



MM S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

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Registered office in MILAN – VIA DEL VECCHIO POLITECNICO 8

Paid-up share capital Euro 36,996,233 (Euro 23,150,576 as at 31/12/2017)

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 December 2017

Corporate structure

MM S.p.A. (hereinafter “MM” or the “Company”), a business partner of the Municipality of Milan since 1955, began as an engineering company, the purpose of which was to construct the city’s entire underground railway network and to design the public mobility infrastructures and works.

Over the years, thanks to the experience gained and increased professionalism of its staff, MM expanded its field of operations, initially with the management of the Integrated Water Service, and then also of public housing property owned by the Municipality of Milan.

As part of the rationalisation process of the equity investments held by the local authorities, the Municipality of Milan approved the merger by incorporation of the company M.I.R. S.r.l. into MM. As a result of said operation, MM, in strengthening its equity structure, has become the owner of a set of movable property and real estate, instrumentally intended to serve the collection and disposal of municipal waste, which are leased to AMSA S.p.A, the temporary provider of this service.

Business Units

Engineering Business Unit

MM has been active in the public mobility sector for over 60 years, providing services that cover the entire design cycle (from technical and financial feasibility studies to final and executive designs), procurement management, work supervision and safety coordination, thus diversifying its activities and areas of specialisation.

In brief, the main areas of specialisation are the following:

- Urban Public Transport
- Suburban Public Transport
- Traffic and Road Network
- Plant Engineering
- Architecture and Town Planning

Integrated Water Service Business Unit

The Municipality of Milan has assigned to MM the management of the Integrated Water Service (hereinafter “IWS”) covering the city and some customers in neighbouring municipalities under a “house providing” arrangement that will expire in 2037.

The IWS management includes all the stages of the process, from water abstraction directly from the underground water table up to its return to the environment. The territory served by MM covers more than 180 sq.km and services over 50,000 customers that represent over 700,000 housing units in the Municipality of Milan, stretching over a network with a total length of approximately 3,800 km.

Housing Business Unit

From 1 December 2014, MM has been managing the Public Housing Property of the Municipality of Milan. In particular, MM handles, in the name and on behalf of the Municipality of Milan, all administrative, accounting and technical-legal activities; it manages customer relations, changes of residence, mobility plans, and it is also responsible for the ordinary maintenance of properties.

The Municipality of Milan confirmed MM’s mandate for 30 years, starting from 1 June 2015.

At the end of the year, properties under management were 39,049 and included housing units, garages/parking spaces, shops, laboratories, association headquarters and deposits located in the territory of the Municipality of Milan and its hinterland.

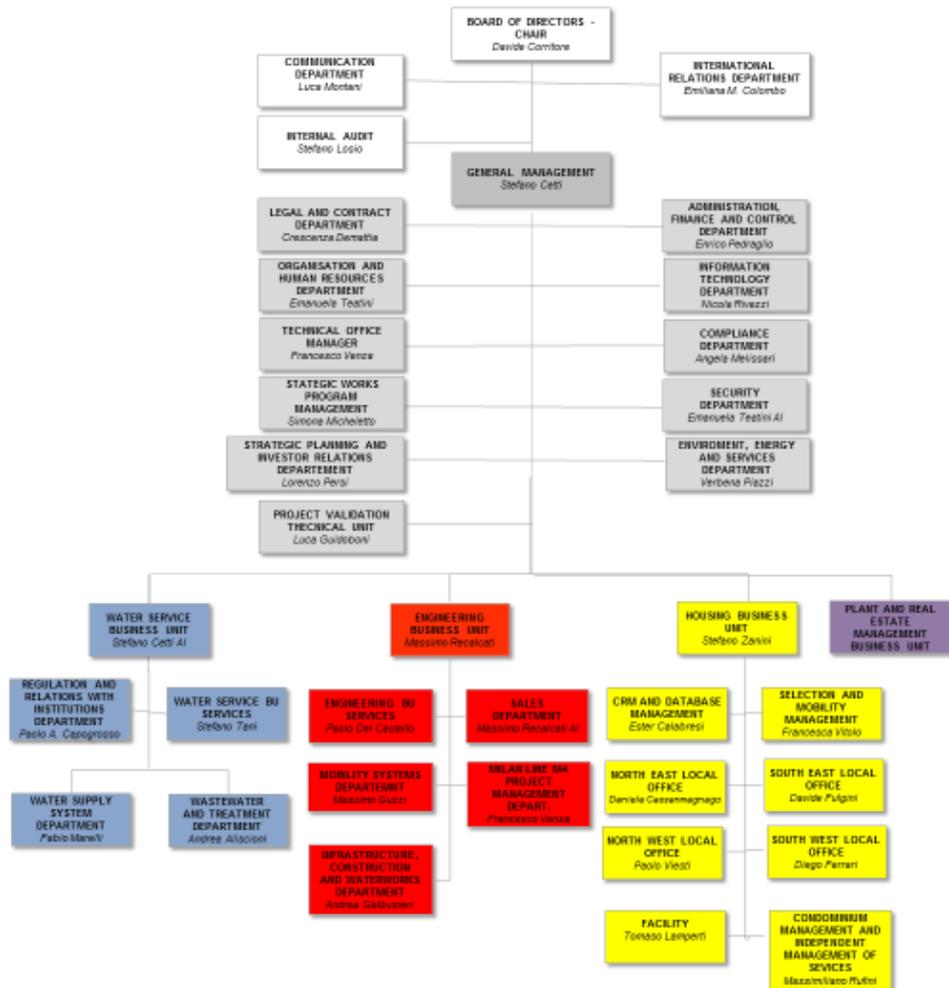
Plant and Real Estate Management Business Unit

The Business Unit was created through the merger with the company M.I.R. S.r.l. It holds publicly-owned movable property and real estate, instrumental to the management of the waste collection and disposal service, made available to the temporary provider of hygiene services (until 2021, AMSA S.p.A.) through a

lease contract in exchange for payment of annual charges. Since its establishment, this business unit has no independent administrative and management structure and has no employees.

In 2017, MM continued its traditional activities by achieving the company mission aimed at:

- consolidating the presence of the company in the construction of local infrastructures (underground railways, railways) aimed at solving traffic, road and environmental problems, by developing new services/business activities and by strengthening its support to the activities of the Municipality of Milan;
- enhancing collaborations and synergies with the network of subsidiaries of the Municipality of Milan and with other local authorities;
- managing the Integrated Water Service in order to improve the level of services offered through actions aimed at increasing management synergies as well as implementing a proper network maintenance and investment plan;
- guaranteeing the efficiency of property and facility management activities on the municipal real estate property.



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The subdivision into business units reflects the structure of the reporting that is periodically reviewed by top management and the Board of Directors in order to manage and plan the Group’s business.

2017 was characterised by a more stable workforce, which had increased over the two preceding years.

Moreover, the Company continued its efforts to rationalise, streamline and consolidate the organisational structure based on business units, thereby strengthening its multi-service nature, with the additional goal of

capitalising on MM's distinctive know how, with a preference for internal professional growth of its human resources.

Within the Staff departments and functions, some new organisational structures that operate across the company to support the business units were created and, during the year, some rationalisation processes were applied to some existing structures.

The Compliance (CMP) function, established effective as of 15 May 2017, operates in close collaboration with the Legal and Contracts Department, the Organisation and Human Resources Department and the Internal Auditing Department, with the main aims of: verifying that internal procedures are consistent with the objective of preventing violations of generally applicable legislation (laws and regulations) and self-regulation (codes of conduct and ethics); identifying, assessing, advising, monitoring with respect to the risk of incurring legal or administrative sanctions, financial losses or reputational damages arising from violation of laws, regulations, codes of conduct and best practices.

The Strategic Works Program Management (PMO) function was established effective as of 1 July 2017 to focus on, drive and monitor all the phases and activities of the process for the realisation of strategic works, which include Integrated Water Service investments and the reduction of vacant housing units within the Public Housing Property of the Municipality of Milan.

The new IWS Applications (ASI) function, which reports to the Information Technology Department (DITC), was established, among other things, to support the Water Service Business Unit in correctly utilising the applications, proposing and implementing solutions that are able to cover integration and process rationalisation needs of the Business Unit itself.

Pursuant to the provisions of the Code of Public Contracts - Legislative Decree 50/2016, the Streamlined Procurement (ACE) function was renamed Below-Threshold Contracts (ASS).

Moreover, in order to focus on the outsourcing process of works, services and supplies, particularly as regards the realisation of Area Plan investments, effective as of 15 June 2017, activities involving the tender and procurement phases of the process were streamlined, with a revision of the duties and responsibilities of the Legal and Contracts Department.

In order to focus on the institutional communication activities, the Corporate Social Responsibility (CSR) function now reports directly to the Communication Department (DCMN).

Under the Organisation and Human Resources Department (DORU), the Organisational Development and Corporate Welfare (OWA) function was renamed Organisation and Development (OSV), Human Resources

Development (SRU) reports directly to it.

In the Water Service Business Unit (DVSI), the Wastewater Technical Analysis Planning (PTR) function now reports directly to the Wastewater and Treatment Department (DARD) and has been renamed Planning and Technical Analysis for Wastewater and Treatment (PAT), the main objectives of which are: to provide operational support to the Wastewater and Treatment Department, ensure collection of specific requests in terms of needs for interventions for adaptation and upgrading of sewer plants and network, to be proposed for inclusion in the Integrated Water Service Investment Plan; to monitor the progress of interventions on the sewer network and plants and ensure consistence thereof with design specifications; to support the Wastewater and Treatment Department's organisational structures in preparing the projects for maintenance, development and expansion works on the sewer network and plants; to ensure implementation and use of the mathematical simulation model of the Wastewater network.

Furthermore, the new Wastewater Network Management (GAR) function has been created and will report directly to the Wastewater Network (RAR) function. The Ordinary Maintenance (MAO) function and the Network Operation (ESR) function will report directly to the Wastewater Network Management (GAR).

Moreover, effective as of 24 July 2017, a new function - Relations with Trade Associations and Monitoring of Sector Regulations (GRA) - was created and will report directly to the Regulation and Relations with Institutions Department (DRRE), with the aim of monitoring the changes in sector and national regulations and to support the Department in examining and analysing consultation documents issued by the Authorities in order to prepare observations thereto; after the development of sector and national regulations, its purpose will be to support the Department in assessing Authorities' Resolutions in order to prepare programming proposals, aimed at defining the activities required for regulatory compliance, following consultation with the affected organisational structures; it will also support the Department in coordinating and liaising with sector Trade Associations, preparing the documents required by them. The Quality Standards Monitoring (MSQ) function has been renamed the Quality Standards Monitoring and Tariff Regulation (MSQ).

Within the Water Supply System Department (DACQ), the Measurement Systems (SMI) function now reports to Waterworks Network (RAC) function.

From 18 July 2017, the Director of the Housing Business Unit (DVCA) was temporarily appointed Director of the Project Development and Strategic Coordination for Suburbs Plan Department at the Municipality of Milan and was replaced in his position at the Housing Business Unit. Moreover, the responsibility for the

Management of Condominium Management and Independent Management of Services (CGA) function was assigned to an internal staff member.

In addition, at the organisational level, a series of specific projects and teams were activated, including those indicated below.

Following the bond issue and to ensure timely implementation of the Integrated Water Services Investment Plan supported by the financial policy, the project for the streamlining of the planning and monitoring processes for the Integrated Water Service investments was launched. To this end, a project team was set up to monitor all the activities required for the implementation of the planning and monitoring processes for the Integrated Water Services investments and for the definition of a set of indicators to be included in an information dashboard to allow systematic updating and monitoring of the various phases.

A specific Risk Assessment project was launched to map the economic, operational, management and regulatory compliance risks related to the company's processes and activities. A project team was set up for this purpose.

Pursuant to European Regulation 2016/679, published in the Official Journal on 4 May 2016, relating to the protection of natural persons as regards the processing of personal data and the free movement of such data, that will apply in the Member States with effect from 25 May 2018, as of 1 June a specific project was initiated to implement all the actions required for the development of the company privacy system.

As of 12 October 2017, in compliance with the application of the Energy Management System (EMS) pursuant to ISO 50001, an Energy Management Team (EMT) was set up within the Water Service Business Unit. Its objectives, among other things, are: to define, in compliance with the company strategy, the energy policy of the Water Service Business Unit; to develop the Energy Management System of the Water Service Business Unit in terms of objectives, including through measurable energy performance indicators (EnPI), action plans, resources and instruments; to implement the Energy Management System within the Water Service Business Unit, coordinating the activities that involve company structures, ensuring that the information flow is correct, preparing, updating and disseminating the specific technical documentation and providing the necessary training; to monitor and periodically audit the Energy Management System of the Water Services Business Unit to ensure maintenance and improvement thereof; to identify and monitor the applicable legislative and regulatory requirements and the evolution thereof.

To ensure greater effectiveness of the relations with stakeholders and the development of decision making processes in terms of management of the company's reputational risk and image, the Crisis Management Team (CMT) was set up and has been operational since 16 October 2017. Among other things, its duties are to coordinate and manage crises affecting the reputation of the company and to define and coordinate how to respond and the measures that MM shall adopt based on the guidelines of top Management.

Management and control bodies

Board of Directors

| | |
|----------|-------------------------|
| Chairman | Davide Amedeo Corritore |
| Director | Luigi Mario Mancioppi |
| Director | Loredana Bracchitta |

Board of Statutory Auditors

| | |
|----------------------------|----------------|
| Chairman | Ivano Ottolini |
| Standing Statutory Auditor | Myrta De Mozzi |
| Standing Statutory Auditor | Andrea Manzoni |

| | |
|----------------------|------------------------------|
| Independent Auditors | PricewaterhouseCoopers S.p.A |
|----------------------|------------------------------|

Regulatory and tariff aspects

Madia Decree on state-owned enterprises - Italian Corrective Decree no. 100/2017

Italian Corrective Decree no. 100/2017 applicable to Legislative Decree 175/2016 confirmed the provisions contained in the transitional regime pursuant to art. 26, paragraph 5, and therefore Legislative Decree 175/2016 continues not to apply to MM.

In any case, during 2017 numerous activities were pursued that result from the regulatory obligations introduced by Legislative Decree 175/2016, the recipient of which is our shareholder, the Municipality of Milan. They are briefly summarised below.

Subsidiaries' rationalisation plan

As part of the extraordinary audit activities focusing on equity investments (art. 24) pursued by the Municipality of Milan, we proceeded to resolve to merge by reincorporation the 100%-owned subsidiaries Napoli Metro Engineering S.r.l. and Metro Engineering S.r.l., with accounting and tax effects backdated to 1 January 2017.

Thus, from 2018 MM S.p.A. will no longer operate as a Group but instead as a single entity, whose activities may be partially addressed also to non-shareholders.

Changes to the Articles of Association for the purpose of enrolment in the list of contracting authorities and entities operating by means of direct awards towards their own in-house companies, pursuant to art. 192 of Legislative Decree 50 of 18 April 2016

Due to the completed bond issue, MM is not subject to the obligations under art. 26, paragraph 1 of Legislative Decree 175/2016 with respect to the mandatory adaptation of the articles of association, the deadline for which was 31.12.2016.

However, with regard to the requirements for enrolment in the list of contracting authorities and entities operating by means of direct awards towards their own in-house companies, pursuant to art. 192 of Legislative Decree 50/2016, as provided by Guideline no. 7, approved by the Authority's Board with resolution no. 235 of 15 February 2017 and updated to reflect Legislative Decree no. 56 of 19 April 2017 with Board resolution no. 951 of 20 September 2017, it was deemed appropriate to provide in MM's Articles of Association that more than 80% of the Company's turnover shall derive from activities carried out in the

performance of tasks entrusted to it by its public-entity shareholder and that any further production exceeding said turnover threshold shall be allowed only if it results in economies of scale or other efficiency gains with respect to the general core business of the in-house entity.

Pursuant to the above, in its meeting held on 27 October 2017, the Shareholders' Meeting supplemented Article 4 "Corporate Purpose" of the Articles of Association by adding the following text after paragraph 4.4:

"4.5) Over 80% of the Company's turnover shall derive from activities carried out in the performance of tasks entrusted to it by the Public-entity shareholder or shareholders. Any further production exceeding the above-mentioned threshold shall be allowed only if it results in economies of scale or other efficiency gains with respect to the general core business of the Company."

Further production for in-house companies (art. 16)

The Corrective Decree affected this point by inserting par. 3-Bis under article 16 of the Consolidated Law, specifying that further production exceeding the 80% threshold of turnover derived from activities with Public Administrations can also arise from services that differ from the services provided to shareholders. However, as in the previous case, any further production with non-shareholder entities shall be allowed only if it results in economies of scale or other efficiency gains with respect to the general core business of the company. Therefore, for example, an in-house company that provides waste collection and disposal services for shareholder municipalities, may lawfully sell to third parties products deriving from waste recycling (glass, plastic, wood, compost, etc.), provided that turnover from these sales does not exceed 19.99% of total turnover and that this activity results in efficiency gains (in this case, efficiency gains are implicit in waste recycling).

Italian Code of Public Contracts – Corrective Decree 56/2017

One of the most significant changes introduced in the Code refers to tender procedures, promoting the usage of e-procurement systems, reflecting transparency, streamlining and efficiency principles in regard to procedures.

As from June 2017, MM initiated preliminary activities for setting up a new portal that will allow it to handle all tender procedures electronically (regardless whether they fall above or below the EU threshold). In

October, a notice regarding the establishment of the new electronic Vendor List was published, so that the below-threshold procedures can be conducted electronically before the end of the first quarter of 2018.

As from December 2017, open tender procedures will also gradually begin to be handled electronically. This will simplify the procedures insofar as transparency and correctness are concerned, thereby increasing the efficiency of the process for the procurement of goods, services and works.

In April 2017, with regard to the Code of Public Contracts a corrective decree was published, introducing certain modifications and amendments thereto. The adoption of the corrective decree provided an opportunity to carry out formal reviews, so as to increase the clarity of the text, while introducing new provisions aimed at resolving some critical issues that emerged in the initial period during which the Code was applied.

Following are the main new elements:

For awards that do not exceed € 40,000.00, the possibility of direct award is confirmed even without comparison of two or more quotes.

This specification does not provide exemption from the obligation to account for the award, even if directly awarded, pursuant to the principles under art. 30, including the fundamental principle of affordability, which obligates Entities to expressly justify the congruence of the award price.

With respect to the negotiated procedure, in case of works the number of operators invited to submit a tender has been amended:

- for amounts ranging from € 40,000 to € 150,000, at least 10 operators must be invited to submit a tender;
- for amounts ranging from € 150,000 to € 1,000,000, at least 15 operators must be invited to submit a tender.

One of the most high-impact novelties introduced by Legislative Decree 50/16, i.e. the prohibition to resort to joint awarding of the planning and execution of works, is superseded. This is now allowed pursuant to art. 59, par. 1-bis “in cases where the technological or innovative element of the works constituting the object of the contract clearly prevails over the overall amount for the works”, and such cases must be fully justified.

As already anticipated by the National Anti-Corruption Authority (ANAC) “Guidelines”, with respect to works the budget of which is below € 1 million and below-threshold services/supplies, as well as awards lacking particular complexity (such as, for example, those carried out electronically), entities can appoint some internal members to the Selection Committee, except for the Chairman. Therefore, the latter must be

external and selected from among those who are registered with the National Register and indicated by ANAC.

This provision will become effective only when the above-mentioned Register will be established. To date this does not appear to be imminent.

With regard to general requirements, the novelty is the new “*soccorso istruttorio*” (a procedure whereby the tenderer is given an opportunity to remedy shortcomings in its tendering documentation), which is no longer against payment but free of charge; therefore there is no longer any obligation to indicate the applicable penalty in the tender. However, the inadmissibility of “*soccorso istruttorio*” to correct shortcomings in the technical and financial offer is confirmed.

Due to the elimination of this penalty, it is believed that a higher number of tenders with incomplete documentation may be submitted.

One of the most significant new elements of the Corrective Decree refers to paragraphs 3 and 4 of art. 95, that indicates the cases in which there is a mandatory obligation to submit the most economically advantageous tender and the possible cases in which derogation is possible, with application of the maximum rebate.

The admissibility threshold for the maximum rebate was increased from € 1,000,000 to € 2,000,000; however, the “simplified” criterion is allowed, provided that the tender procedure is an ordinary one and that negotiated procedure is not applied.

Integrated Water Service

National Regulatory Framework

In 2017, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) continued its regulation of the sector with the issuing of resolution 665/2017/R/IDR of 28 September 2017, “*Approval of the integrated text on charges for integrated water services (TICSI)*” bearing tariff structure criteria applied to users”, in which ARERA approves the criteria for the definition of the tariff structure applied to integrated water service users, which local government bodies, or other competent entities, are required to follow for the reorganisation of the tariff structure applied to end users.

With particular reference to household users, states that from 1 January 2018 a per capita criterion will be introduced, depending on the number of residents in the household, and a preferential per capita

consumption range between 0.00 m³/year to a value of at least 18.25 m³/year. Moreover, Resolution 665/2017/R/IDR also considers that the determination of the tariff for collection and treatment of industrial wastewater authorised for discharge into public sewage system. For this purpose, a trinomial reference formula has been set out, uniform in each Optimal Territorial Area (ATO), consisting of a fixed rate, a variable rate and a capacity rate.

With reference to the flexibility and graduation mechanisms, the TICSII confirms the revenue constraint condition with a flexibility margin of 10%, at the ATO level, as well as the maximum allowed annual increase limit for each industrial user, referring to subsequent measures for the definition of cost allocation criteria between industrial users and other users connected to public sewage system, to be applied from 1 January 2020.

With reference to the new TICSII, the Resolution stipulates gradual application as of 1 January 2018.

This measure, which completes the national standardisation process, simplifies and rationalises both the structure of payable amounts in relation to the tariff structure for domestic and non-domestic users and the tariff for collection and treatment of industrial wastewater authorised for discharge into public sewage system, will affect operator activities in organisational and financial terms, though these effects can only be assessed after the new regulatory structure has been consolidated.

With its resolution 897/2017/R/IDR, ARERA has set out the rules for implementing a water supply cost compensation system for household users living in conditions of economic hardship, pursuant to the provisions of the Prime Minister Decree of 13 October 2016, which introduces a water social bonus to be applied based on uniform rules throughout Italy.

This measure approves the Integrated Text of implementation rules for the water social bonus for economically disadvantaged domestic users (TIBSI), which, with specific regard to the identification of eligible beneficiaries of the water social bonus, ensures the right of water supply to household users under economic hardship, i.e. a family with an ISEE (Equivalent Economic Status Indicator) not exceeding € 8,107.50, or a family with at least 4 dependent children and an ISEE not exceeding € 20,000. This threshold may change as a result of provisions that the Ministry of Economic Development must adopt by February 2018 in compliance with Law 124/2017 (Competition Law).

Regarding verification of requirements of eligible beneficiaries, the TIBSI provides that the necessary checks for admitting the applicant to the bonus shall be carried out by Municipalities through SGAtE (Management

system of energy tariff subsidies), on behalf of the operator, and the latter shall only remain responsible for contractual checks and for verifying that the application is submitted jointly with the electricity and gas ones, appropriately integrated into the same forms.

To quantify the water social bonus, the TIBSI establishes that the amount of the subsidy is calculated by the individual operator according to the registered number of family members, multiplying it to the essential quantity of water to satisfy safeguarded needs and to the same discounted tariff valid also for the remaining residential households, according to criteria set out in the TICSII. Furthermore, local government bodies are also authorised to introduce or confirm, if presently envisaged, further protection measures for users in conditions of economic vulnerability, through the granting of a supplementary water bonus.

To offset the charge arising from granting the bonus to users under economic hardship, the TIBSI establishes that, for the water social bonus, coverage can be provided nationally with a new UI3 tariff component applied to all users in Italy other than those under economic hardship, as an increase to the usual water supply charge, while, for the supplementary bonus, coverage can be provided with a local basis mechanism whose implementation will be defined in provisions updating the tariff.

Implementation of the water social bonus across the entire Italian territory is expected to start from 1 January 2018.

With resolution 917/2017/R/IDR ARERA defines the technical quality of the integrated water service with an asymmetric and innovative approach that considers the specific conditions of different contexts to identify correct and effective incentives to promote benefits for users of the different services. The regulation model develops, especially, the selectivity, correlation, effectiveness, reward, progression and stability.

This model is based on the following indicators:

- prerequisites: the conditions necessary for admission to the incentive mechanism associated with the general standards;
- specific standards: performance parameters to be guaranteed in services provided to individual users where non-compliance requires automatic indemnities; they identify:
 - the value of the “Maximum duration of a single scheduled suspension” (S1) as 24 hours;
 - the value of the “Maximum time for activating the emergency replacement service if the

- drinking water service is suspended” (S2) as 48 hours;
- the value of the “Minimum notice for planned interventions that entail suspension of supply” (S3) as 48 hours;
- general standards: these are broken down into macro-indicators and simple indicators that describe technical conditions for providing a service with an incentive mechanism:
 - macro-indicator M1 - “Water losses”, defined taking into account both actual and percentage water losses;
 - macro-indicator M2 - “Service interruptions”, defined as the ratio between the total length of interruptions in a year and the number of end users served by the supplier;
 - macro-indicator M3 - “Quality of water supplied”, defined according to a multi-stage logic, considering: i) the incidence of non-potability orders; ii) the rate of non-compliant internal samples; iii) the level of parameters from non-compliant internal controls;
 - macro-indicator M4 - “Adequacy of the sewage system”, also defined according to a multi-stage logic, considering: i) the frequency of flooding and / or spills from sewers; ii) the legal adequacy of flood drains; iii) the control of flood drains;
 - macro-indicator M5 - “Landfill sludge disposal”, defined as the ratio between the amount of sewage sludge measured dry that is disposed of in landfills and the total quantity of sewage sludge measured dry;
 - macro-indicator M6 - “Quality of purified water”, defined as the rate wastewater discharge samples exceed limits.

The model defined by Resolution 917/2017/R/IDR provides that for each macro-indicator (intended as a minimum target) the local governing body (EGA) defines the baseline and the annual improvement/maintenance objective that the operator is required to achieve (annually).

An incentive system is also defined with awards and penalties, starting from 2020, for operator performance in the two previous years according to the TOPSIS (*Technique for Order of Preference by Similarity to Ideal*

Solution) methodology.

Penalty factors will be applied by cutting recognised costs in the event that efficiency decreases and through the obligation to make allocations, in the event of negative changes in efficiency, including failure to reach the objective set by a single macro-indicator. To pursue the gradual introduction of the technical quality regulation, for the first two years

(2018, 2019) the penalties to be applied in the event that the efficiency status worsens must be allocated and used for achievement of the objectives that have been set.

Costs related to compliance with specific standards and the achievement of technical quality objectives will be covered as established by the tariff method (MTI-2), as supplemented in Resolution 918/2017/R/IDR. In particular, investment related to the measures and included in the Schedule of Operations is financed within updates to the relevant economic-financial program or, if the conditions are met, by applying the provisions for extraordinary revision. In addition, the local governing body may formulate a specific request to cover any additional operating costs.

The resolution introduces the system of technical quality indicators, as well as monitoring for these, from 1 January 2018 (based on 2016 macro-indicator values, while from 1 January 2019 these will be based on the previous year, if available), and the application of rules requiring registration and archiving of this data from 1 January 2019.

With Resolution 918/2017/R/IDR ARERA defines rules and procedures for the biennial updating (2018-2019) of tariff arrangements for the integrated water service, updating Annex A of the 2016-2019 water tariff method, MTI-2 (Resolution 664/2015/R/IDR), also in consideration of the evolution of the overall regulatory framework, with the progressive implementation of the regulation concerning contractual quality, the introduction of the technical quality regulation, the approval of the integrated text on charges and the regulation of the water social bonus. Thus, the Resolution sets the criteria to follow for updating the cost components allowed for tariff recognition for 2018 and 2019.

In particular, as regards the data to be used for updating the constraint to the operator's revenue and the tariff multiplier ϑ , it is expected that the determination of 2018 tariffs will be updated with the data of 2016 financial statements or, if not available, with the data of the last available financial statements and that the determination of 2019 tariffs will be updated with the data or preliminary data of 2017 financial statements

or, if not available, with the data of the last available financial statements, except for the components for which an estimated figure is expressly allowed.

As part of the measures supporting the investments, the resolution provides for specific controls over the actual implementation of the investments planned for 2016 and 2017, requiring that priority objectives provided for the subsequent years and the economic-financial sustainability of the operation be congruent and introduces, as of 2018, the obligation to allocate the Fund for new investments component exclusively to the implementation of new investments for the achievement of the specific objectives identified in the schedule of operations prepared for the relevant territory.

To support quality improvement of the services provided to users, given the new objectives set in correspondence with the evolutionary differentiated targets based on the starting level of each operator, resolution 918/2017/R/IDR provides for coverage, under specific conditions, of any additional operating costs relating to aspects that involve adjustments to some technical quality standards and specific procedures for coverage of the bonus mechanism relating to the technical quality of the integrated water service, mainly through the application of the UI2 equalisation component to the promotion of the technical quality, the quantification of the aforementioned equalisation component UI2 at 0.9 Euro cents/cubic meter (to be applied to all integrated water service users as an increase on the waterworks, sewage and water treatment charges) and integration of this equalisation mechanism as of 2020 using an instrument for allocation, which will be based on a percentage of operating costs, to be made available to all IWS operators.

Moreover, the measure requires that the local government body or any other competent authority will make pertinent decisions regarding updating of its own local area planning, outlining the intervention strategies to favour, with the related effects in terms of the tariffs, upon transposition of the specific objectives identified by the technical quality regulation.

During 2017, ARERA also issued the following consultation documents, whose effects on 2018 results can be assessed only after the implementation of the relevant regulations: DCO 603/2017/R/IDR “*Directives for the adoption of procedures for reducing delinquency in the integrated water service. General framework and initial guidelines*”; DCO 667/2017/E/IDR “*Protection system for users of the integrated water service for the handling of complaints and the out-of-court settlement of dispute. General framework and initial guidelines*”.

Significant events occurred during the period

In March 2017, MM stipulated a collaboration agreement with the company Expo 2015 S.p.A. in liquidation, for the execution phase of the Liquidation Plan. In short, MM will deal with the technical, accounting, administrative and legal activities and services in support of those responsible for the Expo 2015 S.p.A. procedure, as well as offer assistance for the completion of the procedures involving the dismantling of the participants' pavilions.

On 26 June 2017, the Board of Directors approved the merger by incorporation of the companies Metro Engineering S.r.l. and Napoli Metro Engineering S.r.l. into MM, and on 20 and 19 October 2017 the shareholders' meetings of the two companies approved the mergers, which were concluded with the stipulation of the merger deeds on 27 December 2017.

The merger took place pursuant to article 2505 of the Italian Civil Code, since both companies are 100%-owned by a single shareholder and therefore the merger procedure was simplified with respect to the ordinary one.

The merger will result in both financial and operational benefits, with simplifications and savings in terms of group governance.

In particular, it will ensure optimised use of human resources dedicated to engineering activities and simplification of administrative activities relating to the preparation of financial statements and periodic reports.

The accounting and tax effects were backdated to 1 January 2017. In its meeting on 21 February 2018, the company's BoD resolved to opt for the longer 180-day term for convening the shareholders' meeting to approve the 2017 financial statements, due to the presence of particular needs related to the corporate structure, in relation to extraordinary transactions such as the mergers by incorporation of the subsidiaries Metro Engineering Srl and Napoli Metro Engineering S.r.l.

It is hereby noted that the incorporation of the amounts shown in the 2017 financial statements of Metro Engineering and Napoli Metro Engineering did not result in significant changes to MM's financial statement structure, both in terms of economic result and of assets, liabilities and Equity balances.

In any case, since the two subsidiaries have been consolidated up to 2016, to ensure uniform comparison of 2016 and 2017 financial and economic figures, below we provide the comparison between the 2016 consolidated financial statements and MM's 2017 financial statements.

| ASSETS | 2017 | 2016 | Change | % change |
|--|----------------|----------------|-----------------|-----------------|
| NON-CURRENT ASSETS | | | | |
| Property, Plant and Equipment | 48,140 | 43,864 | 4,276 | 10% |
| Rights over the infrastructure relating to service conces: | 213,335 | 197,525 | 15,810 | 8% |
| Other intangible assets | 2,368 | 489 | 1,879 | 384% |
| Deferred tax assets | 12,015 | 9,428 | 2,587 | 27% |
| Other non-current assets | 1,394 | 2,711 | (1,317) | -49% |
| Total non-current assets | 277,253 | 254,017 | 23,236 | 9% |
| CURRENT ASSETS | | | | |
| Inventories | 1,691 | 1,842 | (151) | -8% |
| Trade receivables | 231,767 | 237,113 | (5,346) | -2% |
| Cash and cash equivalents | 90,915 | 89,928 | 987 | 1% |
| Other current assets | 28,571 | 35,547 | (6,976) | -20% |
| Total current assets | 352,945 | 364,430 | 11,751 | 3% |
| TOTAL ASSETS | 630,198 | 618,447 | 11,751 | |
| EQUITY AND LIABILITIES | | | | |
| EQUITY | | | | |
| Share capital | 23,151 | 15,600 | 7,551 | 48% |
| Reserves | 130,812 | 111,185 | 19,627 | 18% |
| Net profit (loss) | 23,835 | 18,263 | 5,572 | 31% |
| Total equity | 177,797 | 145,048 | 32,749 | 23% |
| NON-CURRENT LIABILITIES | | | | |
| Non-current financial liabilities | 164,180 | 163,538 | 642 | 0% |
| Provisions for risks and charges | 4,081 | 4,186 | (105) | -3% |
| Employee benefits | 8,822 | 9,059 | (237) | -3% |
| Other non-current liabilities | 20,397 | 17,866 | 2,531 | 14% |
| Total non-current liabilities | 197,480 | 194,649 | 2,831 | 1% |
| CURRENT LIABILITIES | | | | |
| Current financial liabilities | 63,878 | 66,200 | (2,322) | -4% |
| Current tax liabilities | 0 | 3,811 | (3,811) | -100% |
| Trade payables | 163,017 | 180,021 | (17,004) | -9% |
| Other current liabilities | 28,025 | 28,718 | (693) | -2% |
| Total current liabilities | 254,921 | 278,750 | (23,829) | -9% |
| EQUITY AND LIABILITIES | 630,198 | 618,447 | 11,751 | |

| Income Statement | 2017 | 2016 | Change | % change |
|--|---------------|---------------|---------------|-----------------|
| Revenues from sales and services | 181,010 | 185,631 | (4,621) | -2% |
| Revenues arising from work on infrastructure subject to service concessic | 32,788 | 21,485 | 11,303 | 53% |
| Other revenues and income | 13,034 | 9,445 | 3,589 | 38% |
| Costs for raw materials, consumables and goods for resale | (4,080) | (3,013) | (1,067) | 35% |
| Other operating costs | (2,350) | (3,794) | 1,444 | -38% |
| Costs for services | (76,819) | (84,261) | 7,442 | -9% |
| Costs arising from work on infrastructure subject to service concession an | (30,612) | (20,281) | (10,331) | 51% |
| Personnel costs | (57,508) | (56,444) | (1,064) | 2% |
| Amortisation/depreciation, impairment and other provisions | (14,548) | (13,489) | (1,059) | 8% |
| Operating Profit (Loss) | 40,913 | 35,279 | 5,635 | 16% |
| Financial income | 558 | 573 | (15) | -3% |
| Finance costs | (7,942) | (5,328) | (2,614) | 49% |
| Profit (loss) before tax | 33,529 | 30,524 | 3,005 | 10% |
| Taxes | (9,694) | (12,260) | 2,566 | -21% |
| Profit (loss) for the year | 23,835 | 18,264 | 5,571 | 31% |

On 27 June 2017, after having shared the final design, MM and A2A Calore e Servizi (ACS) signed an agreement for construction of a co-generation plant the at the "Salemi" lifting and pumping water plant. The executive design and the construction of the plant will be carried out exclusively by MM, which will be the owner thereof, under the supervision of a joint project team. ACS will contribute € 3,730 thousand towards this project. MM will entrust the management of this plant to ACS. Ordinary and extraordinary maintenance will be carried out exclusively by and at the expense of MM, in its capacity as the owner of the plant.

MM undertakes and agrees to sell the heat generated by the plant exclusively to ACS, which undertakes to purchase it. The electricity generated by the plant will be used to power the equipment included in the consumption unit of the user efficiency system, while any surplus production will be sold to the external distribution network according to applicable market mechanisms. MM also undertakes to transfer the energy efficiency certificates to ACS.

On 22 July 2016, the National Anti-Corruption Authority (ANAC) presented the results of its monitoring activity on the M4 line, which were reflected in resolution 757 of 13 July 2016.

The Municipality and ANAC agreed on maintaining a single subject to both carry out high supervision activities and offer technical support to the Grantor – which are considered essential to ensure the control of such a complex order – and that said subject would be Agenzia Mobilità e Territorio S.r.l. (“AMAT”), an in-house body of the Municipality of Milan, already appointed to carry out high supervision activities.

Consequently, the Municipality revoked the Technical Assistance appointment previously granted to MM, instead appointing AMAT, which took over in full and accept full liability with regards to the Grantor, and which may use seconded MM staff.

For the above reasons, MM and AMAT concluded a framework agreement for staff secondment to carry out technical support activity beginning from 1 May 2017. Moreover, a further agreement was stipulated between MM and AMAT pursuant to which MM will provide specialised services for carrying out technical support activities on specific aspects and technologies characterising the construction of the M4 underground railway line.

In this regard, in relation to M4 Supervision of Works, in 2017 the Municipality revoked the assignment, which was however followed by reassignment to MM by M4 S.p.A., under essentially similar conditions and on an ongoing basis.

On 24 July 2017, MM and AMSA renewed their lease contract. This renewal is effective as of 1 January 2017 until 8 February 2021, the natural expiration date of the service assigned to AMSA by the Municipality of Milan. The lease rent, including all ancillary charges, for the six-month period from 1 July 2017 to 31 December 2017 amounts to € 1,015,069; for the years 2018, 2019 and 2020 the annual rent is € 2,030,137. For the period from 1 January 2021 until 8 February 2021 the rent is set at € 211,357.

The rent also includes ordinary maintenance obligations, which are incumbent upon AMSA.

Upon expiration of the contract, MM will be required to refund AMSA the amounts related to the non-amortised portion of extraordinary maintenance carried out, as well as of fixtures and improvements made on the properties and plants.

AMSA reserves the right to assign to MM the design and/or work supervision of planned interventions, in accordance with applicable regulations.

On 14 September 2017, the Municipality of Milan entrusted MM with the task of drafting the technical and financial feasibility study and final design, for safety coordination during the design phase, assistance to the RUP (project manager) and the execution of investigations, with reference to the functions envisaged by current regulations, for the extension of the M5 line from Bignami to Monza.

The total amount for said activities is € 12,616 thousand.

MM estimated that the maximum duration of all activities will be 34 months, of which 12 months for the technical and financial feasibility study and 20 months for the final design.

On 4 October 2017, the Municipality of Milan entrusted MM with the task of drafting the technical and financial feasibility project and final design, for safety coordination during the design phase, assistance to the RUP (project manager) and the execution of investigations, with reference to the functions envisaged by current regulations, for the extension of the M1 line to the west of the Bisceglie branch.

The total amount for said activities is € 6,121 thousand.

MM estimated that the maximum duration of all activities will be 35 months, of which 4 months for the feasibility study, 10 months for the preliminary design and 18 months for the final design.

Upon reviewing the service contract which regulates the relations with MM, the General Manager of the Municipality of Milan, with resolution 155 of 15 November 2016 approved, on an experimental basis, the parameters for determination of the financial offers for the engineering and architecture services. On 30 October 2017, these parameters were further extended to 31 March 2018, that is until the date prior to the updating of service contracts.

In its meeting on 27 October 2017, the Extraordinary Shareholders' Meeting approved the transfer to MM S.p.A. of real estate belonging to the Municipality of Milan, Sole Shareholder, with a consequent € 21,396 thousand share capital increase. The share capital increase was underwritten by the Municipality of Milan in two phases. On 27 October 2017, the first phase was concluded with a capital increase of € 7,550 thousand, while the second phase of € 3,846 thousand was concluded in January 2018, upon expiration of the 60-day standstill period connected to the exercise of the pre-emption right for the assets subject to particular restrictions.

In its annual report on investees dated 30 November 2017, the Mayor of Milan reiterated that during 2017 MM underwent due diligence investigations concerning economic, equity and financial aspects, as well as an

organisational assessment, the outcomes of which were positive. In particular, the Mayor pointed out that MM has a balanced income statement structure and good profitability; he also underlined that the know-how and solidity developed by MM over time should be exploited through the definition of new strategies, also taking advantage of the opportunities offered by the new legislation regarding direct awards between companies belonging to the same group (the Municipality of Milan Group, in this case). The Municipality is in fact assessing the possibility of entrusting to MM activities that could generate positive returns, contributing to full usage of human resources, and it is identifying growth opportunities within the municipal Group and on a metropolitan city scale. MM's strategic role also consists in the possibility to commit its engineering activities and contracting authority services to other Municipality's in-house companies, allowing the Municipality itself to have greater control over the implementation of investments and better economies of scale.

Summary of operations and economic and financial performance

Definition of the alternative performance measures

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

Net investments: this is the sum of investments made in tangible and intangible fixed 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

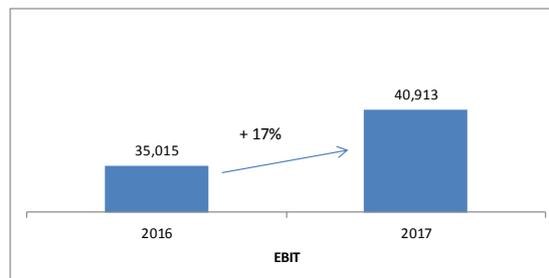
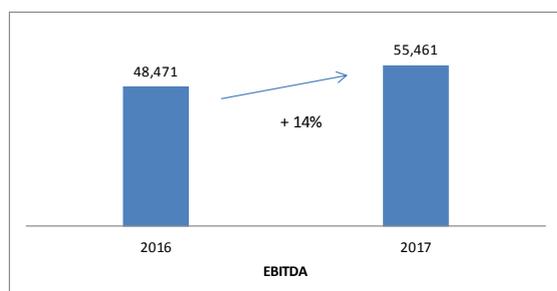
For 2017, the main indicators of MM show growth. Specifically, this year an increase is recorded in EBITDA of 14% and in EBIT of 17%.

Pre-tax profit reflects the above trends with an increase of 11%.

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

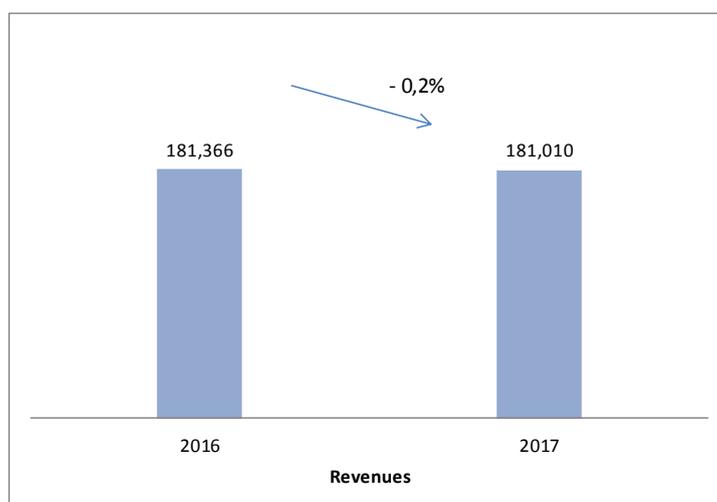
The comparison between 2017 and 2016 is shown in the table below.

| Income Statement | 2017 | % | 2016 | % | Abs. Ch. | % ch. |
|---|---------------|------------|---------------|------------|--------------|------------|
| Revenues | 181,010 | 100% | 181,366 | 100% | (356) | 0% |
| Revenues arising from work on infrastructure subject to service concession arrangements | 32,788 | 18% | 21,485 | 12% | 11,303 | 53% |
| Other operating income | 13,034 | 7% | 9,425 | 5% | 3,609 | 38% |
| Raw materials and consumables | (4,080) | -2% | (3,012) | -2% | (1,068) | 35% |
| Costs for services | (76,819) | -42% | (81,407) | -45% | 4,588 | -6% |
| Other operating expenses | (2,350) | -1% | (3,807) | -2% | 1,457 | -38% |
| Personnel costs | (57,508) | -32% | (55,297) | -30% | (2,211) | 4% |
| Capitalised costs on infrastructure subject to service concession arrangements | (30,612) | -17% | (20,281) | -11% | (10,331) | 51% |
| EBITDA | 55,461 | 31% | 48,471 | 27% | 6,990 | 14% |
| Amortisation/depreciation and provisions | (14,548) | -8% | (13,456) | -7% | (1,092) | 8% |
| EBIT | 40,913 | 23% | 35,015 | 19% | 5,897 | 17% |
| Financial operations | (7,384) | -4% | (4,863) | -3% | (2,521) | 52% |
| Pre-tax profit | 33,529 | 19% | 30,152 | 17% | 3,377 | 11% |
| Taxes | (9,694) | -5% | (12,134) | -7% | 2,440 | -20% |
| Net profit for the year | 23,835 | 13% | 18,018 | 10% | 5,817 | 32% |



In 2017, revenues slightly decreased by 0.2%; this result was the synthesis of trends that differed for each individual business unit as can be seen in the table below:

| Revenues | 31.12.2017 | | 31.12.2016 | | Change | % change |
|--------------------------|----------------|--|----------------|-------|-------------|--------------|
| Integrated Water Service | 143,603 | 79.3% ▲ | 140,337 | 77.4% | 3,266 | 2% |
| Engineering | 23,992 | 13.3% ▲ | 26,630 | 14.7% | -2,638 | -10% |
| Housing | 11,066 | 6.1% ▲ | 11,711 | 6.5% | -644 | -6% |
| Real Estate and Networks | 2,348 | 1.3% ▲ | 2,687 | 1.5% | -340 | -13% |
| Total | 181,010 | | 181,366 | | -356 | -0.2% |



Other operating revenues increased by 3,609 thousand Euro compared to 2016, as a result of the greater values mainly relating to the IWS, due to the capitalisation of labour and other income and services.

Costs for raw materials and consumables increased, compared to 2016, by 1,068 thousand Euro (35%). This increase was mainly due to the purchases of materials relating to the Integrated Water Service.

Costs for services were down 4,588 thousand Euro, making for a 6% change. This change is mainly due to the lower recourse to external specialised engineering services, lower electricity costs for the Integrated Water Service distribution and water treatment activities and to lower costs for outsourced water treatment

services.

Other operating expenses decreased by 1,457 thousand Euro compared to 2016, a 38% change.

Labour cost increased due to the hiring of new resources.

| Labour cost | 31.12.2017 | 31.12.2016 | Change | % change |
|--|-------------------|-------------------|---------------|-----------------|
| Integrated Water Service Business Unit | 21,829 | 21,168 | 661 | 3% |
| Engineering Business Unit | 17,576 | 15,158 | 2,418 | 16% |
| Housing Business Unit | 4,204 | 3,681 | 523 | 14% |
| Management and Central Departments | 11,354 | 10,497 | 857 | 8% |
| Total labour cost gross of capitalised costs | 54,963 | 50,504 | 4,459 | 9% |
| Other labour costs | 2,545 | 4,794 | -2,249 | -47% |
| Total personnel costs | 57,508 | 55,297 | 2,211 | 4% |

Other personnel costs include indemnities connected to a voluntary redundancy plan agreed with employees.

Given the above dynamics, EBITDA increased by 6,990 thousand Euro (14%). This growth is mainly due to the good performance of the Integrated Water Service business unit.

Amortisation/depreciation and provisions were basically in line with 2016.

The balance of financial operations increased by 2,521 thousand Euro also as a result of the interest on the Bond which affects the whole 2017. In 2016 the loan disbursement occurred towards the end of the year.

Period taxes decreased by 2,440 thousand Euro.

Period net profit was therefore up 5,817 thousand Euro.

Equity and financial results

The analysis and comparison for the years 2017 and 2016 is shown in the table below:

| Invested Capital and Sources of Financing | 31.12.2017 | <i>Inc. %</i> | 31.12.2016 | <i>Inc. %</i> | Abs. Ch. | <i>Ch. %</i> |
|--|--|---|-------------------|---------------|-----------------|--------------|
| Net fixed assets | 277,253 | 88.0%  | 267,142 | 92.1% | 10,111 | 3.8% |
| Net working capital | 50,590 | 16.1%  | 34,135 | 11.8% | 16,455 | 48.2% |
| Provisions | (12,903) | -4.1%  | (11,358) | -3.9% | (1,545) | 13.6% |
| Net Invested Capital | 314,940  | 100.0% | 289,919 | 100.0% | 25,021 | 8.6% |
| Equity | (177,797) | 56.5% | (144,241) | -49.8% | (33,557) | 23.3% |
| Long-term financial payables | (164,180) | 52.1% | (163,538) | -56.4% | (642) | 0.4% |
| Short-term net financial position | 27,038 | -8.6% | 17,861 | 6.2% | 9,177 | 51.4% |
| Total Sources of Financing | (314,940) | 100.0% | (289,919) | -100.0% | (25,021) | 8.6% |

Net invested capital at end 2017 was equal to 314,940 thousand Euro. This was due to the increase in net fixed assets, in turn a consequence of the investments of the Integrated Water Service and the net working capital increasing from 34,135 thousand Euro to 50,590 thousand Euro.

Gross investments broken down by business area are as follows:

| Total investments | 31.12.2017 | 31.12.2016 | Abs. Ch. |
|--|-------------------|-------------------|-----------------|
| Integrated Water Service Business Unit | 34,702 | 21,805 | 12,897 |
| Engineering Business Unit | 495 | 195 | 300 |
| Housing Business Unit | 461 | 381 | 80 |
| Real Estate and Networks Business Unit | (583) | 0 | (583) |
| Total net investments | 35,075 | 22,381 | 12,694 |

At end 2017, equity amounted to 177,797 thousand Euro, showing growth thanks to the good operating result booked for 2017 and for the completion of the first phase of the transfer of real estate that resulted in a capital increase of 7,550 thousand Euro.

Analysis of the financial structure

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

| | Net financial indebtedness | 31.12.2017 | 31.12.2016 |
|-------|--|------------|------------|
| 1 | Cash and cash equivalents | 90,915 | 85,594 |
| 2 | Current bank debt | (63,878) | (67,733) |
| 3=1+2 | Net current financial indebtedness | 27,038 | 17,861 |
| 4 | Non-current bank debt and bonds issued | (164,180) | (163,538) |
| 5=3+4 | Net financial position | (137,143) | (145,677) |

The comprehensive value of the net financial position as at 31 December 2017 was 137,143 thousand Euro, down 8,534 thousand Euro compared to the previous year.

Net current financial indebtedness went from 17,861 thousand Euro to 27,038 thousand Euro.

As at 31 December 2017, the medium/long-term debt mainly consisted of the bond issued on the European market and listed on the Dublin stock exchange, maturing in 2035, 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 financing contract, 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.

Financial covenants are the following:

- Net Financial Position/EBITDA \leq **4.5** - 2017 value **2.5**
- Net Financial Position/Fixed Assets \leq **70%** - 2017 value **52%**

- EBITDA/Finance Costs \geq **4.5** - 2017 value **7.0**

They are broken down as follows:

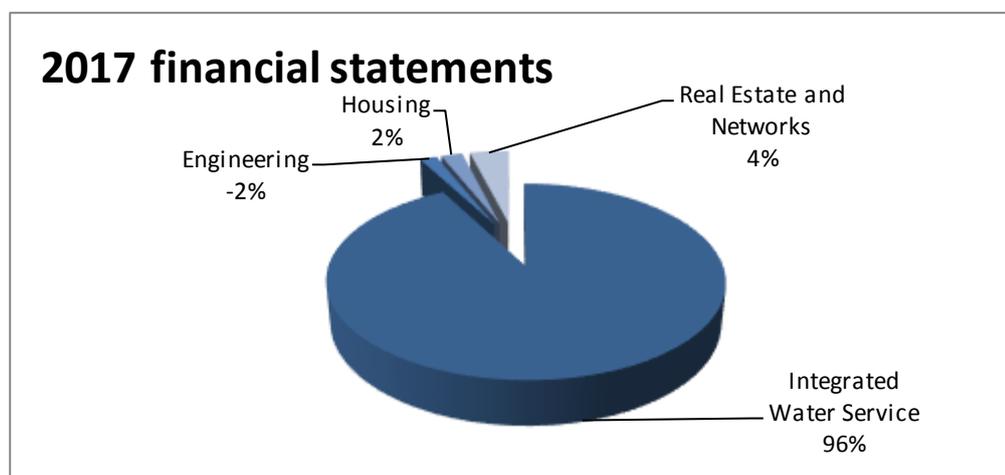
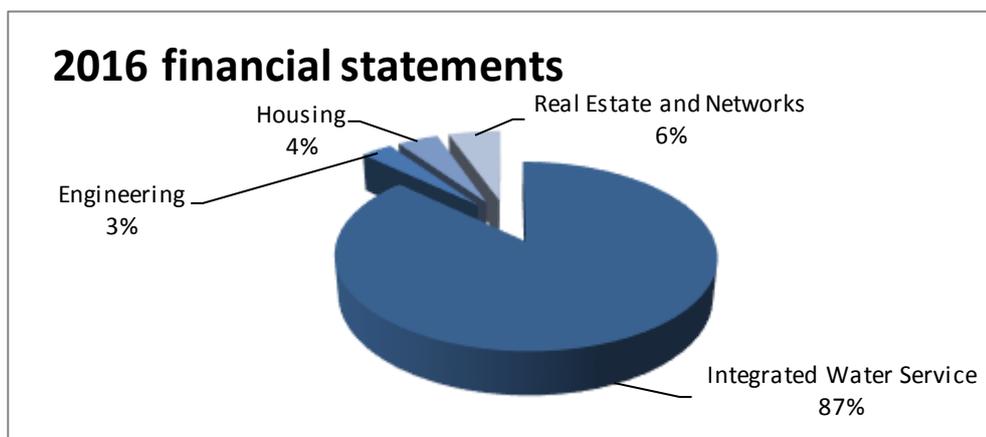
| | 2017 |
|--|----------------|
| Operating Profit (Loss) | 40,913 |
| Amortisation/depreciation, impairment and other provisions | 14,548 |
| EBITDA | <u>55,461</u> |
| Non-current financial liabilities | 164,180 |
| Current financial liabilities | 63,878 |
| Cash and cash equivalents | (90,915) |
| NET FINANCIAL POSITION | <u>137,143</u> |
| Rights over the infrastructure relating to service concession arrangements | 213,335 |
| Other intangible assets | 2,368 |
| Property, Plant and Equipment | 48,140 |
| <i>Financial fixed assets (Guarantee deposits)</i> | <u>133</u> |
| TOTAL FIXED ASSETS | <u>263,976</u> |
| FINANCE COSTS | 7,942 |

Analysis by strategic business areas

Below is an analysis of the operating results achieved in the different business areas:

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

| EBITDA | 31.12.2017 | 31.12.2016 | Change | % change |
|--------------------------|-------------------|-------------------|---------------|-----------------|
| Integrated Water Service | 52,936 | 42,165 | 10,771 | 26% |
| Engineering | -974 | 1,591 | -2,565 | -161% |
| Housing | 1,242 | 2,088 | -846 | -41% |
| Real Estate and Networks | 2,257 | 2,627 | -370 | -14% |
| Total | 55,461 | 48,471 | 6,990 | 14% |



Integrated Water Service

The business unit is organised in three Departments assigned with specific tasks concerning the management of water infrastructures, in addition to one staff department dedicated to various services, including inventories and customer management.

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

The Water Supply System Department organised its activities in such a way as to guarantee, also in 2016, a high level of efficiency of the service carried out for the city of Milan, as certified by the values of the reference operating parameters of the technical regulations of the Optimal Territorial Area (ATO), and especially by the continuity and regularity of the distribution service to the city's users.

The Wastewater Department manages the collection, conveyance and treatment service of wastewater coming from the territory of the Municipality of Milan and its plants, as well as the culvert grating of the town's watercourses. During 2017, the activities carried out by the Wastewater Department mainly aimed at ensuring the continuity and quality of the service and protecting the environment.

The Regulation and Relations with Institutions Department is responsible for institutional relations with the Municipality of Milan, the Optimal Territorial Area office of the Metropolitan City, and with the Italian Regulatory Authority for Electricity Gas and Water.

| Water Service Business Unit | 31.12.2017 | 31.12.2016 | Change | % change |
|--|-------------------|-------------------|---------------|-----------------|
| Revenues | 187,346 | 169,965 | 17,381 | 10% |
| Costs | 134,410 | 127,801 | 6,610 | 5% |
| EBITDA | 52,936 | 42,165 | 10,771 | 26% |
| <i>% on revenues</i> | <i>28.3%</i> | <i>24.8%</i> | | |
| Amortisation/depreciation and provisions | -11,044 | -10,212 | -832 | 8% |
| Operating profit (loss) | 41,892 | 31,953 | 9,940 | 31% |
| <i>% on revenues</i> | <i>22.4%</i> | <i>18.8%</i> | | |
| Investments | 34,702 | 21,805 | 12,897 | 59% |

In 2017, the Integrated Water Service Business Unit recorded growth on 2016, both in terms of EBITDA and as absolute value of the business. 2016 is the second year of application of the water tariff method defined by ARERA for 2016-2019.

The volumes supplied via waterworks were substantially in line with 2016.

The unbilled water indicator, which is representative of the effectiveness and efficiency of the distribution system and corresponds to the physical and administrative losses of the civil waterworks, is in line with 2016.

Revenues increased by 17,381 thousand Euro (10%), Mainly due to the lower allocation to the FoNI (Fund for New Investments), amounting to 4,562 thousand Euro (it should be noted that the 2016 FoNI allocation included arrangements related to previous years), and higher revenues for work on infrastructure subject to service concession arrangements for 11,304 thousand Euro.

Operating costs increased by 6,610 thousand Euro, mainly due to the rise in costs arising from work on infrastructure subject to service concession arrangements (10,331 thousand Euro) offset by the reduction of electricity costs and wastewater treatment services costs.

EBITDA increased by 10,771 thousand Euro (26%), going from 42,165 thousand Euro in 2016 to 52,936 thousand Euro in 2017.

Gross investments in the Integrated Water Service amounted to 34,752 thousand Euro, with an increase of 12,947 thousand Euro compared to the previous year.

Interventions in relation to the water service mainly referred to extensions, reclamations and strengthening of networks and plants, as well as to the finalisation of the first instalment of the transfer to MM of real estate belonging to the sole shareholder, the Municipality Milan, with a consequent 7,550 thousand Euro share capital increase.

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

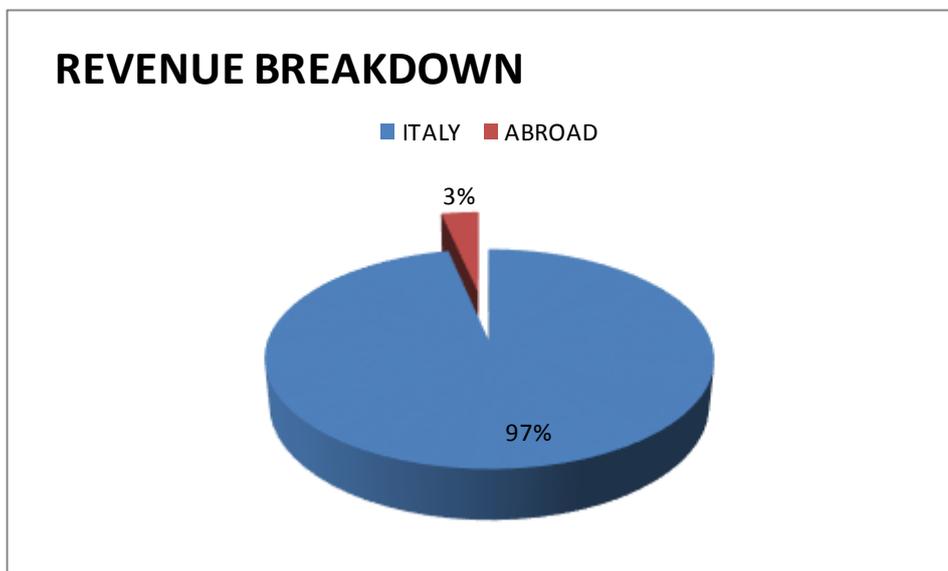
| | 2017 | 2016 |
|--|------------------------------------|------------------------------------|
| Reference territorial area | Municipality of Milan | Municipality of Milan |
| Housing units | Approx. 700,000 | Approx. 700,000 |
| Resident inhabitants | 1,397,419 | 1,377,380 |
| Demand | Approx. 2,000,000 Users | Approx. 2,000,000 Users |
| Water released into the network (millions of m3/year) | 225 | 224 |
| Total water billed (millions of m3/year) | 189 | 186 |
| Water losses | 10.7% | 11.5% |
| Total length of water distribution networks (km) | 2,230 | 2,130 |
| Length of supply networks (km) | 98.6 | 98.6 |
| Total wells (no.) | 587 | 587 |
| Length of sewer networks (km) | 1,579.1 | 1,560.8 |
| Water treatment plants (no.) | 2 | 2 |
| Water treatment plant capacity (population equivalent) | 2,286,000 | 2,300,000 |
| Drinking water analysis | | |
| Number of samples | 19,666 | 17,809 |
| Number of parameters | 175,852 | 250,799 |
| Conformity percentage | 99.66% | 99.56% |
| Wastewater analysis | | |
| Number of samples | 11,140 | 11,440 |
| Number of analytical determinations | 54,258 | 54,258 |
| Conformity percentage (only on discharge) | 100% | 100% |
| Pro capita daily supply (l/inhab./day) | 0.440 | 0.445 |
| 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 1,000,000 p.e. | | |
| Plants over 1,000,000 p.e. | 2 | 2 |
| Wastewater treatment values | | |
| Volumes treated entering and leaving plant (millions of m3) | 227 | 238 |
| Volumes used for crop watering (millions of m3) | 94 | 86 |
| Percentage removal of BOD5 pollutants | 96% | 99% |
| Percentage removal of SST pollutants | 97% | 99% |
| Percentage removal of total Nitrogen pollutants | 79% | 79% |
| Percentage removal of total Phosphor pollutants | 73% | 72% |
| Volume of sludge for disposal in agriculture (thousands of tonnes) | 55 | 48 |
| Volume of sludge to be used as fuel in cement factories (thousands of tonnes) | 6 | 8 |
| Theoretical calculation of the dried volume sent to cement factories, transformed into equivalent of dehydrated sludge for agriculture (thousands of tonnes) | 22 | 29 |

Engineering

The Business Unit is organised into two departments that monitor the whole order chain from the project through to acceptance testing, one dedicated to Infrastructure, Construction and Waterworks (hereinafter “DIEI”) and one to Mobility Systems (hereinafter “DSMO”). To complete the Business Unit, there is also the M4 Project Department (hereinafter “DPM4”), which manages and coordinates the Works Supervision and Safety Coordination activities during construction of Line 4 of the Milan underground railway, the Engineering Services function, technical staff dedicated to the Business Unit, and, finally, a Commercial Department, in charge of national and international development.

| Engineering Business Unit | 31.12.2017 | 31.12.2016 | Change | % change |
|--|-------------------|-------------------|---------------|-----------------|
| Revenues | 26,021 | 27,855 | -1,834 | -7% |
| Costs | 26,994 | 26,264 | 730 | 3% |
| EBITDA | -974 | 1,591 | -2,564 | -161% |
| <i>% on revenues</i> | <i>-3.7%</i> | <i>5.7%</i> | | |
| Amortisation/depreciation and provisions | 1,098 | 838 | 261 | 31% |
| Operating profit (loss) | -2,072 | 753 | -2,825 | -375% |
| <i>% on revenues</i> | <i>-8.0%</i> | <i>2.7%</i> | | |
| Investments | 495 | 195 | 300 | 154% |

| <i>amounts in €/000</i> | 2017 financial statements | % | 2016 financial statements | % | DELTA |
|---------------------------------|----------------------------------|------------|----------------------------------|-------------|----------------|
| DIEI | 9,749 | 37% | 15,803 | 59% | - 6,054 |
| DSMO | 3,606 | 14% | 6,804 | 26% | - 3,198 |
| DPM4 | 4,035 | 15% | 2,109 | 8% | 1,926 |
| total | 17,390 | 65% | 24,716 | 93% | - 7,326 |
| Sundry | 2,316 | 9% | 260 | 1% | 2,056 |
| Metro Engineering | 176 | 1% | 316 | 1% | - 140 |
| Napoli Metro Engineering | 3,661 | 14% | 836 | 3% | 2,825 |
| Romania | 447 | | 501 | | |
| TOTAL | 23,992 | 90% | 26,630 | 100% | - 2,638 |
| Other revenues | 2,029 | | 1,225 | | 804 |
| Total revenues | 26,021 | | 27,855 | | - 1,834 |



INFRASTRUCTURE, CONSTRUCTION AND HYDRAULIC PROJECTS DEPARTMENT

The most significant revenues of the Department are linked to the numerous activities connected with the post-Expo phase, both with reference to the appointments assigned directly by the company Expo 2015 and those awarded by the company Arexpo, for works/activities connected with the dismantling phase, the maintenance and keeping efficient of the site buildings/plants, and the study of how to make it usable again in the future, for other activities, as well as for the attenuation tank of the floods of the Seveso river.

The engineering activities related to the extraordinary maintenance of the public housing property, whose management was entrusted to MM at the end of 2014, continued. In particular, further steps were taken in the development of the projects for the extraordinary maintenance and recovery of vacant apartments envisaged by the Three-year Plan of the Municipality of Milan and entrusted to MM Engineering for the design and implementation.

Total revenues are mainly related to the following interventions:

- ❖ Regarding technical-administrative activities and engineering Services connected to Expo 2015 and Arexpo:
 - activities connected with the Agreement and the relevant supplementary deeds relating to the construction of the Expo site, including design activity, works supervision, safety coordination at the project and execution stage;
 - activities and investigations related to the Expo 2015 Environmental Observatory, integration of water and land monitoring campaign;
 - technical services necessary to Arexpo for the so-called “fast post Expo” phase, for the maintenance and return to function (design, works supervision and safety coordination) of the site buildings/plants (specifically, the establishment of *Istituto Italiano di Tecnologia*, the Italian Institute of Technology);
 - completion of works relating to the Zara-EXPO connecting road (lots 1A-1B).
 - completion of the disposal of the mounds from the excavations for the realisation of the now concluded Lot 1B of the Zara-Expo connecting road.
- ❖ Regarding technical administrative activities and engineering services connected to the Extraordinary Plan of priorities for interventions on the Public Housing Property:
 - La Spezia neighbourhood;
 - Via Santi 6-8 II° lot;

- Via Cilea 118/120;
 - Via Saint Bon;
 - extraordinary maintenance works in Via Giuffrè and Via Villani;
 - Saint Bon neighbourhood - extraordinary maintenance works;
 - PON Metro MI4.2.1.a “Connecting Neighbourhoods” action;
 - interventions for the conversion of diesel thermal power stations;
 - restoration of vacant apartments (various interventions on several framework agreements and lots).
- ❖ In relation to technical and administrative activities and engineering services connected to non-residential construction:
- obtaining fire safety certificates (CPI) for the buildings owned by the Municipality of Milan (Civic Aquarium, Contemporary Art Pavilion, Gallery of Modern Art);
 - interventions to ensure the safety of Villa Caimi and expansion of Villa Scheibler park;
 - kindergarten in Via Narcisi (designed with BIM);
 - secondary school in Via Adriano (designed with BIM);
 - Recovery and conversion works on the Cascina Nosedo building located in Via San Dionigi 78;
 - technical assessment of the sport facilities assigned to private entities on a concession basis in Via Sismonidi 8 and Via Ciclamini 20 (Agora ice rink);
 - technical assessment of the Municipality of Milan’s sport facilities managed by Milano Sport;
 - preliminary document relating to the design of the Library of Via Odazio for publication of Contest for design ideas.
- ❖ Regarding technical-administrative activities and engineering services connected to the environment:
- Via Idro (nomad camp area);
 - Via Martirano 71;
 - Via Selvanesco (risk analysis);
 - Porto di Mare (biogas removal and securing of the underground water table);
 - Lunetta;
 - Via Giambellino 129;

- reclamation and construction of the parking lot in the Bignami area.
- ❖ In relation to technical & administrative activities and engineering services connected to other works:
 - attenuation tank of the floods of the Seveso river located at Parco Nord Milano;
 - consolidation of Cavo Redefossi, lot 1 and lot 2;
 - reconnection of plumbing and opening of the 5 sections of the Naviglio Inner Ditch;
 - stretches of water in the Indro Montanelli public park - phase 1;
 - stretches of water in the Sempione public park - phase 1;
 - renovation of the Martesana culvert grating.

The revenues concerning the execution stage (works supervision and safety coordination during construction) are related to the state of progress of the construction sites.

For engineering, the following construction sites were started and/or continued during 2017, in addition to those already mentioned with reference to Expo/Areexpo:

- ❖ creation of Parco Vettabbia;
- ❖ reclamation of material containing asbestos and artificial glass fibres in the complex in via Adriano 60 (completed);
- ❖ reclamation of the Cascina San Giuseppe area;
- ❖ reclamation of the Viale Toscana Lot 1 area;
- ❖ reclamation works in the area of the former car wash in Via Crispi 20;
- ❖ Gathering of data on the presence of asbestos in the underground lines (Lines 2 and 3 completed, Line 1 in the early stage);
- ❖ works for “Zona 30” in the Solari-Tortona area (completed);
- ❖ construction of the Brera-Verdi cycle lane (completed);
- ❖ restructuring of the municipal buildings of via Monviso 6;
- ❖ execution of reclamation works for Lot 1A of the Bovisa Gasometri Area (suspended);
- ❖ creation of the Public Park envisaged within part “B” of the Integrated Intervention Programme called “Adriano Marelli/Cascina San Giuseppe”.
- ❖ ground-level park and ride facility in piazza Abbiategrasso M2;
- ❖ operational management for the reconstruction of the elementary school in Via Ugo Pisa 1, renovation of the school in Viale Puglie, renovation of the school in Via Hermada;
- ❖ urgent interventions for ensuring safety, soil consolidation and hydro-geological redevelopment of the area near the “I Rondinini” Vacation House in Ghiffa (VB).

Part of these construction sites are now being completed or are expected to be completed at the beginning of 2018.

Moreover, with reference to public housing property, the following construction sites were started:

- ❖ extraordinary maintenance of public housing property, recovery of vacant apartments (execution of several framework agreements, also divided into lots, through detailed executive contracts, also with funding from Regione Lombardia);
- ❖ contracts applied in relation to the Framework agreement for the development of the Extraordinary Plan of priorities for interventions on the public housing property:
 - completion of the extraordinary maintenance works on the properties owned by the Municipality of Milan in the La Spezia neighbourhood, via Rimini 21-29;
 - restoration of properties damaged by fire.

As regards internal work orders for the Integrated Water Service, the following projects were developed and completed during the year:

- ❖ executive design for the adaptation of the sewer system in via Bardolino;
- ❖ executive design for the adaptation of the sewer system in via Cassinisi from Piazza Mistral to the Rogoredo FS station;
- ❖ executive design for the renovation of the 80 x 120 sewer pipeline in via Giambellino from piazza Tirana to the crossroad with via Brunelleschi and via Bellini in Milan;
- ❖ executive design for the renovation and enhancement of the sewer system from P.le Oberdan to Piazza V Giornate (reconstruction of connections).
- ❖ technical documents for the Framework Agreement with a single economic operator for the stipulation of specific contracts for the realisation, adaptation and expansion of the sewer and water networks in Milan, subdivided into four lots;
- ❖ technical documents for the Framework Agreement with a single economic operator for the stipulation of specific contracts for restructuring sewer and water networks in various locations (restoration using the CIPP technique);
- ❖ construction of a new server room for the IWS building in Via Meda/Sforza.

In addition, the following projects were started:

- ❖ executive design for the restructuring and cover of the sewer pipeline Emissario Nosedo from Via S. Dionigi to the intake structure of the wastewater treatment plant Milan Nosedo and integration of the intake structure;

- ❖ executive design for the mechanical and construction restructuring of Suzzani Plant - Second phase interventions;
- ❖ executive design for the construction of sewers $d=0.60$ m in via Mecenate in the section running between numbers 69 and 87;
- ❖ executive design for the enhancement of the waterworks in via Mecenate in the section running between numbers 69 and 87;
- ❖ executive design for the adaptation of the sewer system in via della Chiesa Rossa;
- ❖ executive design for the adaptation of the sewer system in via S. Arialdo;
- ❖ executive design for the construction of sewers in via Valcamonica, extension of the network in via Teocrito, and enhancement of the network in via Val Gardena;
- ❖ executive design for the enhancement of the waterworks in via Val Camonica, via Teocrito and via Val Gardena;
- ❖ executive design for the reconstruction of the sewer pipeline of via Giambellino between Piazza Tirana and via Odazio;
- ❖ executive design for the enhancement of the waterworks in via Giambellino between Piazza Tirana and via Odazio.
- ❖ experimental project for a pilot co-generation plant connected to the A.P. Salemi plant.

For the Integrated Water Service, the following construction sites continued/were completed during the year:

- ❖ supply and installation at the drinking water plant in Via Feltre, Milan, of a new nitrate removal plant;
- ❖ realisation of activated carbon filters at the Comasina drinking water plant;
- ❖ renovation of the NPS 1200 water pipelines in Milan, via dei Ciclamini and via Parri;
- ❖ waterproofing of the covering of the Italia and Abbiategrosso drinking water plants (completed);
- ❖ adaptation of protection and measurement systems of the existing wells at the Suzzani drinking water plant (completed);
- ❖ replacement of electrical distribution panels and inverter units (Lot 1) – Tonezza Plant (completed);
- ❖ works protecting the hydraulic functionality of the sewer system – Lot 1 – installation of measuring instruments on flood water spillways and on catcher watercourses;
- ❖ static consolidation of the sewer pipeline in via Millelire from Piazza Melozzo da Forlì to via S. Nabore e Felice (completed);

- ❖ static consolidation of the sewer pipeline in via Boifava from via S. Giacomo to via Dei Missaglia (completed);
- ❖ static consolidation of the sewer pipeline in via Marostica from via Moncalvo to via Bezzi (completed);
- ❖ security system in drinking water plants (completed);
- ❖ enhancement of the sewer system in via Rombon, Canelli and neighbouring streets (completed);
- ❖ connection of water pipelines in via Stephenson (completed);
- ❖ installation of activated carbon filters at the Assiano drinking water plant (completed);
- ❖ redevelopment of the Spazio Acqua building in via Cenisio 39;
- ❖ displacement of the water pipelines from the motorway Boffalora flyover - Cantalupa Ovest service area stretch.
- ❖ reinstatement of the NPS 700 drinking water pipeline in viale Suzzani - section from via Siderno to via Racconigi;
- ❖ static consolidation of the sewer pipeline in via Fatebenefratelli from via De Marchi to Piazza Cavour;
- ❖ sewer system reconstruction in via Caterina da Forlì between via Desenzano and piazzale Giovanni dalle Bande Nere;
- ❖ renovation of the 80 x 120 sewer pipeline in via Diomede from via Arenzano to via Caprilli (completed);
- ❖ renovation of the 100 x 130 sewer pipeline in via Cola di Rienzo from via Stendhal to piazza Napoli (completed);
- ❖ adaptation of the sewer system in Via Sordello Luigi (completed);
- ❖ adaptation of the sewer system in Via San Dionigi (completed);
- ❖ enhancement of waterworks in via San Dionigi and via Ravenna (completed);
- ❖ enhancement of the sewer system in via Scutari from via Prinetti to via Padova (completed);
- ❖ extension of waterworks in via Scutari from via Prinetti to via Padova (completed);

As a design activity within MM, the design of the following was started:

- ❖ renovation of the building in via Monviso 10 that will become a new office complex of the Company;
- ❖ renovation of the building in via del Vecchio Politecnico 8, MM's main office (designed with BIM);
- ❖ new building set to house the analysis laboratory of the Waterworks in via Gandino;
- ❖ warehouses of via Meda, for future re-use.

MOBILITY SYSTEMS DESIGN AND CONSTRUCTION DEPARTMENT

In-house activities for the Municipality of Milan

During 2016, a significant portion of the engineering activities of the department were dedicated to providing technical support to the Municipality of Milan for the realisation of the M4 underground railway line.

In 2017, this project assignment changed radically due to the decisions of the Municipality of Milan that - in order to comply with specific indications of the National Anti-corruption Authority (ANAC) regarding the overall structure of the organisation for the management of construction works on line M4 - revoked the technical support contract, effective as of 1 May 2017, and then reassigned it to AMAT, an in-house body of the Municipality of Milan, authorising AMAT to stipulate two agreements with MM, in order to ensure the continuity of the service:

- ❖ an agreement for secondment of staff, consisting of 10 specialised employees, to form the core of the work group dedicated to providing technical support to the Grantor; the department manager is included among the specialised employees seconded by MM; he reports directly to the CEO of AMAT;
- ❖ an agreement for provision by MM's specialised staff of technical support covering specific aspects that characterise the project for the construction of Line M4, and relating in particular to: rolling stock, system equipment (signalling/automation, platform automatic doors, electric traction, telecommunications, SCADA, etc.) layout, railway superstructure, ventilation systems and fire prevention issues, escalators and elevators, depot equipment, finishings and technical support to the Safety Commission appointed by the Ministry of Infrastructure and Transportation.

Therefore, in terms of 2017 revenues, the following two work orders relating to line M4 must be taken into account:

- ❖ for the first 4 months of the year, the activities indicated in the prior assignment were carried out; the consideration due for the activity carried out until the revocation date is established, as indicated in the assignment itself, "*based on the activities carried out for the Municipality of Milan, until the date of termination*";

- for the subsequent 8 months of the year, a new work order was opened relating to the agreement with AMAT for the provision of specialised technical support service by MM's staff, operating within MM's organisation.

Moreover, with regard to the effects on the financial statements, it should be considered that from the beginning of May 2017, 10 employees were seconded to AMAT and were completely dedicated to providing technical support to the Grantor; since secondment rules provide that the cost for the seconded staff must be entirely borne by AMAT, this new structure resulted in an essential decrease of personnel costs for the Department.

Regarding design work, herebelow are the main orders in terms of revenues for 2017:

- the feasibility study for the extension of M5 underground railway line was completed; pursuant to the outcome of the study it was possible for the technical-political roundtable, with the participation of all involved Administrations, to select the layout of the extension to the north, in the municipalities of Cinisello Balsamo and Monza;
- following the above-mentioned definition of the layout for the extension to Monza of M5 underground railway line, the State released, as part of the so-called "*Patto per Milano*" (Pact for Milan), the financing for the initial design phases (Technical and Financial Feasibility Project and Final Design) for this significant work, which consists of 11 or 12 stations and a depot/workshop, with a total length of approximately 13 km, almost all underground; therefore, in October 2017 the Municipality of Milan ordered MM to prepare the Technical and Financial Feasibility Project and the Final Design; as a result, design activities and preliminary investigations on the territory began in the last part of the year;
- again as part of the so-called "*Patto per Milano*", the State provided financing to cover also the design (Technical and Financial Feasibility Project and Final Design) of the M1 underground railway line extension, to extend beyond the present terminus at Bisceglie toward the highly-populated Baggio and Olmi neighbourhoods in the Municipality of Milan, with possible positive effects for the municipalities in the Milanese hinterland, particularly the municipalities of Cesano Boscone and Settimo Milanese; this extension is expected to be approximately 3.5 km long, with 3 or 4 stations and a depot/hangar; the initial phase of the Technical and Financial Feasibility Project

began in the final months of 2017, with the aim of defining possible layout alternatives and their comparative valuation in terms of cost/benefit analysis;

- on behalf of the Municipality of Milan, following an agreement between the Metropolitan City and the local authorities concerned, the Final Design and, subsequently, the Executive Design involving partial restructuring interventions were prepared for the elimination of architectonic barriers (by means of addition of lifts, ramps and underpasses) for six stations of the Gessate stretch of Milan Line M2.
- the final and executive designs, including checking for the purposes of validation, was developed for the second phase of the waterproofing of the Piola - Lambrate tunnel of Milan Line M2, under the scope of the hydraulic safeguarding project of said line, which in several points suffers the rise in the underground water table level;
- the Technical and Financial Feasibility Project and Final Design were produced with respect to the first lot of the Anassagora-Adriano tramway extension, which consists in the reclamation of a green area belonging to the Municipality of Milan located at the beginning of the extension itself;
- the Final Design for the second lot of the Anassagora-Adriano tramway extension was completed, which consists in the actual extension work, with 5 stops, an electrical substation and the terminus loop;
- in the final months of 2017, the first phase of the Technical and Financial Feasibility Project was initiated, aimed at defining the possible layout alternatives for the Adriano-Cascina Gobba tramway extension, which is consecutive to the above-described intervention, to complete the eastern section of the so-called "*gronda interperiferica nord*" (north inter-peripheral node);
- the review of the executive design and checking for validation purposes (this latter activity was pursued with the assistance of MM's specialised UTVP function) with reference to the Milano Parco Nord - Seregno fast tramway line continued, as required by the former Province of Milan (now the Metropolitan City) and the Public Works Superintendence of Liguria and Lombardy;
- work connected with the completion of the High Surveillance of the first and second lot of line M5 also continued, whose last stations were opened for operation in November 2015, for the support offered to the Municipal Authority as regards the final closure of technical, approval, contractual and administrative aspects;

- the transport study for the so-called “Segrate-Porta Est Underground Railway Hub”, which is connected to the major private commercial concern to be constructed in that area began; among other things, this study includes the new “Porta Est” station of the Milan railway network and the various alternatives for connecting it with the Linate terminus of M4 Underground Railway Line;
- the first phase, consisting of the assessment of the current state of affairs with respect to the currently applicable fire prevention regulations, was carried out for the 50 underground stations of M1 and M2 Underground Railway Lines, which were constructed prior to 1988 and therefore do not comply with the Decree issued by the Ministry of Transportation in January 1988 on fire prevention in underground railways, which constitutes the retroactive reference for the recent Decree issued by the Ministry of the Interior in October 2015;
- some preliminary design work was carried out on the restructuring of the suburban Milan tramway line (Comasina terminus of M3 Underground Railway Line) – Limbiate.

Regarding the construction phase, the main orders received for Supervision of Works, in terms of revenues for 2017 are the following:

- extension of Line M1 to Monza Bettola, in regard to which Supervision of Works and Coordination of Safety activities are now in the Execution phase; in fact, consequently to the termination of the contract with the previous Contractor in 2015, due to the latter’s serious delays and defaults, once the necessary refinancing was secured for the project (which was required mainly due to the unpredictable abnormal rise in the water table level), in 2017 the contract was re-assigned to another Contractor according to the ranking list of the original tender results; therefore the site became operational again, once the equipment and materials abandoned by the previous Contractor were removed;
- Supervision of Works activities relating to the extension of tramway line 15 in Rozzano continued; conversely to the two previous years, during which production was significantly reduced as a consequence of the termination of the contract with the previous Contractor due to the latter’s serious delays and defaults, in 2017 the site became fully operational again following a new tenders that was called at the end of 2016 based on an updated Executive Design which took particular account of the work still to be executed as compared to the work already completed, besides some

adjustments due to new regulations;

- Supervision of Works activities relating to the Forlanini FS railway station in Milan continued; it opened for operation in May 2015 and final delivery to RFI took place in 2016, so that some final adjustments and contractual issues could be addressed;
- regarding the works for the realisation of the Certosa tramway terminus in Milan, the relevant Supervision of Works and Coordination of Safety at the Execution stage activities continued;
- Supervision of Works activities relating to the new signs in the Passante Railway Link continued up to completion of the intervention.

Activities outside the Municipality of Milan

During 2017, DSMO (the Mobility Systems department) carried out several activities for orders outside the Municipality of Milan, all of which were in foreign countries:

- the preliminary design for certain portions of line 3 of the Lima (Peru) underground railway has been essentially completed, in collaboration with other foreign engineering companies; in the final months of 2017, a dispute arose - for reasons not due to MM - between the Principal in Lima and the consortium of designers, which moved the activities inherent in this order from the technical-operational level to the legal level;
- supervision of the execution design stage for the track equipment of the new underground railway of Riyadh (Saudi Arabia) continued;
- preparation of the RAMS study in support of the design choices and the choice of track components for the track equipment of the new underground railway of Riyadh continued;
- following new actions in Asia pursued by MM's Commercial Department, work began on an order for specialised consultancy for an Indian Engineering Company, regarding the design of track equipment, along with the relevant impact on noise and vibrations, for the Mumbai (India) underground railway;
- finally, the activities initially undertaken by the former subsidiary Metro Engineering (which has now been incorporated) for the pursuit of the execution design order of the track equipment of the automatic light underground railway line of Salonica (Greece) continued.

Activities in the Municipality of Naples

On 27 December 2017, Napoli Metro Engineering S.r.l. was incorporated into MM. Until that date, the incorporated company managed the activities relating to orders for Line 1 and Line 6 of the Naples underground railway.

Such assignments had been entrusted to MM by Società Concessionaria Metropolitana di Napoli S.p.A. with:

- agreement of 23 June 1976 and subsequent supplementary deeds for Line 1;
- supplementary deed of 19 February 2004 for Line 6.

With the supplementary deed of 28 October 2005, the assignment for the design and supervision of works for the extension of line 1 to the airport of Capodichino was extended to MM.

In 2008, in order to standardise the supervision of works of the interchange junction of Piazza Municipio, the Concessionaire of Line 6 Ansaldo S.T.S. entrusted MM with the Supervision of Works falling under the said interchange junction.

The operating structure in charge of the orders underlying the aforementioned work has been present in Naples since 1976 and is currently named “Progettazione e Costruzione Napoli” (Naples Design and Construction). Within MM’s organisation, this structure is part of the Engineering Business Unit and reports to the Mobility Systems Department.

The current development of Line 1 is 18.5 Km with 19 stations, 18 of which in operation.

The works currently underway concern the completion of the mezzanine floor of the Municipio station with the connection underpass to the Marine Station, and the Duomo station, where in previous years there have been significant archaeological finds that resulted in a significant slowdown of works. The updated works schedule provides for partial activation of the Duomo station in March 2019 and completion of the latter and of the Municipio station by 2021.

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 Euro; the project envisages a development of approximately 3.3 Km with 4 stations, an underground structure for winter storing rolling stock and a park and drive facility located at the Capodichino station. On 27 November 2014, the first works related to the Centro Direzionale station were delivered, followed by the delivery of the works of the Capodichino, Poggioreale and Tribunale stations, with their related tunnels. Due to the delays already occurred relating to the delivery and acquisition of the areas of intervention, activation

of this stretch will take place in 2021.

Line 6 of the underground railway of Naples envisages a development of 6.4 Km and 8 stations. To date, the first functional stretch of 2.6 Km with 4 stations is in operation. Currently the Mergellina-Municipio stretch is under construction. Completion of the work is expected in 2019.

2017 net revenues are in line with 2016 figures. Compared to previous years, the decrease in revenues is confirmed, due to the completion phase of works on the Dante-Garibaldi stretch. This decrease has no particular impact on margins as it is offset by the reduction in costs for outsourced technical services that are measured as a percentage of the amounts of the designed and realised works.

Almost all line 1 and line 6 orders proceeded in line with budget. The only variations involve the orders relating to the new CDN-Capodichino stretch. In fact, with respect to these orders there was:

- a greater progress in relation to the Supervision of Works due to the complete setting up of the sites for the works between CDN and Poggioreale and the relative realisation of barriers and excavations which constitute a significant portion of the value of these works;
- a lesser progress in terms of Design activities due to the failure to initiate the design for the works downstream the Capodichino station.

A slight decrease in revenues, which has already been witnessed in recent years, is expected also for 2018, but in any case it will be offset by the consequent lesser expenses for outsourced technical services.

MILAN LINE M4 PROJECT DEPARTMENT (DPM4)

As of 1 April 2016, date on which the new “Company Organisation” was established, the new Milan Line M4 Project Department (DPM4) was set up, which took over the responsibility for managing the activities assigned to MM S.p.A. in relation to Supervision of Works and Coordination of Safety in the Execution Phase and Site Manager; from June 2017 and in compliance with the indications provided by the National Anti-corruption Authority, it is under the direct and functional control of Società Concessionaria SPV Linea M4 S.p.A., established on 16 December 2014, followed on 22 December 2014, by the conclusion of the Concession Agreement between the latter and the Grantor, i.e. the Municipality of Milan, for the Design, Construction and Operation of Milan Line 4 underground railway

MM S.p.A.’s Supervision of Works activities began in the initial months of 2012, with full entitlement following the specific assignment granted by the Municipality of Milan in compliance with the tender specifications that provided for the latter’s direct and functional control in its capacity as the Grantor, but

which preceded the requirements set by the National Anti-corruption Authority.

The progress of works resulted, since March 2012, in a growth trend of staff involved in Supervision of Works activities up to the point reached in 2017, which should be considered as the maximum level that guarantees the performance of activities on all the city sites affected by the layout of the line, that is now approximately 15 km long and consists of 21 stations and 30 line items in addition to the San Cristoforo depot.

Therefore, this made it possible to progressively employ new staff, considering also that the completion of the work will not take place in the first half of 2022 as was originally intended, i.e. 88 months after the conclusion of the Concession Agreement, though it will certainly take place during 2023, providing however the early opening of Functional Stretches, and therefore the entire duration for realisation of the work, from March 2012, is 132 months compared to the 72 months originally foreseen.

To date the amount for Supervision of Works activities, set at approximately 20 million Euro, will be updated to also reflect the extended operations period.

As part of this work, activities for Coordination of Safety in the Execution Phase and the appointment as Site Manager, assigned in June 2015, continued all through 2017.

Housing

The municipal housing property currently includes 39,049 property units of which about 1,500 located in neighbouring municipalities.

2017 saw a consolidation of the management of public housing property. However, actions remain to be finalised aimed at improving quality of service and which will entail additional interventions on the processes and organisational structure (new offices in the territory, development of CRM, etc.).

In order to ensure an adequate support to the users, a toll free number is active, available day and night, seven days a week, which answers questions on administrative practices and collects reports and/or requests, if any.

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 users and manage the technical aspects of routine maintenance. During 2015, other local offices were set up in other areas of the city: South East Office in via Spaventa, South West Office in via Forze Armate in addition to the office in piazzetta Capuana.

In 2016, the office of via Borsieri was opened, making for a total of six operating offices in the territory. Alongside the Housing Business Unit, the specialised personnel of MM belonging to the Security Function has the task of monitoring the buildings managed in order to report the need for intervention, the risks of squatting, and the different potential dangers. The prevention of squatting is the first task to be performed by the Function, and is carried out together with the Police.

| Housing Business Unit | 31.12.2017 | 31.12.2016 | Change | % change |
|--|-------------------|-------------------|---------------|-----------------|
| Revenues | 11,117 | 11,757 | -640 | -5% |
| Costs | 9,874 | 9,668 | 207 | 2% |
| EBITDA | 1,242 | 2,089 | -847 | -41% |
| <i>% on revenues</i> | <i>11.2%</i> | <i>17.8%</i> | | |
| Amortisation/depreciation and provisions | 330 | 254 | 75 | 30% |
| Operating profit (loss) | 912 | 1,835 | -922 | -50% |
| <i>% on revenues</i> | <i>8.2%</i> | <i>15.6%</i> | | |
| Investments | 461 | 381 | 80 | 21% |

The decrease in revenues compared to 2016 is due to the decrease in the amount of the variable remuneration related to the KPIs made available by the Municipality of Milan and to the non-remuneration of the activities related to the 2017 consumer register. Costs increased mainly on account of the increase in personnel costs due to completion of the business unit's hiring plan.

Plant and Real Estate Management Business Unit

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

On 24 July 2017, MM and AMSA renewed their lease contract, which will expire on 8 February 2021. The lease rent for the second half of 2017 was set at 1,015 thousand Euro.

| Plant and Real Estate Business Unit | 31.12.2017 | 31.12.2016 | Change | % change |
|--|-------------------|-------------------|---------------|-----------------|
| Revenues | 2,348 | 2,687 | -340 | -12.6% |
| Costs | 91 | 72 | 19 | 26% |
| EBITDA | 2,257 | 2,615 | -358 | -14% |
| <i>% on revenues</i> | <i>96.1%</i> | <i>97.3%</i> | | |
| Amortisation/depreciation and provisions | 2,077 | 2,152 | -75 | -3.51% |
| Operating profit (loss) | 180 | 463 | -283 | -61% |
| <i>% on revenues</i> | <i>7.7%</i> | <i>17.2%</i> | | |
| Investments | -583 | 0 | | |

Significant events after 31 December 2017

On 24 January 2018, following the concerned local public authorities' failure to exercise the pre-emption right within the time limits required by law, MM and the Municipality of Milan signed a deed acknowledging the fulfilment of the conditions for the finalisation of the second instalment of the transfer to MM of real estate belonging to the Municipality of Milan, Sole Shareholder.

The Municipality of Milan then signed the share capital increase of 13,845,657 Euro. Thus, the real-estate transfer total value is 21,396,233 Euro and it constitutes a significant transaction that strengthens the company's equity, with the Share Capital totalling 36,996,233 Euro after the increase.

Upon reviewing the service contract which regulates the relations with MM, the General Manager of the Municipality of Milan (with resolution no. 44 of 30 March 2018) further extended and amended the parameters for determination of the financial offers for the engineering and architecture services as from 1 April 2018.

Business outlook

In the next few months, MM will continue to work hard on the rationalisation and efficiency enhancing of the operational processes of all business units.

These goals will also be pursued through a major development of the information systems.

In fact, in 2018 MM will be involved in the implementation of the new SAP information system for integrated management of the activities of the company's main sectors, in order to review and optimise processes in terms of cost, time and transparency. The project, which will involve many organisational structures and a significant number of employees, also provides for the preparation of an integrated change-management plan that guarantees a path of organisational evolution in line with development requirements.

MM's financial structure is solid for the years to come. The debt is mainly regulated at fixed rates, so as to guarantee protection against any potential rises in interest rates and from any financial or credit volatility.

For 2018, forecasts look to a substantial stability of EBITDA and investments for 67.6 million Euro.

Personnel

As at 31 December 2017, MM's staff numbered 1,124 employees (this number includes 14 employees of the company Napoli Metro Engineering, merged with effect as of 1 January 2017). For MM, moreover, 17 employees work on temporary contracts and 6 through continuous and coordinated contractual relationships ("co.co.co.?).

Between 2016 and 2017, MM included in its staff 7 employees with apprenticeship contracts, planning dedicated training through which the new employees can acquire suitable professional competences for the role and duties they are called to fulfil.

The breakdown of employees by category is as follows:

| Personnel broken down by category | | 2015 | 2016 | 2017 |
|---|------------|--------------|--------------|--------------|
| Senior managers | no. | 31 | 30 | 33 |
| Middle managers | no. | 78 | 74 | 77 |
| White-collar workers | no. | 557 | 664 | 665 |
| Apprentices | no. | - | 5 | 7 |
| Workers | no. | 355 | 342 | 342 |
| Total | no. | 1,021 | 1,115 | 1,124 |
| Trainee contracts | no. | 3 | - | 10 |
| Temporary work contracts | no. | 10 | 13 | 17 |
| Other types of continuous and coordinated contractual relationships | no. | 71 | 5 | 6 |
| Total | no. | 1,105 | 1,133 | 1,157 |

In 2017, the percentage of employees on permanent contracts was equal to 89%, slightly down on 2016.

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 | 2015 | | 2016 | | 2017 | |
|--|--------------|-------------|--------------|-------------|--------------|-------------|
| | Number | % | Number | % | Number | % |
| Permanent contracts | 998 | 98% | 1,006 | 90% | 999 | 89% |
| Fixed-term contracts | 23 | 2% | 109 | 10% | 125 | 11% |
| Total | 1,021 | 100% | 1,115 | 100% | 1,124 | 100% |

The employment campaign, launched some years ago now by MM, continued also in 2017.

Relations with trade unions

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

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

Training

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

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

MM's attention towards employees

MM has always paid close attention to creating a stimulating working environment that is attentive towards the needs of its employees. This is why the Company provides those working for it with numerous benefits. In addition to standard benefits, like meal vouchers, canteen badges and special arrangements with transport companies such as ATM and Trenord, MM offers all its employees a system of medical monitoring that also includes an internal medicine service and the presence of a doctor, on a rotation basis, at the Company's

offices. The “women’s package” is particularly important, offering women working in the company screening tests and preventive medicine, which is recognised as essential and constantly promoted by the World Health Organisation. In the cases envisaged by the law, MM also allows for advances on severance indemnity accrued. The advance also applies to dependent family members.

As evidence of the major focus on its employees, in addition to the disbursement of benefits, MM also prepares a professional valuation and performance assessment route 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. Every year, in fact, all employees meet with their Manager, who, in accordance with his/her superior and under the supervision of the Organisation and Human Resources Department, assesses the objectives achieved and competences learned and developed with respect to that planned the previous year. The 2017, assessment process involved 89% of MM’s employees, with the exception of custodians, for whom no specific assessment system has been implemented.

Since November 2015, MM’s job posting service has been in operation; this service that enables employees to apply directly for jobs that have become available in the Company, taking part in the selection process together with external candidates. In 2017, 35 jobs were posted and 5 employees were chosen for the positions sought.

Welfare within MM

In 2016, MM launched a corporate welfare survey project aimed at identifying ways to make initiatives and services available to all MM’s personnel.

This project involved three main phases.

The first “listening” phase began in October 2016 and its purpose was to detect and analyse personnel needs, identifying the expectations of the various potential targets in order to correctly define corporate welfare decisions.

The second phase, that took place in 2017, concerned the regulatory and tax study for the definition of the Corporate Welfare Plan, which identifies the welfare models and the instruments for the provision of services that best met MM employees’ needs.

In December 2017, MM launched the Welfare Plan with an “on-top provision” for all its employees.

Negotiations are underway with Trade Union Representatives regarding the possibility of voluntary conversion by each employee of the productivity bonus (or a part thereof), subject to the trade unions approval.

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 damaging 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.

2017 data confirm a stabilisation of the injury rates trend:

| A comparison of injury rates | 2015 | 2016 | 2017 |
|---|------|------|------|
| Total injuries | 16 | 12 | 14 |
| Days of absence ¹ | 257 | 132 | 208 |
| Average duration of injuries ² | 16.1 | 11.4 | 14.8 |
| Frequency rate ³ | 12.4 | 9.8 | 7.6 |
| Lost day rate ⁴ | 0.2 | 0.1 | 0.1 |
| Incidence rate ⁵ | 16.3 | 11.4 | 12.1 |

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.

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

¹ Days of absence are consecutive calendar days lost.

² The average duration of injuries is the mathematical average of the number of days of absence following an injury and the total number of injuries

³ Frequency rate = (number of injuries at work/total number of hours worked) *1,000,000.

⁴ Lost day rate = (number of days’ lost due to injuries at work/total number of hours worked) *1,000.

⁵ Incidence rate = (number of injuries that occurred during the year/number of employees) * 1,000.

During the year, no serious injuries were reported in the workplace that resulted in grievous harm to the personnel entered in the registration book, nor were charges reported with regard to occupational diseases on employees or former employees and mobbing causes, for which the company was declared definitely responsible.

Disclosure of non-financial information

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

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

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

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

Risk management

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

The objective of the Company is to maintain over time a balanced management of its financial exposure, so as to ensure that the structure of its liabilities is in balance with the composition of its assets and to be 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 ability to repay, 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 guided and monitored centrally. In particular, the central financing function 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.

Currency risk

Foreign exchange risk

The Company is active on the Italian market and therefore has a limited exposure to foreign exchange risk, which it incurs only with reference to i) certain trade receivables denominated in USD and ii) current bank accounts denominated in RON (Romanian currency – Leu).

Sensitivity analysis relating to foreign exchange risk

For the purposes of the sensitivity analysis relating to foreign exchange risk, 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.

The table below shows the results of the analysis:

| <i>(in thousands of Euro)</i> | Impact on profit and equity, net of tax effect | | | | | |
|-------------------------------|---|-------------|-------------|-------------|--------------|-------------|
| | USD | | RON | | Total | |
| | -10% | +10% | -10% | +10% | -10% | +10% |
| Sensitivity analysis | | | | | | |
| Year ended 31 December 2017 | 17 | (14) | 56 | (46) | 73 | (60) |

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

Interest rate risk

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

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

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

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

The main characteristics of these agreements are as follows:

As at 31 December 2017

| 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 | 10,828 | (2,046) |
| BNP Paribas IRS | 2009 | 2028 | 11,000 | (3,470) |
| Banca Popolare di Bergamo IRS | 2011 | 2026 | 16,757 | (2,356) |

Sensitivity analysis relating to interest rate risk

With regard to interest rate risk, a sensitivity analysis was carried out to determine the effect on the income

statement and equity of a hypothetical positive and negative change in interest rates of 50 bps compared to the amounts actually recognised in each reporting period.

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

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

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

The table below shows the results of the analysis:

| <i>(in thousands of Euro)</i> | Impact on profit, net of tax effect | | Impact on equity, net of tax effect | |
|-------------------------------|-------------------------------------|---------|-------------------------------------|---------|
| | -50 bps | +50 bps | -50 bps | +50 bps |
| Sensitivity analysis | | | | |
| Year ended 31 December 2017 | 29 | (29) | 29 | (29) |

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

Trade receivables of € 232 million as at 31 December 2017 (€ 237 million as at 1 January 2017) are recognised net of work advances of € 2,063 million and accounted for net of the impairment calculated based on the risk associated with the counterparty non-performance, taking into account the information available

on the customers' solvency and historical data. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 17,243,934 as at 31 December 2017.

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 the resource on offer, the bad debt provision was measured by the company's management by estimating the credit profitability based on past experience with similar receivables, on an analysis of past due amounts, and on monitoring the performance of current and future economic conditions, in the reference market.

IWS receivables past due by over 12 months, amounting to € 43 million, are mainly due from public entities and therefore the relevant risk is not significant.

Furthermore it should be noted that the receivables of the Water Service Business Unit are covered by guarantee deposits up to the amount of € 12,294 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.

The table below provides an analysis of cash flows expected in the years to come in relation to the financial liabilities as at 31 December 2017:

| | Balance as at 31 December 2017 | Expected outflows | | | Total |
|-----------------------|-----------------------------------|-------------------|-------------------|--------------|---------|
| | | Within 1 year | From 1 to 5 years | Over 5 years | |
| Financial liabilities | 228,058 | 63,878 | 37,001 | 127,179 | 228,058 |
| Trade payables | 163,017 | 161,281 | 1,736 | - | 163,017 |
| Other liabilities | 44,422 | 31,547 | 16,875 | - | 48,422 |

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

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

Corporate Governance Report

Information on the ownership structure

Share capital structure

The share capital amounts to € 36,996,233, 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 art. 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 versus 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.

In its meeting on 17 June 2016, 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 company's external relations and institutional relations, making the relative

decisions and stipulating the bilateral contracts required for implementation thereof, up to the amount of 150,000 (one hundred fifty thousand) Euro 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 (one hundred thousand) Euro per individual membership, within the limits of the expense budgets approved by the Board of Directors and provided that this does not involve acquisition of equity investments in the joined entity;

- to represent the company in shareholders' meetings of MM S.p.A. investees, associations, entities and organisations that are not joint stock companies of which the investee is a member, with a power to issue the appropriate powers of attorney;
- to supervise internal audit activities, making the relative decisions and stipulating the bilateral contracts required for implementation thereof, up to the amount of 100,000 (one hundred thousand) Euro for each individual contract and within the limits of the expense budget approved by the Board of Directors.

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 (functions), which report directly to him.

Managing Director

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

- to manage and coordinate the activities of the functions that report to him, ensuring implementation of Corporate Bodies' guidelines, instructions, decisions and resolutions;
- to submit proposals to the Chairman for definition of corporate objectives and programmes of activities as well as organisational changes of the functions that report to him;
- to prepare and submit to the Chairman, together with the Administrative, Financial and Human Resources Departments, financial plans, the management plan and financial statements;
- to ensure that the preliminary documentation under his responsibility is prepared for Corporate Bodies' resolutions;

- to sign deeds that do not bind the Company contractually, which are part of the normal correspondence with third parties and also sign all deeds consequent to the execution of the powers delegated to him by the Board of Directors.

In its meetings of 17 June 2016 and 23 November 2017, the Board of Directors conferred upon the managing director the powers and authorities listed below:

- 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 (two million five hundred thousand) Euro for each individual contract, ensuring that all legal obligations are fulfilled;
- to perform, in compliance with the guidelines set out, the entire procedural process aimed at awarding procurement contracts resolved upon by Corporate Bodies, from the preparation of tender documents, up to the award and stipulation of the relevant contracts, issuing and signing all the necessary and/or appropriate deeds and declarations and in compliance with the legal obligations, informing the Board of Directors about the results of the tender procedures;
- to manage procurement contracts resolved upon by the Corporate Bodies, ensuring that all legal obligations are fulfilled;
- to authorise amendments and changes in procurement contracts up to the total amount of 2,500,000 (two million five hundred thousand) Euro for each individual contract, without prejudice to compliance with the limits established by current legislation;
- 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 (two million five hundred thousand) Euro for each individual contract;
- 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;
- to authorise and revoke subcontracts;
- to issue work execution certificates pursuant to the applicable laws for the works and services carried out;
- to sign deeds for the acquisition of areas, movable property and real estate for the realisation of public works and the management of public services in the name and on behalf of the entities from

which the company has received the assignment for the relevant services, and to settle all compensations for expropriation, voluntary disposal and temporary occupancy, all of which up to 250,000 (two hundred and fifty thousand Euro, for each individual deed;

- 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;
- 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;
- to settle labour disputes, in or out of court, for amounts up to 250,000 (two hundred thousand) Euro for each individual transaction, and to pursue any other action in the interests of the company;
- 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;
- to define and stipulate, with all the appropriate clauses, to amend and terminate, with power to settle any dispute regarding bilateral contracts of any type, in any case relating to the corporate purpose, except for the purchase and/or sale of real estate and leases that exceed nine years, up to 2,500,000 (two million five hundred thousand) Euro, for each individual contract. The total amount of these contracts must fall within the limits of the expense budget approved by the Board of Directors;
- 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 (two million five hundred thousand) for each individual contract, ensuring that all legal requirements are complied with;
- 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 (two million five hundred thousand) Euro 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 art. 14 above;

- to submit bids for participation in national tenders and, upon authorisation by the Shareholder Municipality of Milan, to submit bids for participation in international tenders, in any case relating to the corporate purpose, issuing and signing all the necessary and/or appropriate deeds and declarations, informing the Board of Directors about the results of the tender procedures;
- to establish, with all the appropriate clauses, giving and receiving the relative mandates, to modify and terminate, with the power to settle any disputes that may arise in relation thereto, temporary associations of companies and other entities without legal personality (provided that the latter do not place obligations upon the Company, non-fulfilment of which would result in the application of penalties) for the purpose of participating in financed projects and tenders for the awarding of contracts for works, services and supplies, up to the amount of 2,500,000 (two million five hundred thousand) Euro for each individual participation of the company, in compliance with applicable laws;
- 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 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;
- to make deposits or withdrawals on the company's current accounts held at Credit Institutions and Postal Offices, to issue and/or request the issue of bank cheques and banker's drafts, to endorse and collect bank cheques and banker's drafts. The aforementioned power shall be exercised jointly with the Head of Administration, Finance and Control or, in the event of absence (also short-term) or momentary impediment thereof, with the Head of the Legal and Contracts Department;
- 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;
- to file requests for admission in insolvency proceedings, acceptance of arrangements and to issue third-party declarations in enforcement proceedings;
- to make guarantee deposits in cash, securities or through bank or insurance sureties;
- the ordinary operations of the Company, signs disciplinary measures, agreements and any other act

which is requires and/or is useful for securing concessions, assignments, permits and authorisations in general;

- 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;
- 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 Euro for each individual sanction;
- in relation to the ordinary management of the Company, to fulfil all obligations towards any Tax or Customs Office, both State and Local, also abroad, taking all necessary actions with respect to taxes, duties and contributions, to contest registrations and inspections, to issue declarations relating to direct or indirect taxes, certifications, forms and questionnaires, to file requests, questionings, appeals and claims, briefs and documents with any Tax Office or Commission, to collect refunds and interests from the Tax Authorities, issuing receipts on behalf of the Company;
- 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;
- 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;

- 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;

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

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

Board of Statutory Auditors

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

The Statutory Auditors remain in office for three financial years and their office expires on the date of the Shareholders' Meeting called to approve the financial statements for their last year in office, and they can be re-elected; the Shareholders' Meeting defines their remuneration according to the criteria set by law.

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

Shareholders' Meetings

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

A regularly constituted Shareholders' Meeting represents all shareholders, and the resolutions passed in

compliance with the Law and the Articles of Association are binding upon all Shareholders, even if not present in the meeting or dissenting.

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

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

Each share entitles the holder to one vote.

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

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

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

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

Internal control and risk management system

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

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

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



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

The **second layer of control** monitors the main risks in order to ensure the effectiveness and efficiency of the treatment thereof, monitoring whether the controls established to monitor such risk are adequate and operative; it also provides support to the first layer in defining and implementing adequate systems for the management of the main risks and the relevant controls.

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

The control system also includes:

Supervisory Body pursuant to Legislative Decree 231/01 which, in addition to monitoring the operation and compliance with the Code of Ethics and the Organisational, Management and Control Model, is also responsible for their updating with a view to improving the effectiveness and efficiency of the Internal Control System.

Currently, the Supervisory Body consists of three members who are external to the company and meet specific requirements.

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

Corruption Prevention and Transparency Officer whose duty is to monitor compliance with measures suitable to prevent corruption and unlawfulness within MM. In particular, this Officer develops a three-

year plan for the prevention of corruption and proposes to the Board of Directors updates thereto following regulatory and/or organisational amendments, verifies implementation and appropriateness thereof, appoints contact persons for the prevention of corruption and ensures that disclosure obligations as required by transparency regulations are complied with.

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

Finally, it receives reports pursuant to Law 179 of 30 November 2017 and, following a preliminary analysis regarding the validity thereof, forwards them to the Supervisory Body or the Corruption Prevention and Transparency Officer, depending on whether the issues refer to Law 231/2001 or Law 190/2012.

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

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

In 2017 the company initiated a project involving the mapping and assessment of risks aimed at identifying, assessing and classifying the main corporate risks and the possible actions to be taken to mitigate identified risk.

This experience highlighted the need to implement a uniform culture and language with respect to control issues. MM is aware that *corporate risk management is a process set up by the Board of Directors, the*

management and the entire corporate structure, and it is required to ensure to a reasonable extent that corporate objectives will be achieved.

Based on this objective, a more in-depth analysis of the risk management system has been planned for 2018 in order to obtain an “Integrated Risk and Control Management” in terms of methods and across all processes.

The establishment in May 2017 of the Compliance Function, whose aim, among others, is to prevent violations of generally applicable legislation (laws and regulations) and self-regulation (codes of conduct and ethics), is part of this integrated plan regarding Governance of Controls.

The main elements comprising MM’s Internal Control System

The Code of Ethics

the Code of Ethics defines the guiding principles underpinning the entire internal control and risk management system, such as:

- segregation of activities between individuals in charge of authorisation, executive and control procedures;
- existence of company rules suitable to provide the general reference principles for the regulation of company processes and activities;
- existence of formal rules for the exercise of signatory powers and internal authorisation powers;
- traceability.

The Ethics Committee has been established in order to monitor correct application of the Code of Ethics and to provide, where necessary, for the periodic review thereof.

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

The Organisational, Management and Control Model

The legal framework governing “bodies’ liability for unlawful administrative acts relating to offences” (Legislative Decree 231 of 8 June 2001) which MM’s Model 231 is based on, provides that companies may be imposed penalties in the form of fines and/or disqualifications, in relation to certain offences which are committed or attempted, whether in Italy or abroad, in the interest or to the advantage of the company by persons serving as representatives, or holding administrative or senior executive positions

within the Company or an organisational unit of same, being financially and functionally independent, as well as by persons actually exercising management and control of same (so-called subjects in top management positions) and, finally, by persons under the direction or supervision of one of the aforementioned individuals. The Organisational, Management and Control Model is the instrument through which the company aims to prevent or impede the commission of the offences indicated by Legislative Decree 231/01 by directors or employees.

The appointed Supervisory Body verifies the effectiveness and adequacy of the Model and, where necessary, proposes the revision thereof to the top management of the company. Amendments are always approved by the Board of Directors (the last update was on 22 January 2018).

The Model is published in the "Transparency" section of MM's institutional web site.

The Three-Year Corruption Prevention and Transparency Plan ("TYCPTP")

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

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

The TYCPTP defines specific measures for the prevention of corruption.

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

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

The TYCPTP was approved by the Board of Directors in its meeting of 22 January 2018.

The Plan is published in the "Transparency" section of MM's institutional web site before 31 January each year.

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.

Information flows between the various control structures

To ensure effective and efficient operation of the internal control systems and in order to address and coordinate the overall internal control activities, the Compliance and Internal Audit Functions have established an exchange of information flows on the activities carried out and the outcomes thereof.

Moreover, the Compliance Function monitors the control activities carried out by other functions involved in managing sensitive processes such as occupational health and safety, quality and the environment.

Information flows from control structures to top management, the Supervisory Body and the Board of Statutory Auditors

In addition to an horizontal flow of information between structures that monitor controls, reporting to top management, the Board of Statutory Auditors and the Supervisory Body is also provided for, not only regarding the individual control activities, but on all the activities carried out during the year (annual report).

Moreover, top management receives specific reports (information flows) from level I, II and III structures in order to monitor the performance of the various corporate structures with the end goal of achieving the strategic objectives.

Indeed, without prejudice to its immediate communication obligations, every six months the Supervisory Body submits a report to the Board of Directors describing the activities it carried out during the period under review, the controls performed and the outcome thereof, the reports it received and any need to implement corrective measures and adaptations of the Model.

Assessment of the risk of a business crisis

In order to monitor and prevent any situations involving the risk of a business crisis arising from an anomalous overcoming of the normal parameters of business performance, which would generate a potential risk of compromising the economic, financial and equity equilibrium, MM has adopted a system for planning, budgeting and periodic reporting through which the economic-financial figures are kept under control, both at the overall company level and at the individual business unit level. In particular, for each quarter and for each business unit, the main results in terms of REVENUES, EBITDA, EBIT and variances compared to the budget, as well as the trend of the Water Service's net financial position and investments, are analysed.

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

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

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

These financial covenants are the following:

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

- EBITDA/Finance Costs \geq **4.5**: it measures EBITDA capacity to cover finance costs

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

We finally note that on 13 November 2017 Standard & Poor's increased its rating for MM from BBB- to BBB, while on 22 November 2017, Moody's confirmed its Baa2 rating.

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.

Research & Development

During the year, no significant investments were made in research and development.

Secondary offices

Pursuant to paragraph 4 of article 2428 of the Italian Civil Code, it is hereby specified that the company has established 25 secondary offices throughout the territory of the city of Milan.

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

Relations with the Municipality of Milan

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

| Breakdown of 2017 Revenues | Municipality | Third Parties | Total |
|----------------------------|--------------|---------------|-------------|
| | 170,943,429 | 10,066,290 | 181,009,719 |
| | 94.4% | 5.6% | 100.0% |

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

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

| STATEMENT OF FINANCIAL POSITION | Reporting period |
|---|-------------------|
| Receivables from the parent company for works, net of advances | 18,055,217 |
| Receivables for invoices issued | 39,882,826 |
| Receivables for invoices to be issued for services and supplies | 40,297,379 |
| Total trade receivables | 98,235,422 |
| Advances | 3,646,513 |
| Advances for expenses incurred in the name and on behalf of the Municipality, net of disbursed advances | 2,862,195 |
| Invoices to be received for services and rent | 31,076,986 |
| Other trade payables | 28,661,717 |
| Total trade payables | 66,247,412 |
| INCOME STATEMENT | |
| Revenues from sales and services | |
| Engineering services | 11,110,438 |
| Revenues from the Housing BU - fees relating to property and facility management | 11,066,464 |
| Other revenues - supplies and services | 11,731,354 |
| Total revenues | 33,908,255 |
| Costs for services | 4,629,437 |

Relations with Subsidiaries of the Municipality of Milan

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

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

Allocation of the profit for the year

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 23,834,593, as follows:

- € 1,458,248 to the legal reserve;
- € 456,578, equal to the portion of the net profit for the year attributable to the Housing Business Unit, to the Optional Reserve that will be used for specific investments envisaged by the Housing Business Unit strategic plan;
- € 21,919,767 to the extraordinary reserve.

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
DAVIDE AMEDEO CORRITORE

MM S.P.A.

Subject to the management and coordination of the sole shareholder Municipality of Milan

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO 8

Paid-up share capital Euro 36,996,233 (Euro 23,150,576 as at 31/12/2017)

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

Financial statements as at 31/12/2017**STATEMENT OF FINANCIAL POSITION**

| ASSETS | Notes | 31/12/2017 | 31/12/2016 |
|--|--------------|--------------------|--------------------|
| ASSETS | | | |
| <i>NON-CURRENT ASSETS</i> | | | |
| Property, Plant and Equipment | 1.1 | 48,140,398 | 43,857,353 |
| Rights over the infrastructure relating to service concession arrangements | 1.2 | 213,335,345 | 197,524,813 |
| Other intangible assets | 1.3 | 2,367,731 | 489,121 |
| Deferred tax assets | 1.4 | 12,015,290 | 9,382,690 |
| Other non-current assets | 1.5 | 1,394,012 | 15,888,122 |
| Total non-current assets | | 277,252,776 | 267,142,099 |
| <i>CURRENT ASSETS</i> | | | |
| Inventories | 1.6 | 1,691,284 | 1,841,943 |
| Trade receivables | 1.7 | 231,766,725 | 223,420,387 |
| Cash and cash equivalents | 1.8 | 90,915,497 | 85,593,771 |
| Other current assets | 1.9 | 28,571,493 | 35,526,375 |
| Total current assets | | 352,944,999 | 346,382,476 |
| TOTAL ASSETS | | 630,197,775 | 613,524,575 |

| LIABILITIES | Notes | 31/12/2017 | 31/12/2016 |
|-------------------------------------|--------------|--------------------|--------------------|
| EQUITY AND LIABILITIES | | | |
| <i>EQUITY</i> | | | |
| Share capital | | 23,150,576 | 15,600,000 |
| Reserves | | 130,812,311 | 110,624,319 |
| Net profit (loss) | | 23,834,593 | 18,018,102 |
| Total equity | 1.10 | 177,797,480 | 144,242,421 |
| <i>NON-CURRENT LIABILITIES</i> | | | |
| Non-current financial liabilities | 1.11 | 164,180,301 | 163,538,016 |
| Provisions for risks and charges | 1.12 | 4,080,767 | 4,186,038 |
| Employee benefits | 1.13 | 8,821,753 | 8,737,472 |
| Other non-current liabilities | 1.14 | 20,396,849 | 17,865,691 |
| Total non-current liabilities | | 197,479,670 | 194,327,217 |
| <i>CURRENT LIABILITIES</i> | | | |
| Current financial liabilities | 1.11 | 63,877,967 | 67,732,744 |
| Current tax liabilities | | 0 | 4,037,784 |
| Trade payables | 1.16 | 163,017,361 | 173,706,761 |
| Other current liabilities | 1.17 | 28,025,297 | 29,477,648 |
| Total current liabilities | | 254,920,625 | 274,954,937 |
| TOTAL LIABILITIES | | 452,400,295 | 469,282,154 |
| TOTAL EQUITY AND LIABILITIES | | 630,197,775 | 613,524,575 |

STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 31/12/2017 | 31/12/2016 |
|---|-------|--------------------|--------------------|
| REVENUES | | 226,831,078 | 212,276,502 |
| Revenues | 2.1 | 181,009,719 | 181,365,850 |
| Revenues arising from work on infrastructure subject to service concession arrangements | 2.2 | 32,787,603 | 21,484,819 |
| Other revenues and income | 2.3 | 13,033,756 | 9,425,833 |
| OPERATING COSTS | | 185,918,297 | 177,261,218 |
| Costs for raw materials, consumables and goods for resale | 2.4 | 4,080,274 | 3,012,107 |
| Other operating costs | 2.5 | 2,322,274 | 3,807,333 |
| Costs for services | 2.6 | 76,819,413 | 81,407,024 |
| Costs arising from work on infrastructure subject to service concession arrangements | 2.7 | 30,611,957 | 20,281,320 |
| Personnel costs | 2.8 | 57,507,984 | 55,297,463 |
| Amortisation/depreciation, impairment and other provisions | 2.9 | 14,548,292 | 13,455,971 |
| Losses for the sale of fixed assets | 2.10 | 28,103 | 0 |
| OPERATING PROFIT (LOSS) | | 40,912,781 | 35,015,284 |
| Finance income from equity investments | 2.11 | 67,078 | 0 |
| Finance income | 2.11 | 491,238 | 453,202 |
| Finance costs | 2.11 | 7,942,412 | 5,315,982 |
| NET FINANCE INCOME AND COSTS | | -7,384,096 | -4,862,780 |
| PROFIT (LOSS) BEFORE TAX | | 33,528,685 | 30,152,504 |
| Taxes | 2.12 | 9,694,092 | 12,134,402 |
| NET PROFIT (LOSS) FOR THE YEAR (A) | | 23,834,593 | 18,018,102 |
| Other items of comprehensive income not to be reclassified to profit or loss | | | |
| Actuarial gains/(losses) on employee benefits | | (217,082) | (274,532) |
| Tax effect related to actuarial gains/(losses) on employee benefits | | 60,717 | 76,595 |
| Other items of comprehensive income to be reclassified to profit or loss | | | |
| Change in the fair value of cash flow hedges | | 2,000,353 | 608,001 |
| Tax effect on the change in the fair value of cash flow hedges | | (480,085) | (145,920) |
| Total other items of comprehensive income, net of tax effect (B) | | 1,363,903 | 264,144 |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR (A)+(B) | | 25,198,496 | 18,282,246 |

Cash Flow statement

| <i>(in Euro)</i> | 2017 | 2016 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Profit (loss) before tax | 33,528,685 | 30,152,504 |
| <i>Adjustments for</i> | | |
| Depreciation/amortisation of fixed assets | 11,516,605 | 10,571,741 |
| Allocations to bad debt provision | 2,145,533 | 2,884,230 |
| Allocations to provision for risks and charges | 869,281 | - |
| Allocations to provision for write-down of inventories | 16,681 | - |
| Net finance costs | 7,384,096 | 4,862,779 |
| Prepaid and deferred tax | - | - |
| Other non-cash items | 6,819,292 | 12,544,959 |
| Cash flows from operating activities prior to changes in net working capital | 62,280,173 | 61,016,213 |
| Cash flow generated/(absorbed) by changes in net working capital | 5,847,626 | (62,554,965) |
| - Trade receivables and other assets | 14,095,542 | (32,334,559) |
| - Inventories | 133,978 | 14,582 |
| - Trade payables and other liabilities | (8,381,894) | (30,234,988) |
| Taxes paid | (19,672,063) | (12,729,862) |
| Net finance costs paid | (7,172,948) | (3,962,358) |
| Use of provisions | (1,170,014) | (3,114,246) |
| Cash flow generated/(absorbed) by operating activities (A) | 40,112,774 | (21,345,218) |
| INVESTING ACTIVITIES | | |
| Net investments in fixed assets | (35,640,152) | (21,588,984) |
| Cash flow generated/(absorbed) by investing activities (B) | (35,640,152) | (21,588,984) |
| FINANCING ACTIVITIES | | |
| Taking-out of medium/long-term loans | 2,475,553 | 100,000,000 |
| Repayment of medium/long-term loans | (4,957,320) | (9,433,517) |
| Changes in equity | - | - |
| Other changes in financial liabilities | 578,397 | - |
| Cash flow generated/(absorbed) by financing activities (C) | (1,903,370) | 90,566,483 |
| Increase/(decrease) in cash and cash equivalents (A)+B +(C) | 2,569,252 | 47,632,281 |
| Cash and cash equivalents at the beginning of the year | 85,593,771 | 37,961,490 |
| Contribution of Metro Engineering S.r.l. | 2,717,179 | - |
| Contribution of Napoli Metro Engineering S.r.l. | 35,295 | - |
| Cash and cash equivalents at the end of the year | 90,915,497 | 85,593,771 |

Statement of changes in Equity

| <i>(In Euro)</i> | Share capital | Cash flow hedge reserve | Other reserves | Net profit (loss) | Total equity |
|--|-------------------|-------------------------|--------------------|-------------------|--------------------|
| As at 1 January 2016 | 15,600,000 | -7,965,355 | 94,695,125 | 23,630,406 | 125,960,176 |
| Change in the fair value of cash flow hedges, net of tax effect | - | 462,081 | - | - | 462,081 |
| Allocation of profit (loss) | - | - | 23,630,406 | -23,630,406 | - |
| Net profit (loss) | - | - | - | 18,018,102 | 18,018,102 |
| Actuarial gains/(losses) on employee benefits, net of tax effect | - | - | -197,937 | - | -197,937 |
| As at 31 December 2016 | 15,600,000 | -7,503,274 | 118,127,594 | 18,018,102 | 144,242,422 |

| <i>(In Euro)</i> | Share capital | Cash flow hedge reserve | Other reserves | Net profit (loss) | Total equity |
|--|-------------------|-------------------------|--------------------|-------------------|--------------------|
| As at 1 January 2017 | 15,600,000 | -7,503,274 | 118,127,593 | 18,018,102 | 144,242,421 |
| Merger of Metro Engineering S.r.l. | - | - | 250,846 | - | 250,846 |
| Merger of Napoli Metro Engineering S.r.l. | - | - | 555,141 | - | 555,141 |
| Transfer of real estate | 7,550,576 | - | - | - | 7,550,576 |
| Change in the fair value of cash flow hedges, net of tax effect | - | 1,520,268 | - | - | 1,520,268 |
| Allocation of profit (loss) | - | - | 18,018,102 | -18,018,102 | - |
| Net profit (loss) | - | - | - | 23,834,593 | 23,834,593 |
| Actuarial gains/(losses) on employee benefits, net of tax effect | - | - | -156,365 | - | -156,365 |
| As at 31 December 2017 | 23,150,576 | -5,983,006 | 136,795,317 | 23,834,593 | 177,797,480 |

For the Board of Directors
The Chairman
DAVIDE AMEDEO CORRITORE

MM S.P.A.

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO 8

Paid-up share capital Euro 36,996,233 (Euro 23,150,576 as at 31/12/2017)

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 December 2017**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.

As part of the rationalisation process of the equity investments held by the Municipality of Milan, the merger by incorporation of the two subsidiaries Napoli Metro Engineering S.r.l. and Metro Engineering S.r.l. was resolved. The statutory accounting and tax effects of the merger were backdated to 1 January 2017. Therefore, in order to make the comparison between the two financial years more significant, the summary statements of the financial and economic impact of the merger as at 31 December 2016 are shown below.

| | MM financial statements as at 31.12.2016 | NME financial statements as at 31.12.2016 | ME financial statements as at 31.12.2016 | Decreases | MM financial statements as at 31.12.2016 |
|---|--|---|--|---------------------|--|
| Property, plant and equipment | 43,857,353 | 6,591 | - | - | 43,863,944 |
| Rights over the infrastructure relating to service concession arrangements | 197,524,813 | - | - | - | 197,524,813 |
| Other intangible assets | 489,121 | - | - | - | 489,121 |
| Prepaid tax assets | 9,382,690 | (30,471) | 76,271 | - | 9,428,490 |
| Other non-current assets | 15,888,122 | 845,229 | 1,270,910 | (15,293,232) | 2,711,029 |
| Total non-current assets | 267,142,099 | 821,349 | 1,347,181 | (15,293,232) | 254,017,397 |
| Inventories | 1,841,943 | - | - | - | 1,841,943 |
| Trade receivables | 223,420,387 | 12,640,452 | 1,992,795 | (940,797) | 237,112,837 |
| Cash and cash equivalents | 85,593,771 | 2,794,069 | 1,121,506 | 418,919 | 89,928,265 |
| Other current assets | 35,526,375 | 32,541 | 206,512 | (218,861) | 35,546,569 |
| Total current assets | 346,382,476 | 15,467,062 | 3,320,813 | (740,739) | 364,429,614 |
| Total assets | 613,524,575 | 16,288,411 | 4,667,994 | (16,033,970) | 618,447,011 |
| Equity | 144,242,421 | 11,321,475 | 2,825,886 | (13,341,377) | 145,048,405 |
| Non-current financial liabilities | 163,538,016 | - | - | - | 163,538,016 |
| Provisions for risks and charges | 4,186,038 | - | - | - | 4,186,038 |
| Employee benefits | 8,737,472 | 345,057 | 56,955 | - | 9,139,484 |
| Other non-current liabilities | 17,865,691 | - | - | - | 17,865,691 |
| Total non-current liabilities | 194,327,217 | 345,057 | 56,955 | - | 194,729,229 |
| Current financial liabilities | 67,732,744 | - | - | (1,532,936) | 66,199,808 |
| Current tax liabilities | 4,037,784 | - | - | (226,600) | 3,811,184 |
| Trade payables | 173,706,761 | 3,363,082 | 1,130,868 | (933,056) | 177,267,655 |
| Other current liabilities | 29,477,648 | 1,258,797 | 654,285 | - | 31,390,730 |
| Total current liabilities | 274,954,937 | 4,621,879 | 1,785,153 | (2,692,592) | 278,669,377 |
| Total liabilities | 469,282,154 | 4,966,936 | 1,842,108 | (2,692,592) | 473,398,606 |
| Total liabilities and equity | 613,524,575 | 16,288,411 | 4,667,994 | (16,033,969) | 618,447,011 |
| | | | | | |
| | MM financial statements as at 31.12.2016 | NME financial statements as at 31.12.2016 | ME financial statements as at 31.12.2016 | Decreases | MM financial statements as at 31.12.2016 |
| Income statement | | | | | |
| Revenues | 212,276,502 | 4,068,968 | 1,367,122 | (1,151,936) | 216,560,656 |
| Revenues from sales and services | 181,365,850 | 4,068,721 | 1,348,150 | (1,151,936) | 185,630,785 |
| Revenues arising from work on infrastructure subject to service concession arrangements | 21,484,819 | - | - | - | 21,484,819 |
| Other revenues and income | 9,425,833 | 247 | 18,972 | - | 9,445,052 |
| Operating costs | 177,261,218 | 3,880,159 | 1,340,083 | (1,198,669) | 181,282,790 |
| Costs for raw materials, consumables and goods for resale | 3,012,107 | 560 | 9 | - | 3,012,676 |
| Other operating costs | 3,807,333 | 7,227 | 26,334 | (46,733) | 3,794,161 |
| Costs for services | 81,407,024 | 2,859,726 | 1,145,747 | (1,151,936) | 84,260,560 |
| Costs arising from work on infrastructure subject to service concession arrangements | 20,281,320 | - | - | - | 20,281,320 |
| Personnel costs | 55,297,463 | 1,009,013 | 137,993 | - | 56,444,469 |
| Amortisation/depreciation, write-downs and provisions | 13,455,971 | 3,633 | 30,000 | - | 13,489,604 |
| Operating Profit (Loss) | 35,015,284 | 188,809 | 27,039 | 46,733 | 35,277,866 |
| Finance income | 453,202 | 138,618 | 27,805 | (46,733) | 572,892 |
| Finance costs | 5,315,982 | 11,544 | - | - | 5,327,526 |
| Net finance income and costs | (4,862,780) | 127,074 | 27,805 | (46,733) | (4,754,634) |
| Profit (loss) before tax | 30,152,504 | 315,883 | 54,844 | - | 30,523,232 |
| Taxes | 12,134,402 | 91,295 | 34,423 | - | 12,260,121 |
| Net profit (loss) | 18,018,102 | 224,588 | 20,421 | - | 18,263,111 |

In line with the indications contained in the “*Preliminary Assirevi guidelines regarding IFRS no.2*” (“OPI 2”), with regard to the accounting treatment for Mergers, pursued for restructuring purposes, between a parent company and a subsidiary 100% owned by the incorporating entity, the effects of the merger were backdated and were presented for comparative purposes in specific pro-forma financial statements.

Approval of the Financial Statements

The draft financial statements for the year ended 31/12/2017 were approved by the Board of Directors on 18 April 2018.

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 31/12/2017 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 31/12/2017 were prepared in compliance with the provisions adopted by Consob in relation to financial statements.

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

Measurement bases

General principles

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

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

Property, plant and equipment

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

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

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

| Engineering/Housing | 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% |
| Leasehold improvements | The lower of useful life and lease term |

| Plant and Real Estate | 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 held by virtue of finance leases (with all the risks and benefits connected to ownership essentially transferred to the Company) are recognised as Company assets and measured at the fair value at the date the contract was entered into or, if lower, at the current value of the minimum lease payments, 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 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.

Leases in which the lessor essentially maintains all the risks and benefits connected to the ownership of the assets are classified as operating leases. Benefits received or to be received or paid or to be paid, as an incentive for conclusion of operating leases, are recognised on a straight-line basis for the entire duration of the contract.

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 7.29% markup, which represents the best estimate regarding the remuneration of internal costs for the work supervision and design, 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, as provided for by IFRIC 12. The fair value is measured based on the fact that the operator must comply with provisions of paragraph 12 of IAS 18. 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 IAS 11 and recognised under the income statement item “Revenues arising from work on infrastructure subject to service concession arrangements”. Assets granted under concession arrangements are amortised 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 amortised consists of the difference between the acquisition value of the assets provided under the concession arrangement and their residual value which is expected to be realized at the end of their useful life, according to the regulatory provisions currently in force. If any events indicating an impairment of these intangible assets occur, the difference between the carrying amount of and the recoverable value is recognised in profit and loss. If the useful life of the assets provided under the concession agreement is less than the duration of the concession, pursuant to IFRIC 12, the expenses incurred for the restoration or replacement are not capitalised, but recognised in the estimated provision for restoration of assets held under service concession arrangements.

Software and other intangible assets

Software and other intangible assets are recognised at cost, as described previously, net of accumulated amortisation and any impairment. Amortisation begins when the asset becomes available for use and it is recognised systematically in relation to its

estimated remaining useful life. The useful life of software estimated by the Company is 3 years.

Impairment of property, plant and equipment and intangible assets

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

If such indications exist, the recoverable value of these assets is estimated, with any impairment compared to the carrying amount recognised in profit and loss. The recoverable value of an asset is the higher of the fair value, net of any relevant selling expenses, and its value in use, i.e. the current value of the estimated future cash flows. In order to determine the value in use, the estimated future cash flows are discounted using a discount rate gross of taxes which reflects current market valuations of the time value of money, in relation to the investment period and the asset specific risks. For an asset that does not generate sufficiently independent cash flows, the recoverable value is determined in relation to the cash generating unit to which the asset belongs.

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

Equity investments

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

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

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

Trade receivables

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.

Impairment losses on receivables are recognised in the financial statements when there is objective evidence that the Company will not be able to collect the receivables due from the counterparty based on the contractual terms and conditions.

The objective evidence includes events such as:

- significant financial difficulty of the debtor;
- lawsuits brought against the debtor in regard to receivables;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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 relating to non-derivative financial instruments, with payouts that are fixed or which can be determined and with a fixed expiration date, that the Company intends, and has the ability, to hold until maturity, are classified as “held to maturity financial assets.” These assets are measured at amortised cost,

using the effective interest rate method, which is adjusted in the event of impairment. In case of impairment, the same principles as described above in relation to payables and receivables apply.

The other available for sale assets, including investments in other companies which constitute available for sale financial assets, are measured at fair value, if it can be determined, and any gains or losses arising from changes in fair value are recognised directly in other comprehensive income. If they are measured using the equity method, they are recognised in profit or loss for the period. Other unlisted equity investments which are classified as “available for sale financial assets” for which the fair value cannot be reliably determined are measured at cost, adjusted for any impairment losses to be recognised in the consolidated income statement, according to IAS 39.

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.

IAS 39 permits hedge accounting of derivative financial instruments, provided that:

- the hedging relationship was formally designated and documented;
- the hedge is expected to be highly effective;
- this effectiveness can be reliably measured;
- the hedge is determined to have been highly effective during the various accounting periods for which it is designated.

For derivative instruments that qualify for hedge accounting, the following accounting treatments apply:

- if the derivatives hedge the risk of changes in fair value of assets or liabilities (fair value hedges), they are measured at fair value and recognised in profit or loss; at the same time, the hedged assets or liabilities are adjusted to reflect the changes in fair value associated with the hedged risk;
- if the derivatives hedge the risk of changes in cash flows of assets or liabilities (cash flow hedges), the changes in the fair value of the derivatives are initially recognised in equity and subsequently allocated to profit or loss in line with the economic effects produced by the hedged transaction.

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 foreign currency transactions into 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 service was provided.

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 the employment relationship has been terminated, and is connected to one or more factors such as age, years of service and the remuneration. Therefore, the relating expense is recognised in the comprehensive income statement 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.

From 1 January 2007, the so-called 2007 Financial 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, 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 for fulfilment of 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.

Contributions

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

Recognition of revenues

Revenues are initially recognised at the fair value of the consideration received net of discounts and rebates. Revenues related to the sale of goods are recognised when the Company has transferred all significant risks and benefits connected to the ownership of the goods to the purchaser. Revenues from the provision of services are recognised based on the value of the service provided at the end of the reporting period. Revenues from connection of users to the Integrated Water Service are recognised when the service is provided.

Revenues accrued during the year for the design and supervision of works are recognised in relation to the progress of the work according to the percentage of completion method.

Revenues accrued during the year relating to construction works for the Integrated Water Service are recognised according to the costs incurred for these activities, plus a 7.29% markup, which represents the remuneration of the internal costs for the supervision and design activities carried out by the Company,

which is equal to the markup that would have been applied by a general constructor (as required by IFRIC 12).

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

Costs for the acquisition of goods and the provision of services

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

Taxes

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

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

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

Changes to International Accounting Standards

Accounting standards, amendments and interpretations adopted as from 1 January 2017

As from 1 January 2017, the following documents containing amendments to the International accounting standards, which had previously been issued by the IASB and endorsed by the European Union, entered into effect:

IAS 7 Statement of Cash Flows

Document issued by the IASB on 29 January 2016. Amendments to IAS 7 Statement of Cash Flows require entities to provide information on the changes to their financial liabilities, so as to enable users to better evaluate the reasons underlying the changes in an entity's indebtedness, including changes in cash and cash equivalents.

At the time of initial application of this amendment, the entity is not required to provide comparative information for previous years.

IAS 12 Income Taxes

On 19 January 2016, the IASB published the aforementioned Amendments in order to provide clarifications on the practice around the recognition of deferred tax assets related to debt instrument measured at fair value. These amendments clarify the requirements for the recognition of deferred tax assets for unrealised losses, so as to eliminate diversification in accounting practices.

Improvements to International Financial Reporting Standards (2014-2016 cycle)

On 8 December 2016 IASB issued the document “*Annual Improvements to IFRSs: 2014-2016 Cycle*”. The amendments referred to a draft project issued on 19 November 2015 (see IFRB 2015/2010).

Among other things, the document introduces amendments to **IFRS 12 Disclosure of Interests in Other Entities**: the amendment provides that disclosure obligations for equity investments in other entities apply even if these other entities are classified as held for sale. The amendments will apply retrospectively, from the years beginning 1 January 2017 and thereafter.

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

IFRS 9 Financial Instruments

On 25 July 2014, IASB published IFRS 9 Financial Instruments, which includes a sections on the classification and measurements of financial instruments, the impairment model and hedge accounting.

IFRS 9 rewrites the accounting rules set forth in IAS 39 regarding the recognition and measurement of financial instruments, including hedging transactions.

The standard provides for the following three categories for classification of financial assets:

- Financial assets measured at amortised cost;
- Financial assets measured at fair value through profit and loss (FVTPL);
- Financial assets measured at fair value through other comprehensive income (FVTOCI).

Regarding this latter classification, we note the following further provisions:

- non-trading equity instruments, which should be classified as FVTPL, pursuant to an irrevocable decision of the entity preparing the financial statements could be classified as FVTOCI. In this case, the changes in fair value (including foreign exchange differences) will be recognised in OCI and shall never be reclassified in profit (loss) for the year;
- if the financial assets classified in the amortised cost or FVTOCI category create an accounting mismatch, the entity preparing the financial statements may irrevocably decide to use the fair value option, classifying these financial assets in the “FVTPL” category;
- regarding the debt instruments classified in the FVTOCI category, we note that interest income, expected credit losses and exchange differences will be recognised in profit (loss) for the year. Conversely, the other effects of fair value measurement will be recognised in OCI and they will be reclassified in profit/loss for the year only if the financial asset is derecognised.

For financial liabilities, the standard proposes the classification already existing in IAS 39, but it introduces an important novelty regarding financial liabilities classified in the “FVTPL” category, since the change in the fair value attributable to own credit risk must be recognised in OCI instead of profit (loss) for the year, as currently required by IAS 39.

Therefore, pursuant to IFRS 9, an entity whose credit risk is worsening, even though it must reduce the value of its financial liabilities measured at fair value, shall reflect the value of this reduction in Other Comprehensive Income rather than in profit (loss) for the year.

IFRS 9 introduces a new impairment model based on expected losses. An entity must immediately recognise the expected future losses of its financial assets, regardless whether there is a trigger event or not, and it must continually adjust the estimate, also in consideration of changes in the counterparty’s credit risk, based not only on past and present facts and data, but with due consideration also of future expectations. The estimate of future losses must initially be made with regard to the losses expected in the next 12 months and, subsequently, with reference to the comprehensive losses in the life of the receivable.

The expected losses in the next 12 months are the portion of the loss that would be incurred if the counterparty defaulted within 12 months of the reporting date, and are the product of the maximum loss and the probability that a default event will occur.

The total losses during the life of a financial asset are the current value of the average future losses multiplied by the probability that a default event will occur in the life of a financial asset.

IFRS 9 introduces a hedge accounting model which allows an entity to reflect risk management activities in the financial statements, focusing on the fact that if a risk element can be identified and measured, regardless of the type of risk and/or item, the instrument that “hedges” this risk may qualify for hedge accounting, except in case this risk could affect the income statement or other comprehensive income (OCI).

Moreover, the standard makes it possible to use in-house information as a basis for hedge accounting, without having to demonstrate that it complies with complex criteria and metrics created exclusively for accounting purposes.

The main changes relate to:

- test of effectiveness: the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument (for example, if there is a loss on the first, there must be a profit on the second);
- hedged items: not only financial assets and liabilities but every item or group of items, provided that the risk is separately identifiable and measurable;
- hedging costs: the time value of an option, forward points and foreign currency basis spreads may be excluded from hedge accounting and recognised immediately as a hedging cost, so that all the mark to market fluctuations can be temporarily recorded in other comprehensive income (OCI);
- disclosure: more descriptive disclosure is required in regard to the hedged risks and the instruments used, and the current disclosure - based on the distinction between cash flow hedges and fair value hedges - is no longer applicable, as both are accounting terms that often confuse investors, who are clearly more interested in the risks and how they are hedged rather than in the instruments accounting categories.

The new standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Though it did not opt for earlier application, MM undertook an analysis in order to assess its potential impact; the results did not indicate the existence of any significant effects.

IFRS 15 – Revenue from Contracts with Customers

On 29 May 2014, following study and consultations that lasted for over a decade, the IASB and FASB jointly published the new provisions for the recognition of revenue. The new principle will replace IAS 18 (Revenue) and IAS 11 (Construction contracts). The five fundamental steps for the recognition of revenues are:

- to identify the contract with the customer, which is defined as an agreement (written or verbal) between two or more parties with commercial relevance which gives rise to rights and obligations with the customer, which are protected by law;
- to identify the performance obligations (distinctly identifiable), in the contract;
- to determine the transaction price, as the amount to which an entity expects to be entitled in exchange for the transfer of goods and services to the customers, in compliance with the techniques provided by the Standard and based on the presence of financial components, if applicable;
- to allocate the transaction price to the performance obligations in the contracts;
- to recognise revenue when (or as) the entity satisfies a performance obligation, taking into account the fact that the services could be provided either at a point in time or over time.

The standard should not significantly disrupt the accounting of most common transactions. Greater differences in the timing of the recognition and in the quantitative determination should occur in medium-long term service contracts and in agreements containing several obligations, regarding which operators had pointed out the main critical areas inherent in the current practices.

Disclosure of revenue should improve through more qualitative and quantitative disclosures that would allow stakeholders to clearly comprehend the contents and the elements that are significant for the determination of revenue. The standard is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

Though it did not opt for earlier application, MM undertook an analysis in order to assess its potential impact; the results did not indicate the existence of any significant effects.

IFRS 16 – Leases

Issued in January 2016, it replaces the previous standard on leases, i.e. IAS 17 and relevant interpretations. It establishes principles for the recognition, measurement, presentation and disclosure of leases by both parties, i.e. the lessor and the lessee.

IFRS 16 marks the end of the distinction in terms of accounting classification and treatment, between operating leases (the information regarding which is off-balance sheet) and finance leases (on-balance sheet). The right of use and the commitment undertaken are reflected in the financial statements (IFRS 16 will apply to all transactions that provide for a right of use, regardless of the contractual form, i.e. lease, rent or rental). The main novelty is the introduction of the concept of control in the definition. In particular, to determine whether a contract is a lease or not, IFRS 16 requires verification whether the lessee has the right to control the use of a specific asset, for a specific period of time, or not.

Based on such new model, the lessee must recognise:

- the assets and liabilities for all the leases with a duration of more than 12 months in the statement of financial position, except if the underlying asset is of a small value;
- the depreciation of the leased assets must be recognised in profit and loss separately from the interest expenses relating to the relevant liabilities.

On the lessor side, the new standard should have a smaller impact on the financial statements (except if there are subleases), since the current accounting will not be changed, except for financial disclosure that must be quantitatively and qualitatively greater than that previously required.

The standard, which completed its endorsement process in October 2017, is applicable from 1 January 2019; earlier application is allowed only if IFRS 15 Revenue from Contracts with Customers has been adopted.

"Amendments to IFRS 2: Classification and measurement of share-based payment transactions"

The document issued in June 2016:

- clarifies that the fair value of share-based payment transactions at the measurement date (i.e. the grant date, the end of each accounting period and the settlement date) must be calculated taking into account market conditions (e.g. a share price target) and conditions other than maturity, while ignoring conditions referring to remaining in service and conditions referring to achieving results other than market ones;
- clarifies that share-based payment transactions with settlement net of withholding tax should be entirely classified as share-settled transactions (provided that they would have been classified as such even if payment had not been net of withholding tax);

- clarifies the accounting for modifications that determine a change of classification from cash-settled share-based payment transactions to equity-settled share-based payment transactions.

After endorsement, the amendments will apply retrospectively, from periods beginning on or after 1 January 2018. The company does not expect any effects from application in the future of the new provisions.

"IFRIC 12 Foreign currency transactions and advance consideration"

This interpretation, issued by IASB in December 2016, provides clarifications for determination of the exchange rate to use upon initial recognition of an asset, cost or revenue (or a part thereof), and the date of the transaction is the date on which the company recognises any non-monetary asset (liability) due to advances paid (received).

After endorsement, the amendments will apply retrospectively, from periods beginning on or after 1 January 2018.

"Amendments to IAS 40 Transfers of investment property"

The document, issued in December 2016, clarifies that transfers to, or from, investment properties should only be made when there has been an evident change in use; a change in intentions for the use of a property by itself is not sufficient for the purposes of this transfer.

The amendments have expanded the list of examples with respect to change in use to include, besides the transfer of completed properties, also assets under construction and development.

After endorsement, the amendments will apply retrospectively, from periods beginning on or after 1 January 2018.

"IFRIC 23 Uncertainty over income tax treatments"

The interpretation provides clarifications regarding recognition and measurement pursuant to IAS 12 - Income Taxes, when there is regulatory uncertainty over income tax treatments, while also focusing on improved transparency.

IFRIC 23 does not apply to taxes and duties that do not fall under the scope of IAS 12 and is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Improvements to International Financial Reporting Standards (2014-2016 cycle)

On 8 December 2016 IASB issued the document “Annual Improvements to IFRSs: 2014-2016 Cycle”.

The document introduces amendments to the following standards:

- IFRS 1 - *First-time Adoption of International Financial Reporting Standards*: the amendment deleted the short-term exemptions for the transition of new adopters to IFRS 7, IAS 19 and IAS 10. These transition provisions were available for past reporting periods and are therefore no longer applicable;
- IAS 28 - *Investments in Associates and Joint Ventures*: the amendment provides venture capital organisations, mutual investment funds, trust units and similar entities with the option to recognise their investments in subsidiaries or joint ventures, to measuring them at fair value through profit or loss (FVTPL). The Board clarified that such valuations must be made separately for each associate or joint venture upon initial recognition.

These amendments must be applied retrospectively for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted.

Improvements to International Financial Reporting Standards (2015-2017 cycle)

On 12 December 2017 IASB issued the document “Annual Improvements to IFRSs: 2015-2017 Cycle”. The document introduces amendments to the following standards:

- IFRS 3 - *Business Combinations*: IASB added paragraph 42A to IFRS 3 to clarify that when an entity obtains control of a business that is a joint operation, it must remeasure previously held interests in that business, since this transaction would be considered as a business combination achieved in stages and therefore should be accounted for on that basis;
- IFRS 11 - *Joint Arrangements*: Moreover, paragraph B33CA was added to IFRS 11 to clarify that if an entity that participates in a joint operation, but does not have joint control, subsequently obtains joint control of the joint operation (which is a business pursuant to IFRS 3 definition), the entity does not have to remeasure previously held interests in that business;

- IAS 12 - *Income Taxes*: This amendment clarifies that income tax consequences of dividends, including payments on financial instruments classified as equity, must be recognised when a liability is recognised for the payment of a dividend. Income tax consequences must be recognised in profit and loss, comprehensive income or equity, depending on the nature of the transactions or past events that generated distributable profits or on how they were initially recognised.
- IAS 23 - *Borrowing Costs*: The amendment clarifies that, when calculating the capitalisation rate on borrowings, an entity must exclude the finance costs applicable to borrowings granted specifically in order to obtain an asset, only until the related asset is ready and available for its intended use or sale. Finance costs relating to specific borrowings that continue to exist after the related asset is ready and available for its intended use or sale, must subsequently be considered as part of the entity's general borrowing costs.

These amendments must be applied retrospectively for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

Risk Management

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

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

The ability to generate liquidity from ordinary operations, together with its ability to repay, 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 guided and monitored centrally. In particular, the central financing function 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.

Currency risk

Foreign exchange risk

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

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.

The table below shows the results of the analysis:

| <i>(in thousands of Euro)</i> | Impact on profit and equity, net of tax effect | | | | | |
|-------------------------------|--|------|------|------|-------|------|
| | USD | | RON | | Total | |
| | -10% | +10% | -10% | +10% | -10% | +10% |
| Sensitivity analysis | | | | | | |
| Year ended 31 December 2017 | 17 | (14) | 56 | (46) | 73 | (60) |

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

Interest rate risk

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

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

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

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

The main characteristics of these agreements are as follows:

As at 31 December 2017

| 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 | 10,828 | (2,046) |
| BNP Paribas IRS | 2009 | 2028 | 11,000 | (3,470) |
| Banca Popolare di Bergamo IRS | 2011 | 2026 | 16,757 | (2,356) |

Sensitivity analysis relating to interest rate risk

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

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

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

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

The table below shows the results of the analysis:

| <i>(in thousands of Euro)</i> | Impact on profit, net of tax effect | | Impact on equity, net of tax effect | |
|-------------------------------|-------------------------------------|---------|-------------------------------------|---------|
| | -50 bps | +50 bps | -50 bps | +50 bps |
| Sensitivity analysis | | | | |
| Year ended 31 December 2017 | 29 | (29) | 29 | (29) |

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

Trade receivables of € 232 million as at 31 December 2017 (€ 237 million as at 1 January 2017) are recognised net of advances for works of € 2,063 million and accounted for net of the impairment calculated based on the risk associated with the counterparty's non-performance, taking into account the information available on the customers' solvency and historical data. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 17,243,934 as at 31 December 2017.

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 the credit profitability based on past experience with similar receivables, on an analysis of past due amounts, and on monitoring the performance of current and future economic conditions, in the reference market.

IWS receivables past due by over 12 months, amounting to € 43 million, are mainly due from public entities and therefore the relevant risk is not significant.

Furthermore it should be noted that the receivables of the Water Service Business Unit are covered by guarantee deposits up to the amount of € 12,294 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.

The table below provides an analysis of cash flows expected in the years to come in relation to the financial liabilities as at 31 December 2017:

| <i>(in thousands of Euro)</i> | Balance as at 31 December 2017 | Expected outflows | | | |
|-------------------------------|--------------------------------|-------------------|-------------------|--------------|---------|
| | | Within 1 year | From 1 to 5 years | Over 5 years | Total |
| Financial liabilities | 228,058 | 63,878 | 37,001 | 127,179 | 228,058 |
| Trade payables | 163,017 | 161,281 | 1,736 | - | 163,017 |
| Other liabilities | 44,422 | 31,547 | 16,875 | - | 48,422 |

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

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

Financial assets and liabilities by category

A breakdown of financial assets and liabilities by category as at 31 December 2017 is provided below:

| <i>(in thousands of Euro)</i> | As at 31 December 2017 | | | | |
|-----------------------------------|---|-----------------------|-------------------------------------|---|---------|
| | 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 | - | 1,394 | - | - | 1,394 |
| Trade receivables | - | 231,766 | - | - | 231,766 |
| Cash and cash equivalents | - | 90,915 | - | - | 90,915 |
| Other current assets | - | 28,571 | - | - | 28,571 |
| LIABILITIES: | | | | | |
| Non-current financial liabilities | 7,872 | - | - | 156,308 | 164,180 |
| Other non-current liabilities | - | - | - | 20,397 | 20,397 |
| Trade payables | - | - | - | 163,017 | 163,017 |
| Current financial liabilities | - | - | - | 63,878 | 63,878 |
| Other current liabilities | - | - | - | 28,025 | 28,025 |

For trade payables and receivables and other short-term receivables and payables, the carrying amount is a reasonable approximation of their respective fair values. It should also be taken into account that the carrying amount of the bond loan recognised under financial liabilities which 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 summarizes the assets and liabilities measured at fair value as at 31 December 2017, based on the inputs used in determining the fair value:

| | As at 31 December 2017 | | |
|---|------------------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| Derivative financial instruments (IRSs) | - | 7,872 | - |

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 characterizes the assumptions and the conditions on which the estimates are based.

A brief description of the areas requiring Directors to make more subjective interpretations than others, and for which a change in the conditions underlying the assumptions used could have a significant impact on financial data, is provided in the following paragraphs.

Depreciation of property, plant and equipment and amortisation of intangible assets

Property, plant and equipment and intangible assets are depreciated/amortised on a straight-line basis over the estimated useful life of each asset. The useful life of property, plant and equipment and intangible assets is determined at the time that they are purchased and based on past experience for similar assets, market conditions and expectations regarding future events that could have an impact, including changes in technology. The actual useful life may differ from the estimated useful life. The Company assesses technological and sector changes each year as well as any changes in contractual terms and conditions and the applicable laws connected to the use of the property, plant and equipment and intangible assets, and the recoverable value for updating their residual useful life. The result of these analyses may change the depreciation/amortisation period and therefore the relevant depreciation/amortisation rate for the reporting period and future years.

IFRIC 12 markup

The fair value of the construction services of the Integrated Water Service is calculated on the basis of the costs actually incurred, plus a 7.29% markup which represents the best estimate regarding the remuneration of internal costs for the work supervision and design activities, carried out by the Company, as provided for by IFRIC 12. The calculation of the markup is based on factors and estimates that may change over time and can therefore result in a change to this value in the financial statements.

Residual value upon conclusion of the Concession

MM will receive compensation upon conclusion of the Concession of an amount equal to the residual value of the work and the assets realized during the concession period. This amount, which is determined according to rules defined by the Italian Regulatory Authority for Electricity, Gas and Water is based on factors and estimates that may change over time, resulting in a change to this amount.

Impairment/reversal of impairment

Non-current assets are tested for impairment. If there is indication that recovery will be difficult, the net carrying amount is written down. Verification that such indication exists requires subjective judgements based on information available within the Company and on the market, as well as on past experience. Furthermore, when it is believed that impairment may have occurred, this is measured using the appropriate measurement techniques. The correct identification of the elements indicating any potential impairment, as well as the estimates for determination thereof depend on factors that can change over time, producing their effects on the estimates and measurements carried out. Similar considerations in terms of impairment indication and use of estimates in measurement techniques apply to measurements to be carried out with regard to any reversal of impairment made in previous years.

Deferred tax assets

Deferred tax assets are accounted for based on the expectations regarding revenue for future years. The measurement of the expected revenues for recognition of the deferred tax assets depends on factors that may change over time and result in significant effects on the measurement of this item.

Provisions for risks and charges

The Company recognises contingent liabilities arising from disputes with the personnel, suppliers, third parties and, in general, expenses arising from obligations in the provisions for risks and charges. The assumptions underlying the creation of such provisions are based on factors that can change over time and can therefore generate final outcomes that may significantly differ from those considered at the time that these financial statements were prepared.

Bad debt provision

The bad debt provision reflects the estimates relating to 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 of these derivative instruments could differ from the final figures.

Measurement of revenues

As for the Engineering Business Unit, revenues related to work orders for the design and/or supervision of works 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 operating 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, work supervision and contracting authority services for works on the transport and the mobility systems and infrastructures of the Municipality of Milan;

- **Housing:** includes the property and facility management operations carried out in the name and on behalf of the Municipality of Milan, with regard to latter's real estate properties;
- **Plant and Real Estate:** includes the assets and the management of public assets previously carried out by MIR prior to the merger with MM.

Monitoring of the operating segments takes place on the basis of: i) revenues; ii) EBITDA and iii) EBIT.

The management believes that EBITDA provides a good indication of the performance because it is not influenced by tax laws and amortisation/depreciation policies.

For further information at a company level and by business segment kindly refer to the Report on Operations.

| | 31 December 2016 | | | | Total |
|--|--------------------------|--------------|--------------|--------------------------|----------------|
| | Integrated Water Service | Engineering | Housing | Real Estate and Networks | |
| Revenues | 140,337 | 26,630 | 11,711 | 2,687 | 181,365 |
| EBITDA | 42,163 | 1,591 | 2,089 | 2,628 | 48,471 |
| <i>including "Non-recurring items"</i> | <i>(1,519)</i> | <i>(67)</i> | <i>1</i> | <i>12</i> | <i>(1,573)</i> |
| <i>% on Revenues</i> | <i>30.0%</i> | <i>6.0%</i> | <i>17.8%</i> | <i>97.8%</i> | <i>26.7%</i> |
| EBIT | 31,951 | 753 | 1,835 | 476 | 35,015 |
| <i>including "Non-recurring items"</i> | <i>(1,519)</i> | <i>(67)</i> | <i>1</i> | <i>12</i> | <i>(1,573)</i> |
| <i>% on Revenues</i> | <i>22.8%</i> | <i>2.8%</i> | <i>15.7%</i> | <i>17.7%</i> | <i>19.3%</i> |
| Finance income | | | | | 453 |
| Finance costs | | | | | (5,316) |
| Pre-tax profit (loss) | | | | | 30,152 |
| Taxes | | | | | (12,134) |
| Net profit (loss) | | | | | 18,018 |

| | 31 December 2017 | | | | Total |
|------------------------------|--------------------------|----------------|---------------|--------------------------|---------------|
| | Integrated Water Service | Engineering | Housing | Real Estate and Networks | |
| Revenues | 143,603 | 23,992 | 11,066 | 2,349 | 181,010 |
| EBITDA | 52,936 | (974) | 1,242 | 2,257 | 55,461 |
| <i>% on Revenues</i> | <i>36.86%</i> | <i>-4.06%</i> | <i>11.22%</i> | <i>96.08%</i> | <i>30.64%</i> |
| EBIT | 41,893 | (2,072) | 912 | 180 | 40,913 |
| <i>% on Revenues</i> | <i>29.17%</i> | <i>-8.64%</i> | <i>8.24%</i> | <i>7.66%</i> | <i>22.60%</i> |
| Finance income | | | | | 558 |
| Finance costs | | | | | (7,942) |
| Pre-tax profit (loss) | | | | | 33,529 |
| Taxes | | | | | (9,694) |
| Net profit (loss) | | | | | 23,835 |

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets

1.1 Property, plant and equipment

Property, plant and equipment amounted to € 48,140,398 (€ 43,857,353 in the previous year).

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

Property, plant and equipment: breakdown by measurement criteria

| | Total property, plant and equipment – Reporting period | Property, plant and equipment at cost – Previous period |
|-------------------------------------|---|--|
| Land and buildings | 39,833,443 | 31,935,969 |
| Plant and machinery | 3,463,690 | 3,208,784 |
| Industrial and commercial equipment | 959,892 | 1,623,732 |
| Assets under construction | 1,151,060 | 4,538,776 |
| Improvements on leased assets | 1,014,314 | 1,135,017 |
| Other property, plant and equipment | 1,717,999 | 1,415,075 |
| Total | 48,140,398 | 43,857,353 |

Property, plant and equipment used in operations: changes

| | Land and buildings | Plant and machinery | Industrial and commercial equipment | Assets under construction | Leasehold improvements | Other property, plant and equipment |
|---|-----------------------|------------------------|---|------------------------------|---------------------------|--|
| Historical cost at 01.01.2016 | 47,066,597 | 24,790,711 | 4,496,579 | 3,865,512 | 2,826,721 | 4,428,942 |
| Accumulated depreciation as at 01.01.2016 | (14,187,267) | (20,850,609) | (2,207,723) | (193,407) | (1,571,000) | (3,392,695) |
| Increases for the year | - | - | 5,578 | 866,671 | - | 696,635 |
| Depreciation for the year | (943,362) | (731,318) | (670,702) | - | (120,703) | (317,807) |
| Balance as at 31.12.2016 | 31,935,969 | 3,208,784 | 1,623,732 | 4,538,776 | 1,135,017 | 1,415,075 |
| Historical cost as at 31.12.2016 | 47,066,597 | 24,790,711 | 4,502,157 | 4,732,183 | 2,826,721 | 5,125,577 |
| Accumulated depreciation | (15,130,629) | (21,581,927) | (2,878,425) | (193,407) | (1,691,703) | (3,710,502) |

| | Land and buildings | Plant and machinery | Industrial and commercial equipment | Assets under construction | Leasehold improvements | Other property, plant and equipment | Total |
|---|--------------------|---------------------|-------------------------------------|---------------------------|------------------------|-------------------------------------|-------------------|
| Historical cost as at 31.12.2016 | 47,066,598 | 24,790,711 | 4,502,157 | 4,732,183 | 2,826,721 | 5,125,577 | 89,043,947 |
| Accumulated depreciation as at 31.12.2016 | (15,130,629) | (21,581,927) | (2,878,425) | (193,407) | (1,691,703) | (3,710,502) | (45,186,593) |
| Increases for the year | 9,221,832 | 930,291 | 36,945 | - | - | 707,167 | 10,896,235 |
| Decreases for the year | (348,453) | (36) | (28,103) | (3,387,716) | - | - | (3,764,308) |
| Depreciation for the year | (975,905) | (675,349) | (672,682) | - | (120,704) | (404,243) | (2,848,883) |
| Balance as at 31.12.2017 | 39,833,443 | 3,463,690 | 959,892 | 1,151,060 | 1,014,314 | 1,717,999 | 48,140,398 |
| Historical cost as at 31.12.2017 | 55,592,611 | 25,720,966 | 4,510,999 | 1,344,467 | 2,826,721 | 5,832,744 | 95,828,508 |
| Accumulated depreciation as at 31.12.2017 | (15,759,168) | (22,257,276) | (3,551,107) | (193,407) | (1,812,407) | (4,114,745) | (46,150,236) |

The increases for the year totalled € 10,896 thousand, of which € 7,550 thousand are contributions in kind consisting of real estate by the shareholder Municipality of Milan. The value of the real estate contributed was appraised by the Italian Tax Authority on 7 August 2017.

Other investments refer to:

- Purchase of furniture, office machines, sundry and small equipment and telephone systems;
- improvements made to leased properties.

1.2 Rights over the infrastructure relating to service concession arrangements

The “Rights over the infrastructure relating to service concession arrangements” amounted to € 213,335,345 (€ 197,524,813 in the previous year).

Changes for the period from 1 January 2017 to 31 December 2017 are provided below:

| | Rights over the infrastructure relating to service concession arrangements |
|---------------------------------------|--|
| Balance as at 1 January 2017 | 197,524,813 |
| Historical cost | 285,514,448 |
| Accumulated amortisation | (87,989,635) |
| Increases | 32,787,603 |
| FoNI (Fund for New Investments) | (8,706,968) |
| Decreases | - |
| Amortisation | (8,270,092) |
| Balance as at 31 December 2017 | 213,335,345 |
| Historical cost | 309,595,083 |
| Accumulated amortisation | (96,259,727) |

Pursuant to IFRIC 12, rights over the infrastructure relating to service concession arrangements amounted to € 213,335 thousand as at 31 December 2017. These rights were amortised on a straight-line basis throughout the concession period; the residual value of € 26 million, which represents the value of the assets to be returned to the grantor at the end of the concession, was not amortised.

The item “Rights over the infrastructure relating to service concession arrangements” is recognised net of the “Fund for new investments”, which consists of an advance of funds for new actions planned subject to usage limitations, amounting to € 33,238,163 as at 31 December 2017. This amount does not include the portion of the “Fund for new investments” linked to the funding of subsidised tariff for social purposes pursuant to the resolutions of the Italian Regulatory Authority for Electricity, Gas and Water and the Optimal Territorial Area Management Entity of the metropolitan city of Milan.

Investments in 2017 amounted to € 32,787,603 (gross of the increase in the “Fund for new investments” for 2017) and mainly refer to pipelines, work on the wastewater treatment plant and on other plants, as well as the purchase of new measuring instruments.

Impairment test of the infrastructure relating to service concession arrangements

As at 31 December 2017, the rights over the infrastructure relating to service concession arrangements were tested for impairment. Both internal as well as external sources of information were considered, such as any significant changes in the use of the assets, their performance compared to original expectations, any technological, market or regulatory change, the trend of interest rates or the cost of capital used to assess the investments. Since the sources of information used did not show any indication of impairment, the impairment test was not performed. Therefore, no impairment losses in relation to the rights over the infrastructure relating to service concession arrangements were recognised and the relevant assets were not subject to impairment.

1.3 Other intangible assets

Changes in “Other intangible assets” for the period from 1 January 2017 to 31 December 2017 are provided below:

| | Historical cost at 31/12/2016 | Accumulated amortisation as at 31/12/2016 | Balance as at 31/12/2016 | Increases in 2017 | Amortisation in 2017 | Balance as at 31/12/2017 |
|-------------------------------|----------------------------------|---|-----------------------------|----------------------|-------------------------|-----------------------------|
| Software | 967,398 | (686,177) | 281,221 | 2,081,691 | (79,682) | 2,083,231 |
| Other intangible assets | 358,189 | (150,289) | 207,900 | 228,575 | (151,874) | 284,500 |
| | 1,325,587 | (836,466) | 489,121 | 2,310,266 | (431,656) | 2,367,731 |

Investments made in 2017 mainly concerned the purchase of the new software for the integrated management of business processes and the development costs for the programme used to manage the Housing Business Unit’s purchasing and selling activities.

1.4 Deferred tax assets

Deferred tax assets amounted to € 12,015,290 (€ 9,382,690 in the previous year).

They have been calculated on the temporary differences between the amounts shown in the financial statements and the corresponding values recognised for tax purposes, on the basis of the rates that are expected to be applied when these differences will be eliminated.

The item is broken down as follows:

| Prepaid tax | 2016 | | 2017 | |
|----------------------------------|------------------------------------|-------------------|------------------------------------|-------------------|
| | Amount of temporary differences | Tax effect | Amount of temporary differences | Tax effect |
| Provisions for risks and charges | 3,439,819 | 931,436 | 3,875,042 | 1,066,823 |
| IRS fair value measurement | 9,872,729 | 2,369,455 | 7,872,376 | 1,889,370 |
| Contributions | 28,722,119 | 8,122,904 | 36,910,997 | 10,408,901 |
| Late payment interest provision | 745,280 | 178,867 | 641,214 | 153,891 |
| Employee benefits | 346,807 | 94,645 | 548,499 | 150,372 |
| Write-downs of inventories | 378,859 | 106,838 | 395,575 | 111,552 |
| Other items | 1,219,194 | 306,022 | 1,101,579 | 273,566 |
| Total for the Company | 44,724,807 | 12,110,168 | 51,345,282 | 14,054,476 |
| Deferred tax | 2016 | | 2017 | |

| | Amount of temporary differences | Tax effect | Amount of temporary differences | Tax effect |
|-----------------------------------|---------------------------------|------------------|---------------------------------|-------------------|
| Connections | 2,891,968 | 703,355 | - | - |
| Late payment interest | 642,847 | 148,221 | 680,368 | 163,288 |
| Tangible fixed assets | 6,723,647 | 1,875,902 | 6,723,647 | 1,875,898 |
| Other | - | - | - | - |
| Total for the Company | 10,258,462 | 2,727,478 | 7,404,015 | 2,039,186 |
| Total prepaid/deferred tax | 34,466,346 | 9,382,690 | 43,941,267 | 12,015,290 |

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.

The balances as at 1 January 2017 include the amounts for Metro Engineering and Napoli Metro Engineering which were incorporated during the year.

1.5 Other non-current assets

Other non-current assets amounted to € 1,394,012 (€ 15,888,122 in the previous year) and are broken down as follows.

| | Reporting period | Previous period |
|---|------------------|-------------------|
| Equity investments | 109,582 | 13,342,366 |
| Accrued income and prepaid expenses | 1,127,541 | 970,879 |
| Amounts available for execution proceedings | - | 1,411,497 |
| Guarantee deposits | 156,889 | 139,021 |
| Other | - | 24,359 |
| Total | 1,394,012 | 15,888,122 |

Equity investments

The decrease refers to the merger by incorporation of the subsidiaries Napoli Metro Engineering S.r.l. and Metro Engineering S.r.l..

The item includes equity investments in associated companies of € 109,582; this amount refers to the investment in the Russian company MMB Project. The stake held is 50%. During 2017, a new shareholder took over a 50% stake, and the company is currently not operational; operations are expected to start in 2018. The share capital of the investee is € 1,980; equity is € 103,830 and currently includes only the capital account payment by MM, which was decided upon by the company in December 2017.

1.6 Inventories

Inventories amounted to € 1,691,284 (€ 1,841,943 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 € 403,152.

The change compared to the previous year is the result of the decrease in inventories of € 133,978 and the increase in the corresponding provision for write-down of inventories of € 16,682.

Inventories are broken down as follows:

| | As at 1 January 2017 | As at 31 December 2017 |
|---|----------------------|------------------------|
| Raw materials, consumables and goods for resale | 2,094,436 | 2,228,414 |
| Provision for write-down of inventories | (403,152) | (386,471) |
| Total | 1,691,284 | 1,841,943 |

1.7 Trade receivables

Trade receivables, net of the related provision for impairment, amounted to € 231,766,725 (€ 223,420,387 in the previous year).

The item is broken down as follows:

| | Current - Reporting period | Total - Reporting period | Current - Previous period | Total - Previous period |
|--------------------------------------|----------------------------|--------------------------|---------------------------|-------------------------|
| Due from third parties | 150,121,588 | 150,121,588 | 121,925,827 | 121,925,827 |
| Due from subsidiaries | - | - | 645,905 | 645,905 |
| Due from parent companies | 98,489,070 | 98,489,070 | 115,368,999 | 115,368,999 |
| Total trade receivables - gross | 248,610,658 | 248,610,658 | 237,940,731 | 237,940,731 |
| (Bad debt provision) | (16,843,933) | (16,843,933) | (14,520,347) | (14,520,347) |
| Total trade receivables - net | 231,766,725 | 231,766,725 | 223,420,384 | 223,420,384 |

Receivables due from third parties

Receivables due from third parties consist of € 46,278,528 in services provided to third parties by the Engineering Business Unit, € 86,253,327 for the management of the Integrated Water Service (of which € 35,405,800 relate to invoices to be issued and € 58,178 to credit notes to be issued), € 985,618 in receivables of the Plant and Real Estate Business Unit, and € 13,830 in receivables of the Housing Business Unit.

The increase compared to last year is mainly due to the incorporation of the subsidiaries.

Receivables due from parent companies

Receivables due from parent companies are attributable to the Engineering Business Unit for already invoiced services and services which are yet to be invoiced totalling € 87,267,591, to the Integrated Water System to the tune of € 4,120,549 and to the Housing Business Unit to the tune of € 6,847,282.

The amount of receivables concerning the Engineering Business Unit is shown net of the advances of € 2,063 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:

| | Total |
|--|-------------------|
| Balance as at 31 December 2016 | 14,513,863 |
| Contribution from the Metro Engineering merger | 380,000 |
| Use during the year | (195,462) |
| Allocation for the year | 2,145,533 |
| Balance as at 31 December 2017 | 16,843,934 |

This provision refers to the impairment of receivables from customers of the Integrated Water Service amounting to 15,464,795.

1.8 Cash and cash equivalents

Cash and cash equivalents amounted to € 90,915,497 (€ 85,593,771 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|---------------|-------------------------|------------------------|
| Cash | 16,434 | 19,455 |
| Bank deposits | 90,899,063 | 85,574,316 |
| Total | 90,915,497 | 85,593,771 |

1.9 Other current assets

Other current assets amounted to € 28,571,493 (€ 35,526,375 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|---|-------------------|-------------------|
| Receivables due from tax authorities | 18,434,545 | 26,741,184 |
| Prepayments | 7,801,454 | 6,209,529 |
| Receivables due from social security agencies | 1,024,362 | 639,437 |
| Other current receivables | 1,711,132 | 2,336,225 |
| Bad debt provision | (400,000) | (400,000) |
| Total | 28,571,493 | 35,526,375 |

Receivables due from tax authorities

The item receivables due from tax authorities refers for € 13,219 thousand to VAT receivables and for € 5,215 thousand to IRES (corporate tax) and IRAP (regional business tax) receivables.

Equity and liabilities

1.10 Equity

The share capital is comprised of 23,150,576 ordinary shares with a par value of € 1 each, fully subscribed and paid up, held by the Municipality of Milan.

Equity - origin, use and distribution

Below we provide the information required by art. 2427, no. 7-bis, pursuant to which equity items must be shown separately by availability, origin and their use in previous years.

| | Amount | Origin/type | Possibility of use | Available portion | Summary of uses in the three previous years – to cover losses | Summary of uses in the three previous years – for other reasons |
|-------------------------------|--------------------|--------------------------------|--|--------------------|---|---|
| Capital | 23,150,576 | Subscription / capital reserve | coverage of losses | - | | |
| Legal reserve | 3,171,867 | earnings reserve | coverage of losses | - | | |
| Other reserves | | | | | | |
| Merger surplus reserve | 47,193,068 | Merger surplus reserve | share capital increase, coverage of losses, allocation | 47,193,068 | | |
| Extraordinary reserve | 70,700,029 | earnings reserve | share capital increase, coverage of losses, allocation | 70,700,029 | | |
| Housing Business Unit reserve | 1,966,159 | earnings reserve | share capital increase, coverage of losses, allocation | 1,966,159 | | |
| IFRSs transition reserve | 13,764,194 | IFRSs transition reserve | share capital increase, coverage of losses, allocation | 13,764,194 | | |
| Cash flow hedge reserve | (5,983,006) | | | (5,983,006) | | |
| Total | 153,962,887 | | | 127,640,444 | | |
| Total equity | 177,797,480 | | | | | |

1.11 Current and non-current financial liabilities

Financial liabilities amounted to € 228,058,268 (€ 231,270,759 in the previous year).

Breakdown and division between current and non-current portions are provided and described below.

| | As at 31 December 2017 | | As at 1 January 2017 | |
|------------------------------------|------------------------|---------------------|----------------------|---------------------|
| | Current portion | Non-current portion | Current portion | Non-current portion |
| Bank loans | 4,933,532 | 50,541,154 | 4,752,285 | 55,418,954 |
| Bond loan | - | 98,337,612 | - | 98,246,332 |
| Loans from subsidiaries | - | - | 1,532,936 | - |
| Other loans | 39,070,841 | 7,429,159 | 36,400,000 | - |
| Bank account overdrafts | 18,327,288 | - | 23,709,655 | - |
| Fair value of IRSs | - | 7,872,376 | - | 9,872,729 |
| Payables relating to finance costs | 1,546,306 | - | 1,337,868 | - |
| Total | 63,877,967 | 164,180,301 | 67,732,744 | 163,538,015 |

Expenses incurred by the Company in relation to bank loans and a 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 IAS 39.

The “Other loans” item refers to the use of “Hot Money” lines and loans with a duration of 18 months.

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 2017 | | | |
|--|-----------|------------|---------------|--------------------|------------------------|-------------------|-------------------------|------------------------|
| | | | | | Total | Due within 1 year | Due within 2 to 5 years | Due later than 5 years |
| Bank loans: | | | | | | | | |
| Floating Rate Loan - Banca Popolare di Bergamo | 25,000 | 2011 | 2026 | Euribor 3m + 2.5% | 16,757,699 | 1,634,690 | 7,226,145 | 7,896,864 |
| Fixed Rate Loan - Carige | 25,000 | 2009 | 2027 | 5.91% | 16,993,997 | 1,289,275 | 5,978,548 | 9,726,174 |
| Floating Rate Loan - BNL | 20,000 | 2008 | 2028 | Euribor 6m + 0.25% | 11,000,000 | 1,000,000 | 4,000,000 | 6,000,000 |
| Floating Rate Loan - Banca Intesa | 20,000 | 2006 | 2026 | Euribor 6m + 0.12% | 10,827,830 | 1,033,355 | 4,536,607 | 5,257,868 |
| Bond Loan: | | | | | | | | |
| Senior Secured Amortising Fixed Rate Notes | 100,000 | 2016 | 2035 | 0.0315 | 100,000,000 | - | - | 100,000,000 |
| Total | | | | | 155,579,526 | 4,957,320 | 21,741,300 | 128,880,906 |

1.12 Provisions for risks and charges

Provisions for future risks and charges amounted to € 4,080,767 (€ 4,186,038 in the previous year).

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

| | Balance as at 1 December 2017 | Increase | Uses/releases | Balance as at 31 December 2017 |
|------------------------------|-------------------------------|----------------|------------------|--------------------------------|
| Provision for risks | 3,439,820 | 869,280 | (725,813) | 3,583,287 |
| Provision for future expense | 746,218 | - | (248,739) | 497,480 |
| Total | 4,186,038 | 869,280 | (974,552) | 4,080,767 |

The allocation for the year refers for € 533,887 to future losses relating to orders of the engineering business unit with negative margins and for 335,403 to allocations to the insurance excess fund.

The release of the provision for risks refers to the settlement of legal disputes with third parties.

The provision for future expense was used to pay the municipal property tax (IMU) for the year in relation to the parking areas under concession arrangements.

1.13 Employee benefits

This item includes post-employment benefits and other employee benefits amounting to € 8,821,753 (€ 8,737,472 in the previous year).

| | Reporting period | Previous period |
|--------------------------|------------------|------------------|
| Post-employment benefits | 7,017,338 | 7,171,554 |
| Other benefits | 1,804,415 | 1,565,918- |
| Total | 8,821,753 | 8,737,472 |

Post-employment benefits

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

| | Employee benefits |
|---------------------------------------|-------------------|
| Balance as at 31 December 2016 | 7,171,554 |
| Increase during the period | 393,985 |
| Finance costs | 72,709 |
| Actuarial losses | 217,082 |

| | |
|---------------------------------------|------------------|
| Amounts paid | (837,992) |
| Balance as at 31 December 2017 | 7,017,338 |

The increase for the year is mainly due to the transfer of provisions from the incorporated companies.

The provision for post-employment benefits includes the effects of discounting as required by IAS 19. The breakdown of economic and demographic assumptions used for the actuarial valuation is provided below:

| | |
|---|--|
| Discounting rate/discount | 0.88% Engineering Business Unit - 1.3% Water and Housing Business Unit |
| Inflation rate | 1.5% |
| Expected mortality rate | Italian General Accounting Office table RG48 |
| Expected invalidity rate | INPS1998M/ INPS1998F tables |
| Expected resignations/advances (annually) | 3.10% |

Other employee benefits

This item totals € 1,804,415 and refers to the amount set aside for capitalisation policies for executives which will be settled when their employment terminates, as provided by the supplementary agreement.

For comparison purposes only, this item was reclassified from trade payables also for the previous year.

1.14 Other non-current liabilities

Other non-current liabilities amounted to € 20,396,849 (€ 17,865,691 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|--------------------|-------------------|-------------------|
| Guarantee deposits | 16,875,133 | 14,864,082 |
| Deferred income | 3,521,716 | 3,001,609 |
| Total | 20,396,849 | 17,865,691 |

1.16 Trade payables

Trade payables amounted to € 163,017,361 (€ 173,706,761 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|---------------------------|--------------------|--------------------|
| Due from third parties | 103,278,658 | 101,492,915 |
| Due from subsidiaries | - | 284,099 |
| Due from parent companies | 59,738,703 | 71,929,747 |
| Total | 163,017,361 | 173,706,761 |

This item includes payables referring to the Company's ordinary commercial activities, in relation to the provision of goods, fixed assets and services. As at 31 December 2017, no payables with a residual duration exceeding five years were recognised.

Payables due to third parties

The balance as at 31 December 2017 includes payables related to the Engineering Business Unit of € 38,816,286, payables related to the Integrated Water Service of € 60,442,630 and payables related to the Housing Business Unit of € 4,019,742.

This item includes trade payables beyond 12 months amounting to € 1,736 thousand and concerns contractual deductions on work in progress, which will be paid only after the final work is tested.

Payables to Parent Companies

Payables to Parent Companies are fully attributable to the Municipality of Milan.

The balance as at 31 December 2017 includes payables related to the Engineering Business Unit of € 2,073,003, payables related to the Integrated Water Service of € 57,647,320 and payables related to the Housing Business Unit of € 18,380.

The payables of the Integrated Water Service include, in addition to the fees for the concession of buildings and to the consideration for services, the portion pertaining to the Municipality of Milan of the billings issued by the Company after 30 June 2003 and the wastewater treatment portion to be acknowledged to it as Commissioner appointed for the construction of wastewater treatment plants.

1.17 Other current liabilities

Other current liabilities amounted to € 28,025,297 (€ 29,477,648 in the previous year).

The item is broken down as follows:

| Other current liabilities | Reporting period | Previous period |
|--|-------------------|-------------------|
| Payables due to employees | 10,165,905 | 9,819,246 |
| Payables due to Integrated Water Service users | 923,152 | 3,755,906 |
| Advances | 7,392,337 | 2,844,549 |
| Payables due to social security agencies | 4,264,331 | 4,097,042 |
| VAT and other tax payables | 2,227,168 | 2,660,173 |
| Payables to AMSA for buyback of plants | - | 3,387,716 |
| Other liabilities | 3,052,404 | 2,913,016 |
| Total | 28,025,297 | 29,477,648 |

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 Integrated Water Service users” refers to the portion of the Optimal Territorial Area tariff billed in 2012/2013 to be refunded to users.

The item “Advances” includes advances received from third-party customers for € 883,629 and from the Parent Company for € 6,508,708; the latter mostly consist of advances received by the Municipality of Milan for settlement net of the expenses incurred for management in the name and on behalf of public housing property. For comparison purposes only, this item was reclassified from "trade payables" to "other current liabilities" also for the previous year.

The item “Payables to AMSA for buyback of plants” decreased following the payment for interventions carried out by AMSA after the renewal of the lease contract during the year.

NOTES TO THE INCOME STATEMENT

2.1 Revenues

Revenues from sales and services amounted to € 181,009,719 (€ 181,365,850 in the previous year).

The item is broken down by Business Unit as follows:

| | Reporting period | Previous period |
|--------------------------|--------------------|--------------------|
| Integrated Water Service | 143,603,449 | 140,337,493 |
| Engineering | 23,992,099 | 26,630,154 |
| Housing | 11,066,464 | 11,710,840 |
| Plant and Real Estate | 2,347,707 | 2,687,363 |
| Total | 181,009,719 | 181,365,850 |

Revenues of the Engineering Business Unit are shown net of the cost of work contracted on behalf of third parties, which are attributed to the principals based on concession agreements and service contracts, for an amount equal to € 19,641 thousand for the year ended 31 December 2017.

Below is the breakdown by geographic area.

| <i>Amounts in thousands of Euro</i> | Reporting period | Previous period |
|-------------------------------------|------------------|-----------------|
| Italy | 180,340 | 180,375 |
| Europe | 447 | 513 |
| Rest of the world | 223 | 490 |
| Total | 181,010 | 181,366 |

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 € 32,787,603 for the year ended 31 December 2017. In compliance with IFRIC 12, these revenues correspond to the work performed on the assets held on the basis of a concession agreement of the Integrated Water Service plus a 7.29%, markup which represents the best estimate regarding the remuneration of internal costs for the work supervision 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.

2.3 Other revenues and income

Other revenues and income amounted to € 13,033,756 (€ 9,425,833 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|--|-------------------|------------------|
| Sundry services carried out by the IWS | 2,182,691 | 3,127,627 |
| Charge backs and expense refunds | 383,722 | 460,228 |
| Grants related to assets | 22,206 | 22,206 |
| Increases for internal work | 7,314,910 | 4,116,472 |
| Charge of costs for seconded staff | 517,789 | - |
| Other revenues and income | 2,612,438 | 1,699,300 |
| Total | 13,033,756 | 9,425,833 |

2.4 Costs for raw materials, consumables and goods for resale

Raw materials and consumables amounted to € 4,080,274 (€ 3,012,107 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|---|------------------|------------------|
| Fuels and lubricants | 244,548 | 186,279 |
| Consumables and other | 3,685,067 | 2,834,675 |
| Changes in raw materials, ancillaries and consumables | 150,659 | (8,847) |
| Total | 4,080,274 | 3,012,107 |

2.5 Other operating costs

Other operating costs amounted to € 2,322,274 (€ 3,807,333 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|------------------------------------|------------------|------------------|
| Membership fees | 362,228 | 297,316 |
| Taxes and other deductible charges | 390,972 | 321,873 |
| IMU Property Tax | 210,699 | 196,099 |
| Donations | 54,132 | 99,337 |
| Other operating expenses | 1,304,243 | 2,892,708 |
| Total | 2,322,274 | 3,807,333 |

2.6 Costs for services

Costs for services amounted to € 76,819,413 (€ 81,407,024 in the previous year).

Breakdown is shown and described below.

| | Reporting period | Previous period |
|--|-------------------|-------------------|
| Utility bills (water, electricity) | 21,165,934 | 23,341,831 |
| Gas | 521,779 | 633,551 |
| Outsourced work | 146,386 | 400,007 |
| Maintenance | 4,605,149 | 5,247,478 |
| Technical and legal consulting | 6,829,213 | 7,320,307 |
| Remuneration of directors | 145,155 | 144,971 |
| Remuneration of statutory auditors | 46,893 | 36,036 |
| Advertising | 559,096 | 540,830 |
| Telephone and postal expense | 1,011,446 | 1,311,348 |
| Insurance | 2,577,657 | 2,643,475 |
| Business trips and transfers | 296,603 | 229,062 |
| Other costs for services | 6,144,789 | 5,083,670 |
| Costs for activated carbon regeneration | 1,893,120 | 1,860,157 |
| Canteen and luncheon vouchers | 1,604,694 | 1,569,029 |
| Services supplied by the Municipality of Milan | 2,981,700 | 2,938,282 |
| Wastewater treatment plant management fee | 16,408,451 | 19,391,514 |
| Waste disposal | 5,619,564 | 4,401,257 |
| Use of third party assets | 4,261,784 | 4,314,219 |
| Total | 76,819,413 | 81,407,024 |

The decrease in the cost of electricity is due to the combined effect of reduced consumption and decrease of tariffs negotiated on the market.

The decrease in costs for wastewater treatment is the result of the deviation of flows from the Peschiera Borromeo plant to the Milano Nosedo plant, resulting in a rationalisation and streamlining of the wastewater treatment process.

The item "Use of third party assets" is broken down as follows:

| | Reporting period | Previous period |
|---|------------------|------------------|
| Rents and leases | 3,822,441 | 3,998,730 |
| Royalties, copyrights and patent rights | 429,623 | 300,383 |
| Other costs for use of third-party assets | 9,720 | 15,106 |
| Total | 4,261,784 | 4,314,219 |

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 € 30,611,957 for the year ended 31 December 2017. This item consists of the cost for work on assets held under concession arrangements.

2.8 Personnel costs

Personnel costs amounted to € 57,507,984 (€ 55,297,463 in the previous year).

Breakdown is shown and described below.

| | Reporting period | Previous period |
|--------------------------|-------------------|-------------------|
| Salaries and wages | 41,088,250 | 39,034,724 |
| Social security costs | 11,853,347 | 10,801,966 |
| Post-employment benefits | 2,854,458 | 2,257,992 |
| Other costs | 1,711,929 | 3,202,781 |
| Total | 57,507,984 | 55,297,463 |

The breakdown of labour cost by category is as follows:

| Number of employees | 2017 | |
|----------------------|----------------|--------------|
| | As at year end | Average |
| Senior managers | 33 | 32 |
| Middle managers | 77 | 76 |
| White-collar workers | 665 | 667 |
| Workers | 349 | 348 |
| Total | 1,124 | 1,123 |

Labour cost increased due to the hiring of new resources.

Other personnel costs also include the leaving indemnities based on individual agreements with employees.

2.9 Amortisation/Depreciation, impairment and other provisions

Depreciation of property, plant and equipment amounted to € 14,548,292 (€ 13,455,971 in the previous year).

The item is broken down as follows:

| | Reporting period | Previous period |
|---|-------------------|-------------------|
| Depreciation of property, plant and equipment and amortisation of intangible assets | 11,516,606 | 10,605,768 |
| Amortisation/depreciation and impairment | 3,031,686 | 2,850,203 |
| Total | 14,548,292 | 13,455,971 |

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

| | Reporting period |
|--|-------------------|
| Property, plant and equipment | 2,835,718 |
| Rights over the infrastructure relating to service concession arrangements | 8,270,092 |
| Other intangible assets | 410,796 |
| Total | 11,516,606 |

2.10 Impairment loss on the disposal of fixed assets

The impairment loss on property, plant and equipment and intangible assets amounted to € 28,103 (€ 0 in the previous year).

The item is broken down as follows:

| | Reporting period - Losses | Reporting period - Difference |
|---|------------------------------|----------------------------------|
| Impairment losses (Reversal of impairment losses) | | |
| - Other Property, plant and equipment | 28,103 | 28,103 |
| Total property, plant and equipment | 28,103 | 28,103 |
| Impairment losses (Reversal of impairment losses) | | |
| Grand total | 28,103 | 28,103 |

2.11 Finance income and costs

Finance costs net of finance income amounted to € (7,384,096) (€ (4,862,780) in the previous year).

Breakdown is shown and described below.

| | Reporting period | Previous period |
|---|------------------|-----------------|
| Financial income from equity investments | 67,078 | - |
| Interests for delayed payments and late payment penalties | - | 237,683 |
| Interest income on bank current accounts | 369,801 | 108,850 |
| Foreign exchange gains | 78,655 | 22,128 |
| Other finance income | 42,783 | 84,540 |
| Total finance income | 491,238 | 453,201 |
| Interest expense on bank loans and borrowings | 6,628,321 | 3,931,426 |
| Interest expense on loans from subsidiaries | - | 46,733 |
| Bank interest expense | 982,776 | 1,068,584 |
| Interest cost – employee benefits | 72,709 | 67,339 |

| | | |
|-----------------------------------|--------------------|--------------------|
| Foreign exchange losses | 90,310 | 40,919 |
| Other finance costs | 168,296 | 160,981 |
| Total finance costs | 7,942,412 | 5,315,982 |
| | | |
| Net finance income/(costs) | (7,384,096) | (4,862,781) |

The increase in finance costs mainly refers to the Water business unit and is due to the interests payable on the bond loan issued in December 2016.

2.12 Income taxes

Income taxes amounted to € 9,694,092 (€ 12,134,402 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 2017:

| | Reporting period | Previous period |
|--|------------------|-------------------|
| IRES (Corporate income tax) / IRAP (Regional business tax) | 12,700,260 | 15,394,311 |
| Net prepaid / deferred tax | (3,006,168) | (3,259,909) |
| Total | 9,694,092 | 12,134,402 |

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

| | Year ended 31 December 2017 | | Year ended 31 December 2016 | |
|---|-----------------------------|--------------|-----------------------------|--------------|
| | | % | | % |
| Profit (loss) before tax | 33,528,685 | | 30,152,504 | |
| Theoretical corporate tax (IRES) | 8,046,884 | 24.00% | 8,291,939 | 27.50% |
| Regional business tax (IRAP) | 2,446,012 | 7.30% | 2,485,793 | 8.24% |
| Tax effect of permanent and other differences | (798,804) | -2.38% | 1,356,670 | 4.50% |
| Taxes | 9,694,092 | | 12,134,402 | |
| Actual tax rate | | 28.9% | | 40.2% |

The change in the tax burden from the previous year is mainly due to the change in the IRES rate in the years 2016 and 2017, the amount of which was reduced from 27.5% to 24%.

Commitments and Contingent Risks

Sureties and guarantees in favour of third parties and contingent liabilities

As at 31 December 2017, sureties issued by third parties totalled € 9,967 thousand, broken down as follows:

- a guarantee in favour of the Optimal Territorial Area as required by the Integrated Water Service concession agreement of € 2,800 thousand;
- a guarantee issued to the Municipality of Milan for the ordinary upgrading of the water network of € 100 thousand;
- a guarantee issued to the Italian Tax Authorities for the refund of VAT credit of € 4,325 thousand;
- guarantees to principals for the execution of contracts of € 2,742 thousand.

Dispute

The value of disputes related to claims of contractors deriving from the performance of work contracts and pending at 31 December 2017 totals approximately € 148 million at historical prices.

It is specified that disputes for approximately € 8 million mainly deriving from financial constraints binding the relevant entities are pending.

It should be noted that, in the event of losing the case, the related costs can be attributed to the granting bodies since they are related and result from the works carried out.

Other Information

Income and expense items of exceptional size or incidence

There are no income and expense items of exceptional size or incidence.

Off-balance sheet agreements

The Company has no extant off-balance sheet agreements.

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 2017, the relations with the Municipality of Milan mainly involved:

- engineering technical support services for the construction of line M4;
- engineering services for EXPO 2015, for the tasks assigned by the Municipality of Milan for works related to the accessibility to the Expo site;
- property management (administrative management, accounting management, mobility management, communications management and customer relationship management) and facility management (services, supplies and maintenance and technical management) of properties owned by the Municipality.

As at 31 December 2017, the Company's receivables from the Municipality of Milan totalled € 2.2 billion, while its payables due to the Municipality of Milan totalled € 2.2 billion. The Company's revenues collected from the Municipality of Milan totalled € 55 million, while the costs incurred as contracting authority for the Municipality of Milan amounted to € 19.5 million. The value of costs for services and leases recharged by the parent company to MM amounted to € 4.5 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 IAS 18, since the Company acts as an agent for the Municipality of Milan and suppliers of engineering services, revenues and receivables arising from the construction of assets are offset against the relevant costs and payables.

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

- engineering services in favour of Expo 2015 S.p.A., SEA S.p.A., Milanospoort S.p.A., Arexpo S.p.A., AMAT;

- 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 A2A companies;
- 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 and public space management for the city of Milan.

Significant events after 31 December 2017

On 24 January 2018, following the concerned local public authorities' failure to exercise the pre-emption right within the time limits required by law, MM and the Municipality of Milan signed a deed acknowledging the fulfilment of the conditions for the finalisation of the second instalment of the transfer to MM of real estate belonging to the Municipality of Milan, Sole Shareholder.

The Municipality of Milan then signed the share capital increase of € 13,845,657. Thus, the real-estate transfer total value is € 21,396,233 and it constitutes a significant transaction that strengthens the company's equity, with the Share Capital totalling € 36,996,233 after the increase.

Upon reviewing the service contract which regulates the relations with MM, the General Manager of the Municipality of Milan (with resolution no. 44 of 30 March 2018) further extended and amended the parameters for determination of the financial offers for the engineering and architecture services as from 1 April 2018.

Remuneration of corporate bodies and independent auditors

Remuneration of corporate bodies

The table below provides information on directors and statutory auditors, pursuant to Article 2427, point 16 of the Italian Civil Code:

| | Amount |
|-----------------------------|---------|
| Board of directors | 145,155 |
| Board of statutory auditors | 46,893 |

Remuneration of independent auditors

The table below provides the information required by art. 149-duodecies of the Consob Issuers Regulation.

| | Amount |
|--|---------------|
| Audit of the financial statements and related activities | 74,177 |
| Audit of separate annual reports | 4,200 |
| Total as at 31 December 2017 | 78,377 |

Allocation of the profit for the year

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 23,834,593, as follows:

- € 1,458,248 to the legal reserve;
- € 456,578, equal to the portion of the net profit for the year attributable to the Housing Business Unit, to the Optional Reserve that will be used for specific investments envisaged by the Housing Business Unit strategic plan;
- € 21,919,767 to the extraordinary reserve.

For the Board of Directors
The Chairman
DAVIDE AMEDEO CORRITORE

**ANNEX 2: INDEPENDENT AUDITORS' REPORT OF THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2017**



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 2017, 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 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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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”

‘Trade receivables’ as of 31 December 2017 includes a significant amount of receivables referred to the Integrated Water Service, equal to Euro 86,253 thousand, with the relevant bad debt provision amounting to Euro 15,465 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 measurement of the bad debt provision was performed by management through an estimate of credit risk arising from past experience with similar accounts receivable, an analysis of overdue balances, bad debt losses and collections, and finally, monitoring developments in the current and prospective economic conditions of the relevant market.

We paid special attention to our audit procedures in this areas, which included:

- Understanding, evaluating and verifying, on a test basis, the operating effectiveness of relevant controls of the credit management and treasury cycle (collections);
 - A critical analysis of management’s assessments, through discussion with the credit manager;
 - A critical analysis of overdue balances and of replies to inquiries sent to the Company’s lawyers;
 - Sample testing of collections subsequent to the reporting date;
 - An analysis of guarantees in place, if any.
-

Key Audit Matters

Auditing procedures performed in response to key audit matters

Estimation of year-end revenues for the water segment

Note 1.7 to the financial statements “Trade receivables”

At the year end the Company estimates revenues for the year through systems that use complex algorithms, in particular to calculate estimated consumption and, consequently, to determine the amount of invoices to be issued to customers. As of 31 December 2017, the invoices to be issued for the water segment amounted to Euro 35,406 thousand.

Given the particular complexity of the algorithm underlying consumption estimates, the amounts to be recognised as receivables and revenues of the year may be determined inaccurately.

We focused our audit procedures on the risk related to the complexity of the system used to calculate and bill revenues of the water segment, in detail:

- We understood and evaluated the procedure flows of the revenue cycle, examined relevant controls and verified their operating effectiveness, on a test basis;
 - We understood, evaluated and verified, on a test basis, the controls supporting the billing system of the water segment, with particular reference, but not limited to, the use of customer master files, controls on meter readings, consumption estimates, the accuracy of the rates applied and the valuation of water bills issued to the final customers;
 - We performed substantive tests, on a sample basis, of revenues recognised for the year 2017;
 - 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 use 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 auditors' 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 in general meeting 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 those charged with governance, in their 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 2017, 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 2017 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 2017 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, 15 May 2018

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers



**RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE
AI SENSI DELL'ARTICOLO 14 DEL DLGS 27 GENNAIO 2010,
N° 39 E DELL'ARTICOLO 10 DEL REGOLAMENTO (UE)
N° 537/2014**

MM SPA

BILANCIO D'ESERCIZIO AL 31 DICEMBRE 2017

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 2017, 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 2017, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05.

Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione *Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio* della presente relazione. Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio

PricewaterhouseCoopers SpA

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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 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 2017 è compreso un valore significativo di crediti riferiti al Servizio Idrico Integrato pari a Euro 86.253 migliaia, il cui relativo fondo svalutazione crediti è pari a Euro 15.465 migliaia.

Ci siamo focalizzati su tale posta di bilancio in considerazione della significatività della stessa e dell'elevato grado di giudizio e soggettività insito nella valutazione di tale fondo svalutazione crediti 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 valutazione del fondo svalutazione crediti è stata condotta dal management della società mediante la stima della rischiosità creditizia che scaturisce dall'esperienza passata per crediti simili, l'analisi dei saldi scaduti e delle perdite e degli incassi, e infine il monitoraggio dell'andamento delle condizioni economiche, correnti e prospettiche, del mercato di riferimento.

Particolare attenzione è stata prestata alle procedure di revisione in tale area, che hanno compreso:

- la comprensione, valutazione e verifica a campione dell'operatività dei controlli rilevanti delle procedure di gestione del credito e del ciclo tesoreria (incassi);
- l'analisi critica delle valutazioni effettuate dalla Società tramite colloqui con il credit manager;
- l'analisi critica dei saldi scaduti e delle risposte dei legali della società;
- la verifica a campione degli incassi successivi alla data di chiusura del bilancio;
- l'analisi delle garanzie eventualmente in essere.

Aspetti chiave

Procedure di revisione in risposta agli aspetti chiave

Stima dei ricavi di fine anno del settore idrico

Nota Esplicativa n.1.7 del bilancio d'esercizio "Crediti Commerciali"

La società si trova a fine anno a stimare i ricavi maturati nell'esercizio attraverso sistemi che utilizzano algoritmi complessi in particolare per il calcolo stimato dei consumi e, quindi, per la determinazione dell'ammontare delle fatture da emettere ai clienti. Al 31 dicembre 2017, le fatture da emettere del settore idrico ammontavano a Euro 35.406 migliaia.

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 idrico svolgendo le seguenti verifiche:

- la comprensione e valutazione dei flussi procedurali del ciclo ricavi, la rilevazione dei controlli rilevanti, nonché la verifica a campione della operatività degli stessi;
- la comprensione, valutazione e verifica a campione dei controlli a supporto del sistema di fatturazione dei ricavi del settore idrico, con particolare riguardo, ma non esclusivamente, all'utilizzo delle anagrafiche clienti, ai controlli sulle letture dei contatori, alla stima dei consumi, alla correttezza delle tariffe applicate e alla valorizzazione delle bollette emesse ai consumatori finali;
- lo svolgimento di test di validità a campione sui ricavi contabilizzati nell'esercizio 2017;
- 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 test di validità a campione 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 2017, 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 2017 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 2017 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, 15 maggio 2018

PricewaterhouseCoopers SpA



Giulio Grandi
(Revisore legale)