 years, starting on 1 January 2022.

In the second half of 2021, the Routine Maintenance and Infrastructure Business Unit started **preparatory activities in order to take over the service**, in the course of 2022, **shifting from a mainly “buy” to a “make”** management approach. To this end, internal processes were started with a view to provisioning the human and instrumental resources (e.g. equipment, materials, locations, information systems) necessary for the new operational model.

Lifting systems serving road underpasses

Activities pertaining to the **maintenance of the lifting systems serving road underpasses** are governed under a specific Agreement executed on 9 September 2021 between MM S.p.A. and the Municipality of Milan, for a term of 4 years, renewable for a further 4 years.

Municipality of Milan’s sport facilities managed by Milanospport

Activities relating to the **maintenance of the sports facilities** owned by the Municipality of Milan and managed by Milanospport continued in 2021, as under the **Agreement executed on 24 January 2020** between MM and Milanospport, for the supply of facility management and energy efficiency services, including acting as Third Party Responsible for the operation and maintenance of HVAC systems (as per Article 1 of Italian Presidential Decree 412/1993) and Energy Manager.

The following is a summary of the **Business Unit’s results**:

Routine Plant and Infrastructure Maint. (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Revenues	5,064	3,745	1,319	35.2%
Costs	(4,486)	(2,153)	(2,333)	108.3%
EBITDA	578	1,592	(1,013)	-64%
% on revenues	11.4%	42.5%		
Amortisation/depreciation and provisions	(16)	(124)	108	-86.8%
Operating Profit (Loss)	562	1,467	(905)	-62%
% on revenues	11.1%	39.2%		
Investments	86	0	86	

In financial terms, in 2021 EBITDA declined from € 1,592 thousand to € 578 (-64%); revenues increased by €1,319 thousand (35.2%) and costs rose by € 2,332 thousand (108.3%).

Public Housing Property Green Area Management

In 2021, the Public Housing Property Green Area Management department was established, following the **insourcing of maintenance operations concerning the green areas of Public Housing Property**, previously managed by MM S.p.A. by relying on external contractors identified through a public tender procedure, in accordance with the existing Agreement for the management of the municipal housing property. According to this Agreement, MM S.p.A. is required to discharge, including by relying on third-party firms, “all task relating to the facility management function” (see Article 7), including the management, care and maintenance of green areas.

The handover process aimed at **taking over the direct management** of the maintenance of Public Housing Property green areas took place gradually on the different lots during the month of **December 2021**, the purpose being to start managing such assets according to the “make” approach effective 1 January 2022.

On a forward-looking basis, the management of Public Housing Property green areas will prove highly complementary with the maintenance of all green areas of the Municipality of Milan, which is to be awarded in the near future as defined by Municipal Council Resolution No. 63 dated 20 July 2021. In this respect, in-depth discussions are underway with the Municipality of Milan to define a specific Agreement.

The following is a summary of the **Department’s results**:

Public Housing Property Green Areas (€/000)	31.12.2021	31.12.2020	Abs. Ch.	Ch. %
Revenues	0			
Costs	(1,067)			
EBITDA	(1,067)			
% on revenues				
Amortisation/depreciation and provisions	0			
Operating Profit (Loss)	(1,067)			
% on revenues				
Investments	0			

Business outlook

During the first months of 2022, the environment in which MM operates was affected by **sharply rising commodity prices, with special reference to electricity and natural gas**, and the **ongoing effects related to the Covid-19 health emergency**.

As they refer to regulated sectors (Integrated Water Service) or are associated with in-house procurement arrangements with the Municipality of Milan, which is the Company's sole shareholder, the nature of most of the services performed by MM (Engineering, Housing, Routine Plant and Infrastructure Maintenance) contributes to confirming expectations of a limited negative economic impact of the health emergency, also in view of the gradual exit from it.

On the other hand, with reference to the increase in energy costs, the **expected economic impact** for MM was **significant in terms of profitability**, in view of an expected average annual €/MWh price in excess of €300/MWh, higher than the amount originally set out in the 2022 budget where an estimated average value of €242/MWh was assumed for the year. In response to the increase in energy costs, the Company conducted special sensitivity analyses identifying an increase in these cost items that can be estimated at between € 8 and € 12 million compared to the budget, given the current legal and regulatory framework. It has therefore undertaken a set of actions aimed at countering this unprecedented price patterns. These actions may involve various macro-areas, including specific actions on the energy costs of the IWS, actions on operating costs and tariff revenues, and actions in the tax and financial area in accordance with the provisions set out in Law Decree No. 21/2022, as amended, believing that as a result of these efforts a positive target profitability can be confirmed.

The annualised macroeconomic scenario projected in the Bank of Italy's Economic Bulletin (January 2022) shows signs of economic recovery in terms of GDP growth, pre-pandemic levels expected to be reached around midyear. On average, an increase of 3.8% is expected in 2022, with a lower rate assumed in the following two years. Consumer prices would rise by 3.5% this year due to increases in energy prices, while inflation would remain moderate (1.6%) in the following two years.

However, there remain **systemic conditions of uncertainty** connected, on the one hand, to the evolution of health conditions linked to covid-19 and, on the other, to energy price patterns, which are strongly affected, as reported by Istat, i.e. the Italian National Statistics Institute (Monthly Bulletin, February 2022, No. 2), by **geopolitical tensions** linked to the **war in Ukraine**, which have significantly impacted the international scenario and the possible evolution of the Italian economy.

In the medium term, forecasts also remain conditional on the implementation of the spending programmes included in the government budgetary measure and the deployment of the measures set out in the **National Recovery and Resilience Plan (NRRP)**.

Personnel

As at 31 December 2021, MM's staff numbered **1,322 employees**.

In addition, MM employs 15 workers hired by temporary employment agencies, 1 on internship contracts and 8 on collaboration contracts.

The breakdown of employees by category is as follows:

Personnel broken down by category		2018	2019	2020	2021
Senior managers	no.	36	38	36	35
Middle managers	no.	76	77	78	79
Clerical workers	no.	710	795	820	822
Apprentices	no.	7	5	5	2
Workers	no.	335	356	354	384
Total	no.	1,164	1,271	1,293	1,322
Internship contracts	no.	6	5	2	1
Workers hired by temporary employment agencies	no.	14	24	21	15
Collaboration contracts	no.	6	7	7	8
Total	no.	1,190	1,307	1,323	1,346

In 2021, the percentage of employees on **permanent contracts** was equal to **94.33%**, increasing compared to 91.88% in 2020.

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	2018		2019		2020		2021	
	No.	%	No.	%	No.	%	No.	%
Permanent contracts	1,064	91%	1,158	91%	1,188	92%	1,247	94%
Fixed-term contracts	100	11%	113	9%	105	8%	75	6%
Total	1,164	100%	1,271	100%	1,293	100%	1,322	100%

MM's recruitment campaign, which began a few years ago, continued in 2021 as well, in line with business developments.

Relations with trade unions

Considering its past, MM's personnel can be classified under 7 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 and the Routine Plant and Infrastructure Maintenance Business Unit), Collective Agreement (CCNL) for the Gas and Water sector (for the Water Service Business Unit and the Staff Departments/functions), Collective Agreement (CCNL) for Middle Managers and clerical workers of the agricultural sector and Collective Agreement (CCNL) for workers of the agricultural and floriculture sector (for the Public Housing Property Green Areas function), 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.

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 relies on formal health and safety committees, which represent 100% of the MM workforce.

Training

MM believes that personal and professional growth of staff is essential to business development. It is therefore necessary that staff members are placed in a situation where they can carry out their activities in the best way possible, and make the most of their abilities.

To this end, MM provides training courses aimed at consolidating and **improving the technical and cross-departmental skills of all employees**. These may be in the form of **compulsory training courses** as required by law and applicable regulations, or **courses for updating and upskilling staff** based on the training needs expressed by managers and heads of department.

Training courses dedicated to employees are aimed at strengthening technical and specialist skills, reducing risks associated with undertaking operational activities, with particular reference for instance to occupational and environmental health and safety, and raising awareness of critical events that may affect the Company's reputation.

The training programme, excluding the topics required by law, is defined according to the strategic objectives of the Business Plan, the requirements of the Business Units, as well as internal and external audit findings highlighting the need to explore certain topics about specific processes, in accordance with the relevant procedure.

In 2021, MM provided **a total of 26,455 hours of training** (+57% compared to the previous year); the share of **training with in-house teachers** increased from 4% in 2020 to **13%** in 2021 (**3,509.5 hours**).

The **hours of training per employee** delivered in 2021 totalled **20** over the total population.

With reference to the **application method**, over the last three years top-down training (i.e., training paths established by the company for consistent groups of employees) increasingly prevailed over bottom-up training (i.e., specific training required by the functions). In 2021, **top-down training hours** totalled **23,475**, accounting for **88%** of total training hours, up from 72% in 2020 and 52% in 2019.

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 MM provides numerous **benefits for those who work in the company**.

In addition to standard benefits – like **meal vouchers, special arrangements with transport companies** such as ATM and Trenord, company mobile phones to all employees and PCs according

to the position – MM offers all its employees a system of **health monitoring** that also includes an internal medicine service and the presence of a **doctor, on a rotation basis, at the Company's offices**, as well as preventive medicine service with specific check-ups for women and men.

In addition, corporate welfare includes, as of 2020, **insurance** for employees in the event of **hospitalisation due to covid-19**.

Life insurance and a supplementary health fund are also provided for executives.

Furthermore, in the cases envisaged by the law, MM allows for **advances on post-employment benefits accrued**, also applicable to dependent family members.

An **annual performance bonus** is paid to employees as a supplement to their salary. Subject to agreement with trade union representatives, employees were given the possibility of converting part of the performance bonus into welfare services, without prejudice to the legal requirements to be met for tax exemption.

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 2021, a **People Strategy** Plan was launched with a view to developing and managing the technical, managerial and relational skills that help achieve excellent results, innovation and sustainability, while respecting fundamental human rights and the principles of fairness and transparency set out in the Code of Ethics and the Sustainability Report. As part of this plan, **performance management** was also revised and the assessment process was digitised using the **SAP SuccessFactors** platform. For more details on the People Strategy Plan and its implementation, reference should be made to the 2021 Sustainability Report, Chapter 5 "We value our people".

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 2021, 8 cases of work-related injuries were recorded, all with full recovery within 6 months, confirming the **downward trend in the number of work-related events seen over the last ten years**.

The injury rate, defined as the rate between the number of work-related injuries and the total number of hours worked (frequency index⁷), is 0.65.

Also in 2021, in line with 2019-2020, 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 relies on formal health and safety committees, which represent 100% of the MM workforce.

⁷ The frequency index is calculated as: *Number of injuries / number of hours worked x 200,000*.

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 must provide a fair view of the organisational model, operations, key risks and performance indicators with regard to environmental, social, personnel-related, human rights, anti-corruption and anti-bribery aspects that are relevant in view of the company's operations and characteristics.

MM decided to prepare a **document separate from the Report on Operations** named "**2021 Sustainability Report**", which corresponds to the Non-Financial Statement prepared pursuant to Article 3 of Italian Legislative Decree 254/2016. The document is prepared in accordance with the GRI (Global Reporting Initiative) Standards, according to the "In accordance - Core" option.

In addition, the 2021 Sustainability Report includes the findings of the analysis conducted by MM with respect to the requirements of Article 8 of Regulation (EU) 2020/852 (European Taxonomy), according to which companies subject to the obligation to publish non-financial information are required, effective 1 January 2022, to disclose the share of economic activities that potentially contribute to the achievement of specific environmental goals (the so-called taxonomy-eligible activities), providing for each of them details in terms of revenues, capital expenditure (Capex) and operating expenditure (Opex).

Please note that said document, which has been approved by the Board of Directors, is available on the Company's website 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 financial 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, allows 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.

<i>(in thousands of Euro)</i>	Impact on profit and equity, net of tax effect									
	COP		RON		INR		AED		Total	
Sensitivity analysis	-10%	10%	-10%	10%	-10%	10%	-10%	10%	-10%	10%
Year ended 31 December 2021	19	(16)	2	(2)	4	(3)	(33)	27	(8)	6

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/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/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 impact of interest rate fluctuations on the result of operations. The main characteristics of these agreements **as at 31 December 2021** are as follows:

Interest rate swaps (IRSs)	Start date	Maturity date	Par value (in thousands of Euro)	Fair value (in thousands of Euro)
Intesa Sanpaolo IRS	2006	2026	6,456	(803)
BNP Paribas IRS	2009	2028	7,000	(1,617)

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 100 bps compared to those actually recorded in each reporting period.

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

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

With regard to 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	
Sensitivity analysis	-100 bps	+100 bps	-100 bps	+100 bps
Year ended 31 December 2021	(632)	632	(632)	632

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 in-depth analysis and review of a series of receivables dating back several years. This process 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.

With reference to the **Integrated Water Service**, 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 € 238 million as at 31 December 2021 (€ 249 million as at 1 January 2021) were recognised net of advances for works of € 2,076 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 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 measurement of credit positions for which objective conditions of partial or total non-collectability were identified, in addition to expected losses, has led to the creation of a bad debt provision, amounting to € 39,704,665 as at 31 December 2021.

With regard to **Water Service customers**, given the high level of customer fragmentation and the limited possibility of customer selection, 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 € 11,556 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 2021**:

<i>(in thousands of Euro)</i>	Balance as at 31 December 2021	Expected outflows			
		Within 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities	269,679	89,896	38,852	140,931	269,679
Trade payables	178,041	178,041	-	-	178,041
Other liabilities	65,046	48,839	4,321	11,886	65,046

All the indicated flows are undiscounted nominal future cash flows, determined based on residual contractual due dates, for both the principal and interest portions.

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.

Corporate Governance Report

Information on the ownership structure

The share capital amounts to € 36,996,233.00, 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.

The Chief Executive Officer and the Managing Director, if appointed, are vested with the power to represent the Company, including in courts of law, within the limits of the powers conferred upon them.

Chairman

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

- 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.'s investees, in 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.

As per the minutes of the Board of Directors' meeting held on 20 May 2021 and filed with Notary Public Luca Zona of Milan on 24 May 2021 (Ref. No. 38782/17744), Stefano Cetti was vested with the following powers, which superseded those granted as per Board minutes filed with Notary Luca Zona on 15 December 2020 (Ref. No. 38354/17544) and Board minutes filed with Notary Luca Zona on 11 May 2020 (Ref. No. 37817/17264):

- 1) to define and stipulate, with all the appropriate clauses, 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 undertake, 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, ensuring that all legal obligations are fulfilled, procurement contracts entered into as a result of procedures called by the corporate bodies, including the power to terminate such contracts;
- 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;
- 5) 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 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, up to € 2,500,000.00 (two million five hundred thousand/00) for each individual contract, except for the purchase and/or sale of real estate and leases that exceed nine years. 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 that are not 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 € 2,500,000.00 (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 point 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 with no amount limit – both individually and as a member of Temporary Association of Companies, Consortia, Joint Ventures, Associations in general and other entities, all without legal personality – for the purpose of participating in tenders, including negotiated procedures and public procedures in general, for taking on assignments related to the performance of activities included in the corporate purpose, signing all the necessary, appropriate and consequential deeds and documents, including the relevant contract or assignment specifications, 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, Consortia, Joint Ventures, Associations in general and other entities, all without legal personality, for the purpose of participating in financed projects and tenders with no amount limit, 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 amount 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 short 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) jointly with the Head of Administration, Finance, Control and Regulation, Lorenzo Persi, or, in the event of his absence (also short-term) or momentary impediment, with the Head of Corporate Affairs, Crescenza Demattia, 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;
 - 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 (twenty-five thousand/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 office or Tax 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.

At the meeting held on 28 January 2021, the Ordinary Shareholders' Meeting of the Company passed the following resolutions:

- to authorise and acknowledge that the powers vested in the Managing Director – i.e. the office, not the person – are those listed below:
 - a) to manage and coordinate the operations of the organisational structures reporting to them, ensuring the implementation of the guidelines, instructions, decisions, and resolutions of the Corporate Bodies, ensuring the adequacy of the organisational structure, and putting any required implementations and changes in place;
 - b) to submit proposals to the Board of Directors for the definition of the Company's objectives and the scheduling of the relevant operations;
 - c) to prepare and submit the financial plans, the annual budget and the year-end financial report to the Board of Directors, working together with the relevant Departments, ensuring the adequacy of the administrative and accounting structure and putting any required implementations and changes in place;
 - d) to ensure that the preliminary documentation under his responsibility is prepared for Corporate Bodies' resolutions;
 - e) 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;
- to acknowledge the above resolutions and the updated structure of the powers, authority, and functions vested by the Board of Directors in the Chair and the Managing Director – i.e. the management positions and/or offices, not the persons.

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 and 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.

Pursuant to the provisions of Italian Law Decree no. 18 of 17 March 2020, published in the Extraordinary Edition of the Official Journal no. 70 of 17 March 2020, as subsequently converted

with amendments by Law No. 27 of 24 April 2020, as amended and supplemented, setting out measures to strengthen the national health service and provide economic support to households, workers and businesses associated with the Covid-19 epidemiological emergency (so-called “Cure Italy” Decree), the Meeting may be conducted using means of telecommunication, ensuring the identification of participants, their participation and the exercise of voting rights, pursuant to and for the purposes of Article 2370, paragraph 4, Article 2479-bis, paragraph 4, and Article 2538, paragraph 6 of the Italian Civil Code, without in any case requiring the Chair, the Secretary, or the Notary Public, if any, to be in the same place.

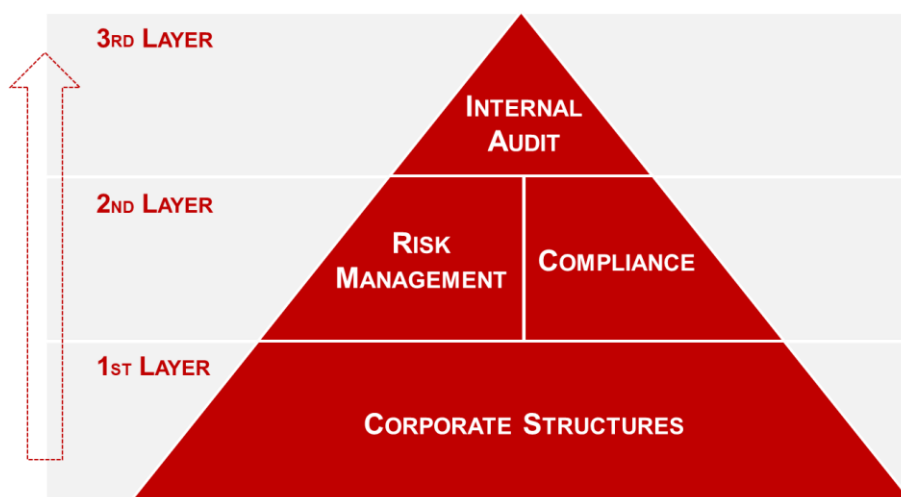
It should also be noted that according to Article 3(1) of Law Decree No. 228 dated 30 December 2021 (known as “Milleproroghe” Decree for 2022, i.e. a decree extending the life of various government measures) “The deadline referred to in Article 106(7) of Law Decree No. 18 dated 17 March 2020, written into law complete with amendments by Law No. 27 dated 24 April 2020, relating to the conduct of shareholders’ meetings of companies and organisations, is extended to 31 July 2022”.

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 controls 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 (ICRMS) 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**, which is responsible – with regard to the Organisational, Management and Control Model – 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.

It receives reports about the commission, or attempted commission, of crimes under Italian or international law or the breach or circumvention of the principles, values and rules of conduct set out in the Code of Ethics and the Organisational, Management and Control Model of which it is integral part.

The Supervisory Body maintains absolute confidentiality of the identity of the persons filing a report in good faith, protecting them against any form of retaliation, discrimination, or penalisation during and after the investigation.

- 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.
- The **Ethics Committee**, the body that supports the company in interpreting and implementing the Code of Ethics, proposes updates to the Code and monitors its dissemination, application and implementation, working together with internal and external business functions.

Compliance with the rules in the Code of Ethics shall be considered an essential part of the contractual obligations of the Recipients. Under the relevant contracts, MM reserves the right to terminate the contractual relationship in the event of conduct or actions violating the principles set out in the Code.

The Ethics Committee is currently comprised of three third-party members of high professional and moral standing.

- The **Independent Auditors**, whose duty is to verify that accounting records are regularly kept, and operating 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;

- The **Data Protection Officer (DPO)**, whose main responsibility is to observe, assess and organise the processing of personal data (and, therefore, their protection) within the company, so that they are processed in accordance with European and Italian privacy regulations.
- The **Anti-Corruption Representative**, who, based on the mandate granted by the Board of Directors, supervises the design and adoption of the anti-corruption system, supports the Risk Manager, monitors the Policy's alignment with best practices and applicable laws against corruption, provides anti-corruption training, verifies the effective implementation of the Anti-Corruption Policy based on the audit plan of the Internal Audit Function as approved by the Board of Directors.
- **Audit, Risk Management and Sustainability Committee**, set up by the Board of Directors (BoD) in its meeting held on 9 February 2021, and consisting of three members of MM's BoD, whose task is to support the BoD's assessments and decisions relating to the internal control and risk management system, as well as sustainability. The Audit, Risk Management and Sustainability Committee plays an advisory and proactive role with regard to risk management strategies, receives the annual report on risk mapping and monitoring activities and related mitigation actions.

Enterprise Risk Management (ERM) model

MM adopted a **Risk Assessment and Reporting process**, which aims to make the management of enterprise risks an integral and systematic part of management processes.

More specifically, an **Enterprise Risk Management (ERM) framework** was developed allowing analysis and monitoring activities to be carried out based on an integrated logic approach. This approach is designed to ensure effective risk management in line with the objectives of the Business Plan. The coordination of this process was entrusted to the **Risk Manager** whose main tasks include:

- Managing and coordinating activities and processes relating to Enterprise Risk Management, providing Top Management and the functions involved in the process with the necessary methodological support;
- Supporting Risk Owners / Specialists in risk management activities, interfacing with MM's organisational units and drawing on the specialised expertise of other functions where necessary;
- Informing the Managing Director in a timely manner if particularly "critical" risk scenarios are identified during interviews;
- Supporting the Managing Director in carrying out a periodic review of the Risk Model, in evaluating the proposal, if any, to update ERM scales and, consequently, in updating the relevant company procedure;
- Preparing the ERM report with a view to informing stakeholders about the development of MM's risk profile, possible impacts on key objectives and the implementation of response strategies.

Effective 1 September 2021, responsibility for the Internal Audit function was assigned to the new Head, who replaced the previous team. The Enterprise Risk Management procedure was defined, and the Audit, Risk Management and Sustainability Committee was established by the Board of Directors. It consists of three BoD members and its tasks include supporting the Board of Directors in assessments and decisions relating to the Internal Control and Risk Management System, as well as sustainability. To this end, the Committee will conduct preliminary activities with a view to submitting proposals and providing advice.

In addition, with the support of a consulting firm specialising in this field, the ERM procedure and, more importantly, its methodology were updated, with the aim of moving from a home-made approach to one more consistent with best practices in this area.

As a result, assessment metric scales were revised and appropriate checklists were defined to ensure more detailed monitoring not only of risks but, more importantly, of mitigation actions.

The 2021 update of the risk analysis was carried out by transferring the risks of the previous mapping into an excel tool – into which the individual checklists were merged – updating and, where necessary, supplementing them through interviews with the company risk owners. This update will provide a starting point allowing more insights to be gained in the coming years so as to have a granular view on the risks involved in each process/activity.

The summary report was also provided to the Audit, Risk Management and Sustainability Committee for its perusal.

The document provides a summary of the following aspects: overall risk profile of MM S.p.A. and its Business Units and the most relevant risks (Top Risks) that could potentially have a negative impact on the company business.

In 2022, consideration will be given to ensuring greater coordination with other functions that, to the extent of the area lying within their province, deal with risk analysis (e.g. regarding environmental and occupational health and safety issues).

A collaboration scheme is in place with the Information Technology Department to provide support for the management of the “**Business Impact Analysis**” project aimed at identifying the impacts on individual processes/activities caused by possible criticalities in the information systems used by the Company.

The main elements comprising MM's Internal Control System

The Code of Ethics

The goal of the Code of Ethics is to define the **ethical principles** and **rules of conduct** that MM acknowledges and adopts as binding values and expression of its corporate ethics culture.

The set of ethical principles, values and rules of conduct outlined in the Code shall inspire the work of all “Recipients”, i.e. those who operate inside or outside the Company’s sphere of action: directors, statutory auditors, control bodies, employees, suppliers and contractors of MM.

MM operates according to the principle that human dignity is inviolable, and it must be respected and protected (Article 1 of the Charter of Fundamental Rights of the European Union). Therefore, MM is committed to providing a positive and stimulating work environment for all its employees,

ensuring the recognition and respect of their dignity, rights, and cultural and individual diversity, while trying to create a strong corporate culture.

The Code assumes compliance with applicable laws as well internal rules and procedures: MM is determined to conduct its operations in full compliance with the law in Italy and the countries where it already operates or may operate in the future, including in partnership or association with other entities. Specifically, the Company is committed to aligning its operations with the requirements of Italian Legislative Decree no. 231 of 8 June 2001 as amended and supplemented. This is why the Code is to be considered part of the Organisational, Management and Control Model adopted by MM and serves as the basis for the pre-emptive control system pursuant to said Decree.

The current Code of Ethics was approved for the first time by the Board of Directors on 15 December 2020, and the most recent update was approved on 7 May 2021; the Code is published in the “Mission and Values” section of MM’s website.

[The Organisational, Management and Control Model](#)

The Organisation, Management and Control Model of MM (OMCM) 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**. The document is strategic to the Company’s governance and is based on risk assessment and risk management.

The Model is comprised of two parts:

- the General Part, which identifies the structural characteristics of the organisation, as well as the method for creating and disseminating the model, the system of penalties for violations, the operation of the Supervisory Body and the Ethics Committee, the Model’s disclosure requirements, and the training to be provided to employees;
- the Decision-making Protocols, which, consistently with the General Part of the Model, define behavioural guidelines as well as the operational and control procedures observed by all recipients in the discharge of their duties to prevent or mitigate the risk of committing predicate offences.

Compliance with the Model and its effectiveness, along with responsibility for implementing the Model’s provisions and any updates, was delegated to the Supervisory Body, which is appointed by the Board of Directors and consists of three external members who comply with autonomy, independence and professionalism requirements. The Supervisory Body has the opportunity to undertake periodic inspection activities when carrying out its functions (directly or indirectly, under the body’s direct oversight and responsibility) and has access to information regarding sensitive business operations.

The OMCM is published in the **“Transparency” section of MM’s institutional website**. It is also on the company intranet and is brought to the attention of employees through periodic training activities.

All changes and updates to the Model have been approved by the Board of Directors; the most recent update was approved on 7 May 2021.

Anti-corruption Policy

The Board of Directors saw fit to **voluntarily** adopt an Anti-Corruption Policy to prevent corruption or other practices that could be considered forms of corruption, including attempted corruption.

The Policy is based on the analysis and assessment of the risks of committing corruption offences and is inspired by principles, rules of conduct and procedures aimed at protecting areas vulnerable to corruption. The Policy mentions also the information and training provided to all recipients as well as the concept of regulating business processes based on the definition of: roles and responsibilities, whistleblowing procedures, monitoring of corruption risks, and the disciplinary system for potential breaches.

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 internal control and risk management 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 first-level structures specific reports on their own activities and on the activities of their executive lines. Furthermore, it receives:

- from the Compliance Function, upon request, 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 Audit Plan, audit reports, periodic reports, the Annual Activity Report and the Internal Control System Assessment Report;
- from the Anti-Corruption Representative, the activity plan, the outcome of checks carried out and the Annual Report on the activities carried out for the purpose of monitoring the Anti-Corruption System adopted by the Company;
- from the Risk Manager, the mapping of enterprise risks and related mitigation activities.

Finally, the Supervisory Body 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 DPO sends the “Privacy Reports” and the “Half-yearly and annual reports” on privacy.

The Internal Audit Function submits the Audit Plan, audit reports, periodic reports, the Annual Activity Report and the Internal Control System Assessment Report;

The Anti-Corruption Representative submits the outcome of checks carried out and the Annual Report on the activities carried out for the purpose of monitoring the Anti-Corruption System adopted by the Company;

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 an in-house providing context, the Water Service Business Unit 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; also the new Routine Plant and Infrastructure Maintenance Business Unit operates on an in-house providing basis, similarly to the newly-established Green Areas Business Unit.

MM adopted **planning and budgeting tools** that do not depend on these specificities and that allow it to monitor with a forward-looking approach the performance of the various businesses and the prevention of crisis and insolvency situations.

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, defines the actions to mitigate the various enterprise risks; as regards in particular the risk of a business crisis, all the *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 each individual Business Unit.

In particular, **on a quarterly basis**, the main results in terms of revenues, EBITDA, EBIT and deviations from the budget are analysed for each Business Unit, as well as the trend of the Integrated Water Service's net financial position and investments.

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 economic and financial data, allow top management to implement corrective and preventive actions aimed at eliminating and/or mitigating phenomena that could result in particularly critical situations. Specifically, each quarter the main operational indicators are analysed for each business unit (for example: revenues accrued on individual engineering orders, 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 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 parameters – taken from MM's financial statements certified by the Independent Auditors – are checked and dispatched to financial counterparties every year. These financial covenants are the following:

- **Net Financial Position/EBITDA \leq 4.5**: this ratio measures the sustainability of the company's debt based on the gross cash flow from operations. Indeed, if there are no 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 as from 2016. In particular, these Agencies, which in the case of MM are two of the leading global rating agencies (Standard & Poor's and Moody's), hold regular meetings with management to present corporate data and analysis of the net financial position.

On 29 January 2021, Moody's confirmed MM's credit profile, with a Baa3 rating (with a stable outlook). On 10 September 2021 Standard & Poor's confirmed MM's BBB rating (with a stable outlook), in line with that of the Municipality of Milan (which is linked to the rating assigned to Italy); on 29 October 2021, S&P's outlook was revised from "negative" to "stable" as a result of a similar action on Italy's rating. In addition, on 18 November 2021, S&P published an ESG Credit Indicator Report Card for Regulated Utility Networks. With regard to MM S.p.A., S&P rates the three indicators as neutral, assigning a score of 2 to the three indicators (E-2; S-2; G-2). Lastly, on 24 November 2021, following the rating action of 19 November 2021, Moody's reaffirmed MM's rating of Baa3 (with a stable outlook). The key factors of the rating action included sustained improvement in the institutional framework, which translated into greater transparency, stricter reporting requirements, and strengthened control procedures for Italian regional and local governments, resulting in a stable credit profile while ensuring resilience to external shocks.

With particular reference to the monitoring and verification of the risk of a business crisis for 2021, reference should be made to the specific sections of the report on operations and 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, the municipality of Bresso (MI) and the city of Naples.

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(b) of Italian Legislative Decree 50/2016) regarding the percentage of activities carried out in the performance of tasks entrusted by the Municipality of Milan, the following table shows revenues broken down between amounts from the Municipality of Milan and those from third parties.

Breakdown of 2021 revenues	Municipality	Third parties	Total
€/000	183,860	9,255	193,115
%	95.2%	4.8%	100%

It is hereby specified that the above-indicated revenues from the Municipality of Milan, as compared to the figures shown in the table below, also include amounts arising from the management of services entrusted by the Municipality, even if they refer to entities other than the Municipality itself.

As at 31 December 2021, the Company's receivables from the Municipality of Milan totalled € 2.2 billion, while its payables due to the Municipality of Milan totalled € 2.1 billion; payables and receivables arising from the mandate conferred by the Municipality are offset against each other; therefore, the Statement of Financial Position shows the net between the respective positions. The Company's revenues collected from the Municipality of Milan totalled € 49 million, while the costs incurred as contracting authority for the Municipality of Milan amounted to Euro 70 million; revenues and costs deriving from the role of contracting authority are offset against each other and consequently recognised in Profit or Loss net of the respective positions.

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

STATEMENT OF FINANCIAL POSITION

Trade Receivables

Receivables from the parent company for works, net of advances	11,429,364
Receivables for invoices issued	23,921,812
Receivables for invoices to be issued for services and supplies	60,545,937
Receivables for expenses incurred in the name and on behalf of the Municipality, net of disbursed advances	(1,671,031)
Total trade receivables	94,226,083

Trade Payables

Invoices to be received for services and lease/rental fees	20,837,337
Other trade payables	26,999,760
Total trade payables	47,837,097

Other current liabilities

Advances	1,245,924
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INCOME STATEMENT

Revenues from sales and services

Engineering services	25,383,737
Revenues from the Housing BU - fees relating to property and facility management	13,365,793
Other revenues - supplies and services	9,939,168
Total revenues	48,688,698

Costs for services	2,477,984
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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 Milanosport S.p.A., Arexpo S.p.A., Sogemi S.p.A., AMAT S.r.l. and Milano Ristorazione 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;
- Provision of waste disposal services by 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 € 9,127,122, to the Extraordinary reserve.

In addition, considering that, at the direction of the Municipality of Milan, the company has implemented IT projects totalling € 252,739.66 whose cost was borne by the Housing Business Unit, and that the portion of the profit (loss) for the year attributable to the Housing Business Unit, net of the costs already included in the costs for IT projects, is negative by € 312,068.35, we propose drawing down € 564,808.01 from the Voluntary Reserve consisting of the portion of retained earnings from previous years 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

SIMONE DRAGONE

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 31/12/2021**STATEMENT OF FINANCIAL POSITION**

ASSETS	Notes	31/12/2021	31/12/2020 restated	31/12/2020
ASSETS				
<i>NON-CURRENT ASSETS</i>				
Property, plant and equipment	1.1	69,303,701	68,060,550	68,060,550
Rights over the infrastructure relating to service concession arrangements	1.2	319,598,468	293,094,948	310,250,657
Other intangible assets	1.3	12,519,224	13,216,124	13,216,124
Deferred tax assets	1.4	33,294,799	29,851,803	25,013,895
Other non-current assets	1.5	2,066,632	1,209,491	1,209,491
Total non-current assets		436,782,824	405,432,916	417,750,718
<i>CURRENT ASSETS</i>				
Inventories	1.6	4,358,772	3,861,052	3,861,052
Trade receivables	1.7	238,345,599	248,602,492	248,602,492
Cash and cash equivalents	1.8	55,625,452	50,269,492	50,269,492
Other current assets	1.9	27,474,187	24,648,595	24,648,595
Total current assets		325,804,010	327,381,631	327,381,631
TOTAL ASSETS		762,586,834	732,814,547	745,132,349

STATEMENT OF FINANCIAL POSITION

LIABILITIES	Notes	31/12/2020		
		31/12/2021	restated	31/12/2020
EQUITY AND LIABILITIES				
<i>EQUITY</i>				
Share capital		36,996,233	36,996,233	36,996,233
Reserves		192,585,115	173,275,950	181,155,511
Net profit (loss)		9,127,122	18,489,379	22,927,620
Total equity	1.10	238,708,470	228,761,562	241,079,364
<i>NON-CURRENT LIABILITIES</i>				
Non-current financial liabilities	1.11	203,441,398	207,061,475	207,061,475
Provisions for risks and charges	1.12	4,683,253	3,958,203	3,958,203
Employee benefits	1.13	6,770,647	7,773,257	7,773,257
Other non-current liabilities	1.14	37,956,261	37,316,155	37,316,155
Total non-current liabilities		252,851,559	256,109,090	256,109,090
<i>CURRENT LIABILITIES</i>				
Current financial liabilities	1.11	66,237,608	37,804,119	37,804,119
Trade payables	1.15	178,041,340	179,137,701	179,137,701
Other current liabilities	1.16	26,747,857	31,002,075	31,002,075
Total current liabilities		271,026,805	247,943,895	247,943,895
TOTAL LIABILITIES		523,878,364	504,052,985	504,052,985
TOTAL EQUITY AND LIABILITIES		762,586,834	732,814,547	745,132,349

STATEMENT OF COMPREHENSIVE INCOME

		31/12/2020		
	Notes	31/12/2021	restated	31/12/2020
REVENUES		266,935,818	261,458,567	268,136,726
Revenues	2.1	193,115,480	185,732,977	192,411,136
Revenues arising from work on infrastructure subject to service concession arrangements	2.2	57,393,177	53,673,851	53,673,851
Other revenues and income	2.3	16,427,161	22,051,739	22,051,739
OPERATING COSTS		247,651,756	228,648,498	229,145,267
Costs for raw materials, consumables and goods for resale	2.4	6,559,652	7,417,838	7,417,838
Other operating costs	2.5	2,848,100	2,345,276	2,345,276
Costs for services	2.6	76,241,736	72,445,081	72,445,081
Costs arising from work on infrastructure subject to service concession arrangements	2.7	55,499,501	51,107,275	51,107,275
Personnel costs	2.8	72,483,543	67,834,628	67,834,628
Amortisation/depreciation, impairment and other provisions	2.9	33,850,041	27,420,172	27,916,942
Losses from disposals and divestment of fixed assets	2.10	169,184	78,228	78,228
OPERATING PROFIT (LOSS)		19,284,062	32,810,069	38,991,459
Finance income	2.11	147,252	305,761	305,761
Finance costs	2.11	6,000,644	6,419,988	6,419,988
NET FINANCE INCOME AND COSTS		(5,853,392)	(6,114,227)	(6,114,227)
PROFIT (LOSS) BEFORE TAX		13,430,672	26,695,842	32,877,235
Taxes	2.12	4,303,550	8,206,463	9,949,615
NET PROFIT (LOSS)		9,127,122	18,489,379	22,927,620
Other items of comprehensive income not to be reclassified to profit or loss				
Actuarial gains/(losses) on employee benefits		56,202	(120,641)	(120,641)
Tax effect related to actuarial gains/(losses) on employee benefits		(15,680)	33,749	33,749

Other items of comprehensive income to be reclassified to profit or loss

Change in the fair value of cash flow hedges	1,025,343	678,004	678,004
Tax effect on the change in the fair value of cash flow hedges	(246,082)	(162,721)	(162,721)
Total other items of comprehensive income, net of tax effect (B)	819,783	428,391	428,391
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR (A)+(B)	9,946,905	18,917,770	23,356,011

CASH FLOW STATEMENT

<i>(in Euro)</i>	2021	2020 Restated	2020
OPERATING ACTIVITIES			
Profit (loss) before tax	13,430,669	26,695,846	32,877,235
<i>Adjustments for</i>			
Depreciation/amortisation of fixed assets	28,127,104	22,671,816	23,168,586
Allocations to bad debt provision	4,935,264	4,351,777	4,351,777
Allocations to provision for risks and charges	956,857	474,805	474,805
Allocations to provision for write-down of inventories	12,296	105,882	105,882
Net finance costs	5,853,392	6,114,224	6,114,224
Other non-cash items	15,047,233	13,549,893	6,861,734
Cash flows from operating activities prior to changes in net working capital	68,362,815	73,964,243	73,954,243
Cash flow generated/(absorbed) by changes in net working capital	(19,970,022)	(19,664,047)	(19,664,046)
- Trade receivables and other assets	(1,804,102)	(30,346,395)	(28,603,246)
- Inventories	(510,014)	(1,007,355)	(1,007,355)
- Trade payables and other liabilities	(17,655,906)	11,689,703	9,946,555
Taxes paid	6,121,837	(6,091,431)	(6,091,431)
Net finance costs paid	(5,401,195)	(5,480,400)	(5,480,400)
Use of provisions	(520,737)	(1,516,706)	(1,516,706)
Cash flow generated/(absorbed) by operating activities (A)	48,592,698	41,211,659	41,201,660
INVESTING ACTIVITIES			
Net investments in fixed assets	(69,638,486)	(65,198,822)	(65,188,823)
Cash flow generated/(absorbed) by investing activities (B)	(69,638,486)	(65,198,822)	(65,188,823)
FINANCING ACTIVITIES			
Taking-out of medium/long-term loans	0	-	-
Repayment of medium/long-term loans	(2,154,295)	(2,112,474)	(2,112,474)
Changes in equity	8	-	-
Other changes in financial liabilities	28,556,034	(12,383,762)	(12,383,762)
Cash flow generated/(absorbed) by financing activities (C)	26,401,748	(14,496,236)	(14,496,236)
Increase/(decrease) in cash and cash equivalents (A)+B +(C)	5,355,960	(38,483,399)	(38,483,399)
Cash and cash equivalents at the beginning of the year	50,269,492	88,752,891	88,752,891
Cash and cash equivalents at the end of the year	55,625,452	50,269,492	50,269,492

STATEMENT OF CHANGES IN EQUITY

<i>(In Euro)</i>	Share capital	Cash flow hedge reserve	Other reserves	Net profit (loss)	Total equity
As at 01 January 2020	36,996,233	(3,134,340)	179,851,789	4,009,670	217,723,352
Change in the fair value of cash flow hedges, net of tax effect	-	515,282	-	-	515,282
Allocation of profit (loss)	-	-	4,009,670	(4,009,670)	-
Net profit (loss)	-	-	-	22,927,620	22,927,620
Actuarial gains (losses) on employee benefits, net of tax effect	-	-	(86,890)	-	(86,890)
As at 31 December 2020	36,996,233	(2,619,058)	183,774,569	22,927,620	241,079,364
<hr/>					
<i>(In Euro)</i>	Share capital	Cash flow hedge reserve	Other reserves	Net profit (loss)	Total equity
As at 31 December 2020	36,996,233	(2,619,058)	183,774,569	22,927,620	241,079,364
Effect resulting from the application of IAS 8	-	-	(7,879,561)	-	(7,879,561)
Net profit (loss) as at 31 December 2020 restated (change due to application)	-	-	-	(4,438,241)	(4,438,241)
As at 31 December 2020 Restated	36,996,233	(2,619,058)	175,895,008	18,489,379	228,761,562
<hr/>					
<i>(In Euro)</i>	Share capital	Cash flow hedge reserve	Other reserves	Net profit (loss)	Total equity
As at 31 December 2020 Restated	36,996,233	(2,619,058)	175,895,008	18,489,379	228,761,562
Change in the fair value of cash flow hedges, net of tax effect	-	779,261	-	-	779,261
Allocation of 2020 profit (loss) restated	-	-	18,489,379	(18,489,379)	-
Net profit (loss)	-	-	-	9,127,122	9,127,122
Actuarial gains (losses) on employee benefits, net of tax effect	-	-	40,525	-	40,525
As at 31 December 2021	36,996,233	(1,839,797)	194,424,912	9,127,122	238,708,470

For the Board of Directors

The Chairman

SIMONE DRAGONE

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 31/12/2021**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 31/12/2021 were approved by the Board of Directors on 10 May 2022.

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 31/12/2021 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 31/12/2021 were prepared in compliance with the provisions adopted by Consob in relation to financial statements.

The measurement bases are those used for the preparation of last year's financial statements, except for what is described in the following paragraph concerning the voluntary adoption of a new accounting policy applicable to the FoNI tariff component.

FoNi tariff component – voluntary change of accounting policy

The FoNi (Fund for New Investments) is a component of the annual tariff of the integrated water service (“IWS”) that, in turn, is made up of a number of sub-components. Its aim is to promote investments, net of the corresponding coverage of the tax burden for the years in which this effect has been provided for by the tariff regulation, as defined by the sector regulatory authority (ARERA). Since no specific accounting standard, either international or local, governs this item, at present the Italian utilities adopt different accounting treatments.

Until 2020, MM has adopted an accounting policy whereby the FoNI component covering amortisation/depreciation and the component covering taxes were directly recognised in the Income Statement, while the remaining part of the contribution was taken as a direct reduction of Fixed Assets under the Statement of Financial Position Assets.

The accounting policy adopted until 31 December 2020 gives a true and fair view of the company’s financial position and financial performance.

However, based on the most recent interpretations, including after the recent Council of State’s statements made in 2021 about the treatment of FoNI tax effect, since the latter constitutes income earned by the provider, and considering also ARERA provisions which, in updating the MTI-3 tariff method with Resolution 639/2021/R/idr of 30 December 2021, implicitly confirmed that, with respect to FoNI, the calculation of the gross balance of the fixed assets of the IWS provider in year *a* is to be considered allocated, gross of taxes for 2020 and 2021 and, again, net of taxes for the subsequent years, as well as to increase the comparability of MM’s financial statements with those of the main utilities operating in the water sector, starting from this year, the Company has changed the relevant accounting policy and adopted a new method.

Under the new accounting policy:

- only the component covering the tax burden for the years set out in the regulatory method (thereby excluding 2020 and 2021) is directly recognised in the Income Statement; consequently, this accounting treatment is similar to that applied to grants related to income;
- the residual FoNI (including the FoNI component covering amortisation/depreciation) is recognised as a direct reduction in the carrying amount of the fixed assets under the Statement of Financial Position, thereby decreasing the carrying amount of the individual assets that start operating each year, similarly to grants related to income.

Without prejudice to the correct accounting presentation adopted so far, the new method, which became applicable in 2021, is more in line with the tariff and legal updates that have taken place, and provides a clearer and more effective interpretation of the nature of the FoNI tariff component.

The change in accounting policy falls under the scope of IAS 8, whereby an entity that applies a voluntary change in accounting policy must do so retrospectively. The FoNi tariff components subject to retrospective adjustment include those from 2012 to 2020. For comparative purposes, the Income Statement, the Statement of Financial Position and the Statement of Changes in Equity also show the figures for the year ended 31 December 2020, which were restated following the above change in accounting policy, as if the application of this new accounting policy had already been made in the past. As shown in the above-mentioned statements when comparing the 2020 restated figures with non-restated figures as at the same date, the affected financial statement items include, under assets in the statement of financial position: “non-current assets” (“rights over the infrastructure relating to service concession arrangements” and “deferred tax assets”); “non-current assets” decreased by a total of € 12,317,802.

Under liabilities in the statement of financial position: “equity” (“reserves”, “net profit (loss)”); “equity” decreased by a total of € 12,317,802.

In the income statement: “revenues”, “amortisation/depreciation, impairment and other provisions” and “taxes” and, consequently, the items, including the “net profit (loss)”, which algebraically combine the previous ones. Specifically, in 2020, the “net profit” decreased by € 4,438,241.

In other words, as a result of the change in accounting policy, the Company’s equity as at 31 December 2020 was lower by approximately € 12.3 million, against FoNI contributions worth about € 17.1 million which were deducted from fixed assets, gross of the related tax effects (deferred tax assets) of about € 4.8 million.

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.

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 equipment 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:

Engineering/Housing/Maintenance/Green areas	Depreciation rates
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%

Integrated Water Service	Depreciation rates
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%

Plant and Property	Depreciation rates
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

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 3.30 % 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 2021.

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 subject to 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 subject to concession arrangement and their residual value that is expected to be realised 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 amount is recognised in profit and loss.

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 amount of these assets is estimated, with any impairment compared to the carrying amount recognised in profit and loss. The recoverable amount 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 amount 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 amount. 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 amount. 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.

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

Equipment grants are recognised in profit or loss during the period required to match them with the relevant costs; in the statement of financial position, equipment grants are shown by recognising the grant as a decrease in the value of the investment to which they relate.

Water connection contributions are recognised under other non-current liabilities and released to profit or loss over the term of the concession.

The “Fund for New Investments” obtained through the Water Service tariff is considered an equipment grant and is recognised as a direct decrease in the value of fixed assets, except for the component covering the tax burden.

Recognition of revenues

Revenues are initially recognised at the fair value of the consideration received net of discounts and rebates.

Revenues from 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 corresponding to the duration of the concession.

Revenues accrued during the year for design and construction management activities are recognised in relation to the progress of the work according to the percentage of completion method determined on the basis of the ratio of costs incurred to expected costs.

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 3.30 % markup, which in 2021 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 purchase of goods and the provision of services

The costs for the purchase 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 2021” contains a brief description of the amendments effective as from 1 January 2021. The paragraph below – “Accounting Standards, Amendments and Interpretations applicable after the end of the year, which were not adopted in advance” – includes details of accounting standards and interpretations that have already been issued, whether endorsed by the European Union or not, which are nevertheless not applicable to the preparation of the financial statements as at 31 December 2021, 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 2021

Amendments to IFRS 4 “Insurance Contracts – Deferral of IFRS 9”

On 25 June 2020, the IASB published the “Extension of the Temporary Exemption from Applying IFRS 9”, deferring the expiry date of the amendment also to annual periods beginning on or after 1 January 2023, which allows aligning the measurement bases for financial instruments with the new IFRS 17 accounting standard or the measurement of, and accounting for, insurance contracts. The amendments have no impact on the company’s financial position and performance.

Amendments to IFRS 9, IAS 39, IFRS 7, and IFRS 16 – Interest Rate Benchmark Reform – Phase 2

Issued in August 2020, these amendments supplement the previous amendments issued in 2019 (Interest Rate Benchmark Reform - Phase 1) and deal with issues that might affect financial reporting when an existing interest rate benchmark is replaced as a result of the reform. The objectives of the Phase 2 amendments are to assist companies in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships because of the interest rate benchmark reform and in providing useful information to users of financial statements. The amendments will require additional disclosures about the risks arising from the Interest Rate Benchmark reform to which the entity is exposed and how the entity manages those risks. The amendments have no impact on the company’s financial position and performance.

Amendments to IFRS 16 Leases (Covid-19 – Related Rent Concessions)

Issued on 31 March 2021, it extends the practical expedient already issued in May 2020 (“Amendments to IFRS 16 Leases Covid-19 – Related Rent Concessions”) allowing lessees not to consider potential concessions occurring as a consequence of Covid-19 (e.g., lease payment holidays) as lease modifications. Lessees will thus not be required to revise several leases and will not have to remeasure the respective lease liabilities by using a new discount rate as they will be able to treat these as changes not resulting in a lease modification. This expedient extends the eligibility period for its application by 12 months, from 30 June 2021 to 30 June 2022, and will be applicable to lessees and not to lessors. These amendments had no impact on the company’s financial position and performance, as there were no changes in the payments on leases subject to IFRS 16.

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

IFRS 17 “Insurance Contracts”

Issued by the IASB on 18 May 2017 and endorsed on 15 January 2020, it shall be applicable for annual periods beginning on or after 1 January 2023 to companies that issue insurance contracts. The company expects no impact on its financial position and performance.

Amendments to IAS 1 “Presentation of Financial Statements: Classification of Liabilities as Current or Non-current”

Issued on 23 January 2020, it provides clarification regarding the classification of liabilities as current or non-current. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. The company expects no impact on its financial position and performance.

Amendments to IAS 1 and to IFRS Practice Statement 2 “Disclosure of Accounting Policies”

Issued on 12 February 2021, it requires entities to disclose their material accounting policies and suggests avoiding or limiting unnecessary disclosures. These amendments are effective for annual periods beginning on or after 1 January 2023.

Amendments to IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates”

Issued on 12 February 2021, it clarifies, including with examples, the distinction between a change in an accounting estimate and a change in an accounting policy. This distinction is important because changes in accounting estimates are accounted for prospectively to future transactions and events, while changes in accounting policies are generally applied retrospectively. These amendments are effective for annual periods beginning on or after 1 January 2023.

Amendments to IAS 12 “Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

Issued on 7 May 2021, it clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change is an exemption from the initial recognition exemption

(“IRE”) of deferred tax assets and liabilities provided in IAS 12. Specifically, the exemption provides for the non-applicability of the IAS 12 IRE to all transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. By limiting the exemption to initial recognition only, the impact will be a progressive improvement and comparability of information for the benefit of financial statement users with respect to the tax impacts of leases and decommissioning costs. These amendments are effective for annual periods beginning on or after 1 January 2023.

Amendments to IAS 16 “Property, Plant and Equipment”

Issued on 24 June 2020, they prohibit entities from deducting from the cost of property, plant and equipment amounts received from selling items produced before the asset is ready for its intended use. Entities shall recognise such sales proceeds and the related costs in profit or loss. The amendments to IAS 16 are effective for annual periods beginning on or after 1 January 2022. The company expects no impact on its financial position and performance.

Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”

Issued on 24 June 2020, it clarifies which cost items should be considered when assessing whether a contract will be loss-making. The company expects no impact on its financial position and performance.

Risk Management

The Company's activities are exposed to the following financial 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.

<i>(thousands of Euro)</i>	Impact on profit and equity, net of tax effect									
	COP		RON		INR		AED		Total	
Sensitivity analysis	-10%	10%	-10%	10%	-10%	10%	-10%	10%	-10%	10%
Year ended 31 December 2021	19	(16)	2	(2)	4	(3)	(33)	27	(8)	6

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/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/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 swaps (IRSs) 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 2021

Interest rate swaps (IRSs)	Start date	Maturity date	Par value (in thousands of Euro)	Fair value (in thousands of Euro)
Intesa Sanpaolo IRS	2006	2026	6,456	(803)
BNP Paribas IRS	2009	2028	7,000	(1,617)

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 100 bps compared to the amounts actually recognised in each reporting period.

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

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

With regard to 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	
	-100 bps	+100 bps	-100 bps	+100 bps
Sensitivity analysis				
Year ended 31 December 2021	(632)	632	(632)	632

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 in-depth analysis and review of a series of receivables dating back several years. This process 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 € 238 million as at 31 December 2021 (€ 249 million as at 1 January 2021) were recognised net of advances for works of € 2,076 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, in addition to expected losses, has led to the creation of a bad debt provision, amounting to € 39,704,665 as at 31 December 2021.

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 € 11,556 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 cash equivalents 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 2021:

<i>(in thousands of Euro)</i>	Balance as at 31 December 2021	Expected outflows			Total
		Within 1 year	From 1 to 5 years	Over 5 years	
Financial liabilities	269,679	89,896	38,852	140,931	269,679
Trade payables	178,041	178,041	-	-	178,041
Other liabilities	65,046	48,839	4,321	11,886	65,046

All the indicated flows are undiscounted nominal future cash flows, determined based on residual contractual due dates, for both the principal and interest portions.

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.

Financial assets and liabilities by category

A breakdown of financial assets and liabilities by category as at 31 December 2021 is provided below:

<i>(in thousands of Euro)</i>	As at 31 December 2021				
	Financial assets and liabilities measured at fair value through OCI	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Total
ASSETS:					
Other non-current assets	-	2,066	-	-	2,066
Trade receivables	-	238,346	-	-	238,346
Cash and cash equivalents	-	55,625	-	-	55,625
Other current assets	-	27,474	-	-	27,474
LIABILITIES:					
Non-current financial liabilities	2,421	-	-	201,020	203,441
Other non-current liabilities	-	-	-	37,956	37,956
Trade payables	-	-	-	178,041	178,041
Current financial liabilities	-	-	-	66,237	66,237
Other current liabilities	-	-	-	26,747	26,747

For trade receivables and payables 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 2021, based on the inputs used in determining the fair value:

<i>(in thousands of Euro)</i>	As at 31 December 2021		
	Level 1	Level 2	Level 3
Derivative financial instruments (IRSs)	-	(2,421)	-

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 amount 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 3.30% markup which represents the best estimate, recalculated for 2021, 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 amount 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 expected revenues for the purposes of deferred tax assets recognition 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 mainly carried out for 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 some of 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;
- **Routine Plant and Infrastructure Maintenance:** includes facility management and construction management activities carried out on the school buildings of the Municipality of Milan and on the facilities managed by other subsidiaries of the Municipality of Milan;
- **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, iii) EBIT and iv) Net Financial Position.

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 € 69,303,701 (€ 68,060,550 in the previous year).

Breakdown, changes in the year and other information are provided below.

	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 assets	Total
Historical cost as at 31.12.2020	73,864,031	25,720,966	4,488,348	5,946,150	3,008,265	9,117,362	4,822,099	126,967,220
Accumulated depreciation as at 31.12.2020	(20,120,225)	(23,990,240)	(4,474,460)	(193,407)	(2,146,298)	(5,912,289)	(2,069,751)	(58,906,670)
Increases for the year	615,229	-	-	3,801,946	-	652,215	612,573	5,681,962
Decreases for the year	-	-	-	-	-	-	-	-
Restatements	-	-	-	-	-	-	-	-
Depreciation for the year	(1,406,312)	(539,865)	(8,424)	-	(98,036)	(952,169)	(1,434,006)	(4,438,811)
Balance as at 31.12.2021	52,952,723	1,190,861	5,464	9,554,688	763,932	2,905,119	1,930,914	69,303,701
Historical cost as at 31.12.2021	74,479,260	25,720,966	4,488,348	9,748,095	3,008,265	9,769,577	5,434,671	132,649,182
Accumulated depreciation as at 31.12.2021	(21,526,537)	(24,530,105)	(4,482,884)	(193,407)	(2,244,333)	(6,864,458)	(3,503,757)	(63,345,482)

The increases for the year, totalling € 5,682 thousand, mainly refer to:

- improvements made to owned properties;
- Purchase of furniture, office machines, sundry and small equipment and telephone systems;
- transport vehicles;
- increase in the value of “Right-of-use assets” recognised in accordance with the application of IFRS 16.

The increase for the year includes, for € 1,326 thousand, the net carrying amount of the investments made by AMSA, with which a lease agreement is in place providing for a commitment by the company to purchase the improvements made by the lessee.

1.2 Rights over the infrastructure relating to service concession arrangements

The “Rights over the infrastructure relating to service concession arrangements” amounted to € 319,598,468 (€ 293,094,948 as at 31 December 2020 following the change of the accounting standard).

Changes in the item for the period from 1 January 2021 to 31 December 2021 are provided below:

Rights over the infrastructure relating to service concession arrangements	
Balance as at 31 December 2020	310,250,656
FoNi 2012 - 2020	(17,155,709)
Balance as at 31 December 2020 restated	293,094,948
Historical cost	420,219,226
Accumulated amortisation	(127,124,278)
Increases	57,393,177
Other - Restatements	(21,493)
FoNI (Fund for New Investments)	(16,246,182)
Decreases	(169,184)
Amortisation	(14,452,797)
Balance as at 31 December 2021	319,598,468
Historical cost	461,175,545
Accumulated amortisation	(141,577,074)

Pursuant to IFRIC 12, rights over the infrastructure relating to service concession arrangements amounted to € 319,598 thousand as at 31 December 2021. These rights were amortised on a straight-line basis throughout the concession period; the residual amount of € 50.1 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 “FoNI” (Fund for new investments) tariff component. This component, which consists of an advance of funds for new interventions, is subject to a restriction on its use. The FoNI accrued from the date of initial recognition to 31 December 2021 and recognised as a reduction of Rights over the infrastructure relating to service concession arrangements amounted to € 104,365,528.

As described in the paragraph “Changes in accounting policies”, to which reference should be made for more detailed and in-depth information, during the year the company changed the accounting treatment applied to

FoNI. Consequently, pursuant to IAS 8, the effects of this change were applied retroactively, generating a € 17,155,709 reduction in the value of fixed assets.

Investments made in 2021 amounted to € 57,393,177 (gross of the increase in the “Fund for New Investments”) 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 2021, 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 in 2021 and the relevant assets were not subject to impairment.

1.3 Other intangible assets

“Other intangible assets” amounted to € 12,519,224 (€ 13,216,124 in the previous year).

Changes in “Other intangible assets” for the period from 1 January 2021 to 31 December 2021 are provided below:

	Balance as at 31/12/2020	Increases in 2021	Restatement in 2021	Amortisation in 2021	Balance as at 31/12/2021
Software	13,159,789	8,369,411	-	(9,066,312)	12,462,888
Other intangible assets	56,336	-	-	-	56,336
Total	13,216,124	8,369,411	-	(9,066,312)	12,519,224

Investments made in 2021 mainly concerned the upgrading and development of the new software for the integrated management of business processes. Specifically, the increase in the year is mainly due to the completion of information system integration activities and the purchase and development of the new software to manage the Housing Business Unit’s purchasing and selling activities.

1.4 Deferred tax assets

Deferred tax assets amounted to € 33,294,799 (€ 25,013,895 in the previous year and € 29,851,803 taking 2020 as the comparative period following the voluntary change of FoNI accounting method).

They have been calculated on the temporary differences between the amounts shown in the financial statements and the corresponding amounts 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:

Deferred tax assets	2020		2021	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Provisions for risks and charges	4,652,115	1,269,615	5,369,884	1,469,873
Bad debt provision	10,353,566	2,484,856	11,571,574	2,777,178
IRS fair value measurement	3,446,127	827,070	2,420,784	580,988
FoNI (Fund for New Investments) contributions	65,875,275	18,576,827	96,029,929	27,080,440
Late payment interest provision	497,192	119,326	497,192	119,326
Employee benefits	901,496	177,167	727,681	128,363
Write-downs of inventories	389,906	109,953	389,906	109,953
Interest not paid	1,607,373	385,770	0	0
Deferrals for connections of customers	12,779,657	3,070,376	12,027,913	2,881,062
Other items	326,460	84,030	687,793	209,586
Total for the Company	100,829,167	27,104,992	129,722,657	35,356,769
Deferred tax liabilities	2020		2021	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Late payment interest	900,201	215,199	775,305	186,073
Tangible fixed assets	6,723,647	1,875,898	6,723,647	1,875,898
Total for the Company	7,623,848	2,091,097	7,404,015	2,061,971
Total deferred tax assets/liabilities	93,205,319	25,013,895	122,318,642	33,294,799

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 € 2,066,632 (€ 1,209,491 in the previous year) and are broken down as follows.

	Reporting period	Previous period
Equity investments	-	990
Accrued income and prepaid expenses	1,799,287	962,194
Guarantee deposits	267,345	246,307
Total	2,066,632	1,209,491

1.6 Inventories

Inventories amounted to € 4,358,772 (€ 3,861,052 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 € 1,139,719.

The change, compared to the previous year, is mainly attributable to the increase in inventories of € 618,016. A large part of the materials in stock at the end of the year was installed on the waterworks during the first months of the following year. Inventories are broken down as follows:

	As at 01 January 2021	As at 31 December 2021
Raw materials, consumables and goods for resale	4,880,475	5,498,491
Provision for write-down of inventories	(1,019,423)	(1,139,719)
Total	3,861,052	4,358,772

1.7 Trade receivables

Trade receivables, net of the related bad debt provision, amounted to € 238,345,599 (€ 248,602,492 in the previous year).

The item is broken down as follows.

	Reporting period	Previous period
Due from third parties	183,424,181	185,119,304
Due from parent companies	94,226,084	98,258,526
Total trade receivables – gross	277,650,264	283,377,830
Bad debt provision	(39,304,666)	(34,775,338)
Total trade receivables	238,345,599	248,602,492

Receivables due from third parties

This item includes receivables of the Engineering and Staff Business Unit for € 34,735,603 relating to services provided to third parties, receivables arising from the management of the Integrated Water Service for € 146,534,108, receivables of the Plant Maintenance Business Unit for € 1,963,316 and of the Housing Business Unit for € 191,726.

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 € 74,966,435, to the Integrated Water System to the tune of € 11,594,870, to the Housing Business Unit to the tune of € 3,645,605 and to the Plant Maintenance Business Unit to the tune of € 4,019,173.

The amount of receivables concerning the Engineering Business Unit is shown net of the advances of € 2,076 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 2020	34,775,338
Use during the year	(405,936)
Allocation for the year	4,935,264
Balance as at 31 December 2021	39,304,666

The above-mentioned provision refers for € 25,936,914 to the impairment of receivables from customers of the Integrated Water Service and for € 13,367,752 to the impairment of receivables of the Engineering Business Unit mainly due from its Parent Company.

During the year, a total of € 4,395,263 was allocated to this provision. Of this amount, € 3,435,604 relates to the Water Service Business Unit, specifically to water consumption items, and is estimated on the basis of expected losses.

The residual € 1,499,659 relates to the Engineering Business Unit and was calculated by estimating probable losses on invoices to be issued for work in progress. Indeed, during the year, some old positions were accurately examined in order to define their effective recoverability.

1.8 Cash and cash equivalents

Cash and cash equivalents amounted to € 55,625,452 (€ 50,269,492 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Cash	6,998	75,562
Bank deposits	55,618,454	50,193,930
Total	55,625,452	50,269,492

1.9 Other current assets

Other assets amounted to € 27,474,187 (€ 24,648,595 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Receivables due from tax authorities	1,699,422	4,611,199
Prepayments	24,074,281	18,305,979
Receivables due from social security agencies	494,192	591,267
Other current receivables	1,606,292	1,540,149
Bad debt provision	(400,000)	(400,000)
Total	27,474,187	24,648,595

Receivables due from tax authorities refer to tax receivables arising from the application of the “Superbonus” and accrued as a result of works carried out on public housing property of the Municipality of Milan managed by MM (€ 1,011,237), receivables for tax down payments to be offset (€ 668,981) and VAT receivables (€ 19,203).

On the other hand, the item “Prepayments”, amounting to € 24,074,281, 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 availability for distribution

Below we provide the information required by Article 2427, no. 7-bis, pursuant to which equity items must be shown separately and broken down by availability, origin and use in previous years for coverage of losses.

	Amount	Origin/type	Possibility of use	Available portion	Summary of uses made in the previous year
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, distribution	47,193,065	
Extraordinary reserve	144,895,010	earnings reserve	share capital increase, coverage of losses, distribution	144,895,010	
Housing Business Unit reserve	3,159,101	earnings reserve	share capital increase, coverage of losses, distribution	3,159,101	
IFRSs transition reserve	4,096,286	IFRSs transition reserve	share capital increase, coverage of losses, distribution	4,096,286	
Cash flow hedge reserve	(1,839,795)			(1,839,795)	
Fund for New Investments reserve	(12,317,799)			(12,317,799)	
Total	185,185,868			185,185,868	
Total equity (excluding Profit (loss) for the year)	229,581,348				

The “Fund for New Investments reserve” was set up in 2021 and includes the adjustment due to the retrospective application, effective from 1 January 2021, of the change in accounting policy applied to FoNI (Fund for New Investments), as described in the “Change in accounting policies” paragraph. Specifically,

under IAS 8, the opening balance of each affected component of equity is to be adjusted. As described earlier, the FoNI tariff component, which has been recognised since 2014, contributed to the profit (loss) for the year with its component covering amortisation/depreciation and its component covering taxes, as they are not distributed in accordance with the company policy. At the reporting date, the reserve has a negative balance of € 12,317,799.

1.11 Current and non-current financial liabilities

Financial liabilities amounted to € 269,679,006 (€ 244,865,593 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 2021		As at 31 December 2020	
	Current portion	Non-current portion	Current portion	Non-current portion
Bank loans	2,197,651	81,040,490	2,154,295	83,211,526
Bond loan		98,743,206	-	98,638,972
Other loans	62,500,000	20,028,697	34,000,000	20,047,828
Bank account overdrafts			-	-
Fair value of IRSs		2,420,784	-	3,446,127
Payables relating to finance costs	531,395		633,824	-
Financial liabilities for rights of use	1,008,562	1,208,221	1,016,000	1,717,021
Total	66,237,608	203,441,398	37,804,119	207,061,475

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 item “Other loans” 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 refer to the discounted value of payables arising from 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 2021			
					Total	Due within 1 year	Due within 2 to 5 years	Due later than 5 years
Bank loans:								
Floating Rate Loan -BNL	20,000,000	2008	2028	Euribor 6m + 0.25%	7,000,000	1,000,000	4,000,000	2,000,000
Floating Rate Loan – Banca Intesa	20,000,000	2006	2026	Euribor 6m + 0.12%	6,455,519	1,197,651	5,257,868	-
Fixed Rate Loan – BEI	70,000,000	2018	2034	1.757%	70,000,000	-	21,304,348	48,695,652
Amortised cost					(217,393)		(128,530)	(88,863)
Bond Loan:								
Senior Secured Amortising Fixed Rate Notes	100,000,000	2016	2035	3.15%	100,000,000	-	9,000,000	91,000,000
Amortised cost					(1,256,793)		(581,795)	(674,998)
Total					181,981,333	2,197,651	38,851,891	140,931,791

1.12 Provisions for risks and charges

Provisions for risks and charges amounted to € 4,683,253 (€ 3,958,203 in the previous year).

Breakdown and changes in the year are provided and described below.

	Balance as at 01 January 2021	Increase	Uses/releases	Balance as at 31 December 2021
Provision for risks	1,113,116	964,137	(239,087)	1,838,166
Provision for future charges	2,845,087	-	-	2,845,087
Total	3,958,203	964,137	(239,087)	4,683,253

The “Provision for risks”, amounting to € 1,838,166, is mainly used to cover estimated future losses on the Engineering Business Unit’s orders in progress with negative margins. It is also set aside to cover legal actions and disputes with personnel, as well as to cover disputes with companies for which the risk of losing the case was deemed probable, and to cover insurance deductibles to be paid to insurance companies for claims to be settled. During the year, € 717,000 was set aside for the probable risk of losing a pending civil dispute with a company that has previously cooperated with MM, while € 239,087 refers to provisions for insurance deductibles.

The “Provision for future charges” of € 2,845,087 refers to charges that will not be recognised by the principal and that are expected to be incurred to complete certain orders of the Engineering Business Unit. These charges, which are determined based on the redefinition of the economic plan of certain orders, were recognised following the finalisation in 2020 of an “Assessment Report” with the Municipality of Milan in order to assess and crystallise receivables from the Municipality of Milan dating back several years.

1.13 Employee benefits

This item includes post-employment benefits and other employee benefits amounting to € 6,770,647 (€ 7,773,257 in the previous year).

	Reporting period	Previous period
Post-employment benefits	5,021,480	5,623,533
Other benefits	1,749,167	2,149,724
Total	6,770,647	7,773,257

Post-employment benefits

Breakdown and changes in the year are provided and described below.

Employee benefits	
Balance as at 31 December 2020	5,623,533
Finance costs	2,133
Actuarial losses	(175,948)
Amounts paid	(428,238)
Balance as at 31 December 2021	5,021,480

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 discounting purposes is provided below:

Discount rate	0.44 % Engineering, Water Service, Housing and Staff B.U. 0.98% Plant Maintenance and Green Areas B.U.
Inflation rate	1.20%
Expected mortality rate	Italian General Accounting Office table RG48
Expected invalidity rate	INPS1998M/ INPS1998F tables
Expected resignations/advances (annually)	3.10% / 3.00%

Other employee benefits

This item totals € 1,749,167 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 € 37,956,261 (€ 37,316,155 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Guarantee deposits	20,204,691	20,576,334
Deferred income	17,751,570	16,739,821
Total	37,956,261	37,316,155

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 Trade payables

Trade payables amounted to € 178,041,340 (€ 179,137,701 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Due to third parties	130,204,243	133,910,859
Due to parent companies	47,837,097	45,226,842
Total	178,041,340	179,137,701

This item includes payables referring to the Company's ordinary trade activities, in relation to the provision of goods, fixed assets and services. As at 31 December 2021, no payables with a residual maturity of more than five years were recognised.

Payables due to third parties

The balance as at 31 December 2021 includes payables related to the Engineering and Staff Business Unit of € 53,161,500, to the Integrated Water Service of € 65,894,772, to the Housing Business Unit of € 3,872,922, to Real Estate and Networks management of € 3,940,456, to the Green Areas Business Unit of € 158,618 and to the Routine Plant and Infrastructure Maintenance of € 3,175,975.

This balance also includes contractual deductions on work in progress, which will be paid only after the final work is tested.

Payables due to parent companies

Payables due to parent companies are fully attributable to the Municipality of Milan.

The balance as at 31 December 2021 includes payables related to the Engineering and Staff Business Unit of € 64,560, to the Integrated Water Service of € 47,483,148 and to the Housing Business Unit of € 289,389.

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 paid to it as Commissioner appointed for the construction of wastewater treatment plants.

1.16 Other current liabilities

Other current liabilities amounted to € 26,747,857 (€ 31,002,075 in the previous year).

The item is broken down as follows:

Other current liabilities	Reporting period	Previous period
Payables due to employees	9,815,635	10,686,891
Payables due to IWS customers	223,138	223,138
Advances	3,024,987	6,442,445
Payables due to social security agencies	4,876,942	4,540,543
VAT and other tax payables	1,672,932	3,639,083
Payables due to Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund)	2,281,997	3,108,387
Other liabilities	4,852,226	2,361,588
Total	26,747,857	31,002,075

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 Authority tariff billed in 2012/2013 to be refunded to IWS customers.

The item “Advances” includes advances received from third-party customers for € 1,779,063 and from the Parent Company for € 1,245,924.

The item “Payables due to Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund)”, amounting to € 2,281,997, 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 € 193,115,480 (€ 192,411,136 in the previous year).

The item is broken down by Business Unit as follows:

	Reporting period	Previous period
Integrated Water Service	137,684,208	140,576,891
Engineering and Staff	34,395,150	32,218,453
Housing	14,022,771	13,842,453
Plant and Real Estate	2,034,817	2,030,137
Routine Plant and Infrastructure Maintenance	4,978,534	3,743,202
Total	193,115,480	192,411,136

Revenues are shown net of the cost of work contracted on behalf of third parties, which are passed on to the principals based on concession agreements and service contracts, for an amount equal to € 70,038 thousand for the year ended 31 December 2021.

Below is the breakdown by geographic area.

<i>Amounts in thousands of Euro</i>	Reporting period	Previous period
Italy	192,323	190,806
Europe	25	65
Rest of the world	767	1,540
Total	193,115	192,411

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 € 57,393,177 for the year ended 31 December 2021. 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 3.30% 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 2021.

2.3 Other revenues and income

Other revenues and income amounted to € 16,427,161 (€ 22,051,739 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Sundry services carried out by the IWS	1,425,206	1,702,155
Chargebacks and expense refunds	1,063,644	2,171,931
Increases for internal work	12,059,422	14,300,244
Release of the provision for risks	0	1,318,828
Charge of costs for seconded staff	539,474	658,780
Contingent assets	491,888	1,250,931
Other revenues and income	825,316	626,664
Capital contributions	22,211	22,206
Total	16,427,161	22,051,739

The change in the item “increases for internal work” is related to the increase in investments of the Water Service.

The increase in “Chargebacks and expense refunds” is largely attributable to the income derived from the routine maintenance of underpasses that the Municipality of Milan has assigned to the Water Service’s Technical Structure.

2.4 Costs for raw materials, consumables and goods for resale

Raw materials and consumables amounted to € 6,559,652 (€ 7,417,838 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Consumables and other	7,057,371	8,319,309
Changes in raw materials, ancillaries and consumables	(497,720)	(901,472)
Total	6,559,652	7,417,838

2.5 Other operating costs

Other operating costs amounted to € 2,848,100 (€ 2,345,276 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Membership fees	459,982	302,411
Taxes and other deductible charges	421,575	318,094
Municipal Property Tax (IMU)	366,820	359,665
Donations	53,000	77,930
Other operating costs	1,546,723	1,287,175
Total	2,848,100	2,345,276

2.6 Costs for services

Costs for services amounted to € 76,241,736 (€ 72,445,081 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Utilities (water, electricity)	20,387,492	22,732,934
Gas	0	783,189
Outsourced work	233,219	918,811
Maintenance	13,938,390	8,997,314
Technical and legal consulting	7,211,806	7,391,774
Remuneration of directors	141,240	87,510
Remuneration of statutory auditors	37,338	36,036
Marketing and advertising	122,467	95,688
Telephone and postal expense	474,375	641,372
Insurance	2,863,038	2,593,509
Business trips and transfers	161,666	147,049
Other costs for services	8,850,247	6,776,427
Costs for activated carbon regeneration	844,126	591,779
Canteen and luncheon vouchers	1,960,399	1,812,138
Services supplied by the Municipality of Milan	2,477,984	2,772,812
Wastewater treatment plant management fee	6,800,523	6,831,835
Waste disposal	8,074,537	7,616,705
Use of third-party assets	1,662,889	1,618,199
Total	76,241,736	72,445,081

The increase in “Costs for Services” is mainly attributable to higher maintenance costs incurred during the year in respect of the water service plants. The increase is also due to the implementation of the new business unit dedicated to the management of public green areas. The related costs were expensed during the year.

The item “Use of third-party assets” is broken down as follows:

	Reporting period	Previous period
Rents and leases	725,891	935,330
IP rights and patents	925,437	618,535
Other costs for use of third-party assets	11,561	6,654
Total	1,662,889	1,560,519

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 € 55,499,501 for the year ended 31 December 2021. This item consists of the cost for work on assets held under concession arrangements.

2.8 Personnel costs

Personnel costs amounted to € 72,483,543 (€ 67,834,628 in the previous year).

The breakdown of labour costs is set out and commented on below.

	Reporting period	Previous period
Salaries and wages	52,192,889	48,944,129
Social security costs	15,858,499	15,058,838
Post-employment benefits	3,505,357	3,273,087
Other costs	926,798	558,574
Total	72,483,543	67,834,628

The increase in labour cost is mainly due to:

- the increase in the volume of activities already carried out by MM SpA: the growth in Engineering orders, and the development of routine maintenance works performed on behalf of the Municipality or its subsidiaries;
- the development of additional activities to comply with ARERA's regulatory standards.

The breakdown of personnel by category is as follows:

Number of employees		
	Average number for the year	As at year end
Senior managers	36	35
Middle managers	80	79
Clerical workers	827	822
Apprentices	3	2
Workers	371	384
Total	1,317	1,322

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 € 33,850,041 (€ 27,916,941 in the previous year).

Breakdown is shown and described below.

	2021	2020 Restated	2020
Depreciation of property, plant and equipment and amortisation of intangible assets	27,957,920	22,593,589	23,090,358
Impairment and other provisions	5,892,121	4,826,583	4,826,583
Total	33,850,041	27,420,172	27,916,941

The item "Depreciation of property, plant and equipment and amortisation of intangible assets" is broken down as follows:

	Reporting period
Property, plant and equipment	4,438,811
Rights over the infrastructure relating to service concession arrangements	14,452,797
Other intangible assets	9,066,312
Total	27,957,920

The item “Impairment and other provisions”, amounting to € 5,892,121, refers for € 956,858 to allocations to provisions for risks and charges against the probable risk of losing a pending civil dispute with a company that has previously cooperated with MM and to provisions for insurance deductibles.

The remaining portion, amounting to € 4,935,263, refers to allocations to the bad debt provision, as further detailed in paragraph “1.7 Trade receivables”.

2.10 Impairment loss on the disposal of fixed assets

The impairment loss on assets held under concession arrangements, on property, plant and equipment and on intangible assets amounted to € 169,184 (€ 78,228 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Impairment losses (Reversal of impairment losses)		
- Other Property, plant and equipment	0	0
Total property, plant and equipment	0	0
- Rights over the infrastructure relating to service concession arrangements	169,184	78,228
Total Rights over the infrastructure relating to service concession arrangements	169,184	78,228
Impairment losses (Reversal of impairment losses)		
Grand total	169,184	78,228

2.11 Finance income and costs

Finance costs net of finance income amounted to € 5,853,392 (€ 6,114,224 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	288	187,891
Interest income on bank current accounts	346	1,337
Foreign exchange gains	146,618	116,534

Total finance income	147,252	305,761
Interest expense on bank loans and borrowings	5,532,027	5,642,608
Bank interest expense	145,763	265,922
Interest cost – employee benefits	(3,823)	24,876
Foreign exchange losses	183,382	138,799
Other finance costs	143,295	347,780
Total finance costs	6,000,644	6,419,985
Net finance income/(costs)	5,853,392	(6,114,224)

The value of finance costs mainly refers to the Water Service Business Unit 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 interest recognised for lease contracts in accordance with IFRS 16 and interest recognised to the factoring company for receivables of the Water Service Business Unit assigned during the year.

2.12 Income taxes

Income taxes amounted to € 4,303,550 (€ 9,949,615 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 2021:

	Reporting period	Previous period
Current taxes (IRES - corporate tax)	6,238,767	5,658,825
Current taxes (IRAP - regional business tax)	1,753,567	2,201,249
Prepaid / deferred taxes	(3,688,784)	2,089,541
Total	4,303,550	9,949,615

The table below shows the reconciliation of the theoretical tax rate to the actual impact on results:

	Year ended 31 December 2021	
		%
Profit (loss) before tax	13,430,672	
Theoretical IRES (corporate tax)	3,223,361	24.00%
Tax effect of permanent differences	(673,378)	
IRAP (Regional business tax)	1,753,567	
Taxes	4,303,550	
Actual tax rate		32.04%

Other Information

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 2021, sureties issued by third parties totalled € 6,096 thousand, broken down as follows:

- a guarantee of € 2,850 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 € 3,146 thousand to institutions and principals for the performance of contracts.

In addition, under the Deed filed on 22/12/2016, the Company granted Bondholders and the EIB a general lien as guarantee that the amounts owed to them will be paid.

Disputes

The value of disputes related to contractors' claims deriving from the performance of procurement contracts and pending as at 31 December 2021 approximately amounts to € 7 million at historical prices.

It should be noted that, in the event of losing the case, the related costs can be passed on to the granting bodies, since they relate to and result from the works carried out or can be 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 2021, the relations with the Municipality of Milan mainly involved:

- engineering technical support services provided to the Municipality of Milan;
- 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 2021, the Company's receivables from the Municipality of Milan totalled € 2.2 billion, while its payables due to the Municipality of Milan totalled € 2.1 billion; payables and receivables arising from the mandate conferred by the Municipality are offset against each other; therefore, the Statement of Financial Position shows the net between the respective positions. The Company's revenues collected from the Municipality of Milan totalled € 49 million, while the costs incurred as contracting authority for the Municipality of Milan amounted to Euro 70 million; revenues and costs deriving from the role of contracting authority are offset against each other and consequently recognised in the Income Statement net of the respective positions. The costs for services charged back by the parent company to MM amounted to € 2.4 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 between the Municipality of Milan and the 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., Milanospo S.p.a., Arexpo S.p.A., Sogemi SpA, AMAT and 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.

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:

	Reporting period	Previous period
Directors	141,240	87,510
Board of statutory auditors	37,338	36,036

It should be noted that on 10 December 2020 two additional directors were appointed following the expansion of the Board of Directors from 3 to 5 members.

Remuneration of independent auditors

The remuneration payable to independent auditors totalled € 91,296 for the year ended 31 December 2021.

This amount relates to the following activities:

	Amount
Audit of the financial statements and related activities	58,456
Audit of separate annual reports	8,662
Audit of the "Non-financial Statement" and other activities	24,178
Total as at 31 December 2021	91,296

Allocation of the profit for the year

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 9,127,122, to the Extraordinary reserve.

In addition, considering that, at the direction of the Municipality of Milan, the company has implemented IT projects totalling € 252,739.66 whose cost was borne by the Housing Business Unit, and that the portion of the profit (loss) for the year attributable to the Housing Business Unit, net of the costs already included in the costs for IT projects, is negative by € 312,068.35, we propose drawing down € 564,808.01 from the Voluntary Reserve consisting of the portion of retained earnings from previous years attributable to the Housing Business Unit.

For the Board of Directors

The Chairman

Simone Dragone

ANNEX 1: INDEPENDENT AUDITORS' REPORT OF THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2021



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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of MM SpA (the Company), which comprise the statement of financial position as of 31 December 2021, 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 2021, 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.

Emphasis of Matter

Without modifying our opinion, we draw attention to what the directors report in the section titled "FoNI Tariff component - voluntary change of accounting policy", with regard to the restatement of certain prior year's comparatives, compared with the figures previously presented, as a result of a change in the criterion applied for the recognition of the FoNI tariff component.

PricewaterhouseCoopers SpA

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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.

Key Audit Matters

Auditing procedures performed in response to key audit matters

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 2021 includes receivables referred to the Integrated Water Service equal to Euro 146,538 thousand, with the relevant bad debt provision amounting to Euro 25,937 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 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.

Key Audit Matters

Estimation of year-end revenues for the water segment

Note 2.1 to the financial statements “Revenues”

The item ‘Revenues’ of the financial statements for the year ended 31 December 2021 includes revenues referred to the Integrated Water Service equal to Euro 137,684 thousand. Revenues from the 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.

Auditing procedures performed in response to key audit matters

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 management of customer master files, 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 2021;
- 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.



Report on Compliance with other Laws and Regulations

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 2021, 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 2021 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 2021 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, 31 May 2022

PricewaterhouseCoopers SpA

Signed by

Andrea Crespi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not performed any controls on the 2021 Financial Statement translation.



**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 2021

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

Relazione sulla revisione contabile del bilancio d'esercizio

Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio della società MM SpA (la Società), costituito dalla situazione patrimoniale-finanziaria al 31 dicembre 2021, 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 2021, 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.

Richiamo di informativa

Senza modificare il nostro giudizio, richiamiamo l'attenzione a quanto riportato dagli amministratori nel paragrafo "Componente tariffaria FoNI, cambiamento volontario di principio contabile", in merito alla riesposizione di alcuni dati comparativi relativi all'esercizio precedente, rispetto ai dati precedentemente presentati, a seguito della modifica del criterio di contabilizzazione della componente tariffaria FoNI.

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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.

Aspetti chiave

Procedure di revisione in risposta agli aspetti chiave

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 2021 sono iscritti crediti riferiti al Servizio Idrico Integrato pari a Euro 146.538 migliaia, il cui relativo fondo svalutazione crediti è pari a Euro 25.937 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, e, se applicabile, 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;
- 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.

**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 2021 comprende un valore di ricavi riferiti al Servizio Idrico Integrato pari a Euro 137.684 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.

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, alla gestione delle anagrafiche clienti, alle 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 2021;
- 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 DLgs 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.

Relazione su altre disposizioni di legge e regolamentari

Giudizio ai sensi dell'articolo 14, comma 2, lettera e), del DLgs 39/10

Gli amministratori di MM SpA sono responsabili per la predisposizione della relazione sulla gestione di MM SpA al 31 dicembre 2021, 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 di MM SpA al 31 dicembre 2021 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 di MM SpA al 31 dicembre 2021 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

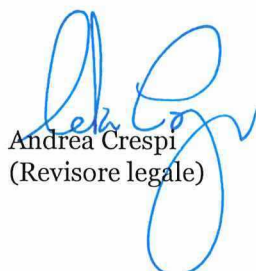
Gli amministratori di MM SpA sono responsabili per la predisposizione della dichiarazione non finanziaria ai sensi del DLgs 30 dicembre 2016, n.254.

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, 31 maggio 2022

PricewaterhouseCoopers SpA



Andrea Crespi
(Revisore legale)