



MM S.P.A.

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

- REPORT ON OPERATIONS AS AT 31 DECEMBER 2018 Page 2

- FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018
 - Balance Sheet – Assets Page 85
 - Balance Sheet – Liabilities Page 86
 - Income Statement Page 87
 - Cash Flow Statement Page 88
 - Statement of changes in Equity Page 89

- NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018 Page 90

- ANNEX 1: INDEPENDENT AUDITORS' REPORT OF THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018 Page 146

MM Spa
 Via del Vecchio Politecnico, 8
 20121 Milano
 TEL. +39 02 77 471
 FAX +39 02 78 00 33
 info@mmspa.eu
 info@pec.metropolitanamilanese.it
 www.mmspa.eu
 www.milanoblu.com

Ingegneria
 Via del Vecchio Politecnico, 8
 20121 Milano
 TEL. +39 02 77 471
 FAX +39 02 78 00 33
 info@mmspa.eu

Servizio Idrico
 Via Meda 44
 20141 Milano
 TEL. +39 02 84 771
 FAX +39 02 78 00 33
 SERVIZIO CLIENTI Via Borsieri 4
 servizio.clienti@mmspa.eu
 N° VERDE SERVIZIO CLIENTI 800 021 800

Casa
 Via del Vecchio Politecnico, 8
 20121 Milano
 TEL. +39 02 77 471
 FAX +39 02 78 00 33
 N° VERDE CASA 800013191

MM S.P.A.

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO, 8

Paid-up share capital Euro 36,996,233

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

Report on Operations as at 31/12/2018

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 planning cycle (from technical and financial feasibility studies to final and executive projects), 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 approximately 39,000 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

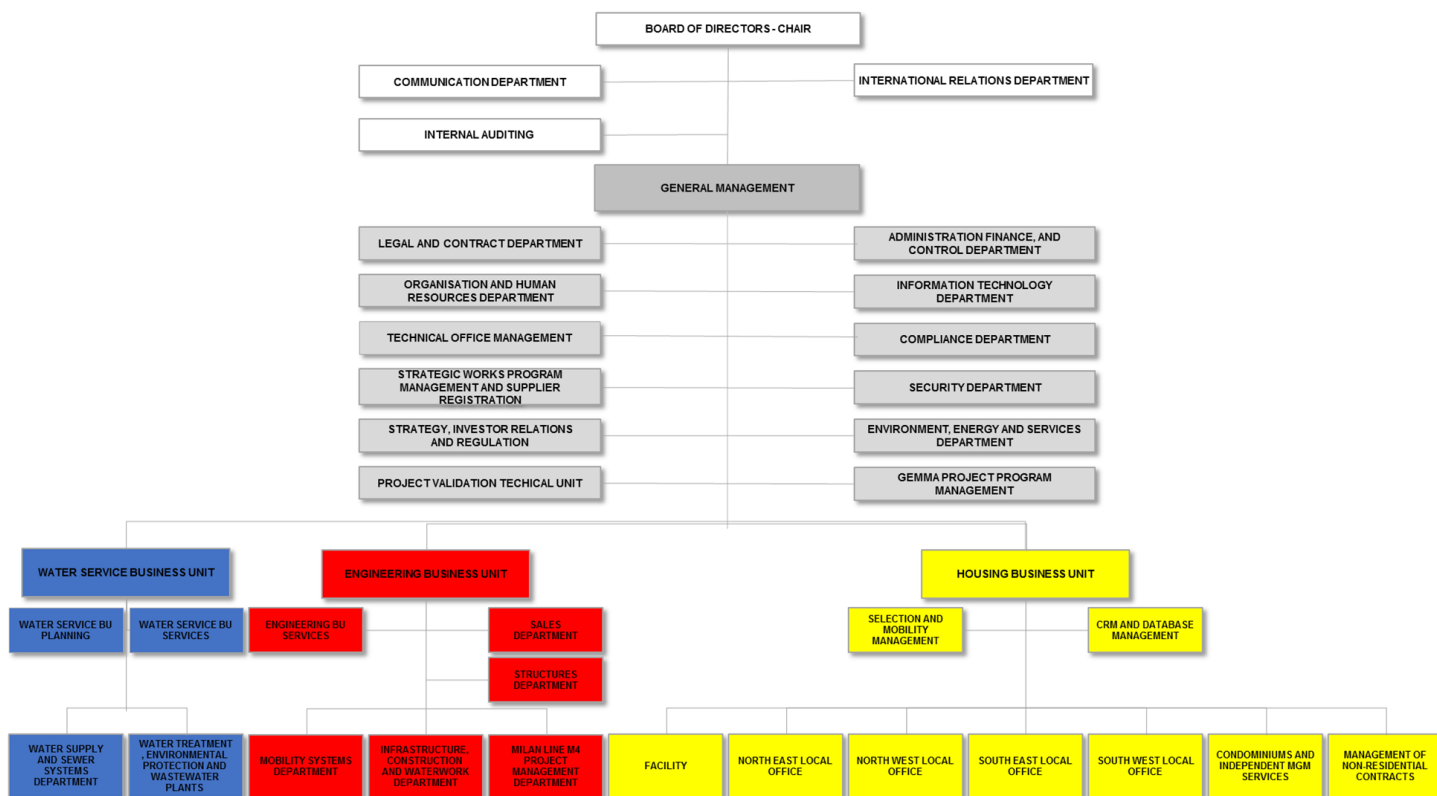
The Business Unit was created through the incorporation of the company M.I.R. S.r.l. It holds publicly-owned movable property and real estate, instrumental to the management of the waste collection and disposal service, made available to the temporary provider of hygiene services (until 2021, AMSA S.p.A.)

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 2018, MM continued its traditional activities by achieving the corporate purpose 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.

Organisational structure



After a 2017 characterised by a stabilisation of the workforce, 2018 showed a slight growth trend, expected to increase in 2019, resulting from the expansion of the activities assigned to MM by the Municipality of Milan and the requests of the Territorial Authority (ATO) and the regulatory body (ARERA).

The company was engaged in an in-depth review of the processes, roles and responsibilities arising from Change Management activities aimed at implementing the new SAP information system for the integrated management of processes in the company's main business sectors.

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, as detailed below.

As part of its staff functions, the Gemma Project Program Management function (GEM) was established, effective from 1 July 2018, to manage all phases of the SAP operating system implementation within the company, coordinate internal project teams, coordinate the team of suppliers, identify, mitigate and manage project risks and support MM in achieving the contractual objectives of the project.

The Strategic Works Program Management function (PMO) was entrusted with the responsibility of managing and overseeing the implementation and rationalisation of MM's List of Vendors. Therefore, the

Supplier Registration function (QFO), effective from 1 April 2018, now reports to this function, resulting in a change in the name of PMO in Strategic Works and Supplier Registration Program Management (PMO). The Strategic Works and Supplier Registration Program Management function (PMO) was also entrusted with the responsibility of structuring and devising support activities for the *Responsabile Unico del Procedimento* (i.e. Sole Project Manager, hereinafter R.U.P.) for all company structures. Therefore, the Service Expo function (SEE), effective from 1 October 2018, now reports to this function. This organisational change was made in order to strengthen the role of MM as a contracting authority also in order to comply with the requirements defined in Article 31, paragraph 4 of Italian Legislative Decree no. 50/2016 and of ANAC Guidelines no. 3 relating to the activities and tasks of the R.U.P.

In order to oversee the activities relating to the tariff regulation of the Water Service and to monitor all the requirements of the Authority in line with the business strategy, the activities of the Regulation and Relations with Institutions Department (DRRE), which ceased with effect from 1 July 2018, have been transferred to the Strategy, Investor Relations and Regulation function (SIR). In addition, all the activities relating to the management of real estate and plants non-instrumental to the core business of the company - previously assigned to the Plant and Real Estate Management Business Unit (DVGI), which ceased with effect from 1 July 2018 - were assigned to the Strategy, Investor Relations and Regulation function (SIR).

Also as part of the regulatory alignment, in order to ensure legal support for regulatory and conventional activities and to implement the new provisions laid down by ARERA Resolution no. 55/2018/E/IDR, a new IWS Regulatory, Conventional and Settlements function (NRC) was created effective from 1 July 2018 reporting to the Legal Department (LEG).

As from 1 October 2018, MM appointed a risk manager, identified in the person of the Head of Administration, Finance and Control Department, with the task of defining with the company's top management risk management objectives and activities relevant to the company by structuring a dedicated plan; defining, in collaboration with the affected organisational structures, actions, tools and methods useful for the operational monitoring of risk management activities; collaborating in defining audit and compliance plans relating to the control of risk mitigation activities.

During the year, the Water Service Business Unit underwent an organisational review aimed at improving the efficiency of the activities managed and redefining roles and responsibilities.

Since 1 July 2018, Andrea Aliscioni has been responsible for the Water Service Business Unit (DVSI), until then entrusted to the interim Managing Director.

The Wastewater and Treatment Department (DARD) ceased on 1 July 2018. As a result of this termination, the Water Treatment, Environmental Protection and Wastewater Plants function (DTA) now reports directly to the Water Service Business Unit.

The Water Supply System Department (DACQ) has been renamed Water Supply and Sewer Systems Department (DAFO) as the Wastewater Network function (RAR) now reports to this Department.

Moreover, in order to manage all customer relations consistently and efficiently, the IWS Credit Management function (GCI), assigned to the Administration, Finance and Control Department, now reports to the Customer function (CLI) with effect as from 1 April 2018.

The Engineering Business Unit was subject to rationalisation and centralisation of responsibilities. During the year, the following organisational changes took place.

With the deed of merger by incorporation of 27 December 2017, the subsidiaries Napoli Metro Engineering S.r.l and Metro Engineering S.r.l were merged into the Engineering Business Unit. Specifically, the activities and resources of the subsidiary Napoli Metro Engineering S.r.l. were transferred, effective from 1 January 2018, to the new Naples Design and Construction function (PCN), reporting to the Mobility Systems Department (DSMO).

The Milan Line M4 Project Department (DPM4) underwent a reorganisation that led to the termination of the functions reporting directly to it. Specifically, the activities and resources assigned to the Work Supervision Department (M4) were transferred to the Milan Line M4 Project Department (DPM4), while the resources assigned to the M4 Safety Coordination function (CM4) were partly allocated to other work orders and partly dedicated to improving safety at the Integrated Water Service sites.

In order to allow an effective and centralised management of the development of structural and geotechnical design pertaining to the Engineering Business Unit, a new Structures function (STR) was created reporting directly to the Engineering Business Unit (DVIN), to which resources and responsibilities entrusted to the Infrastructure and Buildings Structural Design function (PSE) and the Structural Design and Mobility Systems function (PST) were transferred, both of which ceased, with effect from 1 October 2018.

The Housing Business Unit did not undergo any organisational changes other than the creation, effective

from 1 January 2018, of the new Management of Non-Residential Contracts function (GUD), set up to optimise the economic result of leases of commercial real estate units related to commercial, associative and self-employment activities.

With Managerial Resolution no. 225-2018, the Municipality of Milan awarded to the Housing Business Unit the preparatory activities for the assignment of the Housing Property units, it being understood that the housing unit assignment function is the exclusive responsibility of the Municipality.

Moreover, with Managerial Resolution no. 13 of 1 June 2018, the Municipality of Milan established that the operating expenses for the opening of the 5th local office, scheduled for 2018/2019, will be borne by the Information Systems and Digital Agenda Department of the Municipality of Milan. The opening of the 5th local office will be aimed at improving the management of services in terms of their quality through a more widespread and deep-rooted dissemination of reference offices for citizens in the territory.

Therefore, the Housing Business Unit will be affected in the coming years by a process of workforce and skills growth.

Over the next two years, the company will continue to carry out reorganisation activities aimed at optimising all the operational processes that will be affected by the implementation of the new SAP system.

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

Legislative proposals A.C. 52 by Parliament Member Daga and A.C. 773 by Parliament Member Braga, on public management and governance of water services

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

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

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

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

Briefly, the key strengths of these legislative proposals are:

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

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

- the enhancement of efficient and virtuous management models capable of ensuring sustainable tariffs, regardless of the nature of the provider;
- the definition of management systems with a form and size suitable for the implementation of

investments in the service and capable of attracting talents in the sector, in line with its industrial nature;

- the support to the water sector development, also with respect to innovation and technology, to ensure the long-term effectiveness of the service;
- the role of ARERA in the governance of the sector.

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

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

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

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

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

this practice is already in use in MM with regard to any profits deriving from the management of Public Housing Property.

With regard to the role of ARERA in the governance of the sector, MM argued that it is essential to recognise the role that the National Regulator (ARERA) has played since the beginning of its regulatory activity in the water sector, which made it possible to guarantee a non-segmented governance and to concretely protect the water end user, also through Contract Quality (Resolution 655/2015/R/idr better known as RQSII) and Technical Quality (Resolution 917/17/R/idr better known as RQTI).

After a long series of hearings with associations, operators and subjects that for various reasons are interested in the reform of the water sector, in mid-March the Environment Committee of the Chamber of Deputies is waiting to obtain from the competent ministries the technical reports required to determine how to continue the debate and the subsequent start of examination in the Shareholders' meeting.

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

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

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

On 23 April 2018, applications were submitted for the enrolment of MM S.p.A. in the List of Contracting Authorities and Entities, pursuant to Article 192 of Italian Legislative Decree no. 50 of 18 April 2016, for in-house providing to the subsidiaries of the Municipality of Milan, i.e. AMAT S.r.l. and Milano Ristorazione S.p.A.; the applications are still pending before the National Anti-corruption Authority (ANAC).

New service contract between MM and the Municipality of Milan

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

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

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

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

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

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

Italian Public Procurement Code

1. Most significant changes introduced by the Code.

One of the most significant changes introduced by the Public Procurement Code with respect to tender procedures, is the recommendation to use electronic (e-procurement) systems, in compliance with the principles of transparency, streamlining and effectiveness of procedures.

As a result, as from 18 October 2018, contracting authorities were obliged to use only electronic means in their communications with economic operators.

With regard to this requirement, it should be pointed out that MM has been using a portal for tenders since December 2017, through which all tender procedures for an amount of more than € 40,000 are currently carried out, with the exception of the cases in which recourse is made to the instruments made available by Consip (Mepa, Conventions).

A further change concerns the publication in the Official Journal of the first three standard calls for tender for procedures to be awarded on the basis of the most economically advantageous tender for services and supplies and cleaning services above the EU threshold, as well as services related to architecture and engineering for an amount of € 100,000 or more.

These are “flexible regulation” instruments, envisaged by the Public Procurement Code (Italian Legislative Decree no. 50 of 2016), introduced with the aim of guaranteeing the efficiency and quality of contracting authorities’ activities.

It should be pointed out that, even if the term “standard call for tender” is used, these are actually standardised tender specification schemes with which the calls for tender must also comply.

The obligation to use these calls for tender is established by the Italian Public Procurement Code, which in Article 71 expressly envisages that “after adoption by ANAC of standard calls for tender, calls for tender shall be drawn up in accordance with them”; any exceptions to the standard call for tender must be justified by the contracting authorities in the decision to contract.

MM has already adapted to the use of these standard calls for tender.

It should also be noted that ANAC has activated the online portal for the registration of Tender Commissioners in the ANAC Register. The recourse to Commissioners appointed through the aforementioned Register, originally envisaged as from 15 January 2019, will become mandatory for tenders for which the submission of bids is fixed from 15 April 2019 onwards.

In particular, the obligation to have recourse to Tender Commissioners from outside the contracting authority, who will be chosen by lot from the aforementioned National Register managed by ANAC, is established by Articles 77 and 78 of the Italian Public Procurement Code.

The recourse to external Commissioners is mandatory (Commissioners and Presidents) for all work contracts above € 1 million and for services and supplies above the European threshold.

With respect to below-threshold amounts and to works the value of which is less than € 1 million, in the absence of particular complexity, the contracting authority can appoint internal members to the committee. The Chairman, on the other hand, shall be identified through the aforementioned Register.

If services and supplies of high scientific, technological or innovative content are awarded as part of research and development activities, ANAC can authorise the contracting authority's experts as members of the selection committee.

The effects that the new system of designation may have with regard to the timing of the tender must be checked and the overall costs arising from the fees and reimbursement of expenses to be paid to the external Commissioners must be assessed.

2. Amendments to the Italian Public Procurement Code contained in the Decree on simplification and support for development and in the 2019 budget law.

With Italian Legislative Decree no. 135 of 14 December 2018 ("Urgent provisions on support and simplification for businesses and the public administration"), converted into Law no. 12 of 11 February 2019, published in the Official Gazette no. 36 of 12 February 2019, the Legislator modified the system of the so-called "professional morality", innovating Article 80 (under the heading "Grounds for exclusion") of the Italian Public Procurement Code, with the aim of resolving some of the critical issues that emerged during the application of the rule: in fact, the legislator intervened by reformulating and articulating the subject reason for exclusion into independent cases described by the new letters c), c-bis) and c-ter) of paragraph 5.

This was done in order to “align the text of Article 80, paragraph 5, letter c of the code with Article 57, par. 4 of Directive 2014/24/EU, which independently considers the four cases of exclusion, wrongly indicated by way of example in the current point c)”.

Moreover, with respect to work contracts, paragraph 912 of the 2019 Budget Law (Law 145/2018) envisages that, pending an overall revision of the Italian Public Procurement Code, the contracting authorities may, in derogation from Article 36, paragraph 2 of the same code, directly award works of an amount equal to or greater than € 40,000 and less than € 150,000 after consulting, if any, three economic operators and award works of an amount equal to or greater than € 150,000 and less than € 350,000 through the negotiated procedures referred to in paragraph 2, letter b), of the same Article 36.

Integrated Water Service

NATIONAL REGULATORY FRAMEWORK

In 2018, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) continued its regulation of the sector with the issuing of the following provisions, reported in chronological order, with effects on 2019:

- With resolution 55/2018/E/idr of 2 February 2018, “Approval of the transitional rules for the extension to the water sector of the protection system for consumers and users of the electricity and gas sectors regulated by the Authority”, ARERA approved the transitional rules relating to voluntary procedures for the out-of-court settlement of disputes between water users and providers (Annex A) and the Regulations relating to the activities carried out by the Desk with reference to the handling of second-instance complaints from water users (Annex B).
- With reference to voluntary procedures for the out-of-court settlement of disputes, the measure provides for the scope of conciliation, the duration of the transitional period (from 1 July 2018 to 30 June 2019) and exceptions.
- With reference to the handling of second-instance complaints, the measure provides that the Authority’s Energy and Environment Consumer Desk manages complaints on the subjects covered by the national regulation in the water sector, through electronic procedures. The Desk will transmit to the Authority’s Offices, on a quarterly basis, a detailed report on the activities carried out and the reports on written complaints.

Finally, in addition to any technical meetings and focus groups, the resolution also calls for two technical meetings: the first, with consumer and user associations, providers and local governing bodies (EGAs), aimed at investigating how to transform the conciliation bodies currently operating at local level - other than joint conciliations - into ADR entities set forth in the Consumer Code; the second, with the Regions and EGAs, aimed at investigating further initiatives to guarantee users, to be developed in agreement with the Regions.

- With consultation paper 80/2018/R/idr of 12 February 2018, “Procedures for reducing overdue payments in the integrated water service”, ARERA presented the final guidelines on the measures required for reducing overdue payments in the integrated water service (IWS), including the procedures for the suspension of the supply and possible disconnection of the supply of defaulting users (excluding residential household users), as well as the measures to protect the end user in cases of interruption and discontinuance of the supply. The model of the provision concerning the Regulation of overdue payments in the integrated water service (REMSI) is attached to the document.
- With resolution 227/2018/R/idr of 5 April 2018, “Methods of application of the social water bonus for economically disadvantaged household users”, ARERA defined the methods of application of the social water bonus for resident household users in conditions of economic and social distress. In particular, the measure, following resolution 897/2017/R/idr of 21 December 2017, regulates the information flows, the exchange of data and the operating procedures for the payment of the social water bonus as well as the duties of disclosure of the parties involved in the mechanism to allow, from 1 July 2018, the payment of the bonus to those users who will request it.
- With resolution 320/2018/E/idr of 7 June 2018, “Disclosure obligations for water system companies for the implementation of the territorial registry of the integrated water service, also for the purpose of applying the social water bonus for economically disadvantaged household users”, ARERA implemented the Territorial Registry of the Integrated Water Service in order to have constantly updated information on the management of water services in the municipalities of the national territory. The resolution also provides for the exchange of information with SGATE for the purposes of payment of the water bonus and the publication of information to grant transparency on the presence of water service providers on the national territory.
- With resolution 355/2018/R/com of 28 June 2018, “Efficiency improvement and harmonisation of

the rules concerning procedures for out-of-court settlement of disputes between customers or end users and providers in the sectors regulated by the Authority - Consolidated Law on Conciliation (TICO)”, following the above-mentioned Resolution 55/2018/E/idr, ARERA approved the measures for the efficiency improvement and harmonisation of the rules concerning procedures for the out-of-court settlement of disputes between customers or end users and providers in the sectors regulated by the Authority, as set out in Annex A to Resolution 209/2016/E/com and Annex A to Resolution 55/2018/E/idr.

- With resolution 436/2018/R/idr of 2 August 2018 “Approval of the update of the integrated water service tariff arrangement for 2018 and 2019, proposed by the Area Office of the Metropolitan City of Milan”, ARERA approved the integrated water service tariff updates for 2018 and 2019, proposed by the Area Office of the Metropolitan City of Milan for the providers Cap Holding S.p.A. (also as a wholesale supplier) and MM S.p.A. as well as for the wholesale supplier MilanoDepur S.p.A.
- With resolution 518/2018/R/idr of 16 October 2018, “Launch of a procedure for monitoring the implementation of planned investments in the integrated water service”, ARERA launched a procedure for monitoring the implementation of planned investments in the integrated water service, in order to ensure the correct application of the regulation in force for temporary regulatory schemes, as well as to identify - to the extent of its competence - possible liability profiles related to the failure to implement the planned infrastructure interventions.
- With resolution 571/2018/R/idr of 13 November 2018, “Launch of a procedure for monitoring the application of the rules concerning the contractual quality of the integrated water service, as well as for the integration of the regulation in force (RQSII)”, ARERA launched a procedure for monitoring the application of the rules concerning the contractual quality of the integrated water service referred to in Resolution 655/2015/R/idr, as well as for the integration of the regulation provided therein, in order to strengthen the measures aimed at ensuring the dissemination, usability and quality of service to users in a homogeneous manner throughout the country.
- With consultation paper 573/2018/R/idr of 13 November 2018, “Monitoring of planned investments implementation in the integrated water service”, following the aforementioned resolution 518/2018/R/idr, ARERA presented its guidelines for:
 - assessing the possible benefits achieved by the provider through the use of regulatory schemes to promote investments even if they are not carried out;

- taking into account the outcome of the monitoring of the causes of deviations between the investments made and those planned, declining the current system of rules, if necessary envisaging the mere recovery of the possible benefits in the event of absence of liability profiles, as well as the application of specific penalties and the recovery of the benefits achieved, in cases of continuing difficulties in the implementation of the planned investments and with the presence of significant deviations;
- defining further rules that impose on providers differentiated efficiency-improving obligations on the basis of their relative effectiveness in implementing planned investments.

LOCAL REGULATORY FRAMEWORK

With regard to local regulations, in 2018 the Area Office of the Metropolitan City of Milan operated in accordance with ARERA provisions and, among other things, arranged to:

- Prepare the proposal to update the Integrated Water Service tariffs for the two-year period from 2018 to 2019 pursuant to ARERA resolution no. 918 of 27 December 2017, by means of the Board of Directors' resolution no. 5 of 11 June 2018, subsequently approved by ARERA with resolution 436/2018/R/idr of 2 August 2018 and the approval of an additional component to the social water bonus;
- Approve the updated version of the Technical Specifications attached to the IWS concession agreement by means of the Board of Directors' resolution no. 4 of 1 October 2018;
- Approve, with respect to tariffs, the reorganisation of the tariff structures and the consequent adjustment of the fees according to the provisions of TICSII (the integrated text on water services fees) by means of the Board of Directors' resolution no. 4 of 31 October 2018.
- The Technical Specifications and the Tariff Structure were subsequently approved by the Conference of Municipalities with resolution no. 3 of 30 October 2018.

Significant events occurred during the period

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 S.p.A. of real estate belonging to the Municipality of Milan, Sole Shareholder.

The Municipality of Milan then signed the share capital increase of € 13,845,657.00. 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.

Finally, in June 2018, the Area Office of the Metropolitan City of Milan decided to update the Integrated Water Service tariffs for the 2018-2019 two-year period, to be sent to ARERA for final approval.

ARERA, in turn, on 2 August 2018 approved the update of the integrated water service tariff arrangement for 2018 and 2019, proposed by the Area Office of the Metropolitan City of Milan.

On July 18, the national labour contract for construction workers was renewed. The contract provides for a salary increase on parameter 100 (common worker) of € 55 (€ 71.50 for specialised workers), an increase of another € 2 (on parameter 100, which becomes € 2.6 for third-level workers) in the compulsory collective contribution for the Supplementary Pension Plan (Prevedi), and an increase in the rates for supplementary health care (0.35% of the total salaries) and the rates for the Early Retirement Fund (+0.10%, reaching 0.20%), to be borne entirely by companies. A payment of € 0.10 is also envisaged for the establishment of a fund to encourage youth employment. The contract is due to expire on 30 September 2020.

In July, MilanoDepur adopted the assumption of economic recalculation of its fees for the period from 2012 to 2019 prepared by the Area Office of the Metropolitan City of Milan with waiver of any further contractual consideration. Therefore, in August MilanoDepur issued credit notes to balance the invoiced values against the amounts determined by ATO, for a total of € 7,227 thousand for the periods from 2012 to 2016. The fees

set by ATO and formalised by ARERA for 2018 and 2019 amount to € 10,715 thousand and € 10,341 thousand respectively.

The Milan Regional Administrative Court, with judgement 1782/18, cancelled the decision of the Lombardy Regional Council, causing a halt to the spreading of sludge in agriculture in Lombardy. This judgement, which is based on the judgement of the Court of Cassation No. 27958 of 6 June 2017, threatened to further increase the level of uncertainty as to the recovery of sludge in agriculture throughout the country, making it possible to completely stop recovery in agriculture. In November 2019, the Parliament converted into law the Genoa Decree that, in Article 41, amended the provisions on the management of sewage sludge, thus avoiding the total stoppage of recovery in agriculture.

Implementing the Board of Directors' resolution of 20 July 2018, MM carried out the following operations: the early repayment of loans outstanding with Carige and UBI Banca as at 3 October 2018 for a total amount of € 31.8 million and the extinction of the hedging derivative instrument (IRS) connected to the UBI Banca loan for a total to be paid to the bank of € 1.9 million.

This operation involves a change in the average cost of debt for MM, which decreases to 3.5% from 4%.

On 30 November 2018, MM obtained the € 70 million EIB loan disbursement.

The loan matures in 2034, with an grace period of 5 years.

It has a fixed interest rate of 1.757%.

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

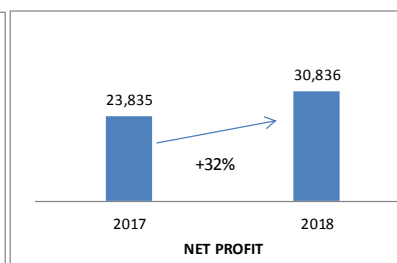
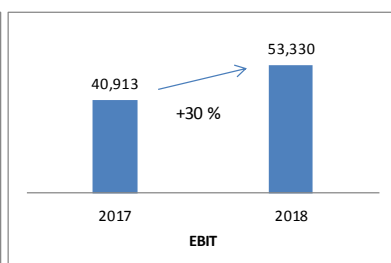
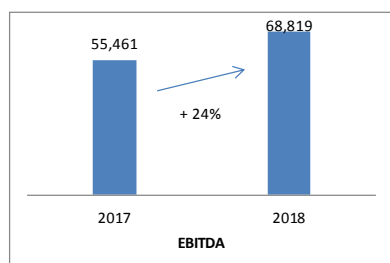
For 2018, MM’s main indicators show growth. Specifically, this year an increase of 24% is recorded in EBITDA and of 30% in EBIT.

Pre-tax profit reflects the above trends with an increase of 33%.

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.

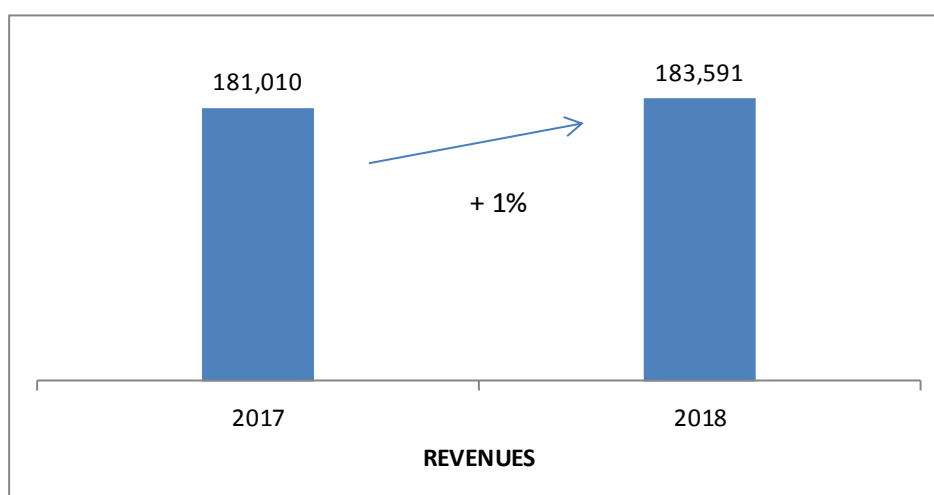
The comparison between 2018 and 2017 is shown in the table below.

Income Statement	2018	Inc. %	2017	Inc. %	Abs. Ch.	Ch. %
Revenues	183,591	100%	181,010	100%	2,581	1%
Revenues arising from work on infrastructure subject to ser	51,404	28%	32,788	18%	18,617	57%
Other operating revenues	24,287	13%	13,034	7%	11,253	86%
Raw materials and consumables	(4,727)	-3%	(4,080)	-2%	(647)	16%
Costs for services	(76,209)	-42%	(76,819)	-42%	610	-1%
Other operating expenses	(2,598)	-1%	(2,322)	-1%	(276)	12%
Personnel costs	(57,887)	-32%	(57,508)	-32%	(379)	1%
Capitalised costs on infrastructure subject to service conces	(49,021)	-27%	(30,612)	-17%	(18,409)	60%
Losses for the sale of fixed assets	(21)		(28)	0%	7	-25%
EBITDA	68,819	37%	55,461	31%	13,358	24%
Amortisation/depreciation and provisions	(15,489)	-8%	(14,548)	-8%	(941)	6%
EBIT	53,330	29%	40,913	23%	12,417	30%
Financial operations	(8,757)	-5%	(7,384)	-4%	(1,373)	19%
Pre-tax profit	44,573	24%	33,529	19%	11,044	33%
Taxes	(13,737)	-7%	(9,694)	-5%	(4,043)	42%
Ne profit for the year	30,836	17%	23,835	13%	7,001	29%



In 2018, revenues increased by 1%; this result was the synthesis of trends that differed for each individual business unit as can be seen in the table below:

Revenues	31.12.2018		31.12.2017		Change	Change %
Integrated Water Service	142,581	77.7%	143,603	79.3%	-1,023	-1%
Engineering	27,413	14.9%	23,992	13.3%	3,421	14%
Housing	11,466	6.2%	11,066	6.1%	400	4%
Real Estate and Networks	2,030	1.1%	2,348	1.3%	-318	-14%
Central Departments/Functions	101	0.1%	0		101	0%
Total	183,591		181,010		2,581	1.4%



Other operating revenues increased by € 11,253 thousand compared to 2017, as a result of the greater values relating to the IWS, due to the economic recalculation of water treatment fees, for the period 2012-2019 (€ 7,227 thousand).

Costs for raw materials and consumables decreased by € 647 thousand (16%) compared to 2017. This decrease was mainly due to the purchases of materials relating to the Integrated Water Service.

Costs for services were down € 610 thousand, making for a 1% decrease. This change is mainly due to the lower costs for outsourced water treatment services and to the reduction in the rent payable to the Municipality of Milan, due to the transfer to MM of real estate belonging to the sole shareholder.

Other operating expenses decreased by € 276 thousand compared to 2017, (-12%).

Labour cost increased due to the hiring of new resources.

Labour cost	31.12.2018	31.12.2017	Change	Change %
Integrated Water Service Business Unit	23,255	22,724	531	2%
Engineering Business Unit	17,636	18,860	-1,224	-6%
Housing Business Unit	4,752	4,570	182	4%
Central Departments/Functions	12,244	11,354	890	0
Total labour cost gross of capitalised costs	<u>57,887</u>	<u>57,508</u>	<u>379</u>	<u>1%</u>

In view of the dynamics explained above, EBITDA increased by € 13,358 thousand (24%).

This growth was mainly due to the good performance of all MM's Business Units.

Amortisation/depreciation and provisions increased due to investments made.

The balance of financial operations increased by € 1,373 thousand also due to the early repayment of existing loans with Carige and UBI Banca, and the consequent settlement (€ 1.9 million) of the relevant hedging derivative instrument (IRS) connected to the UBI Banca loan.

Period net profit was therefore up € 7,001 thousand.

Equity and financial results

The analysis and comparison for the years 2018 and 2017 is shown in the table below:

Invested capital and sources of financing	31.12.2018	<i>Inc. %</i>	31.12.2017	<i>Inc. %</i>	Abs. Ch.	<i>Abs. %</i>
Net fixed assets	326,678	96.0%	277,253	88.0%	49,425	17.8%
Net working capital	24,512	7.2%	50,590	16.1%	(26,078)	-51.5%
Provisions	(10,975)	-3.2%	(12,903)	-4.1%	1,928	-14.9%
Net invested capital	340,215	100.0%	314,940	100.0%	25,275	8.0%
Equity	(213,416)	62.7%	(177,797)	-56.5%	(35,619)	20.0%
Long-term financial payables	(190,612)	56.0%	(164,180)	-52.1%	(26,432)	16.1%
Short-term net financial position	63,813	-18.8%	27,038	8.6%	36,775	136.0%
Total sources of financing	(340,215)	100.0%	(314,941)	-100.0%	(25,274)	8.0%

Net invested capital at end 2018 was equal to € 340,215 thousand. 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 € 50,590 thousand to € 24,512 thousand.

Gross investments broken down by business area are as follows:

Total investments	31.12.2018	31.12.2017	Changes
Integrated Water Service Business Unit	71,904	42,252	29,652
<i>Of which contributions by the Municipality of Milan</i>	<i>13,846</i>	<i>7,550</i>	
Engineering Business Unit	950	495	454
Housing Business Unit	346	461	(115)
Real Estate and Networks Business Unit	503	(583)	1,086
Central staff	86	0	86
Total net investments	73,788	42,625	31,163

At the end of 2018, equity amounted to € 213,416 thousand, showing growth thanks to the good operating result in 2018 and to the completion of the second phase of the transfer of real estate, which resulted in a capital increase of € 13,846 thousand partially offset by the effects from the introduction of the new accounting standards IFRS 15 and IFRS 9, for a total of € 13,074 thousand.

Analysis of the financial structure

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

Net financial indebtedness		31.12.2018	31.12.2017
1	Cash and cash equivalents	116,677	90,915
2	Current bank debt	(52,864)	(63,878)
3=1+2	Net current financial indebtedness	63,813	27,038
4	Non-current bank debt and bonds issued	(190,612)	(164,180)
5=3+4	Net financial position	(126,799)	(137,143)

The comprehensive value of the net financial position as at 31 December 2018 was € 126,799 thousand, down € 10,344 thousand compared to the previous year.

As at 31 December 2018, the medium/long-term debt mainly consisted of the bond issued on the European market and listed on the Dublin stock exchange, maturing in 2035, of the EIB loan and of the residual portion of pre-existing loans maturing in 2027-2028.

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

These financial covenants are the following:

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

They are broken down as follows:

<i>Covenant</i>	2018	2017
Operating Profit (Loss)	53,330	40,913
Amortisation/depreciation, impairment and other provisions	15,489	14,548
EBITDA	<u>68,819</u>	<u>55,461</u>
Non-current financial liabilities	190,612	164,180
Current financial liabilities	52,864	63,878
Cash and cash equivalents	<u>(116,677)</u>	<u>(90,915)</u>
NET FINANCIAL POSITION	<u>126,799</u>	<u>137,143</u>
NET FINANCIAL POSITION/EBITDA	1.8	2.5
Rights over the infrastructure relating to service concession	238,332	213,335
Other intangible assets	3,687	2,368
Property, Plant and Equipment	65,172	48,140
<i>Financial fixed assets (Guarantee deposits)</i>	<u>139</u>	<u>133</u>
TOTAL FIXED ASSETS	<u>307,330</u>	<u>263,976</u>
NET FINANCIAL POSITION/FIXED ASSETS	41%	52%
FINANCE COSTS	9,305	7,942
EBITDA/FINANCE COSTS	7.4	7.0

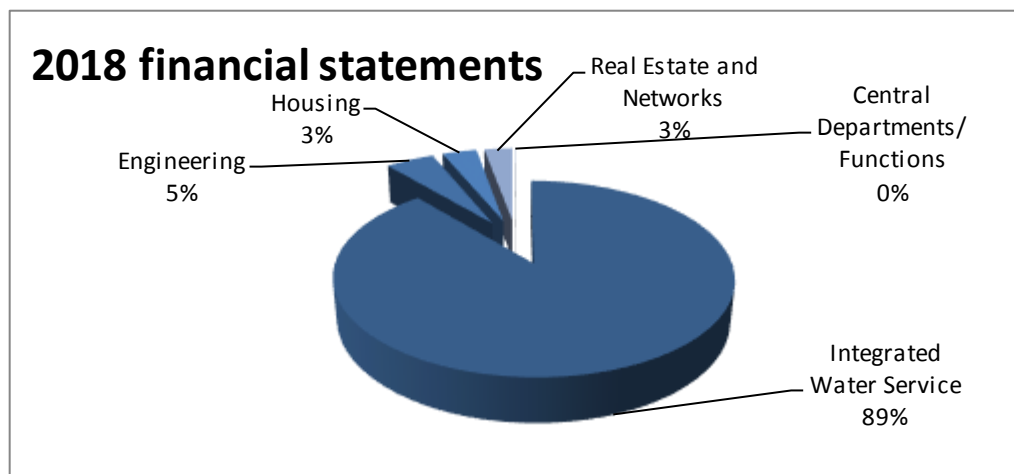
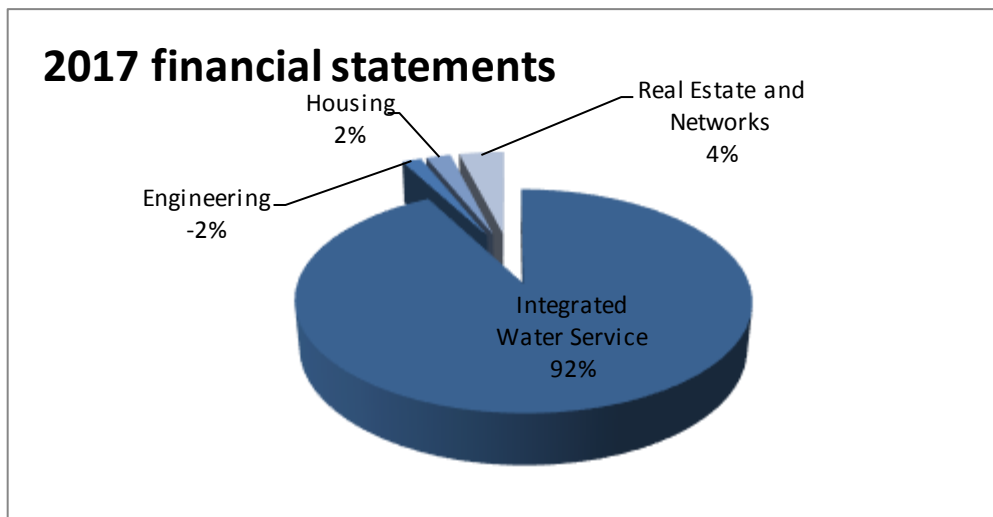
Analysis by strategic business areas

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.

Income Statement	Engineering	IWS	Housing Estate and Netw	Staff	Adjustments	IFRS income statement	
Revenues	27,413	142,581	11,466	2,030	101	183,591	
<i>Cross-sector revenues</i>	4,080	28	125		(4,233)	0	
Revenues arising from work on infrastructure subject to service concession arrangements		51,404				51,404	
Other operating revenues	3,383	19,477	1,394		32	24,286	
Raw materials and consumables	(124)	(4,480)	(78)		(45)	(4,727)	
<i>Cross-sector costs</i>	(125)	(4,080)		(28)	4,233	0	
Costs for services	(9,126)	(61,422)	(2,383)	(32)	(3,246)	(76,209)	
<i>Costs for Central Staff functions</i>	(3,753)	(8,801)	(3,297)		15,851	0	
Other operating expenses	(789)	(1,263)	(108)	(37)	(402)	(2,599)	
Personnel costs	(17,636)	(23,255)	(4,752)		(12,244)	(57,887)	
Capitalised costs on infrastructure subject to service concession arrangements		(49,021)				(49,021)	
Losses for the sale of fixed assets				(21)		(21)	
EBITDA	3,323	61,168	2,367	1,912	(15,804)	15,851	68,819
Amortisation/depreciation and provisions	(799)	(12,285)	(495)	(1,897)	(12)	(15,488)	
EBIT	2,524	48,883	1,872	15	(15,816)	15,816	53,331
Financial operations						(8,757)	
Pre-tax profit							44,573
Taxes						(13,737)	
Net profit for the year							30,836

EBITDA	31.12.2018	31.12.2017	Change	Change %
Integrated Water Service	61,168	52,936	8,232	16%
Engineering	3,323	-974	4,297	-441%
Housing	2,367	1,242	1,125	91%
Real Estate and Networks	1,912	2,257	-345	-15%
Central Departments/Function	47			
Total	68,819	55,461	13,358	24%



Integrated Water Service

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

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 and Sewer Systems Department organised its activities in such a way as to guarantee, also in 2018, a high level of efficiency of the service carried out for the city of Milan, as certified by the values of the reference operating parameters of the technical regulations of the Optimal Territorial Area Authority (ATO), and especially by the continuity and regularity of the distribution service to citizens.

The Water Treatment and Environmental Protection function manages the treatment of wastewater coming from the territory of the Municipality of Milan and its plants. During 2018, the activities carried out were aimed at ensuring the continuity and quality of the service and at protecting the environment.

The Planning function is responsible for institutional relations with the Municipality of Milan, the Area Office of the Metropolitan City, and with the Italian Regulatory Authority for Electricity Gas and Water.

Water Service Business Unit	31.12.2018	31.12.2017	Change	Change %
Revenues	213,490	187,346	26,144	14%
Costs	152,322	134,410	17,911	13%
EBITDA	61,168	52,936	8,232	16%
<i>% on revenues</i>	<i>28.7%</i>	<i>28.3%</i>		
Amortisation/depreciation and provisio	-12,285	-11,044	-1,241	11%
Operating Profit (Loss)	48,883	41,892	6,991	17%
<i>% on revenues</i>	<i>22.9%</i>	<i>22.4%</i>		
Investments	71,904	34,702	37,202	107%

In 2018, the Integrated Water Service Business Unit recorded growth on 2017, both in terms of EBITDA and as absolute value of the business. 2018 is the third year of application of the water tariff method defined by ARERA for 2016-2019.

The volumes supplied via waterworks decreased compared to 2017.

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, improved compared to 2017.

Revenues increased by € 26,144 thousand (14%), The increase is due to revenues arising from work on infrastructure subject to service concession arrangements and to other revenues.

Operating costs increased by € 17,911 thousand (13%),

EBITDA increased by € 8,232 thousand (16%),

Gross investments in the Integrated Water Service amounted to € 71,904 thousand, with an increase of € 34,702 thousand 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 € 13,846 thousand share capital increase.

The table below shows the main technical data of the division:

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

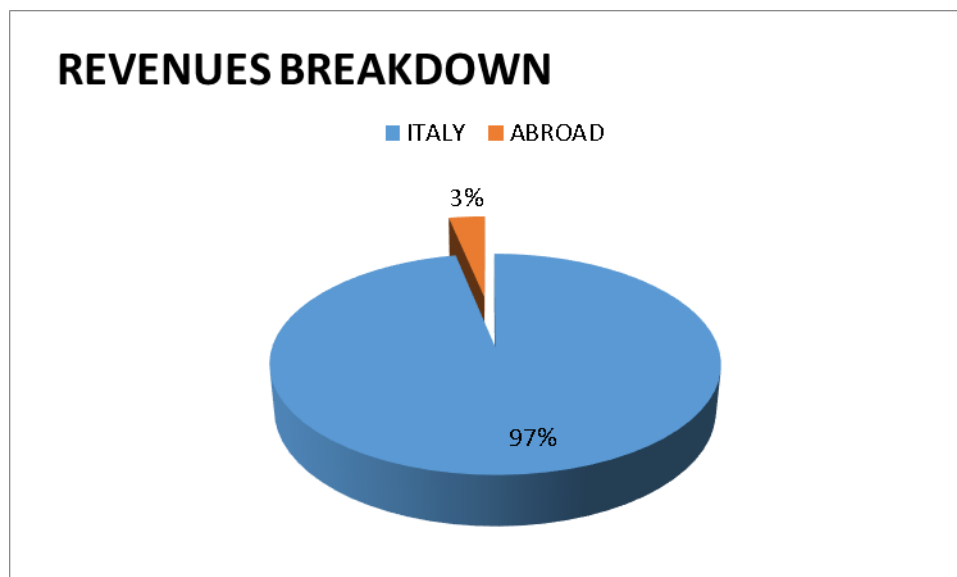
Engineering

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 Work 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	31.12.2018	31.12.2017	Change	Change %
Revenues	34,876	29,679	5,197	18%
Costs	31,553	30,652	900	3%
EBITDA	3,323	-974	4,297	-441%
<i>% on revenues</i>	9.5%	-3.3%		
Amortisation/depreciation and provisio	799	1,098	-299	-27%
Operating Profit (Loss)	2,524	-2,072	4,596	-222%
<i>% on revenues</i>	7.2%	-7.0%		
Investments	950	495	455	92%

Revenues by Business Unit are broken down as follows:

<i>amounts in €/000</i>	2018 financial statements	%	2017 financial statements	%	DELTA
Infrastructure, Construction and Waterworks	8,950	37%	9,924	40%	- 974
Mobility Systems Department	12,067	49%	7,785	32%	4,282
M4 Project Department	3,888	16%	4,035	16%	- 147
<i>total</i>	24,905	102%	21,745	89%	3,160
Sundry	2,837	12%	2,317	9%	520
Romania	281		447		
	28,023	114%	24,509	100%	3,514
Charges for Engineering Services to IWS	4080		3658		
Other revenues	2,773		1,512		
<i>Total revenues</i>	34,876		29,679		5,197



INFRASTRUCTURE, CONSTRUCTION AND WATERWORKS DEPARTMENT (DIEI)

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 design and implementation.

Furthermore, the design phase for interventions aimed at obtaining Fire Safety Certificates for the Municipality of Milan's real estate (Public Housing, Schools, Municipal Offices, Libraries, Museums, etc.), as well as for the so-called On-Demand Services, i.e. Extraordinary Maintenance interventions (Design, Work Supervision and Safety Coordination during Construction) on the aforementioned properties of the Municipality of Milan, was implemented.

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, work supervision, safety coordination in the design and construction 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 "post Expo" phase, for the maintenance and return to function (design, work supervision and safety coordination) of the site buildings/plants (specifically, the establishment of Istituto Italiano di Tecnologia, the Italian Institute of Technology);
 - 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;
- 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);
- Removal of asbestos and glass fibres, renewal, adaptation or new lift systems, obtaining fire safety certificates (CPI) (various interventions on various framework agreements);
- in relation to technical and administrative activities and engineering services connected to non-residential construction:
 - obtainment of fire safety certificates (CPI) for the buildings owned by the Municipality of Milan;
 - Interventions to ensure the safety of Villa Caimi and expansion of Villa Scheibler park;
 - Recovery and conversion works on the Cascina Nosedo building located in Via San Dionigi 78;
 - Kindergarten in via Narcisi;
 - Secondary school in Via Adriano;
 - Structural and functional recovery of the primary school in via Console Marcello 9;
 - Restoration and conservative restructuring of the school complex in via Brunacci 2-4-8;
 - Conservative restructuring of the school complex in via Crespi 40;
 - Interventions to ensure the safety and compliance with regulations of the Municipality of Milan’s sport facilities managed by Milano Sport;
 - On-Demand Extraordinary Maintenance interventions on the buildings owned by the Municipality of Milan;
- 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 and administrative activities and engineering services connected to other works:
 - Reconnection of plumbing and opening of the 5 sections of the Naviglio Inner Ditch;
 - Attenuation tank of the floods of the Seveso river located at Parco Nord Milano;

- New Fruit and Vegetables Pavilion and Logistics Platform for SOGEMI's Wholesale Markets;
- Cycle lanes;
- Bike and pedestrian walkways;
- “Spaces for Shared Mobility” and “New Urban Centrality - Creation of public spaces” interventions;
- Consolidation of Cavo Redefossi, lot 1 and lot 2;
- Stretches of water in the Indro Montanelli public park - phase 1;
- Stretches of water in the Sempione public park - phase 1;
- Extraordinary maintenance of Roggia Vettabbia;
- Renovation of the Naviglio Martesana culvert grating in via M. Gioia between via Galvani and Viale della Liberazione (phase 2).

The revenues concerning the execution stage (work 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 2018, in addition to those already mentioned with reference to Expo/Arexpo:

- Creation of Parco Vettabbia (Completed);
- Reclamation of the Cascina San Giuseppe area (Completed);
- Reclamation of the Viale Toscana Lot 1 area (Completed);
- Creation of the Public Park envisaged within part “B” of the Integrated Intervention Programme called “Adriano Marelli/Cascina San Giuseppe” (Completed).
- Reclamation works in the area of the former car wash in Via Crispi 20 (Completed);
- Urgent interventions for ensuring safety, soil consolidation and hydro-geological redevelopment of the area near the “I Rondinini” Vacation House in Ghiffa (VB) (Completed).
- Gathering of data on the presence of asbestos in the underground lines (Lines 2 and 3 completed, Line 1 in the final stage);
- Execution of reclamation works for Lot 1A of the Bovisa Gasometri Area (Works resumed);
- Restructuring of municipal buildings in via Monviso 6;
- Ground-level park and ride facility in piazza Abbiategrasso M2;
- Operational Management for the reconstruction of the primary school in Via Ugo Pisa 1, renovation of the school in Viale Puglie, renovation of the school in Via Hermada;

Part of these construction sites are now being completed or are expected to be completed at the beginning of 2019.

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

started/continued/were completed:

- 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);
- Interventions for the conversion of diesel thermal power stations;
- 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 extraordinary maintenance works on the buildings owned by the Municipality of Milan in La Spezia neighbourhood, via Rimini 21-29 (*Completed*);
 - Restoration of buildings damaged by fire (*Completed*);
 - Realisation of waste premises in via Paravia, 26 – via Vergiate, 5 – via Asturie, 6-8 – via Drago, 3 – via Zoagli;
 - Intervention to ensure safety of the the facades of the buildings in via Via Fleming 9 and Via Pastonchi 2.

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

- Executive design and Construction of a new server room for the IWS building in Via Meda/Sforza;
- Experimental project for a pilot co-generation plant connected to the Salemi drinking water plant.
- Executive design for the mechanical and construction restructuring of the Suzzani Plant - Second phase interventions;
- Executive design for the enhancement and upgrading of the waterworks in via degli Umiliati;
- Executive design for the enhancement and upgrading of the waterworks in via A. Pecorini and via Zante;
- Executive design for the enhancement of the sewer system and waterworks in via Mecenate;
- Executive design for the enhancement and upgrading of the waterworks in via G. Meleri, via G. Pietri, via Dalmazia, via A. Cossa and via Zante;
- Executive design for the enhancement and upgrading of the waterworks in via Verrazzano and via Flumendosa;
- Executive design for the enhancement and upgrading of the waterworks in via Berra, via Giulietti and via Flumendosa;
- Executive design for the enhancement and upgrading of the waterworks in via Donizetti and via Bellini;
- Executive design for the enhancement and upgrading of the waterworks in via Lanzoni, via Novati, via Donizetti and via Litta;

- Executive design for the enhancement and upgrading of the sewer system and waterworks in viale Turchia;
- Executive design for the enhancement and upgrading of the waterworks in via S. Teresa and via A. Avancini;
- Executive design for the enhancement and upgrading of the waterworks in via Giovanola, via S. Giacomo and via P. Boifava;
- Executive design for the enhancement and upgrading of the waterworks in via S. D. Savio, via S. Teresa and via P. Boifava, as well as upgrading of the sewer system in via Vaino Valle;
- Executive design for the enhancement and upgrading of the sewer system in the Gratosoglio neighbourhood through the construction of the new sewer pipeline $d=1.50m$ along via dei Missaglia from the $1.50 \times 1.50m$ duct of via Saponaro to the $3.50 \times 2.20m$ duct of via dei Missaglia near via Baroni;
- Executive design for the enhancement and upgrading of the sewer system in via Guascona;
- Executive design for the enhancement of the waterworks in via San Paolino;
- Executive design for the enhancement of the sewer system and waterworks in via San Vigilio;
- Executive design for the renovation of the sewer pipeline in piazza Castello/Foro Bonaparte, from viale Gadio to via Ricasoli;
- Executive design for the renovation of the waterworks serving the Feltre water plant;
- Executive design for the renovation of the sewer pipeline in piazza Castello/Foro Bonaparte, from via Sella to viale Gadio;
- Executive design for the renovation of the sewer pipeline in piazza Castello/Foro Bonaparte, from via Ricasoli to via Sella;
- Executive design for the renovation of the sewer pipelines in via Olivieri and via Mosca;
- Executive design for the renovation of the sewer pipelines in via Gianicolo and via Morgantini;
- Executive design for the renovation of Assiano DN 1200 water pipelines - lot 1, section from via degli Ulivi to via Gozzoli;
- Executive design for the renovation of Assiano DN 1200 water pipelines - lot 1 - phase 2 (section from via Gozzoli to via Valsesia 66) and Assiano DN 1200 water pipelines - lot 2;
- Executive design for the renovation of the sewer pipelines in via Gozzadini and via Stromboli/piazza Vesuvio;
- Executive design for the renovation of the sewer pipelines in via Chiodi and via Pepere;
- Executive design for the renovation of the sewer pipelines in via Parenzo, via Crivelli and via Giussani;
- Executive design for the renovation of the sewer pipelines in via Beato Padre Pio da Petralcina and via Baroni;
- Executive design for the renovation of the sewer pipelines in via Lorenteggio (between via Inganni and via Segneri) and via Inganni (between via Lorenteggio and piazza Tirana);

- Executive design for the renovation of the sewer pipeline in via Savona (between via Tortona and via Bergognone);
- Executive design for the renovation of buildings and electromechanical systems of the Gorla drinking water plant;
- Executive design for the upgrading of the sewer system in via S. Arialdo;
- Executive design for the restructuring and cover of the sewer pipeline Emissario Nosedo from Via S. Dionigi to the intake structure of the Milan Nosedo wastewater treatment plant and integration of the intake structure.

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

- Renovation of the NPS 1200 water pipelines in Milan, via dei Ciclamini and via Parri (*Completed*);
- works protecting the hydraulic functionality of the sewer system – Lot 1: Installation of measuring instruments on flood water spillways and on catcher watercourses (*Completed*);
- Redevelopment of the Spazio Acqua building in via Cenisio 39 (*Completed*);
- Transfer of the waterworks from the motorway Boffalora flyover - Cantalupa Ovest service area stretch (*Completed*);
- Static consolidation of the sewer pipeline in via Fatebenefratelli from via De Marchi to Piazza Cavour (*Completed*);
- 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;
- Rehabilitation of the NPS 700 drinking water pipeline in viale Suzzani - section from via Siderno to via Racconigi;
- Upgrading of the sewer system in via Cassinis from piazza Mistral to the Rogoredo train station;
- Framework Agreement with a single economic operator for the stipulation of specific contracts for the construction, upgrading and enhancement of sewer systems and waterworks in Milan, divided into four lots:
 - enhancement and upgrading of the waterworks in via degli Umiliati;
 - enhancement and upgrading of the waterworks in via A. Pecorini and via Zante;
 - enhancement of the sewer system and waterworks in via Mecenate;
 - enhancement and upgrading of the waterworks in via G. Meleri, via G. Pietri, via Dalmazia, via A. Cossa and via Zante;
 - enhancement and upgrading of the waterworks in via Verrazzano and via Flumendosa;
 - enhancement and upgrading of the waterworks in via Berra, via Giulietti and via Flumendosa;
 - enhancement and upgrading of the waterworks in via Donizetti and via Bellini;

- enhancement and upgrading of the waterworks in via Lanzoni, via Novati, via Donizetti and via Litta;
- enhancement and upgrading of the sewer system and waterworks in viale Turchia;
- enhancement and upgrading of the waterworks in via S. Teresa and via A. Avancini;
- enhancement and upgrading of the waterworks in via Giovanola, via S. Giacomo and via P. Boifava;
- enhancement and upgrading of the waterworks in via S. D. Savio, via S. Teresa and via P. Boifava, as well as upgrading of the sewer system in via Vaino Valle;
- enhancement and upgrading of the sewer system in via Guascona;
- enhancement of the waterworks in via San Paolino;
- enhancement of the sewer system and waterworks in via San Vigilio;
- Framework Agreement with a single economic operator for the stipulation of specific contracts for the restructuring of sewer systems and waterworks in various locations (renovation using the CIPP technique);
- renovation of the sewer pipeline in piazza Castello/Foro Bonaparte, from viale Gadio to via Ricasoli;
- renovation of the waterworks serving the Feltre water plant;
- renovation of the sewer pipeline in piazza Castello/Foro Bonaparte, from via Sella to viale Gadio;
- renovation of the sewer pipeline in piazza Castello/Foro Bonaparte, from via Ricasoli to via Sella;
- renovation of the sewer pipelines in via Olivieri and via Mosca;
- renovation of the sewer pipelines in via Gianicolo and via Morgantini;
- renovation of Assiano DN 1200 water pipelines - lot 1, section from via degli Ulivi to via Gozzoli;
- renovation of Assiano DN 1200 water pipelines - lot 1 - phase 2 (section from via Gozzoli to via Valsesia 66) and Assiano DN 1200 water pipelines - lot 2;
- renovation of the sewer pipelines in via Gozzadini and via Stromboli/piazza Vesuvio;
- renovation of the sewer pipelines in via Chiodi and via Pepere;
- renovation of the sewer pipelines in via Parenzo, via Crivelli and via Giussani;
- renovation of the sewer pipelines in via Beato Padre Pio da Petralcina and via Baroni;
- renovation of the sewer pipelines in via Lorenteggio (between via Inganni and via Segneri) and via Inganni (between via Lorenteggio and piazza Tirana);
- renovation of the sewer pipeline in via Savona (between via Tortona and via Bergognone).

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;
- the new building set to house the Waterworks analysis laboratory in via Gandino.

MOBILITY SYSTEMS DESIGN AND CONSTRUCTION DEPARTMENT(DSMO)In-house activities for the Municipality of Milan

Regarding **design activities**, herebelow are the main orders in terms of revenues for 2018:

- Milan M5 underground railway line – Extension to Monza; In October 2017, the Municipality of Milan appointed MM for the Technical and Financial Feasibility Study and the Final Project, with funds released by the State under the so-called “Patto per Milano” (Pact for Milan); this significant work, consisting of 11 stations and a depot/workshop, will be developed for a total length of approximately 13 km almost all underground. In 2018, a large part of the effort of DSMO’s design structure was aimed at developing the design activities aimed at drafting the Technical and Financial Feasibility Study for this extension, which was substantially completed in the summer and then formally delivered to the Municipality of Milan in October; the project, accompanied by the Economic and Financial Plan and the documents required by the Ministry of Infrastructure and Transport as part of the application for access to loans, was sent by the Municipality to the Ministry in December, therefore within the given ministerial deadline of 31 December 2018. Through an amendment to the State Budget Law, approved by the Parliament a few days before the end of the year, € 900 million of State funding were made available, to which a further € 350 million of loans from local authorities (Lombardy Region and Municipalities concerned) will have to correspond; this important result has positively crowned MM’s work on this order in 2018 and it is an important prerequisite for further developments that, starting with the Final Project, will have to take place in 2019 and subsequent years.

- Milan M1 underground railway line – Extension to Baggio / Valsesia / Olmi; in October 2017, the Municipality of Milan appointed MM for the Technical and Financial Feasibility Study and the Final Project, with funds released by the State under the so-called “Patto per Milano” (Pact for Milan); this significant work, consisting of 3 stations and a depot/hangar, will be developed for a total length of approximately 3.5 km all underground except for the depot. In the first part of 2018, the first part of the Technical and Financial Feasibility Study of this extension was developed, i.e. the feasibility study itself concerning the analysis of alternatives, the analysis of demand and the analysis of the cost/benefit ratio; on the basis of the results of this study, the Municipality of Milan then decided the layout to be developed for the subsequent project phases. Therefore, in the second half of 2018, the second part of the Technical and Financial Feasibility Study was developed and formally delivered to the Municipality of Milan in December, in advance of the deadline set by the assignment, in order to allow the Municipality of Milan to deliver it to the Ministry of Infrastructures and Transport, with an application for accessing loans, within the given ministerial deadline of 31 December 2018.

- Milan M4 underground railway line: in 2018 the activities relating to this important order continued, carried out through a highly-specialist support contract with AMAT S.r.l. for the provision, by MM's specialised staff, of technical support activities covering specific aspects that characterise the project for the construction of Line M4, and relating in particular to: rolling stock, system equipment (signalling/automation, platform automatic doors, electric traction, telecommunications, SCADA, etc.) layout, railway superstructure, ventilation systems and fire prevention issues, escalators and elevators, depot equipment, finishings and technical support to the Safety Commission appointed by the Ministry of Infrastructure and Transport.
- Anassagora – Adriano tramway extension, 1st lot: the Executive Design for the first lot of the Anassagora - Adriano tramway extension was drawn up, which consists in the reclamation of a green area belonging to the Municipality of Milan located at the beginning of the extension itself;
- Anassagora – Adriano tramway extension, 2nd lot: the Executive Design for the second lot of the Anassagora - Adriano tramway extension was drawn up, which consists in the actual extension work, with 5 stops, an electrical substation and the terminus loop;
- Adriano – Cascina Gobba tramway extension: the first phase of the Technical and Financial Feasibility Study was completed, with the analysis of a wide range of hypotheses on the different route layout alternatives, with respect to the Adriano-Cascina Gobba tramway extension, which is consecutive to the above-described intervention, to complete the eastern section of the so-called “gronda tranviaria interperiferica nord” (north inter-peripheral tramway node); in December 2018, based on the results of the aforementioned study, the Municipality of Milan chose the route layout to be developed for the subsequent project phases;
- Milan Parco Nord-Seregno fast tramway line: 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 Milan 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;
- Milan M5 underground railway line – stretch from Garibaldi to San Siro (2nd lot): work connected with the completion of the High Surveillance of the first and second lot of Line M5 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;

- “Segrate – Porta Est Underground Railway Hub”: the transport study, which is connected to the major private commercial concern to be constructed in that area, was completed; among other things, this study includes the new “Porta Est” station of the Milan railway network and the various alternatives for connecting it with the Linate terminus of the M4 Underground Railway Line;
- Fire-prevention study for M1 and M2 underground railway lines: it 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 Transport 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; this study, the first phase of which was prepared in 2017, was then completed in 2018, thus providing a comprehensive overview of outstanding issues and possible solutions to align the stations with the new regulatory requirements or, under authorised derogation thereto, to obtain an equivalent level of security.
- Milan – Limbiate suburban tramway line: on the specific request of the Municipality of Milan, which has become the implementing body of the project as a result of a delegation by the Metropolitan City, a study was drawn up to revise the layout as partial amendment to the Final Project approved at the time and more recently financed by the State.
- Extension to Bresso-Cusano of M5 underground railway line: the feasibility study was drawn up and completed (1st phase of the Technical and Financial Feasibility Study) with respect to this extension, which constitutes a possible “ramification” with respect to the layout of M5 extension towards Cinisello and Monza, already financed.
- Extension of M5 underground railway line towards West: the feasibility study (1st phase of the Technical and Financial Feasibility Study) was started with respect to this extension, from the Depot immediately after the terminus of San Cristoforo towards the municipalities of Buccinasco and Corsico, also to the benefit of the municipalities of Trezzano and Cesano Boscone as well as to the entire West / South West hinterland of Milan.
- LPT system towards Vimercate: the feasibility study (1st phase of the Technical and Financial Feasibility Study) that examines the different possible alternatives (underground railway, fast tramway, fast bus, etc...) for connecting the current M2 terminus of Cologno Nord with the city of Vimercate and, along the way, with the other Municipalities of this trunk road located north-west of Milan, was started.

- Waterproofing of the M2 Piola - Lambrate tunnel: in 2018, this complex Executive Project was completed, aimed at remedying the current situation of significant water infiltration due to the raising of the water table.

Regarding the **construction** phase, the main orders received for Work Supervision, in terms of revenues for 2018 are the following:

- extension of Line M1 to Monza Bettola: Work Supervision and Safety Coordination during construction continued, and the construction of civil works fully started on multiple fronts;
- Extension of tramway line in 15 in Rozzano: Work Supervision and Safety Coordination during construction continued; in September 2018 this extension was opened to the public, after a number of critical years of difficulties, mainly due to the termination of several contracts entered into with subsequent Contractors, for serious delays and breaches on their part;
- Certosa tramway terminus in Milan: Work Supervision and Safety Coordination during construction continued, until the completion of works and the opening to the public of the terminus.

Activities outside the Municipality of Milan

During 2018, the DSMO (the Mobility Systems department) carried out several activities for orders outside the Municipality of Milan, most of which were in foreign countries:

- Riyadh underground railway (Saudi Arabia): the technical collaboration with a private subject involved in the realisation of the work continued, with two distinct tasks:
 - supervision of the executive design of the track equipment;
 - preparation of the RAMS study in support of the design choices and the choice of track components for the track equipment.
- Mumbai underground railway (India): the specialist consultancy activity for an Indian engineering company, regarding the design of track equipment, along with the relevant impact on noise and vibrations, continued until conclusion.
- automatic light underground railway line of Thessaloniki (Greece): the activity relating to the executive design of the track equipment the automatic light underground railway line of Thessaloniki (Greece) continued, and it will be concluded soon.

- Line 3 of underground railway line of Lima (Peru): activities basically concerned the management of the dispute - that arose for reasons not due to MM - between the Principal in Lima and the consortium of designers. At the end of the year, some positive news emerged in relation to the dispute, such as to suggest a possible a resumption of design activities in 2019.

- Cosenza – Rende tramway: Work Supervision activities started with respect to the work order.

Activities in the Municipality of Naples

On 27 December 2017, Napoli Metro Engineering was incorporated into MM. Until that date, the incorporated company managed the activities relating to work 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 entrusted MM with the Supervision of Works falling under the said interchange junction.

In 2018, an important supplementary deed to the agreement was signed, providing for an increase in MM resources involved in Work Supervision for the construction of the extension to Capodichino, as well as for the monitoring of environmental issues.

The operating structure in charge of the works underlying the aforementioned orders 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, as well as the completion of the development of piazza Garibaldi. The updated works schedule provides for partial activation of the Duomo station before the end of 2019 and completion of the latter and of the Municipio station by 2021. The overall value of the works in progress as at 31 December 2018 amounts to € 116 million.

The project for the extension of Line 1 to the airport of Capodichino was approved in the current configuration by the Municipality of Naples on 21 November 2012 and in November 2013 by the Interministerial Economic Planning Committee for a value of works at concession prices of € 568 million. The project envisages a development of approximately 3.3 Km with 4 stations, an underground storage facility for rolling stock and a park and drive facility located at the Capodichino station. On 27 November 2014, the first works related to the Centro Direzionale station were delivered, followed by the delivery of the works of the Capodichino, Poggioreale and Tribunale stations, with their related tunnels. Due to the delays already occurred relating to the delivery and acquisition of the areas of intervention, activation of this stretch will take place in 2022. The value of financed works as at 31 December 2018 amounts to € 378 million.

Line 6 of the underground railway of Naples envisages a development of 6.4 Km and 8 stations. To date, the first functional stretch of 2.6 Km with 4 stations is in operation. Currently the Mergellina-Municipio stretch is under construction. Completion of works is expected in 2019. The value of financed works as at 31 December 2018 amounts to some € 114 million.

In 2018 revenues from the above-mentioned work orders in Naples were in lines with 2017 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 work orders were substantially in line with budget forecasts. The only changes concern the work orders relating to the Municipio interchange junction and Work Supervision activities for the CDN-Capodichino stretch. In fact, with respect to these work orders there was:

- slower progress for the Municipio junction design work order due to the persistence of some archaeological interference and a request from the Grantor (Municipality of Naples) for a new temporary road network structure in Piazza Municipio;
- slower progress in Work Supervision activities for the CDN-Capodichino stretch due to delays in the delivery of works on the shielded tunnels of the Poggioreale-Capodichino stretch and the layout of the airport area.

In 2018, new work orders emerged, always related to the assignment by Concessionaria Metropolitana di Napoli:

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

Activities in the United Arab Emirates

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

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

In 2017/2018, the Branch carried out mainly commercial and business development activities.

In 2018, it acquired three assignments relating to:

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

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

MILAN LINE M4 PROJECT DEPARTMENT (DPM4)

During 2018, the Milan Line M4 Project Department (DPM4) continued to guarantee the activities aimed at fulfilling the tasks assigned to MM S.p.A. in relation to Work Supervision and Safety Coordination during construction as well as to the Site Manager function under the direct and functional control, from June 2017, in compliance with the indications provided by the National Anti-corruption Authority, of Società Concessionaria SPV Linea M4 S.p.A., established on 16 December 2014, followed on 22 December 2014 by the signing of the Concession Agreement between the latter and the Grantor, i.e. the Municipality of Milan, for the Design, Construction and Operation of Line 4 of Milan underground railway.

MM S.p.A.'s Work Supervision activities began in February 2012, with full entitlement following the specific assignment granted by the Municipality of Milan in compliance with the tender specifications that initially provided for the latter's direct and functional control in its capacity as the Grantor, which preceded the above-mentioned indications provided by the National Anti-corruption Authority.

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

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

In consideration of the need to extend the duration of Work Supervision activities, the amount of the fees relating to these activities increased from about € 20 million to about € 23 million.

In terms of revenues, it should be noted that as from 1 August 2018 the activities of Safety Coordination during Construction and of Site Manager previously assigned to MM S.p.A. ceased following the outcome of the tender conducted by Società Concessionaria, which ended by awarding another party.

Housing

The municipal housing property currently includes 39,049 property units of which:

- 28,840 housing units (1,545 in neighbouring municipalities)
- 8,900 garages and parking spaces
- 1,297 property units for Non-Residential Uses

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 2018, the House Business Unit had a total of 232,000 contacts with users, of which:

- 147,600 phone contacts on the toll-free number 800 01 31 91, available 24x7
- 15,143 appointments at branch offices

In 2014, the first two territorial 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 territorial offices were set up in other areas of the city: South East Office in via Spaventa, South West Office in via Forze Armate in addition to the office in piazzetta Capuana.

In 2016, the office in via Borsieri opened, making for a total of six operative offices in the territory.

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

At the end of 2018, the Home Division was organised into 4 territorial hubs, 3 branch offices and a specialised office.

Alongside the Housing Business Unit, the specialised personnel of MM belonging to the Security Function has the task of monitoring the buildings managed in order to report the need for intervention, the risks of squatting, and the different potential dangers. The prevention of squatting is the first task to be performed by the Function, and is carried out together with the Police. The results from the beginning of the year were significant: reduction of the net balance of squatting positions from 1,722 to 1,036 (at 31 December 2018) with a net reduction of 145 during the year.

Housing Business Unit	31.12.2018	31.12.2017	Change	Change %
Revenues	12,985	11,117	1,869	17%
Costs	10,618	9,874	744	8%
EBITDA	2,367	1,242	1,125	91%
<i>% on revenues</i>	<i>18.2%</i>	<i>11.2%</i>		
Amortisation/depreciation and provisions	495	330	165	50%
Operating Profit (Loss)	1,872	912	960	105%
<i>% on revenues</i>	<i>14.4%</i>	<i>8.2%</i>		
Investments	346	461	-115	-25%

Revenues increased as a result of new activities (assignments, digital agenda, surveillance of via Cogne).

Costs increased mainly due to the end of incentives for new hires and the gradual adaptation of the organisational structure.

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

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.

Plant and Real Estate Management Business Unit	31.12.2018	31.12.2017	Change	Change %
Revenues	2,030	2,348	-318	-13.5%
Costs	118	91	27	30%
EBITDA	1,912	2,257	-345	-15%
<i>% on revenues</i>	<i>94.2%</i>	<i>96.1%</i>		
Amortisation/depreciation and provisions	1,897	2,077	-180	-8.66%
Operating Profit (Loss)	15	180	-165	-92%
<i>% on revenues</i>	<i>0.7%</i>	<i>7.7%</i>		
Investments	5,003	-583		

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 2019 MM will be involved in the implementation of the new SAP information system for integrated management of the activities of the company's main business sectors.

For 2019, forecasts look to a substantial stability of EBITDA and a level of investments of approximately € 86 million.

Personnel

As at 31 December 2018, MM's staff numbered 1,164 employees (this number includes 14 employees of the former company Napoli Metro Engineering, merged with effect as of 1 January 2017). Moreover, 14 employees on temporary contracts, 6 trainee and 6 workers with continuous and coordinated contractual relationships ("co.co.co.") work for MM.

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. In 2018, MM stabilised 3 contracts and at the same time hired 3 new apprentices.

The breakdown of employees by category is as follows:

Personnel broken down by category		2016	2017	2018
Senior managers	no.	30	33	36
Middle managers	no.	74	77	76
Clerical workers	no.	664	665	710
Apprentices	no.	5	7	7
Workers	no.	342	342	335
Total	no.	1,115	1,124	1,164
Trainee contracts	no.	-	10	6
Temporary work contracts	no.	13	17	14
Other types of continuous and coordinated contractual relationships	no.	5	6	6
Total	no.	1,133	1,157	1,190

In 2018, the percentage of employees on permanent contracts was equal to 91.41%, increasing compared to 2017.

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	2016		2017		2018	
	No.	%	No.	%	No.	%
Permanent contracts	1,006	90%	999	89%	1,064	91%
Fixed-term contracts	109	10%	125	11%	100	9%
Total	1,115	100%	1,124	100%	1,064	100%

The employment campaign, launched some years ago now by MM, continued also in 2018.

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 2018 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 2018, 31 jobs were posted and 2 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.

In March 2018, MM signed trade union agreements with the company's Trade Union Representatives that allow each employee to voluntarily convert the performance bonus into welfare services, subject to certain limits and conditions.

These agreements also extend the scope and treatments of the corporate preventive medicine plan on a voluntary basis.

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.

In 2018 there was a slight increase in the number of injuries and, consequently, of some indicators.

The increase can be considered negligible since, actually, work-related injuries are about a half, and among these none exceeded a 6-month period of absence.

The figures referring to a longer period show a substantial stabilisation of the injury trend despite the increase in the number of workers, exceeding 150 units.

A comparison of injury rates	2015	2016	2017	2018
Total injuries	16	12	14	19
Lost days ^[1]	257	132	208	408
Average duration of injuries ^[2]	16.1	11.4	14.8	21.4
Frequency rate ^[3]	12.4	9.8	7.6	10.4
Severity index ^[4]	0.2	0.1	0.1	0.2
Incidence rate ^[5]	16.3	11.4	12.1	16.1

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. No occupational diseases on employees or former employees and mobbing causes, for which the company was declared definitely responsible, were reported.

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

1 Lost days are consecutive calendar days lost.

2 The average duration of injuries is the mathematical average of the no. of days' absence following an injury and the total no. of injuries.

3 Frequency rate = (no. of injuries at work/total no. of hours worked) *1,000,000¹⁵. Days' absence are consecutive calendar days lost.

4 Severity index = (no. of days' lost due to injuries at work/total no. of hours worked) *1,000.

5 Incidence rate = (no. of injuries that occurred during the year/no. of employees) * 1,000.

Disclosure of non-financial information

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

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

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

Please note that the Non-Financial Statement, which has been approved by the Board of Directors, is available on the website www.mmspa.eu (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: regulatory risks (in relation to the Integrated Water Service), 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 finance department is in charge of evaluating and approving provisional financial requirements, monitoring their performance, and, where necessary, taking the appropriate corrective actions. The following section provides qualitative and quantitative reference information on the effect of such risks for the Company.

Regulatory Risks

MM S.p.A., as Integrated Water Service provider for the city of Milan, operates in a regulated sector and a change in the rules of operation of this market as well as the requirements and obligations that characterise it can significantly affect the results and performance of operations.

Therefore, the company has set up a structure that can intensify relations with local and national government and regulatory bodies.

This structure ensures the monitoring of developments in the regulatory framework, both in the support phase for the preparation of comments and observations on the Consultation Documents, and in the consistent application of the regulatory provisions within the corporate processes.

Market Risk

Foreign exchange risk

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

Sensitivity analysis relating to foreign exchange risk

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

For the purposes of this analysis, two scenarios have been considered, respectively discounting an appreciation and a depreciation equal to 10% of the exchange rate between the currency of the financial statement item and the functional currency.

(in thousands of Euro)

Sensitivity analysis	Impact on profit and equity, net of tax effect									
	USD		RON		INR		AED		Total	
	-10%	10%	-10%	10%	-10%	10%	10%	10%	10%	10%
Year ended 31 December 2018	18	(14)	22	(18)	32	(26)	16	(13)	88	(71)

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 2018

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	9,794	(1,730)
BNP Paribas IRS	2009	2028	10,000	(2,977)

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:

(in thousands of Euro)

Sensitivity analysis	Impact on profit, net of tax effect		Impact on equity, net of tax effect	
	-50 bps	+50 bps	-50 bps	+50 bps
Year ended 31 December 2018	107	(107)	107	(107)

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

Credit Risk

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

With reference to the Engineering Business Unit, almost all receivables are due from the Municipality of Milan, other public entities or their concessionaires, and this ensures the mitigation of the relevant risk. 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 2018 (€ 231 million as at 1 January 2018) are recognised net of advances for works of € 2,073 million.

The estimate of expected bad debts is made on the basis of the provisions of IFRS 9, i.e. through the application of the expected credit loss model for the assessment, with a predictive approach, of the financial assets recoverability, based on the probability of default of the counterparty and of the loss given default (i.e. the ability to recover the amounts if the default event actually occurs).

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 € 19,208,217 as at 31 December 2018.

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 expected losses 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 credit 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 € 11,684 thousand.

Liquidity Risk

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

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

The table below provides an analysis of cash flows expected in the years to come in relation to financial liabilities as at 31 December 2018:

<i>(in thousands of Euro)</i>	Balance as at 31 December 2018	Expected outflows			Total
		Within 1 year	From 1 to 5 years	Over 5 years	
Financial liabilities	243,476	53,357	10,777	179,342	243,476
Trade payables	155,419	154,916	503	0	155,419
Other liabilities	61,978	46,849	3,429	11,700	61,978

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

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

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

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 external and institutional relations of the company, taking the relevant decisions and stipulating the bilateral contracts required for implementation thereof, up to the amount of € 150,000 (one hundred fifty thousand) 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) 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, taking the relative decisions and stipulating the bilateral contracts required for implementation thereof, up to the amount of € 100,000 (one hundred thousand) 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 meeting of 17 October 2018, the Board of Directors conferred upon the Managing Director the powers and authorities listed below:

1. to define and stipulate, with all the appropriate clauses, to manage and terminate procurement contracts, in any case relating to the corporate purpose, up to the total amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract, ensuring that all legal obligations are fulfilled;
2. to perform, in compliance with the guidelines set out, the entire procedural process aimed at awarding procurement contracts resolved upon by Corporate Bodies, from the preparation of tender documents, up to the award and stipulation of the relevant contracts, issuing and signing all the necessary and/or appropriate deeds and declarations and in compliance with the legal obligations, informing the Board of Directors about the results of the tender procedures;
3. to manage procurement contracts resolved upon by the Corporate Bodies, ensuring that all legal obligations are fulfilled;
4. to authorise amendments and changes in procurement contracts up to the total amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract, without prejudice to compliance with the limits established by current legislation;
6. as part of the management of procurement contracts, to conclude transactions, also through approval of friendly agreements, up to the amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract;
6. to issue the declaration of admissibility of the Technical-Administrative Test Certificates and the Certificates of Regular Execution or Verification of Conformity relating to procurement contracts, without limits of amount, thereafter ensuring settlement and liquidation thereof;
7. to authorise and revoke subcontracts;
8. to issue work execution certificates pursuant to the applicable laws for the works and services carried out;
9. to 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 the amount of € 250,000.00 (two hundred and fifty thousand/00) for each individual deed;

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

assignments continue to be governed as per art. 14 above;

17. to settle, in or out of court, disputes concerning non-contractual civil liability, pursuant to and for the purposes of art. 2043 of the Italian Civil Code, which may derive from the exercise of the Company's activities, for amounts up to € 250,000.00 (two hundred and fifty thousand/00) for each individual transaction, and to pursue any other action in the interests of the company;
18. to submit bids for participation in national tenders, including negotiated procedures and public procedures in general, for taking on assignments related to the performance of activities included in the corporate purpose, both individually and as a member of temporary associations of companies, consortia, joint ventures and/or other entities without legal personality, signing all the necessary and/or appropriate deeds and documents and issuing the relevant declarations and guarantees required by current legislation, informing the Board of Directors about the participation in and results of the tender procedures;
19. to establish, modify and terminate, with all the appropriate clauses, Temporary Association of Companies, Joint Ventures, associations in general and other entities without legal personality, for the purpose of participating in financed projects and tenders for carrying out activities included in the corporate purpose, in compliance with applicable laws, with the power to grant or obtain collective mandates with representation and to settle any related dispute defining, as most appropriate, the agreements with associated or grouped companies;
20. all powers conferred upon the Managing Director for the management of the Company also apply, within the same scope and value limits, to the management of foreign branches;
21. as part of the financial policy approved by the Board of Directors, to open current accounts with Credit Institutions, Factoring Companies and Postal Offices, to negotiate and define in the best manner each related condition and contractual clause including the opening of long and/or medium-term financial and endorsement credit lines, also intended for the factoring of receivables due to the company by third parties, and to take any action relating to such relationships, signing all documents required for conclusion thereof;
22. to make deposits or withdrawals on the company's current accounts held at Credit Institutions and Postal Offices, to issue and/or request the issue of bank cheques and banker's drafts, to endorse and collect bank cheques and banker's drafts. The aforementioned power shall be exercised jointly with the Head of Administration, Finance and Control or, in the event of absence (also short-term) or

momentary impediment thereof, with the Head of the Legal and Contracts Department;

23. to call for payments, collect amounts, mandates, Treasury notes, money orders, cheques, credit instruments of any type and guarantee deposits from the issuing institution, Cassa Depositi e Prestiti, the Treasury of the Republic of Italy, the Regions, Provinces and Municipalities, the Postal Offices and any Public Office or private subject in general and to release the paying parties from liability, issuing the necessary receipts and proof of payment;
24. to file requests for admission in insolvency proceedings, acceptance of arrangements and to issue third-party declarations in enforcement proceedings;
25. to make guarantee deposits in cash, securities or through bank or insurance sureties;
26. in relation to the ordinary management of the Company, to sign disciplinary measures, agreements and any other act which is required and/or useful for securing concessions, assignments, permits and authorisations in general;
27. in relation to the ordinary management of the Company, to fulfil the obligations towards any Entity and/or Public or State Authority, both central and Regional, Local and Autonomous Authorities, Associations, Welfare, Social Security and Insurance Funds and Institutions, Ministries, Prefectures, Chambers of Commerce and all Public Registers, as well as the Optimal Territorial Area offices (ATOs), the Italian Regulatory Authority for Electricity, Gas and Water, the National Anti-corruption Authority and the Health Protection Agencies, submitting appeals and requests and producing documents and declarations;
28. in relation to the ordinary management of the Company and with regard to the notices of ascertainment of administrative offences notified to the Company and/or its employees for violations committed in the exercise of their functions, to submit briefs and documents for defence and to authorise payment of pecuniary administrative sanctions levied by the Health Protection Agencies, Environmental Protection Agencies, other Agencies, Local Authorities and/or Court Authorities, up to an amount of € 25,000.00 for each individual sanction;
29. in relation to the ordinary management of the Company, to fulfil all obligations towards any Tax or Customs Office, both State and Local, also abroad, taking all necessary actions with respect to taxes, duties and contributions, to contest registrations and inspections, to issue declarations relating to direct or indirect taxes, certifications, forms and questionnaires, to file requests, questionings, appeals and claims, briefs and documents with any Tax Office or Commission, to collect refunds and interests

from the Tax Authorities, issuing receipts on behalf of the Company;

30. to fulfil all obligations towards the Postal Administration and the railway, sea, air and land transport companies, with the power to issue any document and request, to sign correspondence, take delivery of letters, envelopes and/or packages from any Postal Office and any other public office, even if they should be registered and/or insured, collect refunds relative to any transport and take delivery of goods addressed to the company from railway transport companies and any other carrier and/or courier, issuing the relevant disclaimers;
31. to sign and take delivery of documents, including bank documents relating to import and export transactions, placing validations and signatures on invoices, circulation certificates and requests and declarations required for the aforementioned transactions;
29. 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** aims at ensuring the correct implementation of the risk management process, compliance with the operating limits set for the various functions and compliance of company operations with regulations, including self-regulation. The functions in charge of these controls are Risk Management and the Compliance Function.

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

Risk Management aims at improving the process of corporate risks identification, the relevant controls

and management methods.

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

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

The control system also includes:

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

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

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;

Enterprise Risk Management (ERM) model

In 2018, MM continued the assessment - started in the previous year - of its risk management system, in order to improve the process of identifying corporate risks, the relevant controls and management methods. To this end, in October 2018, MM appointed a risk manager identified in the person of the Head of Administration, Finance and Control Department, with the task of defining with the company's top management risk management objectives and activities relevant to the company by structuring a dedicated plan; defining, in collaboration with the affected organisational structures, actions, tools and methods useful for the operational monitoring of risk management activities; collaborating in defining audit and compliance plans relating to the control of risk mitigation activities.

The Risk Manager, with the support of Insurance Services and Management Control, launched a risk assessment process aimed at identifying company areas with a higher risk profile and mapping the related economic, operational, compliance and strategic risks. This process was developed on the basis of previous risk assessment activities carried out by the Company as early as 2017, with the aim of obtaining integrated

risk and control management in terms of methods and across all processes.

In particular, the metrics with which the risks had previously been assessed were re-evaluated in terms of impact and probability, and the different types of risk identified in the assessments carried out in the past were also integrated. The assessment also made it possible to analyse the controls in place, the methods for managing the various risks identified and the related mitigation actions, both those already in place and those to be developed, in order to achieve the objective of spreading a culture on the subject and a uniform language.

In 2019, this Enterprise Risk Management model is expected to be further refined and developed in coordination with the Internal Audit and Compliance functions and always with the involvement of the various risk owners.

The main elements comprising MM's Internal Control System

The Code of Ethics

The Code of Ethics is the set of values, principles and lines of conduct that all collaborators, employees and those who act in the name or on behalf of MM are required to comply with.

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

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

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

The Ethics Committee has been established in 2017 in order to monitor correct application of the Code of Ethics and to provide, where necessary, for the periodic review thereof. It is composed of the Board of

Directors' pro-tempore Chairmen, the Supervisory Body, the Board of Statutory Auditors and the Managing Director. In coordination with the Supervisory Body, the Committee is in charge of promoting the dissemination of the Code of Ethics to employees, associates and third parties that come into contact with the company, and of assessing violations of the Code of Ethics in relation to potential conflicts of interest brought to its attention. The Ethics Committee, in collaboration with the Supervisory Body, is also responsible for updating and monitoring the Code of Ethics and of what is envisaged therein.

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

The Organisational, Management and Control Model

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

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

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

The MOGC is published in the "Transparency" section of MM's institutional website on the company's intranet and is brought to the attention of employees through periodic training (the last was carried out between November and December 2018).

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

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

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

The TYCPTP defines specific measures for the prevention of corruption.

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

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

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

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

Procedures

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

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

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

In relation to the risk management and internal control system as part of the financial reporting process, the company adopted administrative and accounting procedures, operating practices and an administrative

organisation based on the principle of segregation of duties in such a way as to guarantee reliability, accuracy and integrity in the process of preparing the financial statements.

Information flows to top management

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

Furthermore, it receives:

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

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

Information flows to the Supervisory Body

In January 2018, the first-level structures started reporting to the Supervisory Body to monitor the risk areas under Italian Legislative Decree 231/2001.

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

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

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

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

Assessment of the risk of a business crisis

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

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

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

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

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

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

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

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

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

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

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

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

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

These financial covenants are the following:

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

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

In this regard, it should be noted that in 2018 Standard & Poor's confirmed its BBB rating of MM, revising

the outlook from stable to negative on 5 November 2018 following a similar action on the outlook rating of the Municipality of Milan and the sovereign outlook rating of Italy. On 23 October 2018, Moody's downgraded MM's rating from Baa2 to Baa3 with a stable outlook, again following a downgrade to Italy's sovereign rating.

With reference to the monitoring and verification of the risk of a business crisis for 2018, reference should be made to the other sections of the report on operations and, in particular, to the chapter "Summary of operations and economic and financial performance".

Environment

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

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 26 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.

Ripartizione Ricavi 2018	Comune	Terzi	Totale
	172.821.594	10.769.218	183.591.145
	94,1%	5,9%	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

Trade Receivables

Receivables from the parent company for works, net of advances	19,404,805
Receivables for invoices issued	46,253,471
Receivables for invoices to be issued for services and supplies	31,799,380
Receivables for expenses incurred in the name and on behalf of the Municipality, net of disbursed advances	102,003
Total trade receivables	97,559,660

Trade Payables

Invoices to be received for services and rent	28,213,113
Other trade payables	28,672,538
Total trade payables	56,885,651

Other current liabilities

Advances	2,872,003
----------	-----------

INCOME STATEMENT

Revenues from sales and services

Engineering services	15,041,031
Revenues from the Housing BU - fees relating to property and facility management	11,245,531
Other revenues - supplies and services	15,180,740
Total revenues	41,467,303
<hr/>	
Costs for services	3,327,686

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 € 30,835,681, as follows:

- € 2,769,132 to the legal reserve;
- € 1,153,438 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;
- € 26,913,111 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.

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO, 8

Paid-up share capital Euro 36,996,233.00

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

Financial statements as at 31/12/2018**STATEMENT OF FINANCIAL POSITION**

ASSETS	Notes	31/12/2018	31/12/2017
ASSETS			
<i>NON-CURRENT ASSETS</i>			
Property, plant and equipment	1.1	65,172,161	48,140,398
Rights over the infrastructure relating to service concession arrangements	1.2	238,331,555	213,335,345
Other intangible assets	1.3	3,687,206	2,367,731
Deferred tax assets	1.4	18,102,020	12,015,290
Other non-current assets	1.5	1,384,641	1,394,012
Total non-current assets		326,677,583	277,252,776
<i>CURRENT ASSETS</i>			
Inventories	1.6	2,187,209	1,691,284
Trade receivables	1.7	232,178,390	231,766,725
Cash and cash equivalents	1.8	116,676,484	90,915,497
Other current assets	1.9	11,625,443	28,571,493
Total current assets		362,667,526	352,944,999
TOTAL ASSETS		689,345,109	630,197,775

STATEMENT OF FINANCIAL POSITION

LIABILITIES	Notes	31/12/2018	31/12/2017
EQUITY AND LIABILITIES			
<i>EQUITY</i>			
Share capital		36,996,233	23,150,576
Reserves		145,583,926	130,812,311
Net profit (loss)		30,835,681	23,834,593
Total equity	1.10	213,415,840	177,797,480
<i>NON-CURRENT LIABILITIES</i>			
Non-current financial liabilities	1.11	190,611,971	164,180,301
Provisions for risks and charges	1.12	2,544,366	4,080,767
Employee benefits	1.13	8,430,881	8,821,753
Other non-current liabilities	1.14	34,059,729	20,396,849
Total non-current liabilities		235,646,947	197,479,670
<i>CURRENT LIABILITIES</i>			
Current financial liabilities	1.11	52,863,807	63,877,967
Current tax liabilities	1.15	4,081,241	0
Trade payables	1.16	155,418,792	163,017,361
Other current liabilities	1.17	27,918,482	28,025,297
Total current liabilities		240,282,322	254,920,625
TOTAL LIABILITIES		475,929,269	452,400,295
TOTAL EQUITY AND LIABILITIES		689,345,109	630,197,775

STATEMENT OF COMPREHENSIVE INCOME

	Not	31/12/2018	31/12/2017
	es		
INCOME		259,282,159	226,831,078
Revenues	2.1	183,591,145	181,009,719
Revenues arising from work on infrastructure subject to service concession arrangements	2.2	51,404,254	32,787,603
Other revenues and income	2.3	24,286,760	13,033,756
OPERATING COSTS		205,952,399	185,918,297
Costs for raw materials, consumables and goods for resale	2.4	4,727,212	4,080,274
Other operating costs	2.5	2,598,639	2,322,274
Costs for services	2.6	76,209,188	76,819,413
Costs arising from work on infrastructure subject to service concession arrangements	2.7	49,021,134	30,611,957
Personnel costs	2.8	57,886,619	57,507,984
Amortisation/depreciation, impairment and other provisions	2.9	15,488,793	14,548,292
Losses for the sale of fixed assets	2.10	20,814	28,103
OPERATING PROFIT (LOSS)		53,329,760	40,912,781
Finance income from equity investments	2.11	0	67,078
Finance income	2.11	547,859	491,238
Finance costs	2.11	9,304,816	7,942,412
NET FINANCE INCOME AND COSTS		-8,756,957	-7,384,096
PROFIT (LOSS) BEFORE TAX		44,572,803	33,528,685
Taxes	2.12	13,737,122	9,694,092
NET PROFIT (LOSS) FOR THE YEAR (A)		30,835,681	23,834,593
Other items of comprehensive income not to be reclassified to profit or loss			
Actuarial gains/(losses) on employee benefits		90,163	(217,082)
Tax effect related to actuarial gains/(losses) on employee benefits		(25,096)	60,717
Other items of comprehensive income to be reclassified to profit or loss			
Change in the fair value of cash flow hedges		3,165,844	2,000,353
Tax effect on the change in the fair value of cash flow hedges		(759,802)	(480,085)
Total other items of comprehensive income, net of tax effect (B)		2,471,109	1,363,903
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR (A)+(B)		33,306,790	25,198,496

Cash flow statement

<i>(in Euro)</i>	2018	2017
OPERATING ACTIVITIES		
Profit (loss) before tax	44,572,803	33,528,685
<i>Adjustments for</i>		
Depreciation/amortisation of fixed assets	13,045,837	11,516,605
Allocations to bad debt provision	2,000,000	2,145,533
Allocations to provision for risks and charges	325,851	869,281
Allocations to provision for write-down of inventories	(5,669)	16,681
Net finance costs	8,756,957	7,384,096
Prepaid and deferred tax	-	-
Other non-cash items	10,109,491	6,819,292
Cash flows from operating activities prior to changes in net working capital	78,805,270	62,280,173
Cash flow generated/(absorbed) by changes in net working capital	4,760,236	5,847,626
- Trade receivables and other assets	12,441,721	14,095,542
- Inventories	(490,256)	133,978
- Trade payables and other liabilities	(7,191,229)	(8,381,894)
Taxes paid	(9,238,732)	(19,672,063)
Net finance costs paid	(8,405,784)	(7,172,948)
Use of provisions	(2,346,145)	(1,170,014)
Cash flow generated/(absorbed) by operating activities (A)	63,574,844	40,112,774
INVESTING ACTIVITIES		
Net investments in fixed assets	(55,286,236)	(35,640,152)
Cash flow generated/(absorbed) by investing activities (B)	(55,286,236)	(35,640,152)
FINANCING ACTIVITIES		
Taking-out of medium/long-term loans	70,000,000	2,475,553
Repayment of medium/long-term loans	(35,785,051)	(4,957,320)
Changes in equity	-	-
Other changes in financial liabilities	(16,742,570)	578,397
Cash flow generated/(absorbed) by financing activities (C)	17,472,379	(1,903,370)
Increase/(decrease) in cash and cash equivalents (A)+B +(C)	25,760,987	2,569,252
Cash and cash equivalents at the beginning of the year	90,915,497	85,593,771
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	116,676,484	90,915,497

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

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

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

Notes to the Financial Statements as at 31/12/2018

Company's structure and activities

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

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

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

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

Approval of the Financial Statements

The draft financial statements for the year ended 31/12/2018 were approved by the Board of Directors on 29 March 2019.

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 31/12/2018 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 31/12/2018 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%

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 5.04% 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 67 of IFRS 15. Therefore, if the fair value of the services received (in this case, the right to use the asset) cannot be determined reliably, the revenue is calculated based on the fair value of the construction services provided.

Construction services under way at the end of the reporting period are measured based on the work in progress pursuant to IFRS 15 and recognised under the income statement item “Revenues arising from work on infrastructure subject to service concession arrangements”. Assets granted under concession arrangements are depreciated throughout the duration of the concession, as it is assumed that the future economic benefits of the asset will be used by the operator. The amount to be depreciated consists of the difference between the acquisition value of the assets provided under the concession arrangement and their residual value which is expected to be realized at the end of their useful life, according to the regulatory provisions currently in force. If any events indicating an impairment of these intangible assets occur, the difference between the carrying amount of and the recoverable value is recognised in profit and loss. If the useful life of the assets provided under the concession agreement is less than the duration of the concession, pursuant to IFRIC 12, the expenses incurred for the restoration or replacement are not capitalised, but recognised in the estimated provision for restoration of assets held under service concession arrangements.

Software and other intangible assets

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

Impairment of property, plant and equipment and intangible assets

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

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

Impairment is recognised in profit or loss if the carrying amount of the asset, or of the relevant CGU to which it has been allocated, is higher than its recoverable value. Impairment of the CGUs initially reduces the carrying amount of any goodwill attributed and, thereafter, of assets, in proportion to their carrying amounts and up to their recoverable value. If the reasons for the impairment previously made no longer apply, the carrying amount of the asset is written back and recognised in profit and loss up to the net carrying

amount that the asset would have had if the impairment had not occurred and the relevant amortisation/depreciation had been carried out.

Equity investments

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

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

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

Trade receivables

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

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

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

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

The amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of the future cash flows expected to be derived from the asset, and it is recognised in profit

or loss. If the reasons for these impairments are found not to be applicable in subsequent years, the impairment loss on the assets will be reversed up to the value that would have resulted from application of the amortised cost.

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

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

Inventories

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

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

Financial liabilities, trade payables and other liabilities

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

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

Derivative financial instruments

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

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

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

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

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

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

Translation of 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 statement of comprehensive income based on the actuarial calculation that has been carried out. Liabilities recognised in the financial statements for defined benefit plans correspond to the present value of the obligation at the end of the reporting period. The obligations for defined benefit plans are determined each year by an independent actuary using the projected unit credit method.

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

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

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

Following adoption, 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 customer obtains control of the goods.

Revenues from the provision of services are recognised for an amount that reflects the amount that the Company expects to be entitled to receive upon provision of the services.

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

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 5.04% 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 that apply for the first time as from 1 January 2018

As from 1 January 2018, the Company adopted IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial instruments” (with the exception of the provisions concerning hedge accounting, in respect of which it has chosen to continue to apply the provisions of IAS 39), which led to changes in accounting policies.

This note explains the impact of the adoption of these standards on the financial statements and explains the new accounting policies applied when different from those adopted in previous periods.

IFRS 15 – “Revenue from Contracts with Customers”

In May 2014, the IASB issued IFRS 15, a new standard for recognising revenue that was supplemented in April 2016 by some guidelines that clarified its application. The new standard and the clarification document were endorsed by the European Union in September 2016 and October 2017, respectively.

IFRS 15 introduces a new five-step model that applies to revenue from contracts with customers (unless these contracts fall within the scope of other standards). The innovation of this standard lies the introduction of guidelines and illustrative examples that are more detailed than the forecasts contained in the previous standards on revenue, which in some cases led to the need to amend some accounting practices accepted and applied up to now.

Application of the standard is mandatory for annual reporting periods starting from 1 January 2018 onwards. For the purposes of transition, the company adopted a modified retrospective approach and accounted for the cumulative effect at the first-time adoption date.

The adoption of the standard had an impact in terms of deferral of the time of recognition of revenue for Water Service activation contributions; the deferral of recognition of revenue is offset by the corresponding deferred income shown under “Other non-current liabilities”.

The adoption of the new standard resulted in:

- a reduction in revenue due to the deferral of activation contributions;
- a reduction in the opening equity following the recognition of the corresponding Deferred Income net of the related deferred taxes.

Details of the main impacts of IFRS 15 adoption are provided in the table below.

IFRS 9 – “Financial Instruments”

In July 2014, the IASB issued the final version of IFRS 9 “Financial Instruments” that replaces IAS 39 “Financial Instruments: Recognition and Measurement” and supersedes all previous versions of IFRS 9. IFRS 9 was endorsed by the European Union in November 2016 and its application is mandatory for annual reporting periods starting from 1 January 2018 onwards (the Company did not make use of the possibility of early adoption). For the purposes of transition, the company adopted a modified retrospective approach and accounted for the cumulative effect at the first-time adoption date.

IFRS 9 brings together all three aspects relating to the project for the recognition of financial instruments: classification and measurement, impairment and hedge accounting. In particular, the new provisions of the standard: (i) amend the financial assets classification and measurement model; (ii) introduce the concept of expected credit losses among the variables to be considered in the measurement and impairment of financial assets; (iii) amend the provisions regarding hedge accounting.

IFRS 9 first-time adoption date was 1 January 2018, with the exception of the provisions concerning hedge accounting, for which it was decided to continue applying the provisions of IAS 39. The company made also use of the right, envisaged by the standard itself, not to restate comparative information, thus recognising the differences in opening profit reserves as at 1 January 2018.

The adoption of the standard had an impact on the measurement of financial assets and in particular on the determination of the bad debt provision, through the introduction of dedicated models to quantify the forward looking element. There are no impacts on other financial statement items.

Details of the main impacts of IFRS 9 adoption are provided in the table below.

Impact of changes in accounting policies

The cumulative effect on opening reserves of the first-time adoption of IFRS 15 “Revenue from contracts with customers” and IFRS 9 “Financial instruments”, adopted for the first time on 1 January 2018, is shown below:

(Euro)	Balance as at the Transition date
Deferred income due to the deferral of Water Service “Activation Contributions” - IFRS 15	(15,034,890)
Bad debt provision - IFRS 9	(448,175)
Recognition of deferred tax assets	3,948,978
Total impact as at 1 January 2018	(11,534,087)

The following table summarises the impact of IFRS 15 and IFRS 9 on the comparative financial statements as at 31 December 2017 for each of the financial statement items concerned.

(Euro)	31/12/2017	Change due to the adoption of IFRS 15	Change due to the adoption of IFRS 9	01/01/2018 restated
NON-CURRENT ASSETS				
Property, plant and equipment	48,140,398	-	-	48,140,398
Rights over the infrastructure relating to service concession arrangements	213,335,345	-	-	213,335,345
Other intangible assets	2,367,731	-	-	2,367,731
Deferred tax assets	12,015,290	3,841,416	107,562	15,964,268
Other non-current assets	1,394,012	-	-	1,394,012
Total non-current assets	277,252,776	3,841,416	107,562	281,201,754
CURRENT ASSETS				
Inventories	1,691,284	-	-	1,691,284
Trade receivables	231,766,725	-	(448,175)	231,318,550
Cash and cash equivalents	90,915,497	-	0	90,915,497
Other current assets	28,571,493	-	0	28,571,493
Total current assets	352,944,999	-	(448,175)	352,496,824
EQUITY				
Share capital	23,150,576	-	-	23,150,576
Reserves	130,812,311	(11,193,474)	(340,613)	119,278,224
Net profit (loss)	23,834,593	-	-	23,834,593
Total equity	177,797,480	(11,193,474)	(340,613)	166,263,393
NON-CURRENT LIABILITIES				
Non-current financial liabilities	164,180,301	-	-	164,180,301
Provisions for risks and charges	4,080,767	-	-	4,080,767
Employee benefits	8,821,753	-	-	8,821,753
Other non-current liabilities	20,396,849	15,034,890	-	35,431,739
Total non-current liabilities	197,479,670	15,034,890	-	212,514,560
CURRENT LIABILITIES				
Current financial liabilities	63,877,967	-	-	63,877,967
Current tax liabilities	-	-	-	-
Trade payables	163,017,361	-	-	163,017,361
Other current liabilities	28,025,297	-	-	28,025,297
Total current liabilities	254,920,625	-	-	254,920,625

Other accounting standards, amendments and interpretations applicable as from 1 January 2018

IFRIC 22 - Foreign currency transactions and advance consideration.

IFRIC 22 seeks to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency, in particular when an entity recognises a non-monetary asset or liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The application of the interpretation had no impact on the Company's financial position or profitability.

Amendment to IAS 40 - Transfers of Investment Property.

Among the main changes introduced by the amendment, it is specified that the transfer from owner-occupied property to investment property can only take place when there is evidence of a change in use. This amendment is not applicable to the Company.

Amendment to IFRS 2 Classification and measurement of share-based payment transactions.

The main changes to IFRS 2 concern three main areas:

- the accounting treatment of ‘vesting conditions’ and ‘non-vesting conditions’ for cash-settled share-based payment transactions;
- the classification of share-based payment transactions with net settlement features;
- accounting for modifications of a share-based payment transaction terms and conditions from cash-settled to equity-settled.

The Company has no stock option plans in place. Therefore, the amendments described above had no impact on the Company’s financial position, operating results and profitability.

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

IFRS 16 – Leases

On 13 January 2016, the IASB published its new accounting standard IFRS 16 - Leases. The new standard replaces IAS 17 and provides more appropriate accounting principles to reflect the nature of leases in the financial statements. The new IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. In particular, IFRS 16 provides a single lessee accounting model, requiring lessees to recognise in the financial statements an asset that represents the right to use the underlying asset and a liability that reflects the obligation to pay the lease instalments. Moreover, the nature of the costs relating to such leases will change in that IFRS 16 will replace the accounting on a straight-line basis of operating lease costs with the amortisation of the right of use and the financial charges on lease liabilities.

With regard to the first-time adoption of the standard, the Company decided to adopt the modified retrospective application of the model. Therefore, the figures for the comparative period will not be restated and some simplifications and practical expedients will be applied as allowed by the standard of reference.

In detail, for leases previously classified as operating leases, the modified retrospective method envisages that:

- the lessee shall initially measure the lease liability at the present value of the lease payments payable over the lease term, discounted at the lessee's initial incremental borrowing rate;
- upon lease commencement, a lessee shall recognise a right-of-use asset in respect of leases previously classified as operating leases. As allowed by the standard, MM S.p.A. chose to measure the right-of-use asset at a value equal to the amount of the lease liability adjusted by any deferred or accrued income relating to the lease, recognised in the statement of financial position immediately before the commencement date.

Moreover, with reference to the transition provisions, the Company intends to make use of the practical expedient available if it chooses the modified retrospective transition method, which concerns the exclusion of initial direct costs from the measurement of the right of use as at 1 January 2019. MM S.p.A.'s contracts

falling within the scope of application of the standard mainly concern the rental of real estate and the long-term rental of cars.

MM S.p.A. also made use of the practical expedient that allows not to adopt the standard for low-value assets such as PCs, printers, electronic equipment (IFRS 16.5.b) and short-term contracts (IFRS 16.5.a). For these contracts, the introduction of IFRS 16 will not result in the recognition of the lease liability and the relevant right-of-use asset, but the lease payments will be recognised in profit or loss on a straight-line basis for the duration of the respective contracts. The transition to IFRS 16 introduced some elements of professional judgement that entail the definition of certain accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The main elements are summarised below:

- lease term: the duration was determined based on the individual contract and consists of the “non-cancellable” period together with the effects of any extension or early-termination clauses whose exercise was considered reasonably certain and taking into account the clauses of the contract itself. Specifically, for real estate, this assessment took into account the specific facts and circumstances of each asset;
- incremental borrowing rate: in most of MM’s leases, there is no implicit interest rate, so the discount rate to be applied to future lease payments was determined as the risk-free rate of the Country in which the leases were entered into, with maturities commensurate with the specific lease term, increased by MM S.p.A.’s specific credit spread and any additional guarantee costs.

The impact as at 1 January 2019 is an increase in financial assets and liabilities of approximately € 2.2 million, equal to the present value of future lease payments envisaged by the lease term.

IFRIC 23 - Uncertainty over income tax treatments

The purpose of IFRIC 23 (applicable from 1 January 2019) is to clarify how to calculate current and deferred taxes when there are uncertainties about the tax treatment adopted by the reporting entity and which may not be accepted by the tax authorities. No impact on the company’s financial position was recognised as at 31 December 2018 as the company had already applied an interpretation of the income tax treatment in a correct and appropriate manner.

Accounting standards, amendments and interpretations not yet endorsed

Amendment to IAS 28 – Investments in Associates and Joint Ventures (issued on 12 October 2017)

The changes brought about by this amendment are not applicable to the Company.

IFRS 17 - Insurance Contracts (issued on 18 May 2017).

The standard is not applicable to the Company.

Amendment to IAS 19 – Plan Amendment, Curtailment or Settlement (issued on 7 February 2018)

With this amendment, the IASB clarifies the determination of pension costs in the event of a change in the defined benefit plan. These clarifications have no impact on the financial and economic situation of the Company.

Amendment to IFRS 3 – Definition of a Business (issued on 22 October 2018)

The IASB has issued ‘Definition of a Business (Amendments to IFRS 3)’ aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets as per the definition of business under IFRS 3. The amendments are effective for business combinations for which the acquisition date is on or after 1 January 2020.

Amendment to IAS 1 and IAS 8 – Definition of Material (issued on 31 October 2018)

The IASB has issued ‘Definition of Material (Amendments to IAS 1 and IAS 8)’ to clarify the definition of ‘material’ in order to help companies to assess whether certain information should be included in the financial statements. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

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 finance department is in charge of evaluating and approving provisional financial requirements, monitoring their performance, and, where necessary, taking the appropriate corrective actions. The following section provides qualitative and quantitative reference information on the effect of such risks for the Company.

Market Risk

Foreign exchange risk

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

Sensitivity analysis relating to foreign exchange risk

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

For the purposes of this analysis, two scenarios have been considered, respectively discounting an appreciation and a depreciation equal to 10% of the exchange rate between the currency of the financial statement item and the functional currency.

(in thousands of Euro)

Sensitivity analysis	Impact on profit and equity, net of tax effect									
	USD		RON		INR		AED		Total	
	-10%	10%	-10%	10%	-10%	10%	10%	10%	10%	10%
Year ended 31 December 2018	18	(14)	22	(18)	32	(26)	16	(13)	88	(71)

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 2018

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	9,794	(1,730)
BNP Paribas IRS	2009	2028	10,000	(2,977)

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 2018	107	(107)	107	(107)

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, 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 2018 (€ 231 million as at 1 January 2018) are recognised net of advances for works of € 2,073 million and accounted for net of the impairment calculated by the company's management by estimating expected losses differentiated by type of debtor, i.e. private or public. The estimate of expected losses arises from historical experience differentiated by type of debtor, re-measured on the seniority of past due balances, and on any forward looking elements, which may affect recovery expectations. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 19,208,217 as at 31 December 2018.

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

Furthermore it should be noted that the receivables of the Water Service Business Unit are covered by guarantee deposits up to the amount of € 11,687 thousand.

Liquidity Risk

The liquidity risk represents the risk that, due to the inability to raise new funds or sell assets on the market, the Company is unable to meet its payment commitments, generating an impact on the result of operations in the event that the Company is obliged to incur additional costs to meet its commitments or face a situation of insolvency. The Company's objective is to put in place a financial structure that, in line with business

objectives and defined limits, guarantees an adequate level of liquidity thanks to the expected tariff increases, by minimising the related opportunity cost, and is balanced in terms of debt maturity and breakdown.

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

The table below provides an analysis of cash flows expected in the years to come in relation to financial liabilities as at 31 December 2018:

<i>(in thousands of Euro)</i>	Balance as at 31 December 2018	Expected outflows			Total
		Within 1 year	From 1 to 5 years	Over 5 years	
Financial liabilities	243,476	53,357	10,777	179,342	243,476
Trade payables	155,419	154,916	503	0	155,419
Other liabilities	61,978	46,849	3,429	11,700	61,978

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 2018 is provided below:

<i>(in thousands of Euro)</i>	Financial assets and liabilities measured at fair value through OCI	Loans and receivables at amortised cost	Financial liabilities at amortised cost	Total
ASSETS:				
Other non-current assets	-	1,385	-	1,385
Trade receivables	-	232,178	-	232,178
Cash and cash equivalents	-	116,676	-	116,676
Other current assets	-	11,625	-	11,625
LIABILITIES:				
Non-current financial liabilities	4,707	-	185,905	190,612
Other non-current	-	-	34,060	34,060

liabilities				
Trade payables	-	-	155,419	155,419
Current financial liabilities	-	-	52,864	52,864
Other current liabilities	-	-	27,918	27,918

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 summarises the assets and liabilities measured at fair value as at 31 December 2018, based on the inputs used in determining the fair value:

<i>(in thousands of Euro)</i>	As at 31 December 2018		
	Level 1	Level 2	Level 3
Derivative financial instruments (IRSs)	-	(4,707)	-

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 5.04% 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 Energy, Networks and Environment (ARERA) is based on factors and estimates that may change over time, resulting in a change to this amount.

Impairment/reversal of impairment

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

Deferred tax assets

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

Provisions for risks and charges

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

Bad debt provision

The bad debt provision reflects the estimates relating to expected losses on the receivables portfolio. The allocations for expected losses reflect credit risk estimates based on past experience with similar receivables, analysis of past due amounts (current and previous amounts), and on monitoring the performance of current and future economic conditions, in the reference markets.

Measurement of derivative financial instruments

Measurement of the fair value of unquoted financial assets, such as derivative financial instruments, takes place using commonly used financial measurement techniques which require assumptions and estimates. These assumptions may not occur within the deadlines and in the manners that were expected. Therefore, the estimates for these derivative instruments could differ from the final figures.

Measurement of revenues

As for the Engineering Business Unit, revenues related to work orders for 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 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;
- **Real Estate and Networks:** includes the assets and the management of public assets previously carried out by MIR prior to the merger with MM;
- **Staff:** includes the activities performed by the functions supporting the operating segments whose costs are parametrically allocated to each business unit.

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

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

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

<i>(in thousands of Euro)</i>		31/12/2018					
	Integrated Water Service	Engineering	Housing	Real Estate and Networks	Departments/Central Functions	Total	
Revenues	142,581	27,413	11,466	2,030	101	183,591	
EBITDA	61,168	3,323	2,367	1,912	47	68,817	
<i>% on Revenues</i>	<i>42.90%</i>	<i>12.12%</i>	<i>20.64%</i>	<i>94.19%</i>		<i>37.48%</i>	
EBIT	48,883	2,524	1,872	15	35	53,329	
<i>% on Revenues</i>	<i>34.28%</i>	<i>9.21%</i>	<i>16.33%</i>	<i>0.74%</i>		<i>29.05%</i>	
Finance income						548	
Finance costs						-9,305	
Pre-tax profit (loss)						44,572	
Taxes						-13,737	
Net profit (loss)						30,835	

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets

1.1 Property, plant and equipment

Property, plant and equipment amounted to € 65,172,161 (€ 48,140,398 in the previous year).

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

Property, plant and equipment used in operations: changes

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Assets under construction	Leasehold improvements	Other property, plant and equipment	Total
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)	(47,688,110)
Increases for the year	17,321,080	0	0	2,271,098	181,544	293,929	20,067,652
Decreases for the year	0	0	(20,813)	0	0	0	(20,813)
Depreciation for the year	(1,291,003)	-647,041	(528,345)	0	(137,569)	(411,116)	(3,015,075)
Balance as at 31.12.2018	55,863,520	2,816,649	410,734	3,422,158	1,058,289	1,600,812	65,172,161
Historical cost as at 31.12.2018	72,913,691	25,720,966	4,490,186	3,615,565	3,008,265	6,126,673	115,875,347
Accumulated depreciation as at 31.12.2018	(17,050,171)	(22,904,317)	(4,079,452)	(193,407)	(1,949,976)	(4,525,861)	(50,703,185)

The increases for the year totalled € 20,067 thousand, of which € 13,846 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 € 238,331,555 (€ 213,335,356 in the previous year).

Changes for the period from 1 January 2018 to 31 December 2018 are provided below:

	Rights over the infrastructure relating to service concession arrangements
Balance as at 1 January 2018	213,335,356
Historical cost	309,595,083
Accumulated amortisation	(96,259,727)
Increases	51,404,254
FoNI (Fund for New Investments)	(15,833,416)
Reclassifications of assets under construction	(1,403,028)
Decreases	0
Amortisation	(9,171,611)
Balance as at 31 December 2018	238,331,555
Historical cost	343,762,893
Accumulated amortisation	(105,431,338)

Pursuant to IFRIC 12, rights over the infrastructure relating to service concession arrangements amounted to € 238,332 thousand as at 31 December 2018. These rights were amortised on a straight-line basis throughout the concession period; the residual value of € 27.8 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 € 49,071,579 as at 31 December 2018.

Investments in 2018 amounted to € 51,404,254 (gross of the increase in the “Fund for new investments” for 2018) 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 2018, 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 2018 to 31 December 2018 are provided below:

	Historical cost at 31/12/2017	Accumulated amortisation as at 31/12/2017	Balance as at 31/12/2017	Increases in 2018	Amortisation in 2018	Balance as at 31/12/2018
Software	2,848,989	(765,859)	2,083,130	2,178,725	(707,176)	3,554,679
Other intangible assets	586,765	(302,263)	284,502	0	(151,975)	132,527
	3,435,754	(1,068,122)	2,367,632	2,178,725	(859,151)	3,687,206

Investments made in 2018 mainly concerned the purchase of the new software for the integrated management of business processes.

1.4 Deferred tax assets

Deferred tax assets amounted to € 18,102,020 (€ 12,015,290 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	2017		2018	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Provisions for risks and charges	3,875,042	1,066,823	2,743,801	749,007
IRS fair value measurement	7,872,376	1,889,370	4,706,532	1,129,568
Contributions	36,910,997	10,408,901	48,173,157	13,584,830
Late payment interest provision	641,214	153,891	542,629	130,231
Employee benefits	537,917	150,373	664,497	110,845
Write-downs of inventories	395,575	111,552	389,906	109,953
Deferrals for connections	0	0	14,283,146	3,649,345
Other items	1,101,578	273,566	2,568,618	689,152
Total for the Company	51,345,282	14,054,476	74,072,285	20,152,931
Deferred tax	2017		2018	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Late payment interest	680,368	163,288	729,220	175,013
Tangible fixed assets	6,723,647	1,875,898	6,723,647	1,875,898
Other				
Total for the Company	7,404,015	2,039,186	7,404,015	2,050,910
Total prepaid/deferred tax	43,941,267	12,015,290	66,668,270	18,102,021

As required by IAS 12, deferred tax assets are shown net of deferred tax liabilities, since deferred assets and liabilities refer to income taxes applied by the same tax authority.

1.5 Other non-current assets

Other non-current assets amounted to € 1,384,641 (€ 1,394,012 in the previous year) and are broken down as follows.

	Reporting period	Previous period
Equity investments	990	109,582
Accrued income and prepaid expenses	1,142,095	1,127,541
Guarantee deposits	241,556	156,889
Total	1,384,641	1,394,012

Equity investments

The amount of € 990 refers to the equity investment in the Russian company MMB Project. The decrease is attributable to the write-down of the investment determined on the basis of the impairment loss estimated at the end of the year. It should be noted that, as part of the plan for the rationalisation of the equity investments of the Municipality of Milan, MM initiated a process in 2018 aimed at the disposal of this equity investment, which shall be completed by 2019.

1.6 Inventories

Inventories amounted to € 2,187,209 (€ 1,691,284 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 € 397,483.

The change compared to the previous financial year is attributable to the increase in inventories of € 490,256 and to the increase in the corresponding provision for write-down of inventories of € 5,669.

Inventories are broken down as follows:

	As at 01 January 2018	As at 31 December 2018
Raw materials, consumables and goods for resale	2,094,436	2,584,692
Provision for write-down of inventories	(403,152)	(397,483)
Total	1,691,284	2,187,209

1.7 Trade receivables

Trade receivables, net of the related bad debt provision, amounted to € 232,178,390 (€ 231,766,725 in the previous year).

The item is broken down as follows.

	Reporting period	Previous period
Due from third parties	153,173,300	150,121,588
Due from parent companies	97,813,307	98,489,070
Total trade receivables - gross	250,986,607	248,610,658
Bad debt provision	(18,808,216)	(16,843,933)
Total trade receivables	232,178,390	231,766,725

Receivables due from third parties

This item includes receivables of the Engineering and Staff Business Unit for € 43,272,694 relating to services provided to third parties, receivables arising from the management of the Integrated Water Service for € 91,119,495, receivables of the Plant and Real Estate Business Unit for € 10,186 and of the Housing Business Unit for € 216,356.

Receivables due from parent companies

Receivables due from parent companies are attributable to the Engineering and Staff Business Unit for already invoiced services and services which are yet to be invoiced totalling € 85,288,379, to the Integrated Water System to the tune of € 6,410,368 and to the Housing Business Unit to the tune of € 5,860,912.

The amount of receivables concerning the Engineering Business Unit is shown net of the advances of € 2,073 million received from the Municipality of Milan.

Bad debt provision

The par value of receivables was adjusted to the expected realisable value by means of a specific bad debt provision; the relevant changes during the financial year were as follows:

Description	Total
Balance as at 31 December 2017	16,843,933
Effect resulting from the first application of IFRS 9	448,175
Balance as at 01 January 2018	17,292,108
Use during the year	(483,892)
Allocation for the year	2,000,000
Balance as at 31 December 2018	18,808,216

This provision refers to the impairment of receivables from customers of the Integrated Water Service amounting to 17,315,903.

1.8 Cash and cash equivalents

Cash and cash equivalents amounted to € 116,676,484 (€ 90,915,497 in the previous year).

Breakdown is shown and described below.

	Reporting period	Previous period
Cash	11,190	16,434
Bank deposits	116,665,294	90,899,063
Total	116,676,484	90,915,497

1.9 Other current assets

Other current assets amounted to € 11,625,443 (€ 28,571,493 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Receivables due from tax authorities	2,006,484	18,434,545
Prepayments	7,581,695	7,801,454
Receivables due from social security agencies	663,111	1,024,362
Other current receivables	1,774,153	1,711,132
Bad debt provision	(400,000)	(400,000)
Total	11,625,443	28,571,493

Receivables due from tax authorities

The item receivables due from tax authorities refers to IRES (corporate tax) and IRAP (regional business tax) refunds receivable for € 1,968,464 and to other receivables for € 108,097.

Prepayments, amounting to € 7,581,695, refer to contract advances paid to contractors in accordance with the procurement code.

Equity and liabilities**1.10 Equity**

The share capital is comprised of 36,996,233 ordinary shares with a par value of € 1 each, fully subscribed and paid up, held by the Municipality of Milan.

Equity - origin, use and distribution

Below we provide the information required by art. 2427, no. 7-bis, pursuant to which equity items must be shown separately and broken down by availability, origin and 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	36,996,233	Subscription / capital reserve	coverage of losses			
Legal reserve	4,630,115	earnings reserve	coverage of losses			
Other reserves						
Merger surplus reserve	47,193,065	Merger surplus reserve	share capital increase, coverage of losses, allocation	47,193,068		
Extraordinary reserve	90,627,534	earnings reserve	share capital increase, coverage of losses, allocation	90,627,534		
Housing Business Unit reserve	2,422,737	earnings reserve	share capital increase, coverage of losses, allocation	2,422,737		
IFRSs transition reserve	4,287,436	IFRSs transition reserve	share capital increase, coverage of losses, allocation	4,287,436		
Cash flow hedge reserve	-3,576,964			-3,576,964		
Total	140,953,808			140,953,811		
Total equity	182,580,156					

1.11 Current and non-current financial liabilities

Financial liabilities amounted to € 243,475,778 (€ 228,058,268 in the previous year).

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

Current and non-current financial liabilities	As at 31 December 2018		As at 01 January 2018	
	Current portion	Non-current portion	Current portion	Non-current portion
Bank loans	2,072,185	87,423,141	4,933,532	50,541,154
Bond loan		98,431,903	-	98,337,612
Other loans	47,929,159		39,070,841	7,429,159
Bank account overdrafts	1,873,747		18,327,288	-
Fair value of IRSs		4,706,532	-	7,872,376
Payables relating to finance costs	988,717		1,546,306	-
Total	52,863,807	190,611,971	63,877,967	164,180,301

Expenses incurred by the Company in relation to bank loans and the bond loan were initially recognised as a reduction in financial liabilities and subsequently transferred to profit or loss using the amortised cost method pursuant to IFRS 9.

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

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 2018			
					Total	Due within 1 year	Due within 2 to 5 years	Due later than 5 years
Bank loans:								
Floating Rate Loan -BNL	20,000	2008	2028	Euribor 6m + 0.25%	10,000,000	1,000,000	4,000,000	5,000,000
Floating Rate Loan - Banca Intesa	20,000	2006	2026	Euribor 6m + 0.12%	9,794,475	1,072,185	4,707,076	4,015,214
Fixed Rate Loan BEI	70,000	2018	2034	1.757%	70,000,000			70,000,000
Amortised cost								(299,148)
Bond Loan:								
Senior Secured Amortising Fixed Rate Notes	100,000	2016	2035	3.15%	100,000,000	-	-	100,000,000
Amortised cost								(1,568,097)
Total					189,794,475	2,072,185	8,707,076	177,147,969

1.12 Provisions for risks and charges

Provisions for risks and charges amounted to € 2,544,366 (€ 4,080,767 in the previous year).

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

	Balance as at 01 January 2018	Increase	Uses/releases	Balance as at 31 December 2018
Provision for risks	3,583,287	325,852	(1,613,514)	2,295,625
Provision for future expense	497,480	-	(248,739)	248,741
Total	4,080,767	325,852	(1,862,253)	2,544,366

The allocation for the year refers for € 78,146 to future losses relating to orders of the engineering business unit with negative margins and for € 247,706 to allocations to the insurance excess fund.

The decrease for the year refers for € 1,087,680 to the release of the provision following the settlement of legal disputes with third parties, for € 205,806 to the use for payment of insurance excesses during the year and for € 315,628 to the adjustment of the orders provision, at a loss due to the reduction in the estimate of potential negative margins.

The provision for charges 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 € 8,430,881 (€ 8,821,753 in the previous year).

	Reporting period	Previous period
Post-employment benefits	6,498,008	7,017,338
Other benefits	1,932,873	1,804,415
Total	8,430,881	8,821,753

Post-employment benefits

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

Employee benefits	Employee benefits
Balance as at 31 December 2017	7,017,338
Finance costs	70,386
Actuarial gains	(90,162)
Amounts paid	(499,553)
Balance as at 31 December 2018	6,498,009

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

Discount rate	1.13% Engineering, Water Service, Staff B.U. - 1.57% Housing B.U.
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 € 1,932,873 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.

1.14 Other non-current liabilities

Other non-current liabilities amounted to 34,059,729 (€ 20,396,849 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Guarantee deposits	17,731,797	16,875,133
Deferred income	16,327,942	3,521,716
Total	34,059,739	20,396,849

Deferred income mainly refers to contributions for connections and for network strengthening operations that will be released annually on a straight-line basis up to the expiry of the Water Service concession agreement.

1.15 Current Tax Liabilities

Current tax liabilities amounted to € 4,081,241 (€ 0 in the previous year). The item is broken down as follows:

	Reporting period
Corporate tax (IRES)	3,538,095
Regional business tax (IRAP)	543,146
Total	4,081,241

1.16 Trade payables

Trade payables amounted to € 155,418,792 (€ 163,017,361 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Due from third parties	98,533,141	103,278,658
Due from parent companies	56,885,651	59,738,703
Total	155,418,792	163,017,361

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 2018, no payables with a residual duration exceeding five years were recognised.

Payables due to third parties

The balance as at 31 December 2018 includes payables related to the Engineering and Staff Business Unit of € 40,510,965, to the Integrated Water Service of € 55,603,643, to the Housing Business Unit of € 1,905,205 and to Real Estate and Networks management of € 513,283.

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

Payables to Parent Companies

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

The balance as at 31 December 2018 includes payables related to the Engineering Business Unit of € 2,075,264, to the Integrated Water Service of € 54,784,566 and to the Housing Business Unit of € 25,821.

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 € 27,918,482 (€ 28,025,297 in the previous year).

The item is broken down as follows:

Other current liabilities	Reporting period	Previous period
Payables due to employees	9,622,419	10,165,905
Payables due to Integrated Water Service users	220,103	923,152
Advances	3,172,749	7,392,337
Payables due to social security agencies	4,415,556	4,264,331
VAT and other tax payables	6,275,193	2,227,168
Payables due to Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund)	1,952,145	658,520
Other liabilities	2,260,317	2,393,884
Total	27,918,482	28,025,297

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 € 300,746 and from the Parent Company for € 2,872,003.

NOTES TO THE INCOME STATEMENT

2.1 Revenues

Revenues from sales and services amounted to € 183,591,145 (€ 181,009,719 in the previous year).

The item is broken down by Business Unit as follows:

	Reporting period	Previous period
Integrated Water Service	142,580,532	143,603,449
Engineering and Staff	27,514,060	23,992,099
Housing	11,466,417	11,066,464
Plant and Real Estate	2,030,137	2,347,707
Total	183,591,145	181,009,719

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 € 35,532 thousand for the year ended 31 December 2018.

Below is the breakdown by geographic area.

<i>Amounts in thousands of Euro</i>	Reporting period	Previous period
Italy	182,785	180,340
Europe	349	447
Rest of the world	457	223
Total	183,591	181,010

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 € 51,404,454 for the year ended 31 December 2018. 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 5.04%, 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 € 24,286,760 (€ 13,033,756 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Sundry services carried out by the IWS	1,684,939	2,182,691
Chargebacks and expense refunds	1,406,539	383,722
Increases for internal work	10,237,742	7,314,910
Release of the provision for risks	1,228,978	255,113
Charge of costs for seconded staff	609,828	517,789
Contingent assets	8,523,091	2,018,700
Other revenues and income	573,438	338,625
Grants related to assets	22,206	22,206
Total	24,286,760	13,033,756

The amount of contingent assets mainly refers to adjustments determined by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) on the fees related to wholesale trades in connection with the water treatment service and to adjustments to provisions made in previous years. In particular, on 19 July 2018, the Municipality of Milan, MM S.p.A. and Milan Depur S.p.A. signed a deed in which the amounts due to the latter have been recalculated on the basis of the tariff applicable to the water treatment service for the period from 2012 to 2019. The new tariff, determined and constituting the basis of the agreement, was approved by ARERA resolution of 2 August 2018.

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

The item “chargebacks and expense refunds” includes € 1,149,270 relating to the transfer to the Municipality of Milan of the costs of the IT system for managing the Housing business unit.

2.4 Costs for raw materials, consumables and goods for resale

Raw materials and consumables amounted to € 4,727,212 (€ 4,080,274 in the previous year).

Breakdown is shown and described below.

	Reporting period	Previous period
Fuels and lubricants	282,122	244,548
Consumables and other	4,941,015	3,685,067
Changes in raw materials, ancillaries and consumables	(495,925)	150,659
Total	4,727,212	4,080,274

2.5 Other operating costs

Other operating costs amounted to € 2,598,639 (€ 2,322,274 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Membership fees	364,006	362,228
Taxes and other deductible charges	459,980	390,972
Municipal Property Tax (IMU)	333,390	210,699
Donations	43,848	54,132
Other operating expenses	1,397,414	1,304,243
Total	2,598,639	2,322,274

2.6 Costs for services

Costs for services amounted to € 76,209,188 (€ 76,819,413 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Utility bills (water, electricity)	21,542,683	21,165,934
Gas	902,408	521,779
Outsourced work	115,869	146,386
Maintenance	3,320,566	4,604,557
Technical and legal consulting	7,291,237	6,729,333
Remuneration of directors	144,868	145,155
Remuneration of statutory auditors	36,036	46,893
Marketing and advertising expenses	439,966	527,829
Telephone and postal expense	977,996	1,011,446
Insurance	2,586,277	2,577,657
Business trips and transfers	243,211	296,603
Other costs for services	7,374,146	6,276,529
Costs for activated carbon regeneration	1,280,540	1,893,120
Canteen and luncheon vouchers	1,731,755	1,604,694
Services supplied by the Municipality of Milan	3,082,341	2,981,700
Wastewater treatment plant management fee	16,514,237	16,408,451
Waste disposal	5,959,899	5,619,564
Use of third party assets	2,665,151	4,261,784
Total	76,209,188	76,819,413

The overall value of the item "Costs for services" is substantially in line with the value of the previous year.

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

	Reporting period	Previous period
Rents and leases	2,284,113	3,822,441
Royalties, copyrights and patent rights	377,789	429,623
Other costs for use of third-party assets	3,249	9,720
Total	2,665,151	4,261,784

The decrease of the item "Rents and leases" is attributable to the reduction in the rent of the Municipality of Milan due to the transfer of the latter's real estate.

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 € 49,021,134 for the year ended 31 December 2018. This item consists of the cost for work on assets held under concession arrangements.

2.8 Personnel costs

Personnel costs amounted to € 57,886,619 (€ 57,507,984 in the previous year).

Breakdown is shown and described below.

	Reporting period	Previous period
Salaries and wages	41,170,061	41,133,450
Social security costs	12,185,611	11,853,347
Post-employment benefits	2,792,685	2,854,458
Other costs	1,738,262	1,666,729
Total	57,886,619	57,507,984

The breakdown of labour cost by category is as follows:

Number of employees	2018	
	As at year end	Average
Senior managers	36	35
Middle managers	76	76
White-collar workers	710	681
Apprentices	7	8
Workers	335	337
Total	1,164	1,137

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 € 15,488,793 (€ 14,548,292 in the previous year).

Breakdown is shown and described below.

	Reporting period	Previous period
Depreciation of property, plant and equipment and amortisation of intangible assets	13,045,837	11,516,606
Amortisation/depreciation and impairment	2,442,956	3,031,686
Total	15,488,793	14,548,292

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

	Reporting period
Property, plant and equipment	3,015,075
Rights over the infrastructure relating to service concession arrangements	9,171,610
Other intangible assets	859,151
Total	13,045,837

2.10 Impairment loss on the disposal of fixed assets

The impairment loss on property, plant and equipment and intangible assets amounted to € 20,814 (€ 28,103 in the previous year).

The item is broken down as follows:

	Reporting period - Losses	Reporting period - Difference	Previous period - Losses	Previous period - Difference
Impairment losses (Reversal of impairment losses)				
- Other Property, plant and equipment	20,814	20,814	28,103	28,103
Total property, plant and equipment	20,814	20,814	28,103	28,103
Impairment losses (Reversal of impairment losses)				
Grand total	20,814	20,814	28,103	28,103

2.11 Finance income and costs

Finance costs net of finance income amounted to € 8,756,957 (€ 7,384,096 in the previous year).

Breakdown is shown and described below.

Finance income and costs	Reporting period	Previous period
Financial income from equity investments		67,078
Interests on trade receivables and late payment penalties	169,499.51	42,659.59
Interest income on bank current accounts	338,549.92	369,923.98
Foreign exchange gains	39,809.36	78,655.00
Total finance income	547,859	491,239
Interest expense on bank loans and borrowings	8,454,320	6,628,321
Bank interest expense	683,397	982,776
Interest cost – employee benefits	70,386	72,709
Foreign exchange losses	39,733	90,310
Other finance costs	56,978	168,296
Total finance costs	9,304,815	7,942,412
Net finance income/(costs)	(8,756,957)	(7,384,096)

The value of finance costs mainly refers to the Water business unit and is due to the interests payable on the bond loan and on the other loans taken out for the implementation of the investment plan.

The increase in the year is influenced by the fair value recognised to UBI bank for € 1.99 million, following the early repayment of the IRS contract linked to the loan that has been fully repaid before maturity.

2.12 Income taxes

Income taxes amounted to € 13,737,122 (€ 9,694,092 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 2018:

	Reporting period	Previous period
Current taxes (IRES)	13,689,764	10,254,248
Current taxes (IRAP)	2,970,008	2,446,012
Prepaid / deferred taxes	(2,922,650)	(3,006,168)
Total	13,737,122	9,694,092

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

	Year ended 31 December 2018	
		%
Profit (loss) before tax	44,572,802.59	
Theoretical corporate tax (IRES)	10,697,472.62	24.00%
Regional business tax (IRAP)	2,970,008.00	6.66%
Tax effect of permanent and other differences		
Taxes	13,737,122	
Actual tax rate		31%

Other Information

Income and expense items of exceptional size or incidence

The main non-recurring events that have had a significant impact on the current year are reported below.

- On 19 July 2018, the Municipality of Milan, MM S.p.A. and Milan Depur S.p.A. signed a deed in which the amounts due to the latter have been recalculated on the basis of the tariff applicable to the water treatment service for the period from 2012 to 2019. The new tariff, determined and constituting the basis of the agreement, was approved by ARERA resolution of 2 August 2018. Following the recalculation of wholesale water treatment tariffs, the company recognised non-recurring positive income items deriving from adjustments to provisions made in previous years for € 7.2 million.
- Following rescheduling of financial items, on 3 October 2018 the Company carried out the early repayment of the loan taken out with UBI Banca and of the related hedging derivative instrument (IRS). In relation to this operation, non-recurring finance costs of € 1.9 million were recognised in the year.

Off-balance sheet agreements

The Company has no extant off-balance sheet agreements.

Sureties and guarantees in favour of third parties

As at 31 December 2018, sureties issued by third parties totalled € 10,443 thousand, broken down as follows:

- a guarantee of € 3,300 thousand issued in favour of the Optimal Territorial Area Authority (ATO), as required by the Integrated Water Service concession agreement;
- a guarantee of € 100 thousand issued in favour of the Municipality of Milan for the ordinary upgrading of the water network;
- a guarantee of € 4,325 thousand issued in favour of the Italian Revenue Authority for the refund of VAT credit;
- Guarantees of € 2,717 thousand to principals for the execution of contracts.

Disputes

The value of disputes related to claims of contractors deriving from the performance of work contracts and pending at 31 December 2018 totals approximately € 136 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.

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 2018, the relations with the Municipality of Milan mainly involved:

- engineering technical support services;
- property management (administrative management, accounting management, mobility management, communications management, customer relationship management) and facility management (services, supplies, maintenance and technical management) of properties owned by the Municipality.

As at 31 December 2018, 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 € 78 million, while the costs incurred as contracting authority for the Municipality of Milan amounted to € 35.5 million. The value of costs for services and leases recharged by the parent company to MM amounted to € 3.3 million. It should be noted that, for engineering services, the Company has offset receivables and payables from/to the Municipality of Milan in the financial statements

as well as revenues and related costs, since it acts as an intermediary between the Municipality of Milan and third-party contractors.

Pursuant to the provisions of IFRS 15, since the Company acts as an agent for the Municipality of Milan and suppliers of engineering services, revenues and receivables arising from the construction of assets are offset against the relevant costs and payables.

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

- engineering services in favour of Expo 2015 S.p.A., SEA S.p.A., Milanospo S.p.A., Arexpo S.p.A., AMAT, M4 S.p.A.;
- costs for the removal of interference of the transport lines with the Engineering and/or Integrated Water Service Business Units' work charged by ATM S.p.A. and 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 management services for the city of Milan.

Significant events after 31 December 2018

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

Remuneration of corporate bodies and independent auditors

Remuneration of corporate bodies

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

	Amount
Directors	144,868
Board of statutory auditors	36,036

Remuneration of independent auditors

The remuneration payable to independent auditors totalled € 82,596 for the year ended 31 December 2018.

This amount relates to the following activities:

	Amount
Audit of the financial statements and related activities	52,046
Audit of separate annual reports	4,250
Other activities (limited audit procedures of the DNF and sustainability report, agreed procedures on prospectuses for participation in tenders)	26,300
Total as at 31 December 2018	82,596

Allocation of the profit for the year

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 30,835,681, as follows:

- € 2,769,132 to the legal reserve;
- € 1,153,438 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;
- € 26,913,111 to the extraordinary reserve.

For the Board of Directors

The Chairman

DAVIDE AMEDEO CORRITORE

ANNEX 1: INDEPENDENT AUDITORS' REPORT OF THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2018



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 2018, 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 2018, 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. 38/0.

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

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

Key Audit Matters

Auditing procedures performed in response to key audit matters

Measurement of the bad debt provision for the water segment

Note 1.7 to the financial statements “Trade receivables”

The item ‘Trade receivables’ of the financial statements as of 31 December 2018 includes receivables referred to the Integrated Water Service equal to Euro 91,119 thousand, with the relevant bad debt provision amounting to Euro 17,315 thousand.

We focused on this line item in consideration of the materiality of the balance and the high degree of judgement and subjectivity intrinsic to the valuation of that bad debt provision, mostly related to the extreme fragmentation of receivables and to the peculiarity of the segment, which is characterised by its nature of ‘essential service’.

The Company estimates the non-recoverable amount of trade receivables in accordance with the new international financial reporting standard IFRS 9 – Financial Instruments, adopted starting from 1 January 2018.

The measurement of the bad debt provision was performed by management through an estimate of the expected credit loss based on different criteria depending on the debtor being a private-sector or public-sector entity. The expected credit loss estimate is based on past experience, adjusted to reflect the age of overdue balances, and on forward looking elements that may affect the estimated recovery.

We paid special attention to our audit procedures in this area; in detail:

- We understood and evaluated the credit management process and the treasury cycle (collections) and verification, on a test basis, the operating effectiveness of relevant controls;
 - We performed a critical analysis of management’s assessments, through discussion with the credit manager;
 - We performed a critical analysis of the estimated loss rate, based on the nature of the debtor and the age of the overdue balance;
 - We verified the rates applied to the various types of receivables in order to determine the bad debt provision;
 - We verified, on a test basis, the classification of receivables in the various overdue categories;
 - A critical analysis of overdue balances and of replies to inquiries sent to the Company’s lawyers;
 - We verified, on a test basis, collections subsequent to the reporting date;
 - We analysed guarantees in place, if any;
 - Finally, we verified the consistency of the method used by the Company with the requirements of IFRS 9 and the mathematical accuracy of the calculation of expected credit losses.
-

Key Audit Matters

Auditing procedures performed in response to key audit matters

Estimation of year-end revenues for the water segment

Note 2.1 to the financial statements “Revenues”

The item ‘Revenues’ of the financial statements as of 31 December 2018 includes revenues referred to the Integrated Water Service equal to Euro 142,580 thousand. Revenues of Integrated Water Service include a component referred to the year that is estimated through systems that use complex algorithms, in particular to calculate estimated consumption.

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

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

- We understood and evaluated the procedure flows of the revenue cycle, examined relevant controls and verified their operating effectiveness, on a test basis;
 - We understood and evaluated the billing process of the water segment and verified relevant controls, on a test basis, with particular reference, but not limited to, the use of customer master files, controls on meter readings, consumption estimates, the accuracy of the rates applied and the valuation of water bills issued to the final customers;
 - We performed substantive tests, on a sample basis, of revenues recognised for the year 2018;
 - We performed a critical analysis of the ‘water balance - sources and uses’ prepared by management (the document that specifies incoming and outgoing flows – including losses – of the water resource) and verified its consistency with the figures in the financial statements;
 - We performed substantive tests, on a sample basis, of the adequacy of the estimates used to calculate the amounts of bills to be issued at the year end;
 - For a sample of bills, we verified the calculation of estimated consumption billed, verifying its compliance with applicable tariff regulations;
 - In addition to the above, our audit procedures focused on analysing the impacts of the introduction of the new international financial reporting standard IFRS 15 – Revenue from contracts with customers.
-



Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to



continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

At the general meetings held on 20 May 2016, and subsequently on 28 July 2016, the shareholders of MM SpA engaged us to perform the statutory audit of the Company's financial statements for the years ending 31 December 2016 to 31 December 2024.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.



Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10

The directors of MM SpA are responsible for preparing a report on operations of MM SpA as of 31 December 2018, 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 2018 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 2018 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 April 2019

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

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 2018, 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 2018, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05.

Elementi alla base del giudizio

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

Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

non esprimiamo un giudizio separato.

Aspetti chiave

Procedure di revisione in risposta agli aspetti chiave

Valutazione della congruità del fondo svalutazione crediti del settore idrico

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

Nella voce "Crediti commerciali" del bilancio al 31 dicembre 2018 sono iscritti crediti riferiti al Servizio Idrico Integrato pari a Euro 91.119 migliaia, il cui relativo fondo svalutazione crediti è pari a Euro 17.315 migliaia.

Ci siamo focalizzati sul fondo svalutazione crediti in considerazione della significatività dello stesso e dell'elevato grado di giudizio professionale e complessità insito nella sua valutazione in buona parte correlato all'estrema frammentazione dei crediti e alla tipicità del settore, che si contraddistingue per la "natura essenziale" del servizio offerto.

La Società stima il valore inesigibile dei crediti commerciali sulla base delle prescrizioni dettate dal nuovo principio contabile internazionale IFRS 9 "Financial Instruments" adottato dalla Società a partire dal 1 gennaio 2018.

La valutazione del fondo svalutazione crediti è stata condotta dal management della società mediante la stima dell'aspettativa della perdita attesa (expected loss) differenziata in base alla natura privata o pubblica del debitore. La stima dell'aspettativa di perdita attesa scaturisce dall'esperienza storica, riparametrata sull'anzianità dei saldi scaduti, e su elementi prospettici (*forward looking elements*), che possano inficiare le aspettative di recupero.

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

- la comprensione e valutazione del processo di gestione del credito e del ciclo tesoreria (incassi) e la verifica, su base campionaria, dell'efficacia operativa dei controlli rilevanti;
- l'analisi critica delle valutazioni effettuate dalla Società tramite colloqui con il credit manager;
- l'analisi critica della stima del tasso di perdita atteso, differenziato in base alla natura del debitore e all'anzianità dello scaduto;
- la verifica del tasso applicato sulle differenti tipologie di crediti oggetto di valutazione per la stima del fondo svalutazione crediti;
- la verifica su base campionaria dell'imputazione dei crediti alle differenti fasce di scaduto;
- l'analisi critica dei saldi scaduti e delle risposte alle lettere di circolarizzazione inviate ai legali della Società;
- la verifica su base campionaria degli incassi successivi alla data di chiusura del bilancio;
- l'analisi delle garanzie eventualmente in essere;
- infine, abbiamo verificato la coerenza della metodologia utilizzata dalla Società con le prescrizioni dettate dal principio contabile internazionale IFRS 9 e l'accuratezza del calcolo matematico di determinazione delle perdite attese.

Aspetti chiave

Stima dei ricavi di fine anno del settore idrico

Nota Esplicativa n.2.1 del bilancio d'esercizio "Ricavi"

La voce "Ricavi" del bilancio chiuso al 31 dicembre 2018 comprende un valore di ricavi riferiti al Servizio Idrico Integrato pari a Euro 142.580 migliaia. I ricavi riferiti al Servizio Idrico Integrato incorporano una componente maturata nell'esercizio stimata attraverso sistemi che utilizzano algoritmi complessi, in particolare per il calcolo stimato dei consumi.

Data la particolare complessità dell'algoritmo sottostante la stima dei consumi, si potrebbe generare un'errata determinazione degli importi da registrare tra i crediti ed i ricavi dell'esercizio.

Procedure di revisione in risposta agli aspetti chiave

Abbiamo indirizzato le nostre procedure di revisione sul rischio legato alla complessità del sistema di determinazione e fatturazione dei ricavi del settore Servizio Idrico Integrato svolgendo le seguenti verifiche:

- la comprensione e valutazione dei flussi procedurali del ciclo ricavi, la rilevazione dei controlli rilevanti, nonché la verifica su base campionaria dell'efficacia operativa degli stessi;
- la comprensione e valutazione del processo di fatturazione dei ricavi del settore idrico e la verifica, su base campionaria, dei controlli rilevanti, con particolare riguardo, ma non esclusivo, all'utilizzo delle anagrafiche clienti, ai controlli sulle letture dei contatori, alla stima dei consumi, alla correttezza delle tariffe applicate e alla valorizzazione delle bollette emesse ai consumatori finali;
- lo svolgimento di procedure di validità su base campionaria sui ricavi contabilizzati nell'esercizio 2018;
- l'analisi critica del "bilancio idrico a fonti-impieghi" predisposto dal management (ovvero il documento che descrive le quantità dei flussi in entrata e in uscita – comprese le perdite – della risorsa idrica) verificandone la coerenza con i dati di bilancio;
- l'esecuzione di procedure di validità su base campionaria sulla congruità delle stime che determinano l'importo delle bollette da emettere di fine esercizio;
- per un campione di bollette abbiamo verificato la determinazione dei consumi presunti presenti in bolletta, accertando la conformità degli stessi rispetto alla regolazione tariffaria;
- oltre a quanto sopra indicato, le nostre attività di revisione contabile si sono concentrate sull'analisi degli impatti derivanti dall'introduzione del nuovo principio contabile internazionale IFRS 15 "Revenue from contracts with customers".

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 della MM SpA sono responsabili per la predisposizione della relazione sulla gestione della MM SpA al 31 dicembre 2018, incluse la sua coerenza con il relativo bilancio d'esercizio e la sua conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n° 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione, con il bilancio d'esercizio della MM SpA al 31 dicembre 2018 e sulla conformità della stessa alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione sopra richiamata è coerente con il bilancio d'esercizio della MM SpA al 31 dicembre 2018 ed è redatta in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'articolo 14, comma 2, lettera e), del DLgs 39/10, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Dichiarazione ai sensi dell'articolo 4 del Regolamento Consob di attuazione del DLgs 30 dicembre 2016, n. 254


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

Abbiamo verificato l'avvenuta approvazione da parte degli amministratori della dichiarazione non finanziaria.

Ai sensi dell'articolo 3, comma 10, del DLgs 30 dicembre 2016, n. 254, tale dichiarazione è oggetto di separata attestazione di conformità da parte nostra.

Milano, 15 aprile 2019

PricewaterhouseCoopers SpA



Giulio Grandi
(Revisore legale)