



## MM S.P.A.

### FINANCIAL STATEMENTS AS AT 31 DECEMBER 2020

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## 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 31/12/2020

#### Corporate structure and Business Units

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

Since then, **it has accompanied the development of Lombardy's capital** by designing the public transport infrastructures and works, including urban and suburban road network redevelopment, surface and underground parking and interchange areas. MM's services span the entire design cycle (technical and economic feasibility projects, final and executive projects), contract management, construction management, safety coordination, testing activities and support to the Sole Project Manager (RUP – *Responsabile Unico del Procedimento*).

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

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

**Since 1 December 2014, MM has been managing the Municipality of Milan's Public Housing Property** (ERP – *Edilizia Residenziale Pubblica*), taking responsibility for its administrative, accounting and technical-legal management, as well as maintaining relationships with the users, from communication to relocations and routine maintenance. As of 30 June 2015, the Municipality confirmed the assignment on a 30-year basis; moreover, in 2018 it decided to entrust to MM also the preparatory activities for the allocation of the housing units under its management. This was done without prejudice to the allocation procedure, which remains the responsibility of the Municipality.

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

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

- In **2015**, **M.I.R. Srl**<sup>2</sup>, which owns some public movable property and real estate instrumental to the waste collection and disposal service that is leased to AMSA SpA (the interim provider of environmental hygiene services) for an annual fee;
- In **2017**, the subsidiaries **Metro Engineering Srl** and **Napoli Metro Engineering Srl**, set up in 2009 to develop and manage the projects for municipalities other than the Municipality of Milan and finish construction work on Naples's underground railway system under the outstanding agreement between MM and Metropolitana di Napoli.

In **2019**, the **new service contract** signed, envisaged as an operational mode, the awarding of “**on demand**” **engineering services** by the Municipality of Milan to MM. These concern operations related to maintenance and/or renovation work on existing property and infrastructure owned by the Municipality, which can be activated on demand based on the Municipality's needs.

In November 2019, **MM took over the direct operation of the Nosedo wastewater treatment plant**, which became operational between 2003 and 2004 and had always been operated by MilanoDepur S.p.A.; 2020 was therefore the first year in which the plant's operation was fully insourced, completing the insourcing of wastewater treatment operations launched with the San Rocco plant in 2014.

Since late 2019 and then **throughout 2020**, MM has developed **additional services for the municipal group** as part of its **Field Operations**, handling facility management for the city's school buildings, the lifting systems serving underpasses, and the routine maintenance of sports facilities owned by the Municipality of Milan and operated by Milanosport; specifically:

- As from September 2019, MM has undertaken construction management, operational management and safety coordination activities **for the facility management of the Municipality of Milan's school buildings**, taking on responsibility, verifying and solving problems concerning drainage and hydraulic civil works. Furthermore, MM manages the reporting system relating to the facility management of school buildings.
- Since November 2019, MM has been supporting the Municipality of Milan in **managing and renovating the city's underpasses** (numbering approximately thirty), servicing the electrical systems and equipment associated with the pumps as well as command and control panels, in addition to cleaning and draining waste ponds.
- For a period of four years starting from February 2020<sup>3</sup>, MM is responsible for the **management and maintenance of the sports facilities** owned by the Municipality of Milan and operated by Milanosport under a service concession arrangement. The facility management services awarded to MM include routine, periodic, scheduled and emergency maintenance of the Facilities; in addition, the Company is to operate the heating systems and improve the energy efficiency of HVAC, plumbing and electrical systems.

In December 2020, the Conference of the Area's Municipalities approved the **tariff proposal for the integrated water service covering the 2020-2023 period**<sup>4</sup>, which **expands the scope** of MM's operations to include the **cleaning of the drains** of the Municipality of Milan and of **road stormwater**

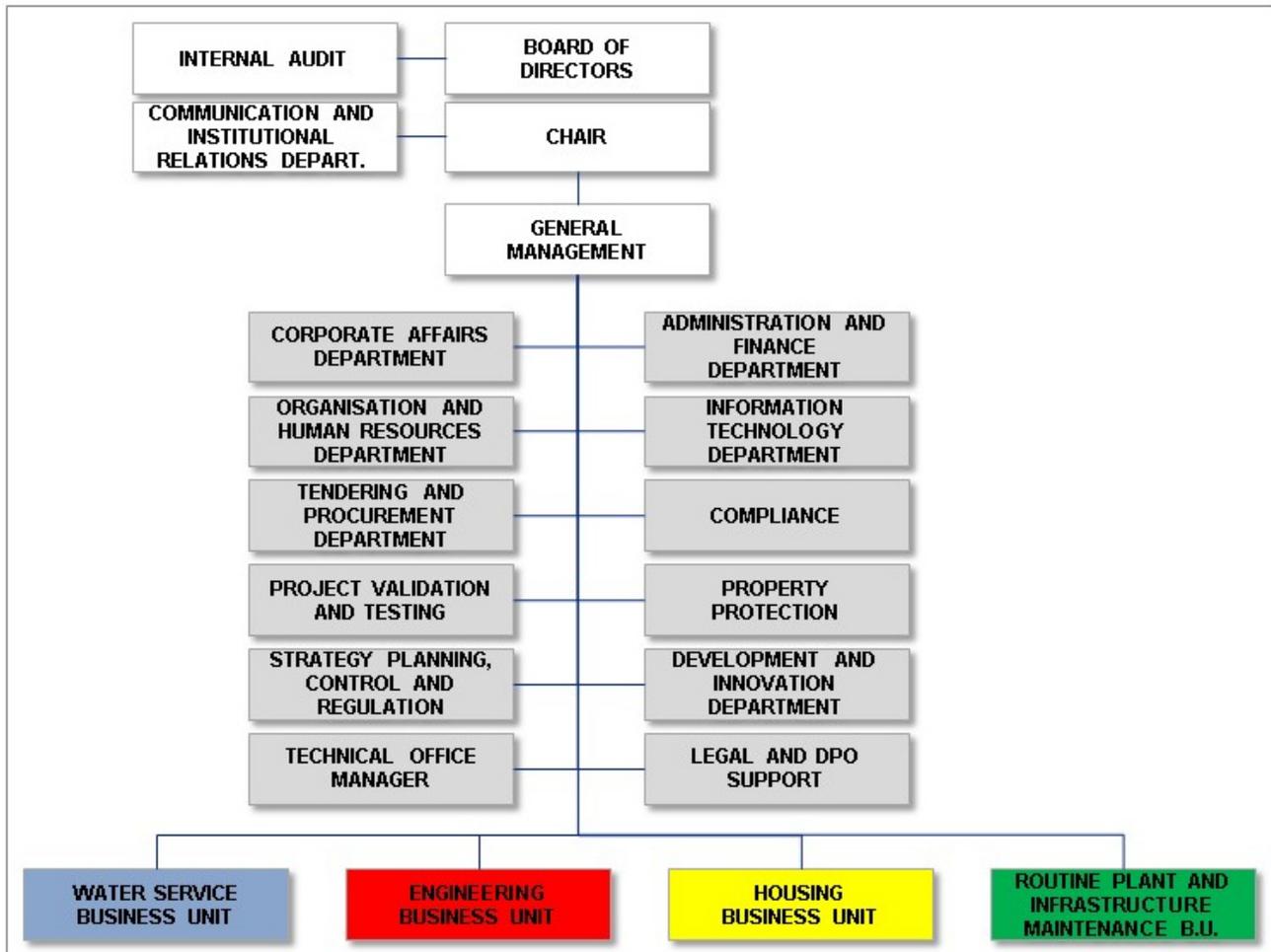
<sup>2</sup> The merger by incorporation of M.I.R. S.r.l. into MM was approved by the Municipality of Milan as part of the process of rationalising the equity investments held by local authorities.

<sup>3</sup> The contract is effective as of 1 February 2020, has a term of 4 (four) years, and shall renew for an additional 4 (four) years unless terminated.

<sup>4</sup> Resolution no. 6 dated 21.12.2020 of the Board of Directors of the Area Office of the Metropolitan City of Milan.

**drainage infrastructure** as well as the management of the **groundwater wells for irrigation use** owned by the Municipality.

## Organisational structure



In 2020, the Company continued its review of management processes, roles and responsibilities arising from ‘change management’ analyses and activities necessary for an effective and efficient implementation of the SAP system aimed at achieving an integrated and synergistic management of the processes managed by the different business units.

### *Staff Departments/Functions*

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

Under the Service Order effective 1 July 2020, the Strategic Works Program Management function ceased operations; in its stead, the Company set up the Project Validation and Testing function, tasked with overseeing the technical validation of project activities and the activities required for the issue of the Technical-Administrative Test Certificate. The Testing function and the Project Validation Technical Unit function report directly to the new function.

One of the Staff Departments affected by the reorganisation was the Administration, Finance and Control Department: as of 1 October 2020, the structure changed its name to Administration and Finance; the Planning and Control function changed its name to Budgeting and Reporting and was placed under the Strategy, Investor Relations and Regulation function, which in turn changed its name to Strategic Planning, Control and Regulation.

As of 1 July 2020, the Environment, Energy and Services function directly reports to the Organisation and Human Resources Department.

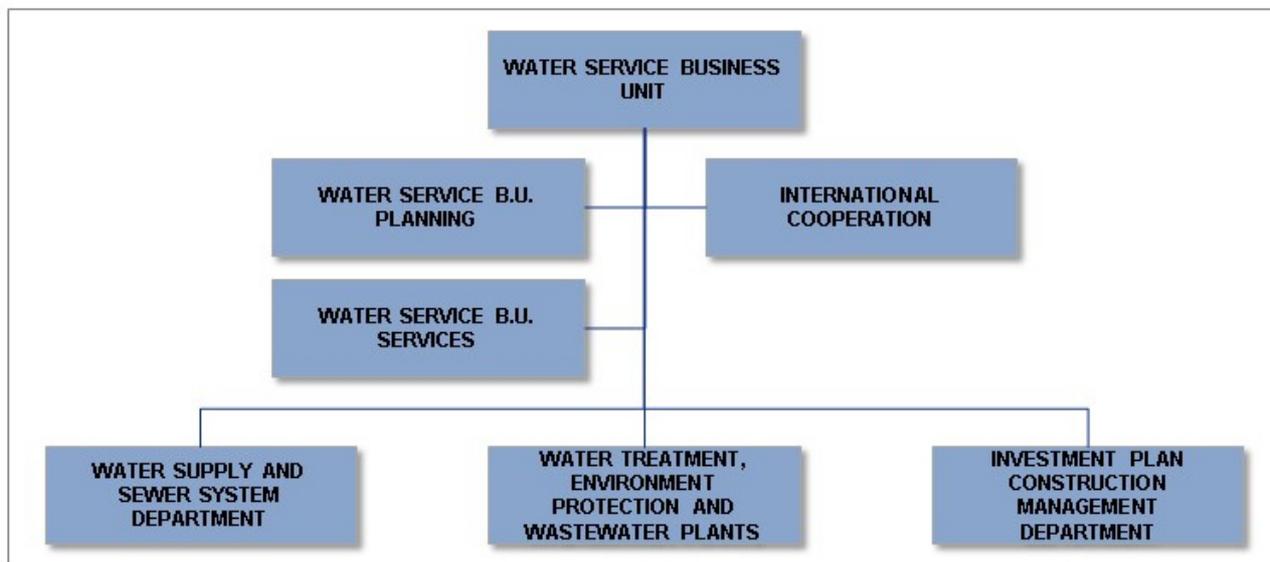
Under the Service Order effective 1 August 2020, the Security function ceased operations and was replaced by the Property Protection function, which reports directly to the Managing Director; the function has ownership over ensuring the protection, safety, and security of Public Housing property as well as the Company's offices. Under the same Service Order, the Information Technology Department was given ownership over the operations aimed at ensuring the safety, security, and protection of the Company's property, plants, and infrastructure through prevention systems based on innovative technologies.

One of the Staff Departments most affected by the reorganisation was the Legal and Contract Department, which ceased to exist effective 1 October 2020; the Company set up the Corporate Affairs Departments, which reports directly to the Managing Director and is primarily responsible for issues associated with managing the growth of the business and the Company's operations. The Insurance Services, Company Secretary, and Expropriation and Land Register function now report to the new function; the Company also created the Legal and Project Manager Support Function, which directly reports to the Managing Director. The function was given ownership over all legal issues to support Project Managers in managing procurement and services contracts and the provision of legal support to the Company's structure, as well as operations supporting the management of active contracts. The Dispute Management function, the Integrated Water Service Regulatory, Conventional and Settlements function, and the Service Expo functions report to the new function.

### *Water Service Business Unit*

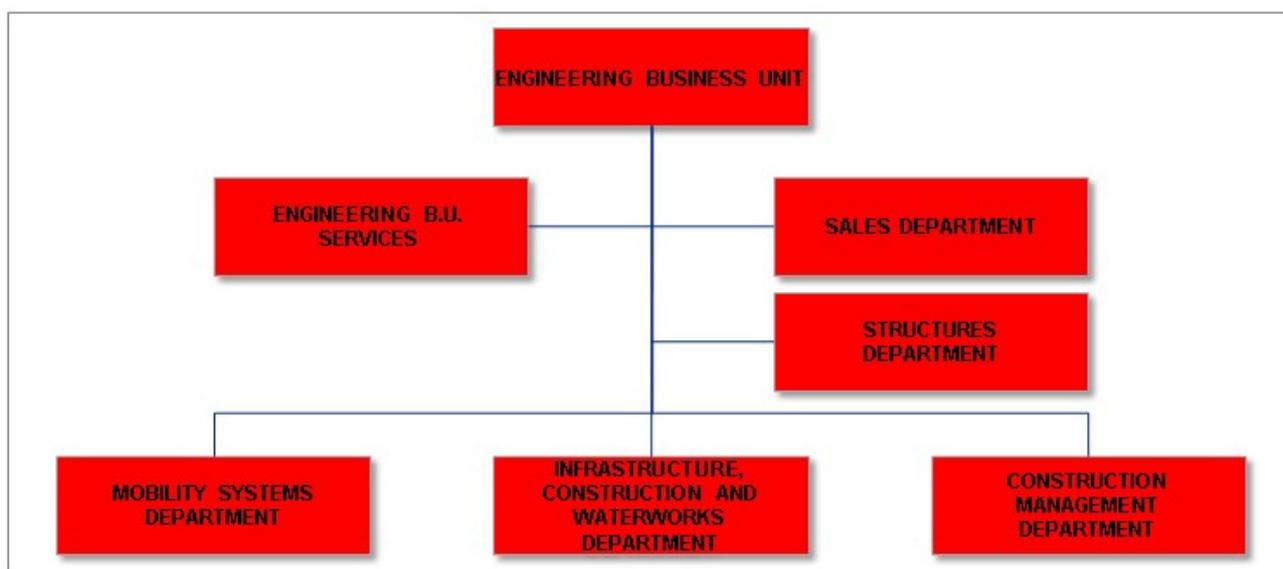
The **Water Service Business Unit** was not affected by reorganisations, but was involved in the change management process associated with SAP's implementation; this enabled the Business Unit to redefine its ownerships and internal operating activities, allowing for a more integrated management of all processes.

The only change concerning the Business Unit was introduced with the Service Order effective 1 October 2020, which positioned the Fleet Management function as a direct report to the Water Service Business Unit.



**Engineering Business Unit**

The **Engineering Business Unit** was not concerned by organisational changes during the year, but continued reviewing its internal management processes in order to effectively implement the SAP system, which was adopted in 2019.



**Housing Business Unit**

Under the Service Order effective 1 August 2020, the Management of Non-Residential Contracts and Allocation and Mobility Management functions ceased to exist. To make the operations concerning non-residential contracts, allocations, and the assignment of Public Housing property more efficient, the ownerships and resources of the former functions were transferred to the new



## Management and control bodies

### Board of Directors

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

*\*In office as of 10 December 2020 following the expansion of the Board of Directors from 3 to 5 members*

### Board of Statutory Auditors

Chairman	<b>Ivano Ottolini*</b>
Standing Statutory Auditor	<b>Myrta De Mozzi*</b>
Standing Statutory Auditor	<b>Domenico Salerno*</b>

*\*In office from 1 January 2020 to 18 August 2020*

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

*\*\*In office as of 18 August 2020*

### Independent Auditors

**PricewaterhouseCoopers S.p.A.**

## Legal and regulatory aspects

Below are the main **legislative measures taken in 2020** that affected MM S.p.A.'s operations:

- Law Decree no. 34 of 19 May 2020, converted with Law no. 77 of 17 July 2020 – Urgent measures concerning health, support for jobs and the economy, and social policies associated with the COVID-19 epidemiological emergency (so-called “**Relaunch Decree**”) – **110% Ecobonus**.

Article 119 of the Relaunch Decree introduced new provisions concerning the deduction of expenses incurred for specific energy efficiency improvements, anti-seismic measures, and the installation of photovoltaic systems as well as electric vehicle charging infrastructure in buildings (so-called Superbonus).

It is possible to deduct 110% of the expenses incurred, spreading the amount over 5 equal annual instalments. The expense deduction limits vary based on the type of works performed as well as the buildings concerned.

The subjective scope of application of the Superbonus is outlined in Article 119, paragraph 9 of the Relaunch Decree, under which the rules governing the type of eligible works and the relevant technical requirements apply to expenses incurred for works performed by, among others, Independent Public Housing Institutes (IPHIs), however denominated, as well as entities serving the same social purposes as said Institutes, incorporated as companies that meet EU legal requirements concerning in-house providing, for works performed on property they own or manage on behalf of municipalities and used as public housing (lett. c). Under the decree, the above entities, which include also MM, can claim the Superbonus for the expenses incurred from 1 July 2020 through 30 June 2022 (instead of the 31 December 2021 deadline that applies to the other categories of entities).

Commenting on the above measure, in the Ministerial Circular no. 24/E of 8 August 2020 the Italian Revenue Agency clarified that: “Under the decree, these entities (editor’s note: those referred to in lett. c)) can claim the Superbonus also for the expenses incurred from 1 January 2022 through 30 June 2022”. In the same Circular no. 24/E, the Taxation Authorities also clarified that “The same (editor’s note: the extended) deadline applies also to condominiums that are majority-owned (to be calculated based on ownership quotas expressed in thousandths) by said institutes or entities.” In other words, the Italian Revenue Agency argues that the extension of the deadline for claiming the Superbonus until 2022 applies also (and not only) to condominiums “that are majority-owned (...) by said institutes or entities”; meaning that such extension, and therefore the Superbonus, shall apply *ipso jure* to properties wholly-owned by in-house entities or the relevant municipalities, it being understood that the same time horizon is interpreted to apply to condominiums that are majority-owned by, among others, in-house providing entities or the relevant municipalities.

On 26 November 2020, MM S.p.A. issued a call for tender for all the operations required to renovate public housing properties, totalling an estimated € 110 million.

- **Italian Public Procurement Code** – Changes introduced by the **Simplifications Law Decree no. 76/2020** converted with **Law no. 120 of 11 September 2020**.

Italian Law no. 120 of 2020 converting Law Decree no. 76/2020 confirmed the introduction of changes applicable for a limited amount of time, associated with the emergency in both Italy and Europe; in any case, when converting the decree into law, the time frame (which originally ran

through 31 July 2021) was extended to the end of 2021. In this sense, this clearly shows how innovative the measures taken by the Government are – and these could also become permanent, should they yield the desired results. In particular, we are referring to the strong acceleration (favouring action over static or broadly defensive practices) that characterises some of the main regulatory changes introduced by the Decree, especially with respect to the responsibilities of public administrators and officials, the “unblocking” of construction sites currently stalled (or at risk of stalling), and the speeding up of procurement processes.

As for public contracts, the main **“permanent” changes introduced** by the Simplifications Decree are:

- 1) extending the requirement to comply with the so-called social clause – concerning business continuity for the staff already used by the owner of a contract taken over from another entity – to contracts below the EU threshold.
- 2) introducing the option to publish the results of procurement procedures for amounts less than € 40,000;
- 3) requiring the so-called “cascading designation”, applicable to consortia of cooperative entities, of craft businesses, and those defined as “stable”: if the designated member of the consortium is, in turn, another consortium of cooperative entities or craft businesses, but not a stable consortium, the designated consortium shall in turn disclose the members on behalf of which it is participating in the tender when bidding;
- 4) amendments to the rules governing Public-Private Partnerships, when these are used in energy performance contracts, as well as those governing cultural heritage, by expanding the specific scope of sponsorship agreements and other special types of partnerships used for this purpose, to include the entire national, regional, and local public sector.

Conversely, the new **“temporary” regulatory changes** (i.e., those applicable through 31 December 2021, at least in principle), are:

- 5) Raising to € 75,000 (originally set at € 150,000 in the Decree, before its conversion into law) the threshold under which public procurement and services contracts, including for design and engineering services, can be directly awarded;
- 6) equalizing the criteria of the most economically advantageous tender and the maximum rebate for negotiated procedures without prior publication, except for certain specific types of contracts for which the most economically advantageous tender criterion is still required (i.e., social services and catering services for hospitals, long-term care facilities, and schools, labour-intensive services, as well as engineering and architectural services, and high-tech and innovative services and supplies of amounts equal to or greater than € 40,000);
- 7) including competitive dialogue among the procurement procedures that can be temporarily used during the state of emergency through 31 December 2021 for the award of contracts exceeding the EU threshold;
- 8) including works to ensure public buildings for institutional use are safe or comply with regulations among the types of public contracts that can be awarded by negotiated procedure and as an exception to the Italian Public Procurement Code, for the award of contracts within the EU threshold.

## Integrated Water Service

### *National Regulatory Framework*

In 2020, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) continued regulating the sector by focusing on measures intended to address the issues caused by the COVID-19 health emergency that impacted the customers and providers of the Integrated Water Service.

During the year, the Authority's regulatory activity resulted in the following measures, which are of particular importance to the Integrated Water Service. The measures are listed below by topic and, within each topic, in chronological order.

### Regulatory milestones and deadlines impacted by the COVID-19 emergency

- With **Resolution 59/2020/R/com of 12 March 2020** "Postponement of regulatory deadlines for environmental and energy services and initial provisions on quality in light of the COVID-19 emergency", the Authority postponed some of the deadlines closest to such date, in order to ensure – in light of the stringent measures adopted nationally to combat and contain the spread of the COVID-19 virus – an orderly process of transposition of the regulation. In particular, for the Integrated Water Service it established:
  - the postponement of the deadlines (as set out in paragraph 77.1 of Annex A to Resolution 655/2015/R/IDR and to the Communication of 18 February 2020) to provide contractual quality information and data as at 31 December 2019 to the Authority:
    - for providers, from 16 March 2020 to 15 May 2020;
    - for local governing bodies, from 27 April 2020 to 26 June 2020.
  - the extension:
    - from 17 April 2020 to 17 June 2020, of the absolute deadline for completion of the data collection for the assessment of achievement of the technical quality targets of the integrated water service defined for each provider for the years 2018 and 2019. The deadline was further extended to 17 July 2020 by the Authority's Communication of 16 June 2020;
    - from 30 September 2020 to 31 October 2020, of the deadline for the attribution of the relevant bonuses and penalties envisaged by the incentive mechanism for the technical quality of the integrated water service as set out in Section 7 of Annex A to Resolution 917/2017/R/IDR.
  - furthermore, the extension to 30 June 2020 of the deadline (originally set for 30 April 2020), referred to in paragraph 5.3 of Resolution 580/2019/R/IDR, by which the local governing body, or other competent body, is required to transmit, for the purposes of the Authority's approval, the relevant regulatory scheme setting out the tariff arrangement for the integrated water service for the third regulatory period 2020-2023 in compliance with MTI-3. The deadline was further extended to 31 July by Resolution 235/2020/R/idr of 23 June 2020.

With respect to tariff regulation, in a communication to ARERA dated 16 July 2020, the Area Office of the Metropolitan City of Milan notified the Authority that the 31 July deadline was impracticable, and that it expected to complete the relevant process by the end of September

2020; however, as the Office continued facing technical/organisational problems, in a communication received by MM on 1 October 2020, the Area Office once again extended the deadline for completing the 2020/2023 tariff update until 31 December 2020; the Area Office of the Metropolitan City of Milan completed said update on 21 December 2020.

- With **Resolution 74/2020/S/com of 17 March 2020** “Urgent provisions regarding penalty proceedings before the Regulatory Authority for Energy, Networks and Environment”, which sets out rules concerning penalty proceedings to guarantee the right of providers to defend themselves, which would otherwise have been jeopardised by COVID-19 containment measures, on an exceptional basis, the Authority suspended the time limits for the investigation and sentencing phases of penalty proceedings already pending or to be commenced after the publication of the Resolution, and allowed relief from the time limitations concerning the sentencing phase, expired in the period from 23 February 2020 through the date of publication of such Resolution, setting 5 June 2020 as the new deadline for fulfilling the relevant obligations.
- With **Consultation Document 187/2020/R/idr of 26 May 2020** “Guidance for adopting urgent measures within the integrated water service in light of the COVID-19 emergency”, the Authority set out the main regulatory measures it could potentially adopt – while guaranteeing the stability of the regulatory framework developed over the years – to mitigate the impacts of the COVID-19 emergency on the financial stability of Integrated Water Service operations and the performance of services by introducing elements of flexibility, thus ensuring the continuity of essential services while also creating the conditions for reviving investment spending. The proposed measures include:
  - flexibility in quality performance assessment mechanisms;
  - exceptions concerning the collection of metering data and measurements relating to industrial wastewater;
  - adjustments to specific criteria for the recognition of efficient costs.
- With **Resolution 235/2020/R/idr of 23 June 2020** “Adoption of urgent measures within the integrated water service in light of the COVID-19 emergency”, the Authority adopted a set of urgent measures – while guaranteeing the stability of the regulatory framework developed over the years – to mitigate the impacts of the COVID-19 emergency on the financial stability of Integrated Water Service operations and the performance of services by introducing elements of flexibility, thus ensuring the continuity of essential services while also creating the conditions for reviving investment spending. Specifically, these include:
  - adjusting the criteria for the recognition of efficient costs in light of the COVID-19 emergency, including, exclusively for the year 2020, the option to determine the forward-looking component calculated on the basis of the additional expenses incurred as a result of the COVID-19 epidemiological emergency: as these are not covered by the other cost items, the local governing body may measure them using objective and verifiable data;
  - carrying the gap between the measurement of the item in 2020 and the expenses actually incurred by the provider in the same year because of the COVID-19 epidemiological emergency forward to 2022 within the “RcAltro” adjustment component;
  - allowing the local governing body to recognise a component offsetting the impacts of any payment term extensions granted or the deferral of debt collection actions. In addition, the Authority reserves the right to allow the local governing body to calculate the

maximum allowable late payment costs (“mor”), for each of the years 2022-2023 when defining the criteria for the biennial update of tariff arrangements;

- allowing the local governing body, for each of the years 2020-2021, to allocate any gap between the measurement of the component for the years 2018 and 2019 and the amount actually used in the same years to disburse the supplementary water bonus to eligible individuals, to additional reliefs (for those who were hardest hit by the fallout of the COVID-19 epidemiological emergency) in addition to the minimum reliefs required by regulations.

#### Actions taken on the regulatory framework following the COVID-19 emergency

- With **Resolution 125/2020/R/com of 13 April 2020** “Request for information for the adoption of urgent measures in the integrated water service, in light of the COVID-19 emergency”, the Authority – in order to enable the sector to preserve the essential customer protection profiles, the features of industrial excellence, as well as to manage the emergency phase with adequate instruments – asked the local governing bodies (or other competent subjects) and integrated water service providers any useful information (if specifically related to the COVID-19 emergency) for the adoption of urgent measures to ensure the stability of the framework of rules developed over the years, ascertaining whether it is appropriate to calibrate certain instruments in order to make their use more effective with respect to the critical issues found.
- With **Resolution 136/2020/R/com of 23 April 2020** “ Report of the Regulatory Authority for Energy, Networks and the Environment to Parliament and Government on measures to support investments and protect end customers of the integrated waste (urban and similar waste) management service and of the integrated water service and electricity and natural gas end customers, as a consequence of the COVID-19 epidemiological emergency”, the Authority, after briefly illustrating the measures already adopted to mitigate, as far as possible, the difficulties and potential problems for end consumers and companies in regulated sectors, intends to draw the attention of Parliament and Government to the fact that the emergency measures approved, albeit necessary to address the problems faced by consumers and by some companies, cannot however be maintained over time in a structured way; this would, in fact, cause a loss of economic and financial stability for entire sectors, with ultimate negative impacts on customers/users of services in regulated sectors.

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

- With **Resolution 284/2020/R/idr of 21 July 2020** “Initiation of a procedure to identify the second list of required and urgent works for the water sector for the purposes of updating the waterworks section of the national plan referred to in Article 1, paragraph 516, of Italian Law 205/2017”, as part of the procedure concerned by the measure, the Authority decided to prepare a single plan based on a multi-year programme for the 2021-2028 period, allocating all the resources remaining under Article 1, paragraph 155 of Italian Law 145/18 for the “waterworks” section of the National Plan to said single plan.

*Urgent and extraordinary consumer protection measures in response to the COVID-19 emergency*

- With **Resolution 60/2020/R/com of 12 March 2020** “First urgent measures and establishment of an extraordinary management account for the COVID-19 epidemiological emergency”, the Authority envisaged that the procedures to suspend electricity, natural gas and water supplies due to overdue payments on the part of the customer/end user, as well as the contractual clauses relating to the suspension/interruption of the supply of gas other than natural gas distributed through the urban network do not apply in reference to the whole period in which the Prime Minister’s Decree of 9 March 2020 is in effect, including between 10 March and 3 May 2020 (term updated by Resolution 124/2020/R/com). The provision also includes the establishment at the Energy and Environmental Services Fund (CSEA) of a specific management account in relation to the extraordinary needs for immediate availability of financial resources to guarantee, in the ongoing emergency stage, the sustainability of works in favour of end customers in the electricity and gas sectors and of end users in the water sector.
- With **Resolution 117/2020/R/com of 2 April 2020** “Further urgent measures for the COVID-19 epidemiological emergency to protect customers and end users: amendments and additions to the Authority’s Resolution of 12 March 2020, 60/2020/R/com”, the Authority introduced further urgent measures for the COVID-19 epidemiological emergency to protect customers and end users with respect to the procedures for sending bills and paying amounts due by instalments.

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

- providers can send the bill also in electronic format to customers who have made available their email address, or mobile phone number, indicating that it is possible to pay the bill using the methods specified therein;
- at the same time as sending the bill in electronic format, providers may send, at the addresses provided by end customers, a specific communication indicating to the customer, in clear and understandable language, that:
  - they may pay the amount invoiced on the bill through automatic payment methods, such as a bank or post office direct debit or by credit card, communicating to this end how to make the payment;
  - they may request to receive the bill in electronic format in place of the paper bill, communicating to this end how to make such request;
  - they may address requests for additional information to the address or number indicated.

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

- With **Resolution 148/2020/R/com of 30 April 2020** “Further extension of the urgent measures for the COVID-19 epidemiological emergency to protect customers and end users: amendments to Authority Resolution 60/2020/R/com”, ARERA further amended the emergency measures, declaring the unenforceability of credit protection rules concerning defaults on bills, including past due bills, as at 10 March 2020, with respect to residential customers, as identified under Article 2, paragraphs 2.1 and 2.2, of the TICS (the integrated text on water services fees).

In addition, it defined additional measures to support non-residential customers of the IWS. Indeed, ARERA envisaged that:

- a) as an exception to paragraph 42.1 of the RQSII (the regulation of the contractual quality of the integrated water service) – provided the relevant local governing body has confirmed this is compatible with ensuring financial stability – IWS providers may offer non-residential customers (as identified in Article 8 of the TICS) the option to pay bills not yet due as at 4 May 2020 and, in any case, due by 31 May 2020, as well as bills issued from 4 May 2020 through 31 May 2020, in instalments;
- b) if the above conditions are met, the amounts of the bills concerned may be paid in instalments based on a plan defined together with the provider, acting in agreement with the local governing body, with instalments whose frequency shall not exceed the frequency of the billing cycle;
- c) non-residential customers shall apply for instalment plans by the tenth calendar day following the due date of the relevant bill;
- d) the amounts of the instalments referred to in point a. shall not be increased by interest;
- e) in the event of default on a payment under the instalment plan, the provider may initiate – with respect to the amount to be paid by instalments, net of any instalments already paid – the proceedings under the REMSI (the regulation of overdue payments in the integrated water service);
- f) the providers that – where the relevant conditions are met – exercise the option referred to in point a. shall give as much publicity as possible, including through their website, to the possibility for non-residential customers to pay bills not yet due as at 4 May 2020 and, in any case, due by 31 May 2020, as well as bills issued from May 4 2020 through 31 May 2020, in instalments.

#### [Time-barring of claims and management of overdue payments](#)

- With **Resolution 186/2020/R/idr of 26 May 2020** “Supplements and amendments to Authority Resolution 547/2019/R/idr, implementing Article 1, paragraph 295, of Italian Law no. 160 of 27 December 2019, concerning the billing of amounts that refer to consumption older than two years”, the Authority removed the end customer’s alleged responsibility in cases of back-billing for consumption older than two years as an alternative to the responsibility attributable to the provider.
- With **Resolution 221/2020/R/idr of 16 June 2020** “Amendments to the regulation of overdue payments in the integrated water service, implementing Article 1, paragraph 291, of Italian Law no. 160 of 27 December 2019”, the Authority adjusted and supplemented some of the provisions in Annex A (REMSI) to resolution 311/2019/R/IDR, concerning the regulation of overdue

payments in the integrated water service, and specifically when and how providers shall notify customers in advance about the procedures for the limitation, suspension, or discontinuance of service in the event of failure to settle the amounts due. The main amendments refer to:

- the obligation for providers to send payment reminders to customers exclusively by registered mail with return receipt or certified electronic mail;
- the determination of the deadline by which end users shall settle outstanding payments, which shall not be less than forty (40) calendar days from the date the customer receives the payment reminder;
- the removal of the automatic compensation according to which the provider is required to pay automatic compensation to the end customer, amounting to € 10 (ten), should the supply have been limited, suspended or discontinued due to overdue payments, if the formal notice has been sent, but the maximum time period between the issue date of the formal notice and the date of delivery of the same to the mail courier has not been respected, should the provider not be able to document the date of despatch;

#### Technical Quality of the Integrated Water Service: quantitative assessments

- With **Resolution 46/2020/R/idr of 18 February 2020** “Initiation of a procedure for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the Integrated Water Service as set out in Title 7 of Annex A to the Authority’s Resolution 917/2017/R/idr (RQTI)”, the Authority initiated a procedure for the quantitative assessments envisaged by the incentive mechanism for the technical quality of the integrated water service as set out in Title 7 of Annex A to the Authority’s Resolution 917/2017/R/IDR (RQTI), consisting of two stages:
  - a) the identification of the group of providers for which a complete set of information is available for the purposes of establishing the rankings for Stages III, IV and V as set out in Article 26, as well as the attribution of bonuses and penalties in reference to all the Stages, for the years 2018 and 2019;
  - b) the attribution of penalties for Stages I, II, III and IV for all the providers which, at the time of establishing the rankings, have not sent the data necessary for the assessment of the technical quality targets underpinning the macro-indicators admitted to the incentive mechanism.

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

#### Provisions on the water social bonus

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

December 2019”, the Authority introduced the following **amendments and additions to the TIBSI**, valid as of 1 January 2020:

- the eligibility for the subsidy of Citizenship Income (*Reddito di cittadinanza*) and Citizenship Pension (*Pensione di cittadinanza*) beneficiaries;
- the quantification of the water social bonus as from 1 January 2020 must be calculated by each provider, taking account of the size of the household, applying to the minimum subsistence quantity (50 litres per inhabitant per day) the total sum of the following unit tariffs, defined in accordance with the criteria identified by articles 5 and 6 of the TIBSI:
  - the preferential tariff, determined for the purposes of quantifying the variable portion of the water supply charge (as previously ordered by the TIBSI);
  - the sewerage tariff, proportional to consumption, identified to quantify the variable portion of the sewerage charge;
  - the water treatment tariff, proportional to consumption, identified to quantify the variable portion of the water treatment charge.

With **Resolution 14/2020/R/com of 28 January 2020** “Initiation of a procedure to implement the provisions concerning the automatic award of social bonuses under Law Decree no. 124 of 26 October 2019, converted with amendments by Law no. 157 of 19 December 2019”, the Authority also introduced the option to convene work groups and technical meetings on this issue. The data that the Operator of the Integrated Information System will receive will be based on INPS databases containing information related to DSUs (*Dichiarazione Sostitutiva Unica*, Single Self Declaration) and ISEEs (*Indicatore della Situazione Economica Equivalente*, Equivalent Economic Situation Indicator). Such information will not fully overlap with the information currently received through the SGAt portal.

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

In particular, for the period from 1 March to 30 April (deadline extended to 31 July by Resolution 140/2020/R/com of 28 April 2020), in order to guarantee the continuity of bonus payments to eligible citizens, the continuity of bonuses has been guaranteed, taking into account the period of suspension. In addition, the measure provided for the suspension of the various communication flows related to the management of bonuses, notifying the institutional entities that contribute to the management of these flows (ANCI and CSEA).

- In its **communication of 30 March 2020**, ARERA established that providers may fulfil their disclosure requirements with respect to data and information relating to the water social bonus and the supplementary water bonus by transmitting to the Authority their tariff proposal for the third regulatory period 2020-2023 in compliance with the MTI-3.

#### [Provisions issued by ARERA at the beginning of 2021](#)

- With **Resolution 63/2021/R/com of 23 February 2021** “Application of the automatic award of electricity, gas and water social bonuses for economic hardship to eligible customers”, the Authority defined how to implement the automatic award of electricity, gas and water social

bonuses for economic hardship, replacing the regulations under the previous “on demand” system.

- With **Resolution 83/2021/R/idr of 2 March 2021** “Initiation of a procedure to update integrated water service metering regulations”, the Authority initiated a procedure to update and supplement the integrated water service metering regulations referred to in Resolution 218/2016/R/idr. The main goals include:
  - setting out the requirements concerning the installation and warranty of the meters, considering also the potential contribution from the use of new instruments equipped with water smart metering devices;
  - making the provisions concerning the collection of metering data and smart metering more effective;
  - improving the transparency of regular communications to customers concerning their consumption patterns;
  - introducing specific standards and related automatic reimbursements in the event of non-compliance;
  - regulating the effects of delays in alerting customers about unusual consumption patterns, which can help promptly identify potential leaks;
  - identifying best practices to assess solutions giving the owners of housing units access to consumption data and individual information.

### *Local Regulatory Framework*

With regard to local regulations, in 2020 the Area Office of the Metropolitan City of Milan operated in accordance with ARERA provisions, including, inter alia:

- approving the **Control Programs for 2020** as integral parts of the existing Agreements with the IWS Providers (MM S.p.A. and CAP Holding S.p.A.) regarding controls over discharges into the sewer system for the purposes of issuing administrative fines;
- adopting the text of the **new Integrated Water Service Charter of IWS Providers**, the amendments to MM’s current **IWS Regulations** and the Technical Specifications of both Providers in line with ARERA’s latest provisions;
- approving the **Programme Plan**, under which in 2020 the IWS Providers Cap Holding S.p.A. and MM S.p.A. would have been subject to regular performance audits by:
  - monitoring the implementation of the investments outlined in the Area Plans for the two scopes of operations, in accordance with the Technical Specifications/Contracts, as well as the “Data collection method for the purposes of auditing the performance of IWS Providers”, approved with Board resolution no. 6 of 30 May 2017;
  - collecting data and information relevant to determining the IWS tariffs for the 2020-2023 regulatory period, while updating the Action Programme and the relevant Economic and Financial Plan at the same time, in accordance with the procedures and methods required by ARERA under MTI-3;
  - monitoring the Provider-user relationship and the relevant contractual quality;

- monitoring the financial position and performance of the operations handed over to the providers to identify any required corrective actions;
  - reviewing other specific contractual requirements set out in the individual documents signed during the award, considering the amendments made to said documents during 2018 to normalise the Area Office's auditing procedures, as well as to adapt their content to ARERA's new regulations;
  - assessing whether the technical quality targets introduced by ARERA resolution no. 917/2017/R/Idr were achieved in 2020, considering the levels of performance offered by each provider in the years 2018 and 2019;
  - monitoring the Water Social Bonus and Supplementary Water Bonus in accordance with TIBSI as per ARERA resolution no. 897/2017/R/Idr, as amended by ARERA resolution no. 227/2018/R/Idr;
  - monitoring progress on the actions aimed at the regularisation of the Area's agglomerations.
- approving the **2020 Performance Plan**, whose targets specifically concern the sustainable use of water and the optimisation of administrative approval processes;
  - taking note of the **progress** on auditing the achievement of **technical quality targets** by IWS providers under ARERA resolution no. 917/2017/R/Idr;
  - taking note of the outcomes of the **validation** of data and information uploaded by the IWS providers on the **ARERA web portal** as part of the obligations related to the collection of data on the Contractual Quality of the integrated water service for 2019;
  - approving an **outline Agreement for the development of circular economy actions within the IWS**;
  - taking note of the **audit** of data and information provided by IWS Providers as required under the "Data collection method for the purposes of auditing the performance of IWS Providers" in order to **monitor the contractual quality of the IWS** for the services rendered in the 1st half of 2020;
  - adopting the **2021 Budget**, the **2021/2023 Multi-year Budget**, and the **2021 Programme Plan**, in order to achieve the following main objectives:
    - performing the contracts with the IWS providers of the Optimal Territorial Area of the Metropolitan City of Milan and the Optimal Territorial Area of Monza and Brianza, with respect to principal payment obligations, on the stages of completion of the works under the Area Plan that are approved and not settled;
    - introducing methods for the company to regularly audit the service contract in force with CAP Holding S.p.A. and MM S.p.A. based on performance indicators. This will consist in regularly auditing the operations of providers;
    - ensuring the providers duly comply with the adopted Service Charter;
    - completing and reporting on the planned investments referred to in the service contract in force and defining the related financing arrangements in agreement with the competent finance department of the Metropolitan City;
    - submitting to the Metropolitan City of Milan a pre-feasibility study from a technical, economic and financial viewpoint regarding the rational use of water resources – construction of dual networks;

- submitting to the Metropolitan City of Milan a feasibility study from a legal, economic, financial and industrial viewpoint regarding the unification of the integrated water service operations;
  - monitoring construction sites, including through inspections and the relevant report to be prepared within seven days;
  - constantly updating the database concerning the authorisations for discharges of industrial wastewater and stormwater into the sewer system;
  - monitoring the time required for the issue of authorisations and the transmission of opinions during environmental authorisation proceedings that are the responsibility of the Metropolitan City;
  - reviewing the audits performed by the provider on industrial wastewater every six months and report to the relevant Area Department;
  - monitoring the proceeds from monetary administrative fines for illicit acts associated with discharges into the public sewer system reported to the relevant area.
- With **Resolution no. 6 of 21.12.2020**, the Board of Directors of the Area Office of the Metropolitan City of Milan approved the update to the Area Plan for both the MM tariff area and the CAP Holding tariff area, and specifically with respect to the following aspects:
    - Action Programme and Strategic Works Plan;
    - Tariff preparation (including the Economic and Financial Plan) for the IWS of the Optimal Territorial Area of the Metropolitan City of Milan (MM Tariff Area and CAP Holding Tariff Area);
    - “Water treatment wholesaler” tariff proposal (including the Economic and Financial Plan) for the services rendered by Cap Holding S.p.A. in the Optimal Territorial Area of the Province of Monza and Brianza;
    - “Water system wholesaler” tariff proposal (including the Economic and Financial Plan) for the services rendered by Cap Holding S.p.A. in the Optimal Territorial Area of the Province of Monza and Brianza;

The Area Plan was updated while preparing the tariffs for the 2020-2023 third regulatory period, in accordance with ARERA resolution no. 580/2019/R/idr, and was drafted in accordance with Regional Council Resolution no. XI/2537 of 26 November 2019 “Approval of regional guidelines for updating the Area Plans of the integrated water service”, outlining also the technical details concerning the current situation of the integrated water service’s infrastructure and the levels of performance offered by the two IWS Providers, as defined in the Technical Quality Regulation under ARERA resolution no. 917/2017/R/idr (RQTI).

## Significant events occurred during the period

### Impacts of the Covid-19 health emergency on the Company's businesses and corrective actions

2020 was marked by the effects of the **Covid-19 health emergency**.

In response to this emergency, in February the Company immediately set up a **Crisis Unit** to **protect the health and safety of the Company's employees** and ensure the continuity of the services rendered to customers, including by **shifting** operations and processes **to remote work**.

In addition, a **Covid-19 Steering Committee** was set up in April to assess the impacts and determine the necessary corrective actions to **address the economic effects of the emergency**. During the year, the work of the Covid-19 Steering Committee reported the following:

- With respect to the **Integrated Water Service**, consumption was down due to the recession caused by the pandemic as well as the lower number of individuals in the City of Milan resulting from the reduced daily inflows of city users and the decline in the city's population during the summer. The year-on-year impact mainly concerned non-residential utility customers, chief among them those classified as for "workshop/commercial use" and "other use". Conversely, the consumption patterns of customers in condominiums remained stable: please note that the current Water Tariff Method (MTI-3) includes adjustments to offset the volume effect at the end of two-year periods, in accordance with the principles of full cost recovery and tariff price-caps, as well as specific components to offset the economic impact of the Covid-19 emergency.
- During the first lockdown of the Covid-19 emergency, the construction sites related to the investments of the Integrated Water Service as well as the works under the responsibility of the Engineering Business Unit were temporarily put on hold.
- Overall, **the Engineering Business Unit** saw a limited impact on its operations, largely associated with the mentioned temporary suspension of constructions sites.
- As for the **Housing Business Unit**, considering the nature of the operations it oversees and the structure of the service concession arrangement, the Covid-19 emergency impacted the organisation of work, but had no significant financial repercussions.
- The Covid-19 emergency did not materially impact the business of the **Plant and Real Estate Management** business unit.
- The **Routine Plant and Infrastructure Maintenance Business Unit** was also not particularly affected by the ongoing epidemic.

As part of the Covid-19 emergency, MM has incurred **additional organisational costs** to protect public health and ensure the continuity of the service, such as:

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

- purchases of training courses to implement smart working.

During 2020, MM carefully monitored personnel costs relative to the budget and the costs of the external services purchased, taking specific actions to contain the operating costs of business units and staff structures in order to meet the financial performance targets set at the beginning of the year for the Company.

Thanks to their prompt implementation, the actions taken to address the pandemic allowed for an effective response in terms of financial and operational performance.

As for human resource management policies, the Company has undertaken significant initiatives, thanks to the mass adoption of smart working – which involved 830 employees (about 64% of the workforce) – and it has entered into union agreements with the Works Councils concerning the use of the Wage Subsidy Fund, which was particularly limited during the year.

### Significant events relating to the Integrated Water Service

With Resolution no. 6 of 21.12.2020, the Conference of the Municipalities of the Area of the Metropolitan City of Milan approved **the update to the Area Plan** through 2037.

This update came at the same time as the **approval of the tariff proposal for the 2020-2023 third regulatory period**, in accordance with ARERA resolution no. 580/2019/R/idr (so-called MTI-3); the tariff proposal included also **expanding the scope** of the operations performed by MM in connection with the IWS to include the cleaning of the drains of the Municipality of Milan, the management of road stormwater drainage infrastructure, and the management of the groundwater wells for irrigation use owned by the Municipality.

The 2020 revenues of the Integrated Water Service therefore reflect the application of the tariff approved by the Conference of the Municipalities.

**During the year, MM launched the SAP IS-U module**, which allows optimising meter-to-cash, credit management and CRM processes (“SAP Wave 2” project) in order to integrate the various systems.

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

In 2020, pursuant to Article 16.7 of the Agreement between MM and the Municipality of Milan dated 30 June 2015, the Company entered talks with the Municipality of Milan to **revise MM S.p.A.’s fee** for the management of the Municipality’s public housing property. Under said article, a revision of the fee became necessary because of the activation of additional services, in terms of actions strengthening technical-administrative services, as well as changes in the reference market, which caused MM to incur higher costs associated with the service.

On 30.12.2020, with Municipal Council resolution no. 1530, the Municipality of Milan approved the Fee Revision Guidelines; in early 2021, with Managerial Resolution no. 808 of 15.02.2021, the Municipality approved the draft agreement between the Municipality of Milan and MM S.p.A. partially amending the Agreement between the parties, and specifically the sections about the determination of the fee.

## Significant events relating to Engineering

After the group of companies to which MM belongs was awarded the tender issued on 22 July 2019 by the Company Empresa Metro de Bogotá S.A. (EMB) for project management, construction management, testing & commissioning, and pre-operation support services related to the construction of the first line of the Bogotá Metro, in July 2020 the **Board of Directors of MM S.p.A. approved the opening of the MM S.p.A. Sucursal Colombia Branch, domiciled in Bogotá.**

In Colombia, the Branch will perform the operations that are the subject of the tender; they are estimated to take approximately 11 years, while the Branch shall continue in existence through 31.12.2040.

## Significant events relating to Routine Plant and Infrastructure Maintenance

2020 saw an increase in plant and infrastructure maintenance operations. Early in the year, this required creating the new **Business Unit dedicated** to facility management for school buildings (already assigned to MM since September 2019) and, since February 2020, the **routine maintenance of sports facilities owned by the Municipality of Milan and operated by Milanosport**; under the agreement between MM and Milanosport, MM is to operate the heating systems and increase the energy efficiency of HVAC, plumbing and electrical systems, serving as “Third Party Responsible for the operation and maintenance of heating systems” (as per Article 1 of Italian Presidential Decree 412/1993) and Energy Manager.

In addition, the Business Unit is responsible for operating several lifting systems serving the Municipality’s underpasses.

With respect to facility management for school buildings, the Company is in talks with the Municipality of Milan to finalise a multi-year service concession agreement.

## Expansion of MM S.p.A.’s scope of operations

With Council Resolution no.1536 of 30.12.2020, the Municipality of Milan approved the **guidance for feasibility studies concerning the management of the Municipality of Milan’s green areas through the in-house entity MM S.p.A.**

The goal is to directly achieve the following fundamental objectives: maintaining and promoting the Municipality’s green infrastructure, in line with the Municipal Government’s environmental transition policies; making the management and maintenance of public green areas more efficient, optimising the relevant direct and indirect costs – including by activating synergies; and monitoring the services as well as quantitative and qualitative levels in a more efficient and effective manner, including by participating directly in the Governance and Control bodies of the Providers, which are responsible for adopting the relevant operational decisions.

## Summary of operations and economic and financial performance

### Definition of alternative performance indicators

- *Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)*: it is calculated by adding to the operating profit (loss) shown in the Income Statement, amortisation/depreciation, provisions and impairment (also classified in a dedicated item in the Income Statement).
- *Net investments*: this is the sum of investments made in property, plant and equipment and intangible assets, net of the FoNI (Fund for New Investments, as regulated by the tariff regulation of the Integrated Water Service).
- *Net fixed assets*: this is the sum of property, plant and equipment, intangible assets, equity investments and deferred tax assets and liabilities.
- *Net working capital*: this is the sum of inventories, trade receivables and payables, current tax receivables and payables, and other current assets and liabilities.
- *Provisions*: this is the sum of “Post-employment benefits and other benefits” and “Provisions for risks and charges”.
- *Net invested capital*: this is the sum of “Net fixed assets”, “Net working capital” and “Provisions”.
- *Net financial indebtedness*: this is the sum of current and non-current financial assets, cash and cash equivalents, current and non-current financial liabilities, current and non-current portion of assets and liabilities for financial instruments on rates.
- *Sources of financing*: this is the sum of “Net financial indebtedness” and “Equity”.

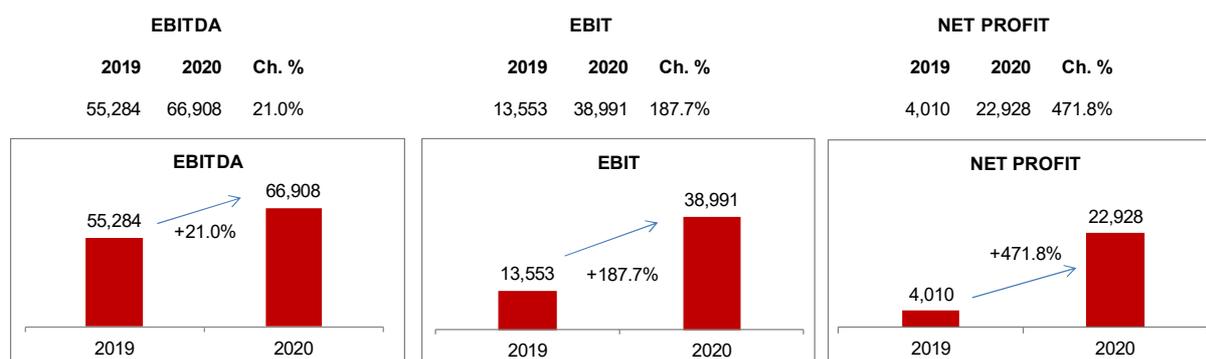
### Economic Results

In 2020, **MM’s main indicators increased** compared to the previous year; in particular, EBITDA rose by 21%, EBIT by 188% and net profit by 472%.

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

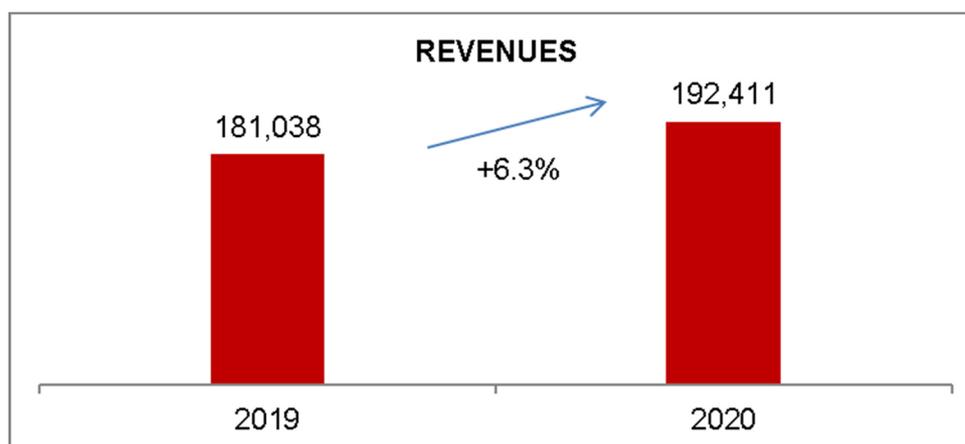
The **comparison between 2020 and 2019** is shown in the table below.

Income Statement	2020	Inc. %	2019	Inc. %	Abs. Ch.	Ch. %
Revenues	192,411	100%	181,038	100%	11,374	6%
Revenues arising from work on infrastructure subject to servic	53,674	28%	64,935	36%	(11,261)	-17%
Other operating revenues	22,052	11%	27,689	15%	(5,638)	-20%
Raw materials and consumables	(7,418)	-4%	(7,703)	-4%	285	-4%
Costs for services	(72,445)	-38%	(80,475)	-44%	8,030	-10%
Other operating expenses	(2,345)	-1%	(1,594)	-1%	(751)	47%
Personnel costs	(67,835)	-35%	(65,662)	-36%	(2,172)	3%
Capitalised costs on infrastructure subject to service concess	(51,107)	-27%	(62,858)	-35%	11,750	-19%
Losses from disposals and divestments of fixed assets	(78)	0%	(85)	0%	7	-8%
<b>EBITDA</b>	<b>66,908</b>	<b>35%</b>	<b>55,284</b>	<b>31%</b>	<b>11,624</b>	<b>21%</b>
Amortisation/depreciation and provisions	(27,917)	-15%	(41,732)	-23%	13,815	-33%
<b>EBIT</b>	<b>38,991</b>	<b>20%</b>	<b>13,553</b>	<b>7%</b>	<b>25,439</b>	<b>188%</b>
Financial operations	(6,114)	-3%	(6,839)	-4%	725	-11%
<b>Pre-tax profit</b>	<b>32,877</b>	<b>17%</b>	<b>6,714</b>	<b>4%</b>	<b>26,164</b>	<b>390%</b>
Taxes	(9,950)	-5%	(2,704)	-1%	(7,246)	268%
<b>Net profit for the year</b>	<b>22,928</b>	<b>12%</b>	<b>4,010</b>	<b>2%</b>	<b>18,918</b>	<b>472%</b>



In 2020, **revenues increased** by 6.3%; this result was the result of different trends for each individual Business Unit, as shown in the table below:

Revenues	31.12.2020	Inc. %	31.12.2019	Inc. %	Abs. Ch.	Ch. %
Integrated Water Service	140,577	73.1%	136,283	75.3%	4,294	3%
Engineering	32,218	16.7%	29,551	16.3%	2,668	9%
Housing	13,842	7.2%	13,148	7.3%	695	5%
Plant and Real Estate Management	2,030	1.1%	2,030	1.1%	0	0%
Routine Plant and Infrastructure Maint.	3,743	1.9%	0	-	3,743	100%
Central Departments/Functions	0	0.0%	26	0.0%	(26)	-100%
<b>Total</b>	<b>192,411</b>	<b>100.0%</b>	<b>181,038</b>	<b>100.0%</b>	<b>11,374</b>	<b>6%</b>



The increase in revenues is mainly due to the Water Service Business Unit (up €4,294 thousand), the new Routine Plant and Infrastructure Maintenance Business Unit (up €3,743 thousand) and the Engineering Business Unit (up €2,668 thousand).

**Other operating revenues** decreased by € 5,638 thousand compared to 2020 (-20%), mainly due to the fact that higher amounts relating to the IWS had been recognised in the previous year, due to the recalculation of payables due to the Municipality of Milan.

**Costs for raw materials and consumables** decreased by € 285 thousand (-4%) compared to 2019. This change was mainly due to the purchases of materials relating to the Water Service Business Unit.

**Costs for services** decreased by € 8,030 thousand, making for a -10% change, which is mainly due to the lower costs for the direct management of the Nosedo wastewater treatment plant compared to the previous management by MilanoDepur.

**Other operating expenses** increased by € 751 thousand compared to 2019 (+47%).

**Labour cost** increased due to the hiring of new staff.

Labour cost	31.12.2020	31.12.2019	Abs. Ch.	Ch. %
Integrated Water Service	26,607	25,941	667	3%
Engineering	19,988	19,091	897	5%
Housing	6,755	6,761	(6)	0%
Routine Plant and Infrastructure Maint.	688	0	688	100%
Central Departments/Functions	13,797	13,869	(73)	-1%
<b>Total labour cost gross of capitalised costs</b>	<b>67,835</b>	<b>65,662</b>	<b>2,172</b>	<b>3%</b>

The increase in labour cost is due to:

- the expansion of the scope resulting from the creation of the Routine Plant and Infrastructure Maintenance Business Unit;
- the increase in the volumes of operations already performed by MM S.p.A.: the growth in Engineering orders; the first year of the Nosedo wastewater treatment plant being fully integrated, and the management of underpasses;
- the development of additional operations to comply with ARERA's regulatory standards.

In view of the dynamics explained above, **EBITDA** amounted to € 66,908 thousand.

Amortisation/depreciation and provisions decreased by € 13,815 thousand. The significant decline in this item is related to the amount allocated to the bad debt provision of the Engineering Business Unit in the prior year. This was intended to reflect the consequences of the Assessment Report finalised with the Municipality of Milan to crystallise receivables dating back several years and referring to the performance of engineering works.

The balance of **financial operations** increased by € 725 thousand.

Therefore, **net profit** for the period amounted to € 22,928 thousand.

## Equity and financial results

The analysis and **comparison for the years 2020 and 2019** is shown in the table below:

<b>Invested capital and sources of financing</b>	<b>31.12.2020</b>	<b>Inc. %</b>	<b>31.12.2019</b>	<b>Inc. %</b>	<b>Abs. Ch.</b>	<b>Abs. %</b>
Net fixed assets	417,751	95.9%	381,163	98.1%	36,588	9.6%
Net working capital	29,656	6.8%	20,937	5.4%	8,719	41.6%
Provisions	(11,731)	-2.7%	(13,446)	-3.5%	1,714	-12.7%
<b>Net invested capital</b>	<b>435,675</b>	<b>100.0%</b>	<b>388,655</b>	<b>100.0%</b>	<b>47,021</b>	<b>12.1%</b>
Equity	(241,079)	-55.3%	(217,723)	-56.0%	(23,356)	10.7%
Long-term financial payables	(207,061)	-47.5%	(190,219)	-48.9%	(16,842)	8.9%
Short-term net financial position	12,465	2.9%	19,288	5.0%	(6,822)	-35.4%
<b>Total sources of financing</b>	<b>(435,675)</b>	<b>-100.0%</b>	<b>(388,655)</b>	<b>-100.0%</b>	<b>(47,021)</b>	<b>12.1%</b>

**Net invested capital** as at 31 December 2020 amounted to € 435,675 thousand. This was due to the increase in net fixed assets, which in turn is the result of the Integrated Water Service's investments, and to the change in net working capital, which increased from € 20,937 thousand to € 29,656 thousand.

**Investments** broken down by business area are as follows:

<b>Total investments</b>	<b>31.12.2020</b>	<b>31.12.2019</b>	<b>Abs. Ch.</b>
Integrated Water Service	60,937	74,851	(13,914)
Engineering	1,709	1,242	467
Housing	2,601	695	1,906
Plant and Real Estate Management	1,839	272	1,567
Routine Plant and Infrastructure Maint.	0	0	0
Central Departments/Functions	2,314	240	2,074
<b>Total investments</b>	<b>69,401</b>	<b>77,300</b>	<b>(7,899)</b>

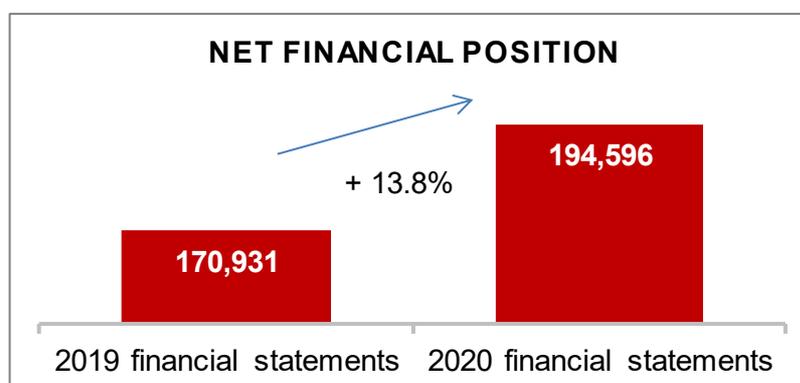
At the end of 2020, **equity** amounted to € 241,079 thousand, up by 11% compared to the previous year.

## Analysis of the financial structure

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

<b>Net financial indebtedness</b>		<b>31.12.2020</b>	<b>31.12.2019</b>
1	Cash and cash equivalents	50,269	88,753
2	Current bank debt	(37,804)	(69,465)
3=1+2	<b>Net current financial indebtedness</b>	<b>12,465</b>	<b>19,288</b>
4	<b>Non-current bank debt and bonds issued</b>	<b>(207,061)</b>	<b>(190,219)</b>
<b>5=3+4 Net financial position</b>		<b>(194,596)</b>	<b>(170,931)</b>

The comprehensive value of the **Net financial position** as at 31 December 2020 was € 194,596 thousand, up € 23,665 thousand compared to the previous year (+13.8%).



As at 31 December 2020, the medium/long-term debt mainly consisted of the bond issued on the regulated market of the Dublin Stock Exchange, maturing in 2035, of the European Investment Bank (EIB) loan and of the residual portion of pre-existing loans maturing in 2027-2028.

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

These financial covenants are the following:

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

**They are broken down** as follows:

Covenant	2020	2019	Target
Operating Profit (Loss)	38,991	13,553	
Amortisation/depreciation, impairment and provisions	27,917	41,732	
<b>EBITDA</b>	<b>66,908</b>	<b>55,284</b>	
Non-current financial liabilities	207,061	190,219	
Current financial liabilities	37,804	69,465	
Cash and cash equivalents	(50,269)	(88,753)	
<b>NET FINANCIAL POSITION</b>	<b>194,596</b>	<b>170,931</b>	
<b>NET FINANCIAL POSITION/EBITDA</b>	<b>2.9</b>	<b>3.1</b>	<b>&lt;= 4.5</b>
Rights over the infrastructure relating to service concession arrang	310,251	278,385	
Other intangible assets	13,216	6,959	
Property, plant and equipment	68,061	68,109	
<i>Financial fixed assets (Guarantee deposits)</i>	246	247	
<b>TOTAL FIXED ASSETS</b>	<b>391,774</b>	<b>353,701</b>	
<b>NET FINANCIAL POSITION/FIXED ASSETS</b>	<b>50%</b>	<b>48%</b>	<b>&lt;= 70%</b>
FINANCE COSTS	6,420	7,824	
<b>EBITDA/FINANCE COSTS</b>	<b>10.4</b>	<b>7.1</b>	<b>&gt;= 4.5</b>

## Analysis by strategic business segments

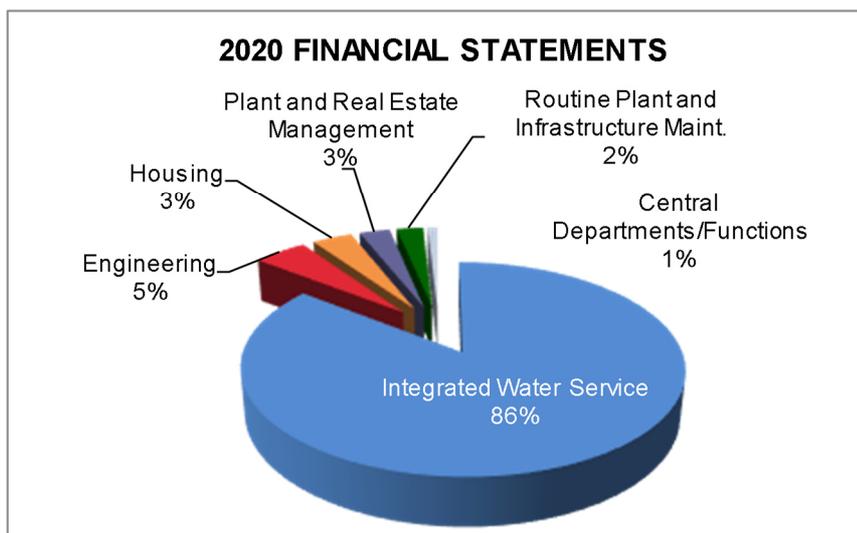
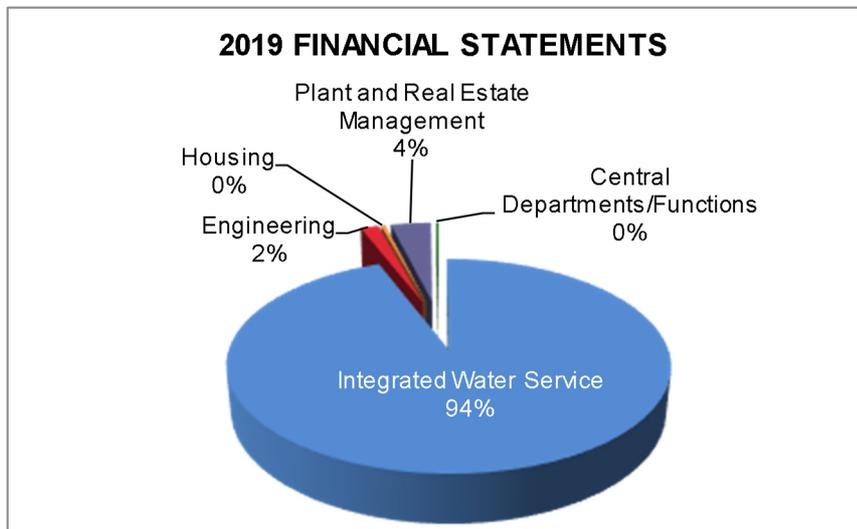
Below is an analysis of the operating results achieved in the different business segments.

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

Income Statement	Engineering	Integrated Water Service	Housing	Plant and Real Estate Management	Routine Plant and Infrastructure Maint.	Staff	Adjustments	IFRS income statement
Revenues	32,218	140,577	13,842	2,030	3,743			192,411
<i>Cross-sector revenues</i>	2,805	4,596	592			70	(3,536)	4,527
Revenues arising from work on infrastructure subject to service concessions		53,674						53,674
Other operating revenues	2,922	13,808	2,680	31	2	2,610		22,052
Raw materials and consumables	(1,240)	(2,175)	(1,946)	0	(56)	(2,000)		(7,418)
<i>Cross-sector costs</i>	(373)	0		(24)	(446)		3,536	2,692
Costs for services	(8,249)	(56,419)	(2,146)	(39)	(696)	(4,896)		(72,445)
<i>Costs for Central Staff functions</i>	(4,581)	(10,465)	(3,713)	(156)	(258)		19,172	(0)
Other operating expenses	(310)	(8,507)	(147)	(10)	(10)	(581)		(9,564)
Personnel costs	(19,988)	(26,607)	(6,755)		(688)	(13,797)		(67,835)
Capitalised costs on infrastructure subject to service concession arrangements		(51,107)						(51,107)
Losses from disposals and divestments of fixed assets		(78)						(78)
<b>EBITDA</b>	<b>3,204</b>	<b>57,295</b>	<b>2,407</b>	<b>1,833</b>	<b>1,592</b>	<b>(18,594)</b>	<b>19,172</b>	<b>66,908</b>
Amortisation/depreciation and provisions	(1,965)	(23,062)	(870)	(1,321)	(124)	(574)		(27,917)
<b>EBIT</b>	<b>1,240</b>	<b>34,232</b>	<b>1,537</b>	<b>512</b>	<b>1,467</b>	<b>(19,168)</b>	<b>19,172</b>	<b>38,991</b>
Financial operations	(675)	(5,440)	(12)	16		(4)		(6,114)
<b>Pre-tax profit</b>	<b>564</b>	<b>28,793</b>	<b>1,525</b>	<b>528</b>	<b>1,467</b>	<b>(19,172)</b>		<b>32,877</b>
Taxes								(9,950)
<b>Net profit for the year</b>								<b>22,928</b>

EBITDA	31.12.2020	31.12.2019	Abs. Ch.	Ch. %
Integrated Water Service	57,295	52,474	4,821	9%
Engineering	3,204	904	2,300	254%
Housing	2,407	(215)	2,622	-1219%
Plant and Real Estate Management	1,833	2,020	(187)	-9%
Routine Plant and Infrastructure Maintenance	1,592	-	-	-
Central Departments/Functions	578	102	476	468%
<b>Total</b>	<b>66,908</b>	<b>55,284</b>	<b>11,624</b>	<b>21%</b>

Breakdown of MM S.p.A.'s EBITDA in 2019 and 2020



## *Integrated Water Service*

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

The Business Unit is comprised of two Line Departments that are responsible for the operation of the water supply and sewer systems and water treatment plants, respectively, in addition to a Department dedicated to implementing investments and renovating the systems.

The organisation also comprises Staff functions dedicated to Customer Management, Authorisation Management, Warehousing, Planning, and International Cooperation.

Specifically:

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

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

In 2020, the Business Unit pursued initiatives and investments aimed at achieving the **Technical Quality Targets** under the regulatory framework defined by the relevant Authority (ARERA).

2020 also saw a **significant decline in water consumption** (-3.5%) associated with the Covid-19 pandemic's impact on the City of Milan (e.g., business closures, remote work, reduction in tourist flows, university closures, etc.).

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

Besides lowering the level of risk and the impacts of breaks, this also results in an overall improvement in water leak rates – and on this measure, Milan's water supply system already stands out for its low rate of leaks, with levels below 15% (ratio of water volume supplied to water volume billed).

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

In order to constantly improve water leaks and the energy efficiency associated with the operation of the water supply system's pumping stations, in 2020 the Company launched the IT **Decision Support System (DSS)** to optimise the operation and control of pumping systems, and made it fully operational. This had a positive impact on specific energy consumption (kWh/m<sup>3</sup>), required to add water into the distribution system, and this resulted in reduced electricity consumption.

The completion of the direct operation of the city's wastewater treatment system since November 2019, combined with the expenses associated with the concession fee owed to the previous Operator MilanoDepur S.p.A. being discontinued, allowed achieving **operating cost synergies and savings** in 2020 thanks to the pooling of internal resources and the increased bargaining power in tenders for materials and services.

The investments in the wastewater treatment segment, designed and intended to boost energy efficiency by leveraging new technologies (e.g., next-generation valves for distributing process air, relamping, or the adoption of a new digital monitoring system), allowed to significantly reduce the relevant energy consumption.

With respect to digital transformation and evolution, in 2020 the Water Service Business Unit focused on incorporating the **new SAP ERP** into technical-sales processes, metering processes, and the active cycle, so as to boost services for customers and reduce the use of estimates in calculating bills.

Always concerning digitisation, in 2020 the Company carried on with the **mass replacement of traditional meters** with modern smart meters, which allow transmitting the meter's readings and other operating data digitally.

To promote environmental sustainability, besides the long-running recycling of treated wastewater for irrigation use, in 2020 the Water Service Business Unit developed innovative technological systems to **recover thermal energy from water** at the Salemi Station **and from the sewer system**, with tangible impacts on the carbon footprint of the Business Unit's operations.

<b>Integrated Water Service</b>	<b>31.12.2020</b>	<b>31.12.2019</b>	<b>Abs. Ch.</b>	<b>Ch. %</b>
Revenues	212,654	227,377	(14,723)	-6.5%
Costs	(155,359)	(174,903)	19,544	-11.2%
<b>EBITDA</b>	<b>57,295</b>	<b>52,474</b>	<b>4,821</b>	<b>9.2%</b>
<i>% on revenues</i>	<i>26.9%</i>	<i>23.1%</i>	-	-
Amortisation/depreciation and provisor	(23,062)	(15,174)	(7,889)	52.0%
<b>Operating Profit (Loss)</b>	<b>34,232</b>	<b>37,300</b>	<b>(3,068)</b>	<b>-8.2%</b>
<i>% on revenues</i>	<i>16.1%</i>	<i>16.4%</i>	-	-
<b>Investments</b>	<b>60,937</b>	<b>74,851</b>	<b>(13,914)</b>	<b>-18.6%</b>

In terms of financial performance, in 2020 the Water Service Business Unit reported a decline in the contribution to EBITDA compared to 2019, but the business grew in absolute terms year-on-year (+9.2%).

**Revenues** decreased by € 14,723 thousand (-6.5%). The change is due to revenues arising from work on infrastructure subject to service concession arrangements.

**Operating costs** decreased by € 19,544 thousand (-11.2%).

**EBITDA** increased by € 4,821 thousand (+9.2%) compared to 2019.

**Investments** in the Integrated Water Service amounted to € 60,937 thousand, with a decrease of € 13,914 thousand (-19%) compared to the previous year.

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

Integrated Water Service	2020	2019	2018	2017
<b>Reference territorial area</b>	<b>Municipality of Milan</b>	Municipality of Milan	Municipality of Milan	Municipality of Milan
<b>Housing units</b>	<b>Approx. 800,000</b>	Approx. 800,000	Approx. 800,000	Approx. 700,000
<b>Resident inhabitants</b>	<b>1,436,544</b>	1,418,329	1,403,968	1,397,419
<b>Demand</b>	<b>Approx. 2,000,000 Customers</b>	Approx. 2,000,000 Customers	Approx. 2,000,000 Customers	Approx. 2,000,000 Customers
<b>Water released into the network (millions of m3/year)</b>	<b>209</b>	216	218	225
<b>Total water billed (millions of m3/year)</b>	<b>178</b>	185	186	189
<b>Water leaks *</b>	<b>14.4%</b>	9.1%	9.4%	10.7%
<b>Total length of the water distribution networks (km)</b>	<b>2,141</b>	2,140	2,136	2,230
<b>Length of supply networks (km)</b>	<b>99.5</b>	99.5	99.5	98.6
<b>Total wells (no.)</b>	<b>588</b>	588	588	587
<b>Length of sewer systems (km)</b>	<b>1,584.2</b>	1,582.9	1,579.3	1,579.1
<b>Wastewater treatment plants (no.)</b>	<b>2</b>	2	2	2
<b>Wastewater treatment plants potential (population equivalent)</b>	<b>2,286,000</b>	2,286,000	2,286,000	2,286,000
<b>Drinking water analysis</b>				
Number of samples **	<b>3,095</b>	17,494	17,461	19,666
Number of parameters	<b>175,083</b>	191,692	190,444	175,852
Conformity percentage	<b>99.98%</b>	99.97%	99.90%	99.66%
<b>Wastewater analysis</b>				
Number of samples	<b>6,400</b>	8,000	10,817	11,140
Number of analytical determinations	<b>38,200</b>	42,800	48,496	54,258
Conformity percentage (only on discharge)	<b>100%</b>	100%	100%	100%
<b>Pro-capita daily supply (m3/inhab./day)</b>	<b>0.395</b>	0.416	0.425	0.440
<b>Wastewater treatment plants</b>				
Plants with treatment capacity up to 2,000 p.e.				
Plants between 2,000 p.e. and 10,000 p.e.				
Plants between 10,000 p.e. and 10,000,000 p.e.				
Plants over 1,000,000 p.e.	<b>2</b>	2	2	2
<b>Wastewater treatment values</b>				
Volumes treated entering and leaving plant (millions of m3)	<b>226</b>	237	236	227
Volumes used for crop watering (millions of m3)	<b>55</b>	94	89	94
Percentage removal of BOD5 pollutants	<b>98%</b>	98%	98%	96%
Percentage removal of SST pollutants	<b>99%</b>	98%	99%	97%
Percentage removal of total Nitrogen pollutants	<b>80%</b>	72%	76%	79%
Percentage removal of total Phosphor pollutants	<b>72%</b>	80%	72%	73%
Volume of sludge for disposal in agriculture (thousands of tonnes)	<b>48</b>	43	46	55
Volume of sludge to be used as fuel in cement factories (thousands of tonnes)	<b>13</b>	16	14	6
Theoretical calculation of the dried volume sent to cement factories, transformed into equivalent of dehydrated sludge for agriculture (thousands of tonnes)	<b>34</b>	35	31	22

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

(\*\*) Starting from the year 2020, the Area Office of the Metropolitan City of Milan decided that, for the purposes of RQTI (technical quality) regulations, the sample of one or more portions of water, taken in a given sampling point, on a given date, shall be considered as the only sample, regardless of the number of containers used in accordance with sampling methods.

## Engineering

In 2020, the Engineering Business Unit was organised into three business lines:

- the first one dedicated to Infrastructure, Construction and Waterworks (DIEI);
- the second one dedicated to Mobility Systems (DSMO);
- and finally, the Construction Management Department (DICM), with the task of overseeing the activities relating to the execution stage of the engineering services, carrying out, in particular, the following activities: Project Manager and Construction Manager, Construction Management and Safety Coordination during Construction.

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

Besides the above structures, MM's engineering services encompass also the operations of the Dubai (UAE) Branch, set up in January 2017 to develop business initiatives in the Middle East and North Africa (MENA) Region and South Asia as well as to handle contracts in the United Arab Emirates, and the Bogotá (COL) Branch, established in July 2020. An additional Branch is currently being set up in Chennai, India, following the acquisition of major projects in that country related to the underground railway lines in Chennai and Mumbai.

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

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

<b>Engineering</b>	<b>31.12.2020</b>	<b>31.12.2019</b>	<b>Abs. Ch.</b>	<b>Ch. %</b>
Revenues	37,945	33,822	4,123	12.2%
Costs	(34,741)	(32,918)	(1,823)	5.5%
<b>EBITDA</b>	<b>3,204</b>	<b>904</b>	<b>2,300</b>	<b>254.5%</b>
% on revenues	8.4%	2.7%	-	-
Amortisation/depreciation and provisor	(1,965)	(24,391)	22,427	-91.9%
<b>Operating Profit (Loss)</b>	<b>1,240</b>	<b>(23,487)</b>	<b>24,727</b>	<b>-105.3%</b>
% on revenues	3.3%	-69.4%	-	-
<b>Investments</b>	<b>1,709</b>	<b>1,242</b>	<b>467</b>	<b>37.6%</b>

In terms of financial performance, in 2020 the Engineering Business Unit saw EBITDA increase from € 904 thousand to € 3,204 thousand (+254.5%).

**Revenues** were up € 4,123 thousand (+12.2%); **operating costs** also rose by € 1,823 thousand, i.e. +5.5%.

The **investments** of the Engineering Business Unit amounted to € 1,709 thousand (+38% compared to the previous year).

### *Main impacts of the Covid-19 health emergency*

During 2020, the Engineering Business Unit also had to deal with the unforeseen organisational situation associated with the Covid-19 emergency.

The main impact on the Business Unit's operations largely concerned the temporary suspension of construction sites for a limited period of time.

As for technical and design operations, since late February the Business Unit introduced smart working on a rotating basis for the employees of the Milan office; subsequently, from early March through May 2020, smart working was expanded to include all technical staff able to work remotely. Thanks to the IT equipment made available by the Company, the Business Unit's resources dedicated to technical and design operations not requiring to be present in person in the field or at construction sites remained fully operational.

In line with the Milan office, the Naples office also adopted smart working.

Starting from June, the Company introduced partial in-person staffing at its offices in accordance with distancing requirements; with some minor adjustments, this approach remained in place throughout 2020.

The effective use of new cooperation methods within work groups (video conferencing, digitally sharing design contributions, widely using shared digital archives, digitally signing documents and mail, etc.) allowed limiting the health emergency's potential negative impacts on production, which continued with the usual levels of efficiency.

### *Infrastructure, Construction, and Waterworks Department (DIEI)*

The most significant actions taken within the Department in 2020 concerned:

- the **technical and financial feasibility study** for the **underground tunnel to carry water from the Martesana to Darsena** as part of the project assigned to MM by the Municipality of Milan.
- the **design of the new fruit and vegetable logistics platform** to be built in the agri-food district as well as of the new fruit and vegetable pavilions as part of the project assigned to MM S.p.A. by So.Ge.Mi.;

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

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

- the recovery of vacant housing units;
- the upgrade of fire-prevention systems;
- extraordinary maintenance work on properties;
- extraordinary maintenance work in the Saint Bon neighbourhood.

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

- several extraordinary maintenance interventions on school buildings performed through framework agreements directly entrusted by the Municipality of Milan;

- the restoration and conservative restructuring of the school complex in via Brunacci 4-6-8;
- the demolition and reconstruction of the school complex in via Crespi 40;
- the demolition of the building in via Catone 24 and the construction of a new secondary school;
- extraordinary maintenance interventions on the school complex in via Console Marcello.

The many activities carried out for the Municipality of Milan in relation to the **upgrade of fire-prevention systems in the municipal administration's buildings**, as well as the interventions on the **waterworks and infrastructures**, are also of significant importance with respect to the revenues of the DIEI.

The most significant interventions concern:

- the consolidation of the culverts of the former Borgognone canal from Piazza Grandi to Via Azzo Carbonera;
- the ring road: protected bus lane on the Pergolesi-Piccinni section and the Cappelli-Tertulliano section;
- the redevelopment of the so-called 5 areas;
- the Eurovelo 5 cycle route;
- the Napoli-Giambellino 5 cycle route;
- the reclamation and construction of the parking lot in the Bignami area;
- the reclamation and construction of the parking lot in via Merula;
- the new lighting fixtures at Arena Civica Gianni Brera;
- the construction of the CASV A (Centre for Advanced Studies of Visual Arts in QT8);
- the construction of the new archiving system (Citadel of Archives) in Via Gregorovius 15.

In addition, in 2020 the **Meazza stadium's static stability certification was renewed**.

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

- replacement of waterworks pipelines in Via Delle Forze Armate;
- replacement of waterworks pipelines in Viale Lazio, Via Morosini, Via Botta and Via Pier Lombardo;
- replacement of waterworks pipelines in Via Uruguay;
- renovation of the sewer pipeline in Via Balducci;
- renovation of the sewer pipeline in Via Savona;
- renovation of the sewer pipeline in Via Pascarella.

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

## Mobility Systems Department (DSMO)

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

As regards the **in-house activities for the Municipality of Milan**, the main orders in 2020 in terms of revenues were the following:

- **Milan M1 underground railway line – Extension to Baggio / Valsesia / Olmi**

This important work, consisting of 3 stations and a depot/hangar, will be developed for a total length of approximately 3.5 km, all underground, except for the depot; during 2018 the Technical and Financial Feasibility Study (PFTE) was developed and then delivered to the Municipality of Milan, and by the latter to the Ministry of Infrastructure and Transport (MIT), with a request to access financing in December 2018. In 2019, the Municipality of Milan sent to the MIT the supplementary documentation required in connection with the above-mentioned request and the State funding for € 270 million, equal to 60% of the economic plan totalling € 350 million, was therefore confirmed. In 2019 the Company also carried out in-depth design studies at the Principal's request, updating the PFTE accordingly and presenting it at the preliminary Conference of Services.

As for the initiatives pursued in 2020, MM S.p.A. prepared and submitted an additional update to the PFTE to the Municipality of Milan in June that specifically concerned compliance with town planning requirements based on the approval of the Municipality of Milan's new Territorial Zoning Plan in January 2020. The PFTE was approved with the Municipality of Milan's Council Resolution no. 1334 of 27/11/2020.

In 2020, MM also launched the process to verify the exemption from the Environmental Impact Assessment (V.I.A., *Valutazione di Impatto Ambientale*) by filing the relevant application in July, which was followed by a request for additional evidence in the wake of the contributions and opinions provided by the Authorities concerned. The Company filed the additional evidence requested by the Metropolitan City of Milan in November/December 2020. Therefore, the process to verify the exemption from the V.I.A. all but ended in 2020 (with the issue of Managerial Decree no. 643 of January 2021) with the confirmation that the project shall not be subject to the V.I.A., provided that it complies with the decree's requirements.

In addition, in the second half of 2020 MM developed the Final Design in anticipation of the Decision-making Conference of Services, to be held in early 2021, to assess compliance with legal and town planning requirements.

- **Milan M5 underground railway line – Extension to Monza**

This important project, which consists of 11 stations and a depot/workshop, will cover an overall length of approximately 13 km, almost all underground; in 2018 the Technical and Financial Feasibility Study (PFTE) was drawn up and sent by the Municipality of Milan to the MIT and then financed through an amendment to the State's Budget Law, at the end of 2018, with € 900 million as a State contribution. During 2019, the remaining € 350 million needed for the complete coverage of the economic plan (€ 1,250 million) have been thus defined through a burden-sharing agreement among the local authorities (Lombardy Region and the Municipalities of Milan, Monza, Cinisello Balsamo and Sesto San Giovanni). In 2019, MM also completed the update to the PFTE associated with a route change requested by the Municipality of Cinisello Balsamo, which was followed by a special Conference of Services; meanwhile, the Company

started developing the final design, and specifically worked on the functional design of the stations as well as the buildings of the depot.

As for 2020, MM resumed geognostic investigations, in accordance with a plan to conduct them more often so as to advance the geotechnical knowledge of certain line sections that present particular problems in relation to the presence of natural underground cavities (“*occhi pollini*”) and low-quality soil. The findings of these investigations, which are still ongoing, have required lowering the rail level of some stations in Monza’s central section, and thus redefining their functional design.

Some of the requirements set by the Authorities at the preliminary Conference of Services required starting technical-administrative talks with the relevant local Authorities, some of which are still ongoing. The most significant issues were the mitigation and offsetting measures for the depot, the process to ensure the compliance of town planning instruments, the location of the Parco-Villa Reale station, the configuration of Monza’s Institutional Hub – specifically, the location of the park and ride facility and the terminus of suburban bus routes – and, finally, the configuration of the M5 line-railway network interchange at Monza FS (Milan’s Porta Nord), with implications for access to the M5 station.

As for the location of the Parco-Villa Reale station, the position proposed in the technical and financial feasibility study, i.e., within the Monza Park, a protected natural area of the Lambro Valley Park, has been confirmed. Pursuant to Article 7 of Italian Legislative Decree no. 152 of 2006, this requires a VIA or, more specifically, a VIA/PAUR (Environmental Impact Assessment/Single Regional Authorisation), which will last approximately one year, due to procedural constraints envisaged by the law. The attempts to move the station outside Monza’s park, so as to avoid the VIA, ultimately failed because of the issues associated with setting up the construction site, expropriations, and, concerning the specific solution in front of Villa Reale, which the Municipality of Monza would have preferred, the fact that the Municipal Government could not cover the greater costs associated with the different construction methods required.

Among the above issues, the following were still under discussion at the end of 2020: the definition of the overall layout of Monza’s Institutional Hub, and the final design of the access to Monza FS station from the interchange with the railway. The compliance of the town planning instruments will be assessed as part of the VIA/PAUR.

In 2020, the final design of the work, conducted under the BIM approach with respect to the main components, including the stations, line items, the tunnel, and the route, focused on refining the planimetric and altimetric route, the stations – especially those in the southern section – and the line items, resolving interferences, and setting up the construction site.

- **Milan M4 underground railway line**

Also in 2020 work continued in a twofold manner:

- secondment of staff to AMAT s.r.l., consisting of 9 specialised employees forming the core of the work group dedicated to providing Technical Support to the Grantor; the aforementioned specialist staff seconded by MM include the Head of the department who directly reports to the Chief Executive Officer of AMAT s.r.l.; secondment rules provide that the cost for the seconded staff must be entirely borne by AMAT s.r.l.;
- an agreement with AMAT s.r.l. for the provision, by MM’s specialised staff, of technical support covering specific aspects that characterise the project for the construction of Line

M4, and relating in particular to: rolling stock, system equipment (signalling/automation, platform automatic doors, electric traction, telecommunications, SCADA, etc.) layout, railway superstructure, ventilation systems and fire prevention issues, escalators and elevators, depot equipment, finishings and technical support to the Safety Commission appointed by the MIT.

In 2020, as part of the specialist technical support service under the agreement with AMAT s.r.l., the Company focused on field tests and the safety case process to support the Safety Commission appointed by the MIT, in anticipation of the opening of the first functional stretch of Line 4 in spring 2021.

- **Milan – Limbiate suburban tramway line**

In 2020, design work continued on the redevelopment of the existing tramway line as a modern suburban tramway line, as part of the project assigned to MM by the Municipality of Milan, which is the implementing body of the project, for the “final design, the conduct of inspections, safety coordination during the design stage, and support to the RUP (sole project manager) for the functional redevelopment of the Milano Comasina–Limbiate Ospedale light rail – 1st functional lot – Stretch between Milano Comasina and Varedo depot”.

Following the preliminary Conference of Services held in summer 2019 on the basis of the PFTE for lot 1 Milan-Varedo, the Company updated the configuration of the design. In 2020, the Municipality of Milan submitted the relevant dossier to the other Authorities that are party to the agreement for the project.

On 14 November 2020, the Municipality of Milan assigned the lot 2 Varedo-Limbiate project, similar to the one mentioned above concerning lot 1, to MM.

On 9 December 2020, MM delivered the PFTE for the redevelopment of the whole line, including the new depot-workshop in Mombello (Limbiate). Milan’s Municipal Council approved said PFTE with resolution no. 1461 of 18/12/2020 to incorporate it into the draft 2021 Annual List of the Three-Year Public Works Programme for 2021-2023.

- **Transport system along the Paullese route**

In November 2020, MM delivered phase 1 of the PFTE for the public transport system along the Paullese route, considering several alternative modes – including the busway system, the light rail, and the M3 extension – and different potential routes. The transportation and financial assessments highlighted the sustainability of “lighter” road, and, at a lower level of performance, rail solutions; meanwhile, out of the four potential layouts for the extension of the M3 line, the proposed short extension to Peschiera was close to balancing costs and benefits.

- **Testi – Niguarda A&E tramway**

In late April 2020, MM delivered phase 1 of the PFTE for this section of the tramway network, which will play a key role within the so-called Certosa-Gobba Northern Inter-neighbourhood Light Rail (functional stretch “4”). Then, the Company launched and developed the PFTE for the chosen solution by delivering a first version of the design to the Municipality of Milan in December in order to participate in the MIT’s call for funding of mass rapid transit projects. The final PFTE is scheduled to be delivered in spring 2021.

- **Bausan – Bovisa tramway**

In May 2020, MM delivered phase 1 of the PFTE for this extension of the tramway line, which is required to extend tramway line 2 from Piazzale Bausan to Villapizzone, and part of the future Northern Inter-neighbourhood Light Rail, to the Municipality of Milan. It then started and developed the PFTE for the chosen solution, which is expected to be delivered in spring 2021.

- **Milan Parco Nord-Seregno tramway**

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

Specifically, MM conducted the assessments required to validate the executive design.

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

In 2020, the Mobility Systems Department essentially provided the required technical and specialist support to the “settlement negotiation” as per Article 239 of Italian Legislative Decree 163/2006 that MM S.p.A. and the contractor entered into in December 2019.

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

In December 2020, MM started the PFTE that will be developed throughout 2021 and concern the solution identified in the PFTE phase 1 (see the previous point). The route, which runs entirely through a tunnel, is to pass under the bed of the Idroscalo and the FS Milano Smistamento stop, with the new Segrate terminus integrated with the future railway station that will authorise trains to enter the line.

- **LPT system Cologno-Vimercate**

MM revised phase 1 of the PFTE, focusing specifically on two solutions that emerged from the study delivered in 2019: the Cologno-Vimercate light rail and the extension of the M2 line to Agrate. After considering the tramway route, MM developed a new scenario with strong cost/benefit indicators. This features a railway system offering better performance than the tramway and with characteristics similar to a light rail transit system for a large section of the route.

- **Adriano – Cascina Gobba tramway extension**

Milan’s Municipal Council approved the PFTE with resolution no. 1398 of 11 December 2019, along with the authorisation to apply for funding for mass rapid transit projects available under the 2019 budget law to finance the Fund for “reviving Central Government investments and Italy’s growth”, set up pursuant to Article 1, paragraph 95 of Italian Law no. 145 of 30 December 2018, to build the Quartiere Adriano-Cascina Gobba M2 Light Rail.

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

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

In late 2020, the Company prepared and submitted an initial revision of the PFTE for the “rehabilitation of the M2 tunnel, S. Ambrogio-Porta Genova stretch”, so as to include it in the “2021-2023 PTO / year 2021”.

In addition, in late 2020 the Company also started the groundwork for the preparation of the PFTE for the “Waterproofing and consolidation of waterstops in the reinforced concrete structures of the Garibaldi-Centrale stretch”.

- **Surface work for Milan’s Line 4 – Western Section and San Cristoforo area**

As part of the construction of Milan’s M4 Line, the Municipal Government has decided to enhance the surface work for some stations with high-quality finishes, tasking MM with the final and executive design as well as construction management for some areas of the line’s western section, based on a PFTE prepared by the Municipality. These works add to and complement the works of the Line M4 Concessionaire, which broadly involve restoring the places concerned to their original condition before the works.

In 2020, pending the assignment received in December, considering the importance of these works, MM started discussing certain aspects of the project with the Municipal Government and the Line M4 Concessionaire and to prepare the tender documentation in order to award these works under a framework agreement.

In December 2020, MM received a similar assignment concerning the central section of the line, along the “Cerchia dei Navigli” ring.

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

In 2020, MM continued supporting the Technical Committee set up by the Municipality and featuring also ATM. The Committee was established in 2018, when the complaints from residents and building administrators about vibration disturbance where the historical sections of the M1 and M2 underground lines are located grew in number and seriousness. MM is responsible for, among other things, carrying out on-site measurements near the buildings concerned by the disturbance. This work is carried out by MM’s specialised staff using specific certified tools. In this regard, in 2020 MM was also hired by a private-sector entity, with the prior approval of the Municipality, to conduct a study aimed at evaluating potential works on an approximately 100m double-track stretch between Duomo and Cordusio M1, near a historic building that is currently being converted into a hotel. This is to allow said private-sector entity to consider funding the works required to mitigate the vibration disturbance.

- **Segrate – Porta Est Underground Railway Hub**

the first phase of the PFTE relating to the reorganisation of the public transport system connected to the major private commercial concern to be realised in Segrate was completed; this study incorporated the results of the previous study (MM, 2018), examining in detail the extension of Line M4 from Linate via S. Felice (in particular the construction and operating aspects), the railway interventions (new “Porta Est” station layout and Pioltello PRG – General Town Planning Scheme), the ideas for the reorganisation of the bus lines and the interventions regarding the road network and interconnections.

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

During 2020, following the assignment received from the Municipal Government in May, MM worked on the second part of the studies already conducted in 2019 concerning the extension of Line M5 towards Bresso and the extension of Line M3 towards Paderno Dugnano. The main objective of this addition to the design, to be completed in early 2021, is to assess the social and

economic sustainability of infrastructure scenarios for North Milan's main network to be upgraded, proposed in previous studies and submitted to the relevant Authorities.

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

In December 2020, MM started phase 1 of the PFTE that will consider several alternatives for extending tramway line 24, which currently connects downtown Milan with the Vigentino neighbourhood, along via Ripamonti. The Municipality of Milan has entrusted MM with the whole PFTE, i.e. both phase 1 (feasibility study and screening of alternatives) and phase 2 (preliminary design).

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

In December 2020, MM started phase 1 of the PFTE that will consider several alternatives for extending Line M5 west of the current San Siro terminus, both inside the city of Milan and outside – to Settimo and beyond. The Municipality of Milan has entrusted MM with the whole PFTE, i.e. both phase 1 (feasibility study and screening of alternatives) and phase 2 (preliminary design).

- **Milan underground railway Line 5 – second lot (Garibaldi – San Siro)**

- **Miscellaneous:** there are also a number of contracts (e.g.: RG, M4P, XA, HC, PN, BZ, etc.) that generated revenues – and, in some cases, fairly significant revenues – in 2020: since they were completed, and therefore the whole lifecycle planning was updated to reduce remaining hours to zero, MM recognised the remaining revenues in the financial statements.

#### Activities outside the Municipality of Milan

During 2020, the DSMO (the Mobility Systems department) carried out activities also in relation to **orders outside the Municipality of Milan**, i.e. in other Italian and foreign cities. The following are the most relevant in terms of revenues for the Department:

- **Genoa Underground railway – Brignole-Martinez extension:** following a call for tenders for design services, won in 2019 by MM in a consortium with another engineering company, in the first half of 2020 the final design for the extension in question, for the purpose of the tender procedure, was completed. As the Supervisory Body made no remarks relevant to the validation of the design, the ensuing steps (review of remarks, rebuttals, and potential updates to the designs) will be carried out in 2021, bringing the contract to an end.

In terms of revenues, during the design phase MM formally made its first request to revise the fee, as the final design, which should have been based on the PFTE provided by the Principal, had to include a series of major changes and additions, requested by the Principal because of mostly external circumstances beyond their control, that significantly increased the amount of the works.

- **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.

### Activities in the Municipality of Naples

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

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

The updated works schedule for the stretch Dante-Garibaldi-CDN provides for partial activation of the Duomo station before the end of 2021 and completion of the latter and of the Municipio station by 2023. The value of financed works as at 31/12/2020 amounts to some **€ 24 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 CIPE (Interministerial Economic Planning Committee) for a value of works at concession prices of € 568 million. The project envisages a development of approximately 3.3 Km with 4 stations, an underground storage facility for rolling stock and a park and drive facility located at the Capodichino station. On 27 November 2014, the first works concerning the Centro Direzionale station were delivered, followed by the delivery of the works of the Capodichino, Poggioreale and Tribunale stations, with their related tunnels. Due to the delays already occurred relating to the handover and acquisition of the areas of intervention, the land reclamation works at Poggioreale station, and the agreements with EAV, the activation will take place in stages, with a first stretch including the Centro Direzionale and Tribunale stations to be activated by 2022 and the rest to be completed by 2026. The value of financed works as at 31/12/2020 amounts to € 302 million.

At the design level, as regards the extension to Capodichino, the executive design of the Rolling Stock Storage Facility and of the line systems was completed, and the executive design and the design of architectural details and finishes for the Centro Direzionale, Tribunale and Capodichino stations started. During the current year, projects were also developed for the external arrangements of the Centro Direzionale station and the connection to Capodichino airport.

**Line 6 of Naples underground railway** envisages a development of 6.4 Km and 8 stations. To date, the first functional stretch of 2.6 Km with 4 stations is in operation: the stretch between the Mergellina and Municipio stations is currently under construction. Completion of the works is scheduled for 2023, with the first activation of the Arco Mirelli and S. Pasquale stations this year. The value of financed works as at 31/12/2020 amounts to some € 14 million.

In 2020, net revenues from the above-mentioned work orders in Naples were higher compared to 2019 figures.

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

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

- following the agreements between the Campania Region and the Municipality of Naples, with the consequent award to Metropolitana di Napoli of the **works for the renovation of the Circumvesuviana tunnel** (approximately € 50 million), in 2019 MM submitted the final design;
- following new agreements between the Campania region and the Municipality of Naples for the granting to Metropolitana di Napoli of a concession with respect to the **extension of the CDN-**

**Capodichino stretch to the EAV Di Vittorio station** (approximately € 40 million in works), this resulted in a consequent increase in MM's design and Construction Management activities also on this additional stretch from Line 1; the final design was submitted in 2020.

### *Construction Management Department (DICM)*

In 2020, the most significant revenues of this Department, while being partially affected by the pandemic, continued to be generated by the numerous **activities as Sole Project Manager during Construction, Construction Management and Safety Coordination during Construction.**

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

Total revenues are mainly related to the following interventions:

- Construction Management for the execution of Line M4 project in Milan;
- With respect to technical-administrative activities and engineering Services connected to "Post Expo 2015" entrusted to MM by Arexpo:
  - Construction Management and Safety Coordination during Construction for the activities related to the Agreement and the relevant supplementary deeds, as regards the implementation and management of the "fast-post-Expo" phase.
- Construction Management and Safety Coordination during Construction of structures and infrastructure:
  - Restructuring of buildings in via Monviso 2 and 6;
  - Extension of Line M1 to Monza Bettola;
  - Construction of elevators on Milan's canals (Navigli);
  - Interventions on the water supply and drainage systems of the stretches of water in the "Indro Montanelli" public park;
  - Interventions on the water supply and drainage systems of the stretches of water in the "Parco Castello" public park;
  - Restructuring of Cascina Nosedo;
  - Trolleybus in Verona;
  - Cosenza – Rende tramway;
  - Adriano neighbourhood tramway.
- Construction Management and Safety Coordination during Construction of the Public Housing Property (ERP):
  - Restoration of properties damaged by fire;
  - General extraordinary maintenance interventions for the redevelopment and functional renovation of communal areas in several buildings in the Municipality of Milan;
  - Interventions to ensure safety of the façades of Public Housing properties;
  - Extraordinary maintenance and recovery of vacant housing units outside Milan;

- Interventions for the conversion to methane of diesel oil thermal power stations serving Public Housing property;
- Redevelopment of ERP communal areas under the Metro National Operational Programme (Pon Metro).
- Construction Management and Safety Coordination during Construction – Environment and Territory of the Public Housing Property:
  - Cascina San Giuseppe – Lot 1 of Park Project;
  - Cascina San Giuseppe – Lot 2 of reclamation works;
  - Cascina San Giuseppe – Lot 2 of Park Project;
  - Adriano neighbourhood – environmental reclamation;
  - Reclamation and renovation of Precotto Depot Area;
  - Reclamation and renovation of Bovisa Gasometri Area;
  - Reclamation and renovation of Viale Toscana Area;
  - Works to ensure the safety of Villa Caimi and expansion of Villa Scheibler Park;
  - Reclamation of via Chiasserini Area;
  - Reclamation of via Giambellino 129.
- Construction Management and Safety Coordination during Construction – Integrated Water Service – Watercourses:
  - Static consolidation of Cavo Redefossi;
  - Relining of sewer systems;
  - Sewer system and waterworks in via Bardolino;
  - Sewer system and waterworks in via Ghisallo and via De Gasperi;
  - Extraordinary maintenance of Roggia Vettabbia;
  - Renovation of the Martesana canal (Naviglio Martesana) in via Melchiorre Gioia;
  - Construction of the detention basin for the floods of the Seveso river.
- Construction Management and Safety Coordination during Construction – Milanospport:
  - Extraordinary maintenance of swimming pools;
- Construction Management and Safety Coordination during Construction – Municipality of Milan:
  - Extraordinary maintenance of schools;
  - Extraordinary maintenance of the residential complex in via Giuffrè and via Villani;
  - Extraordinary maintenance of buildings in order to obtain the Fire Prevention Certificate and remove architectural barriers.

As regards the main work order concerning Line M4, the Construction Management Department continued to guarantee the activities aimed at fulfilling the tasks assigned to MM S.p.A. in relation to Construction Management, previously, since 2012, under direct and functional control of the Grantor, i.e. the Municipality of Milan, and, starting with the new assignment in June 2017, under the control of Line M4 Concessionaire, in compliance with the indications provided by the National Anti-corruption Authority, i.e. Società Concessionaria SPV Linea M4 S.p.A., established on 22 December 2014 after the signing of the Concession Agreement between the latter and the Grantor, i.e. the

Municipality of Milan, for the “Design, Construction and Operation of Line 4 of Milan underground railway”.

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

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

Due to unforeseen and unforeseeable events, including the ongoing pandemic, 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 spring 2021 until the end of July 2024, with an overall duration of the works of 120 months.

### *Activities in the United Arab Emirates*

Already in early 2017, MM set up a Branch in the Special Economic Zone called DWC / Dubai South in the United Arab Emirates. The Branch activities actually began as from August 2017, the date on which the Managing Director moved permanently to the city of Dubai.

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

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

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

Again in 2018, also following the acquisition of the design service assignment for Mumbai underground railway, acquisition development activities started in India, where the need for infrastructure is growing. The result of these activities culminated in 2019 with the acquisition of 3 contracts relating to:

- CMRL – Assignment relating to the detailed design service for the structures, architecture and civil engineering works for the underground railway section of the metro called Corridor 4 in the City of Chennai – Tamil Nadu state (India) in March 2019;

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

During 2019, the following orders were started:

- Framework agreement for post-contractual support to Expo 2020 – Expo 2020 contracting authority; start in late November 2019 and completion in April 2020, with end of assignment due to Covid-19;
- New Support Contract (Project Management) for the realisation of the Czech Republic Pavilion at Expo 2020: start in late November 2019 and completion in October 2020;
- CMRL – Assignment relating to the detailed design service for the structures, architecture and civil engineering works for the underground railway section of the metro called Corridor 4 in the City of Chennai – Tamil Nadu state (India) in March 2019.

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

2020 saw an increase in production, with the achievement of major milestones that will lead in early 2021 to tendering for the civil works of the underground railway system.

- CMRL – Assignment relating to the detailed design service for the structures, architecture and civil engineering works for the raised railway section to complete the metro called Corridor 5 in the City of Chennai – Tamil Nadu state (India) in July 2019.

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

2020 saw an increase in production, with the achievement of major milestones that will lead in early 2021 to tendering for the civil works of the raised railway system.

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

The development of the Technical and Financial Feasibility Plan was all but completed in 2019, but was then significantly disrupted by the Covid-19 health emergency: as a result, geognostic and topographical surveys and the discussions with the authorities involved were put on hold until late December 2020.

In 2020, **the Branch reported** € 1,321 thousand in revenues and € 1,431 in costs; the net loss for the year amounted therefore to € 111 thousand.

## Housing

The municipal housing property currently includes **39,151 real-estate units** of which:

- **28,868 housing units** (of which 1,537 in neighbouring municipalities);
- **8,898 garages and parking spaces;**

- **1,385** real-estate units for **Non-Residential Uses**.

2020 saw a consolidation of the management of Public Housing property and the start of interventions on processes and organisational structure (development of CRM, web channels, management system, etc.).

In addition, the Business Unit took additional steps to make the service more efficient, including bolstering the ability to use the automated municipal archive by creating two new loading bays, launching a complex technical census of the property using innovative technologies, and launching the remote control system leveraging IoT technology.

In 2020, the Housing Business Unit recorded a total of **259,350 contacts** with customers, of which:

- 198,826 **phone contacts** on the toll-free number 800 01 31 91, available 24x7;
- **24,759 appointments at branch offices** or by telephone.

In 2014, the first two **local offices** opened to the public (North East Office in via Civitavecchia, North West Office in via Senigallia), with the task of managing relations with customers and manage the technical aspects of routine maintenance. During 2015, other local offices were set up in other areas of the city: South East Office in via Spaventa, South West Office in via Forze Armate in addition to the office in piazzetta Capuana.

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

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

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

Alongside the Housing Business Unit, the specialised personnel of MM belonging to the Property Protection Department has the task of monitoring the buildings managed in order to report the need for intervention, the risks of squatting, and the different potential dangers. The **prevention of squatting** is the first task to be performed by the Department, and is carried out together with the Police. Results since the start of operations have been significant: **reduction of the net balance of squatting positions from 1,722 to 661** (as at 31 December 2020) with a net reduction of 127 during 2020.

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

<b>Housing</b>	<b>31.12.2020</b>	<b>31.12.2019</b>	<b>Abs. Ch.</b>	<b>Ch. %</b>
Revenues	17,114	13,618	3,495	25.7%
Costs	(14,707)	(13,834)	(873)	6.3%
<b>EBITDA</b>	<b>2,407</b>	<b>(215)</b>	<b>2,622</b>	<b>-1218.6%</b>
<i>% on revenues</i>	<i>14.1%</i>	<i>-1.6%</i>	-	-
Amortisation/depreciation and provisor	(870)	(490)	(380)	77.6%
<b>Operating Profit (Loss)</b>	<b>1,537</b>	<b>(705)</b>	<b>2,242</b>	<b>-317.9%</b>
<i>% on revenues</i>	<i>9.0%</i>	<i>-5.2%</i>	-	-
<b>Investments</b>	<b>2,601</b>	<b>695</b>	<b>1,906</b>	<b>274.2%</b>

**Revenues** increased by € 3,495 thousand (+25.7%); the increase is mainly due to the fee revision following Managerial Resolution no. 808 of 15 February 2021.

Operating costs decreased by € 873 thousand (-6.3%).

These trends led to a significant increase in the Operating Result, which rose from a loss of € 705 thousand to a profit of € 1,537 thousand.

The **Investments** of the Housing Business Unit amounted to € 2,601 thousand, with an increase of € 1,906 thousand (+274% compared to the previous year).

### Plant and Real Estate Management

The movable property and real estate of the Plant and Real Estate Management Business Unit (DVGI), instrumental to the management of the waste collection and disposal service, are mandatorily made available to the temporary provider of environmental hygiene services (AMSA S.p.A.) through a lease contract in exchange for payment of an annual fee of € 2,030,137 plus VAT.

In 2020, the Business continued conducting the operations under the existing 2017-2021 lease contract; in addition, on 25 June 2020, MM S.p.A. granted a gas pipeline easement to Amsa S.p.A. in the areas of the Via Olgettina site it owns, in exchange for an annual fee of € 2,326 plus VAT.

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

To ensure the continuity of the environmental hygiene service, pending the completion of the administrative process and the resumption of the tender, the Municipality of Milan has extended the service agreement with Amsa S.p.A. for the time strictly necessary to award the new contract, presumably expected by 30 April 2022. The lease contract between MM and Amsa dated 24/07/2017, already extended on 08/02/2021 to 31/05/2021, was further extended to 31/05/2022, in line with the extension of the environmental hygiene service concession arrangement with the Municipality of Milan.

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

Plant and Real Estate Management	31.12.2020	31.12.2019	Abs. Ch.	Ch. %
Revenues	2,061	2,059	2	0.1%
Costs	(229)	(40)	(189)	475.4%
<b>EBITDA</b>	<b>1,833</b>	<b>2,020</b>	<b>(187)</b>	<b>-9.3%</b>
<i>% on revenues</i>	<i>88.9%</i>	<i>98.1%</i>	-	-
Amortisation/depreciation and provisor	(1,321)	(1,604)	283	-17.6%
<b>Operating Profit (Loss)</b>	<b>512</b>	<b>416</b>	<b>96</b>	<b>0.0%</b>
<i>% on revenues</i>	<i>24.8%</i>	<i>20.2%</i>	-	-
<b>Investments</b>	<b>1,839</b>	<b>272</b>	<b>1,567</b>	<b>576.3%</b>

In financial terms, in 2020 EBITDA declined from € 2,020 thousand to € 1,833 (-9.3%); while **revenues remained stable**, costs were up € 189 thousand (+475%).

### Routine Plant and Infrastructure Maintenance

On 1 February 2020, the Company set up the Routine Maintenance Business Unit after the Municipality of Milan decided to entrust MM with facility management for school buildings, as well as to take over the routine maintenance of sports facilities owned by the Municipality of Milan and operated by Milanosport; in addition, the Business Unit is responsible for operating several lifting systems serving the Municipality's underpasses.

**School maintenance** operations were assigned to MM for the year 2020 through the **assignment specifications** for the "Facility Management Service relating to the second transitional phase, including the CRM (*Customer Relationship Management*) service, pursuant to Article 3 of the Service Contract of 22 March 2019". MM is in **talks** with the Municipality of Milan **to finalise a multi-year Agreement** for school Facility Management operations.

The **maintenance of the sports facilities** owned by the Municipality of Milan and operated by Milanosport is governed by the specific **Contract** between MM and Milanosport **finalised on 24.01.2020**, pursuant to the so-called "horizontal in-house arrangement" between the Municipality of Milan's subsidiaries, for "Facility management and energy efficiency services, including serving as Third Party Responsible for the operation and maintenance of heating systems (as per Article 1 of Italian Presidential Decree 412/1993) and Energy Manager". The Contract has a term of 4 years and can be renewed for an additional 4 years.

The **maintenance of the lifting systems serving underpasses** for the year 2020 has been included under the **existing assignment** concerning the "Cleaning, maintenance, and operation of facilities on waterways and groundwater wells, and support to the Civil Protection Department" awarded to the Company by the Municipality of Milan, pending the finalisation of a multi-year agreement.

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

Routine Plant and Infrastructure Maint.	31.12.2020	31.12.2019	Abs. Ch.	Ch. %
Revenues	3,745	-	-	-
Costs	(2,153)	-	-	-
<b>EBITDA</b>	<b>1,592</b>	<b>-</b>	<b>-</b>	<b>-</b>
% on revenues	42.5%	-	-	-
Amortisation/depreciation and provisions	(124)	-	-	-
<b>Operating Profit (Loss)</b>	<b>1,467</b>	<b>-</b>	<b>-</b>	<b>-</b>
% on revenues	39.2%	-	-	-
<b>Investments</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Business outlook

In the first few months of 2021, the environment in which MM operates was still affected by the Covid-19 health emergency.

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

The macroeconomic outlook presented in the Economic and Financial Document approved by the Council of Ministers on 15 April 2021 points to signs of economic recovery in terms of GDP growth (+4.1% in 2021 and +4.3% in 2022); however, there is lingering uncertainty at a systemic level in the face of an unprecedented pandemic emergency, making it hard to provide accurate forecasts for the current year.

## Personnel

As at 31 December 2020, MM's staff numbered **1,293 employees**.

In addition, MM employs 21 workers hired by temporary employment agencies, 2 on internship contracts and 7 on collaboration contracts.

The breakdown of employees by category is as follows:

Personnel broken down by category		2017	2018	2019	2020
Senior managers	no.	33	36	38	36
Middle managers	no.	77	76	77	78
Clerical workers	no.	665	710	795	820
Apprentices	no.	7	7	5	5
Workers	no.	342	335	356	354
<b>Total</b>	<b>no.</b>	<b>1,124</b>	<b>1,164</b>	<b>1,271</b>	<b>1,293</b>
Internship contracts	no.	3	6	5	2
Workers hired by temporary employment agencies	no.	16	14	24	21
Collaboration contracts	no.	6	6	7	7
<b>Total</b>	<b>no.</b>	<b>1,149</b>	<b>1,190</b>	<b>1,307</b>	<b>1,323</b>

In 2020, the percentage of employees on **permanent contracts** was equal to **91.88%**, increasing compared to 91.10% in 2019.

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

Personnel broken down by contract type	2017		2018		2019		2020	
	No.	%	No.	%	No.	%	No.	%
Permanent contracts	1,000	89%	1,064	91%	1,158	91%	1,188	92%
Fixed-term contracts	124	11%	100	11%	113	9%	105	8%
<b>Total</b>	<b>1,124</b>	<b>100%</b>	<b>1,164</b>	<b>100%</b>	<b>1,271</b>	<b>100%</b>	<b>1,293</b>	<b>100%</b>

MM's recruitment campaign, which began a few years ago, continued in 2020 as well, subject to business developments related to the Covid-19 emergency.

## 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 and the Routine Plant and Infrastructure Maintenance Business Unit), Collective Agreement (CCNL) for the Gas and Water sector (for the Water Service Business Unit and the Staff Departments/functions) 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

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

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

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

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

In 2020, MM provided **16,824 hours of training**.

## MM's attention towards employees

MM has always paid close attention to creating a stimulating working environment that is attentive towards the needs of its employees. This is why MM provides numerous **benefits for those who work in the company**. In addition to standard benefits, like meal vouchers, canteen badges and special arrangements with transport companies such as ATM and Trenord, MM offers all its employees a system of **health monitoring** that also includes an internal medicine service and the presence of a doctor, on a rotation basis, at the Company's offices. 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 post-employment benefits (TFR) accrued**. The advance also applies to dependent family members.

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

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

## Safety at work

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

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

In 2020, 3 cases of work-related injuries were recorded, all with full recovery within 6 months, confirming the **progressive reduction in the number of work-related events** over the last two years (4 cases in 2019).

The injury rate, defined as the rate between the number of work-related injuries and the total number of hours worked (frequency index<sup>5</sup>), is 0.40 compared to a value of 0.41 in 2019.

Also in 2020, in line with 2018-2019, no cases of occupational disease were recorded.

The monitoring and constant analysis of cases leading to injury enable MM to identify continuous, renewed corrective actions that are then disseminated within the company through the safety procedures.

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

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

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<sup>5</sup> The frequency index is calculated as: *Number of injuries / number of hours worked x 200,000*.

## Disclosure of non-financial information

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

The Non-Financial Statement 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 decided to prepare a **document separate from the Report on Operations** named “**2020 Sustainability Report**”, which corresponds to the Non-Financial Statement prepared pursuant to Article 3 of Italian Legislative Decree 254/2016.

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

## Risk Management

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

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

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

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

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

### Market Risk

#### *Foreign exchange risk*

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

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

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

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

<i>(in thousands of Euro)</i>	RON		AED		Total	
	-10%	10%	-10%	10%	-10%	10%
<b>Sensitivity analysis</b>						
Year ended 31 December 2020	(2)	1	(4)	3	(6)	4

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

### Interest rate risk

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

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

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

To face these risks, the Company has entered into **interest rate swap agreements** with the aim of mitigating, at economically acceptable conditions, the potential incidence of changes in interest rates on profit (loss). The main characteristics of these agreements **as at 31 December 2020** are as follows:

Interest rate swaps (IRSs)	Start date	Maturity date	Par value (in thousands of Euro)	Fair value (in thousands of Euro)
Intesa Sanpaolo IRS	2006	2026	7,609	(1,216)
BNP Paribas IRS	2009	2028	8,000	(2,230)

### Sensitivity analysis relating to interest rate risk

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

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

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

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

The table below shows the results of the analysis:

<i>(in thousands of Euro)</i> <b>Sensitivity analysis</b>	<b>Impact on profit, net of tax effect</b>		<b>Impact on equity, net of tax effect</b>	
	-50 bps	+50 bps	-50 bps	+50 bps
Year ended 31 December 2020	(29)	29	(29)	29

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

### Credit Risk

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

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

With reference to the **Integrated Water Service**, the Company manages credit risk through policies and procedures in order to monitor collections, issue reminders, grant payment term extensions where necessary, and implement the appropriate recovery actions.

Trade receivables of € 249 million as at 31 December 2020 (€ 232 million as at 1 January 2020) were recognised net of advances for works of € 2,101 million and accounted for net of the impairment calculated by the company's management by estimating expected losses broken down by type of debtor, i.e. private or public. The estimate of expected credit losses arises from historical experience differentiated by type of debtor, re-measured on the seniority of past due balances, and on any forward-looking elements, which may affect recovery expectations. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 35,175,338 as at 31 December 2020.

With specific reference to **Integrated 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 € 11,323 thousand.

### *Liquidity Risk*

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

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

The table below provides an analysis of cash flows expected in the years to come in relation to **financial liabilities as at 31 December 2020**:

<i>(in thousands of Euro)</i>	Balance as at 31 December 2020	Expected outflows			Total
		Within 1 year	From 1 to 5 years	Over 5 years	
Financial liabilities	244,866	37,804	50,226	156,835	244,866
Trade payables	179,137	179,137	0	0	179,137
Other liabilities	68,318	52,644	3,960	11,714	68,318

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

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

The bond loan, issued by the company on 23 December 2016, and the EIB loan agreement, signed on 18 November 2016, require that MM complies with specific **financial covenants**, calculated as ratios between income and equity variables, aimed at monitoring the company's financial and economic sustainability. The covenants are analysed in detail in the paragraph "Analysis of the financial structure" of the Report on Operations.

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

### *Potential risks associated with the Covid-19 health emergency*

The ongoing Covid-19 health emergency gives rise to potential risks for the Company:

- there is an **operational risk** that requires effectively addressing the (temporary) disruptions to and/or changes in the Company's business, based on the experience and guidelines developed during 2020;
- Considering the essential nature of the service – specifically, but not exclusively, with respect to the Integrated Water Service – the **risks associated with the health and safety of employees and customers** play a significant role, and therefore require ensuring that the risks associated with the performance of essential operations are contained;
- as for the **price risk**, it is deemed to be **limited** for the Company, as it mainly operates on the basis of in-house contracts, whereby the revenues associated with its services are either determined in advance (e.g. Housing Business Unit fee, Plant and Real Estate Management Business Unit fee), or based on conventionally defined criteria (e.g. Service Contract with the Municipality of Milan, as in the case of the Engineering Business Unit), or are calculated using algorithms defined by national and local regulations (e.g. Tariff Method for the Integrated Water Service);
- as for the **volume risk** associated with the consumption of the water service, the Company regularly monitors the volumes introduced into the system and measures consumption through smart devices as well as readings in the field; the MTI-3 tariff method sets specific rules for offsetting any shortfall in volumes consumed by users within the limit of the price-cap under the relevant regulatory schemes;

- due to the negative impact of the epidemic on the socio-economic environment, a potential **liquidity risk** arises, which, in the case of MM, is **limited**, since: with respect to the Integrated Water Service, the Company has already implemented a long-term funding strategy that involves issuing a fixed-rate Bond and entering into a fixed-rate loan agreement with the EIB, essentially covering its current needs, while, as for the other lines of business, most current receivables are due from the Municipality of Milan or other public-sector entities; in addition, these lines of business require limited investments, and therefore have modest medium/long-term funding needs.
- In the case of the Integrated Water Service, the **risk of delinquency and late payments** is associated with potentially increased bill payment periods and a higher unpaid ratio. Delinquency warrants close attention in terms of liquidity risk and potential changes in cash flows.

### *Actions to address the health emergency and ensure the achievement of the Company's objectives*

The continuation of the emergency and the potential risks arising in connection therewith could result in a potential negative impact on the company's financial position and performance. Therefore, in order to achieve its business objectives, **MM has mounted a timely and effective response to the emergency since the outset, taking several measures to address the risks**, in order to:

- ensure the health and safety of its employees, including through the introduction and enhancement of working tools available to employees (smart working), and provide comprehensive and timely updates on the situation;
- ensure the continuity of the services rendered to customers, including by shifting to remote processes;
- support the Company's performance.

### *Ensuring the safety of employees and shifting operations to remote work*

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

It provided **constant updates** to employees and customers on the decisions made by the Government, the competent Authorities, and the Company. All offices were provided with **materials to sanitise environments and individuals**; in addition, employees, external partners, and customers were given **personal protective equipment**. Access control at MM's premises was enhanced and trips as well as attendance at courses/conferences were banned.

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

Following the Italian Prime Minister's Decree dated 11 March 2020, the Company **closed its physical locations** and subsequently reopened them starting from May; it developed a plan to guarantee essential public services under extreme circumstances, implemented the plan to organise the essential public services it operates, and issued a company protocol on the handling of the Covid-19 emergency.

Starting from 27 February 2020, the Company launched a massive **smart working campaign**; as at 31 December 2020, it has entered into **830 individual smart working contracts** (accounting for approximately 64% of the workforce) and prepared a contingency plan to equip employees with the **necessary IT tools**.

It subsequently developed an operational plan that allowed **gradually resuming more normal operations** in the second half of 2020.

#### *Actions to secure the Company's performance*

Considering that the health emergency is still ongoing, in order to guarantee its economic and financial performance, MM adopted an **action plan aimed at supporting its performance**, according to a coordinated approach, by setting up a **Covid-19 Steering Committee**, whose activity allowed to:

- monitor the evolution of the relevant legal and regulatory framework and assess the performance of MM's business operations, identifying any emerging critical issues;
- define a corrective and improvement action plan and coordinate its implementation by the Company's structures;
- assess progress on the plan and analyse the impact of the initiatives introduced.

Throughout 2020, the Company **monitored costs**, specifically personnel costs and those of the external services purchased, taking **specific actions to contain** them in order to secure the Company's financial performance.

## Corporate Governance Report

### Information on the ownership structure

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

All shares carry the same rights.

### Board of Directors

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

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

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

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

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

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

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

### Chairman

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

- to grant upon the Chairman, in addition to what is provided by the Articles of Association, the powers and authorities listed below:
  - to manage the external and institutional relations of the company, taking the relevant decisions and stipulating the bilateral contracts required for implementation thereof, up to the amount of € 150,000.00 (one hundred fifty thousand/00) for each individual contract and within the limits of the expense budget approved by the Board of Directors. These powers also include decisions regarding the membership of the company in organisations, associations or entities of a scientific, technical, research nature in fields that are of interest to the company, involving an expense not to exceed € 100,000.00 (one hundred thousand/00) per individual membership, within the limits of the expense

budgets approved by the Board of Directors and provided that this does not involve acquisition of equity investments in the joined entity;

- to represent the company in shareholders' meetings of MM S.p.A.'s investees, in associations, entities and organisations that are not joint stock companies of which the investee is a member, with a power to issue the appropriate powers of attorney.

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

## Managing Director

In its meeting of 7 July 2010, the Company's Ordinary Shareholders' Meeting identified and appointed the Managing Director.

With the Minutes of the Board of Directors Meeting received from Notary Public Luca Zona of Milan on 15 December 2020, Ref. No. 38354 / 17544, the powers vested in the Managing Director Stefano Cetti with the Minutes of the Board of Directors Meeting received from the Notary Public Luca Zona of Milan on 11.05.2020, Ref. No. 37817 / 17264, were amended and supplemented as follows:

- 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;
- 5) as part of the management of procurement contracts, to conclude transactions, also through approval of friendly agreements, up to the amount of € 2,500,000.00 (two million five hundred thousand/00) for each individual contract;
- 6) to issue the declaration of admissibility of the Technical-Administrative Test Certificates and the Certificates of Regular Execution or Verification of Conformity relating to procurement contracts, without limits of amount, thereafter ensuring settlement and liquidation thereof;
- 7) to authorise and revoke subcontracts;
- 8) to issue work execution certificates pursuant to the applicable laws for the works and services carried out;
- 9) to adopt all measures and sign all deeds relating to the procedures for the permanent and/or temporary acquisition of areas, movable property and real estate, both above and under

ground, including, by way of example and without limitation, the expropriation, temporary and emergency occupation procedures provided for by current legislation, aimed at the construction of public works and the management of public services, also in the name of and on behalf of the entities that entrusted the company with the relevant services, including all preliminary and preparatory measures and deeds, as well as subsequent and related deeds and measures aimed at completing the acquisition procedure, none excluded or excepted, exercising all related and consequent powers; all without limitation with respect to the value of the assets subject to the aforementioned procedures.

In order to finalise the above-mentioned procedures, to sign expropriation orders, deeds relating to voluntary disposal, temporary occupancy, easement and any other type of deed, all of which up to the amount of € 250,000.00 (two hundred and fifty thousand/00) for each individual deed;

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

- 17) to settle, in or out of court, disputes concerning non-contractual civil liability, pursuant to and for the purposes of Article 2043 of the Italian Civil Code, which may derive from the performance of the Company's business activities, for amounts up to € 250,000.00 (two hundred and fifty thousand/00) for each individual transaction, and to pursue any other action in the interests of the company;
- 18) to submit bids with no amount limit – both individually and as a member of Temporary Association of Companies, consortia, joint ventures, associations in general and other entities, all without legal personality – for the purpose of participating in tenders, including negotiated procedures and public procedures in general, for taking on assignments related to the performance of activities included in the corporate purpose, signing all the necessary, appropriate and consequential deeds and documents, including the relevant contract or assignment specifications, issuing the relevant declarations and guarantees required by current legislation, informing the Board of Directors about the participation in and results of the tender procedures;
- 19) to establish, modify and terminate, with all the appropriate clauses, Temporary Association of Companies, consortia, joint ventures, associations in general and other entities, all without legal personality, for the purpose of participating in financed projects and tenders with no amount limit, for carrying out activities included in the corporate purpose, in compliance with applicable laws, with the power to grant or obtain collective mandates with representation and to settle any related dispute defining, as most appropriate, the agreements with associated or grouped companies;
- 20) all powers conferred upon the Managing Director for the management of the Company also apply, within the same scope and 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) jointly with the Head of Administration, Finance, Control and Regulation, Lorenzo Persi, or, in the event of his absence (also short-term) or momentary impediment, with the Head of Corporate Affairs, Crescenza Demattia, to make deposits or withdrawals on the company's current accounts held at credit institutions and postal offices, to issue and/or request the issue of bank cheques and banker's drafts, to endorse and collect bank cheques and banker's drafts;
- 23) to call for payments, collect amounts, mandates, Treasury notes, money orders, cheques, credit instruments of any type and guarantee deposits from the issuing institution, Cassa Depositi e Prestiti, the Treasury of the Republic of Italy, the Regions, Provinces and Municipalities, the Postal Offices and any Public Office or private subject in general and to release the paying parties from liability, issuing the necessary receipts and proof of payment;
- 24) to file requests for admission in insolvency proceedings, acceptance of arrangements and to issue third-party declarations in enforcement proceedings;
- 25) to make guarantee deposits in cash, securities or through bank or insurance sureties;

- 26) in relation to the ordinary management of the Company, to sign disciplinary measures, agreements and any other act which is required and/or useful for securing concessions, assignments, permits and authorisations in general;
- 27) in relation to the ordinary management of the Company, to fulfil the obligations towards any Entity and/or Public or State Authority, both central and Regional, Local and Autonomous Authorities, Associations, Welfare, Social Security and Insurance Funds and Institutions, Ministries, Prefectures, Chambers of Commerce and all Public Registers, as well as the Optimal Territorial Area offices (ATOs), the Italian Regulatory Authority for Electricity, Gas and Water, the National Anti-corruption Authority and the Health Protection Agencies, submitting appeals and requests and producing documents and declarations;
- 28) in relation to the ordinary management of the Company and with regard to the notices of ascertainment of administrative offences notified to the Company and/or its employees for violations committed in the exercise of their functions, to submit briefs and documents for defence and to authorise payment of pecuniary administrative sanctions levied by the Health Protection Agencies, Environmental Protection Agencies, other Agencies, Local Authorities and/or Court Authorities, up to an amount of € 25,000.00 (twenty-five thousand/00) for each individual sanction;
- 29) in relation to the ordinary management of the Company, to fulfil all obligations towards any Tax or Customs Office, both State and Local, also abroad, taking all necessary actions with respect to taxes, duties and contributions, to contest registrations and inspections, to issue declarations relating to direct or indirect taxes, certifications, forms and questionnaires, to file requests, questionings, appeals and claims, briefs and documents with any Tax Office or Commission, to collect refunds and interests from the Tax Authorities, issuing receipts on behalf of the Company;
- 30) to fulfil all obligations towards the Postal Administration and the railway, sea, air and land transport companies, with the power to issue any document and request, to sign correspondence, take delivery of letters, envelopes and/or packages from any Postal Office and any other public office, even if they should be registered and/or insured, collect refunds relative to any transport and take delivery of goods addressed to the company from railway transport companies and any other carrier and/or courier, issuing the relevant disclaimers;
- 31) to sign and take delivery of documents, including bank documents relating to import and export transactions, placing validations and signatures on invoices, circulation certificates and requests and declarations required for the aforementioned transactions;
- 32) within the scope of the powers conferred above, to grant company executives and employees the powers required to perform the functions and duties assigned to them: to revoke, amend, integrate the powers of attorney and the powers granted;
- 33) within the limits of the thresholds and delegated powers, to have the power to place creditors in formal default, take legal action, defend or intervene in civil or administrative proceedings, in precautionary proceedings and tax notices (including opposition proceedings), in enforcement procedures (including opposition to enforcement and enforceable acts), in eviction proceedings due to overdue payments or the end of a lease and in insolvency proceedings (including proceedings to declare bankruptcy and proceedings opposing the declaration of bankruptcy), to apply for injunctions and to adhere to any civil mediation, appointing to this end lawyers and attorneys.

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

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

#### Changes after the reporting period

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

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

## **Board of Statutory Auditors**

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

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

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

## **Shareholders' Meetings**

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

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

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

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

Each share entitles the holder to one vote.

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

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

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

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

In accordance with Article 106 of Italian Law Decree no. 18 of 17 March 2020, setting out "Measures to strengthen the national health service and provide economic support to households, workers and

businesses associated with the Covid-19 epidemiological emergency” (so-called “Cure Italy” Decree), the Meeting may be conducted using means of telecommunication, ensuring the identification of participants, their participation and the exercise of voting rights, pursuant to and for the purposes of Article 2370, paragraph 4, Article 2479-bis, paragraph 4, and Article 2538, paragraph 6 of the Italian Civil Code, without in any case requiring the chair, the secretary, or the notary public, if any, to be in the same place.

### Internal control and risk management system

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

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

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



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

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

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

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

The **third layer of control** provides independent and unprejudiced assurance as regards adequacy and actual operation of the first and second layers of control and, in general, on MM's Internal Control and Risk Management System (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**, which is responsible – with regard to the Organisational, Management and Control Model – for constantly monitoring its compliance by all recipients, the actual effectiveness in preventing the commission of offences, the implementation of the provisions contained therein and, eventually, its updating, in the event that the Model needs to be adapted due to changes in the corporate organisation or the reference regulatory framework.

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

- The **Board of Statutory Auditors**, whose duty is to monitor, by means of inspections and audits, compliance with the law, the Articles of Association and principles of good administration.
- The **Ethics Committee**, the body that supports the company in interpreting and implementing the Code of Ethics, proposes updates to the Code and monitors its dissemination, application and implementation, working together with internal and external business functions.

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

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

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

Once fully operational, the Ethics Committee will be comprised of members of the Board of Statutory Auditors and/or members of the Supervisory Body, and/or third parties of high professional and moral standing. The Supervisory Body is temporarily serving as the Ethics Committee.

- The **Independent Auditors**, whose duty is to verify that accounting records are regularly kept, and operating events are correctly reported in the accounts, as well as ensuring compliance of the financial statements with the standards regulating their preparation and representation, in this regard expressing an opinion both on the financial statements and on the consistency of the Report on Operations with the Financial Statements and compliance of the Report on Operations with the law;
- The **Data Protection Officer (DPO)**, whose main function is to observe, assess and organise the processing of personal data (and, therefore, their protection) within the company, so that they are processed in accordance with European and Italian privacy regulations.

- The **Anti-Corruption Representative**, who, based on the mandate granted by the Board of Directors, supervises the design and adoption of the anti-corruption system, supports the Risk Manager, monitors the Policy's alignment with best practices and applicable laws against corruption, provides anti-corruption training, verifies the effective implementation of the Anti-Corruption Policy based on the audit plan of the Internal Audit Function as approved by the Board of Directors, and reports audit findings to the Board of Directors, the Board of Statutory Auditors, and the Managing Director.

The position of Anti-Corruption Representative was introduced in January 2020, as the Board of Directors noted in a resolution that "transparency and anti-corruption" laws do not apply to MM after the company acquired the status of issuer of financial instruments in the wake of a bond issue listed on the Dublin Stock Exchange's regulated market (Euronext Dublin).

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

MM has adopted a **process, entrusted to the Risk Manager, for the identification of enterprise risks, the relevant controls and management methods**, appointing the Head of Administration, Finance, with the aim of making the management of enterprise risks an integral and systematic part of business processes.

The main responsibilities of the risk manager are:

- Defining the risk management goals and activities relevant to the Company together with senior management, structuring a dedicated plan based on agreed principles;
- Identifying the risks that could impact the Company and the achievement of goals, prioritising them by magnitude and severity;
- Defining the actions, tools and methodologies required to eliminate, mitigate, and transfer risk as well as to monitor risk management activities, in collaboration with the organisational structures;
- Collaborating in defining the audit and compliance plans with respect to the monitoring of risk mitigation activities.

Starting in 2018, MM initiated a **risk assessment process** aimed at identifying the business areas with a higher risk profile and mapping the related risks – categorised into four types (strategic, economic, compliance and operational) – and control procedures.

This process aims at obtaining an integrated management of risks and controls both in terms of approach and cross-cutting nature of processes, disseminating a broader culture on the issue and a common and uniform means of expression. The approach used is the one defined in the **ISO 31000 Guidelines adopted by the ANRA Association** (Insurance Managers and Risk Managers), which are the basis of the risk assessments envisaged by the ISO standards. After a first stage dedicated to reviewing the metrics used to assess risks – in which a risk priority number (RPN), calculated as the residual risk in terms of impact and probability relative to the mitigation actions already in place, was assigned – the risk map was supplemented, by analysing the controls in place and the relevant mitigation actions already in place and still to be developed.

**The risk map is reviewed and updated** on a regular basis in order to constantly improve it. This process is achieved in stages:

- 1) **Context analysis:** defining and analysing the internal and external context, identifying measurement criteria, analysing processes, identifying roles and responsibilities;
- 2) **Risk assessment:** identifying, analysing and weighting risks (attribution of an RPN) through meetings with the heads of Business Units and Functions;
- 3) **Management approaches:** offsetting, mitigation, insurance transfer, etc.;
- 4) **Reporting and monitoring:** communication, review and shared information flows.

During 2020, the Company **updated the risk assessment** by holding meetings with the identified risk owners, focusing specifically on:

- analysing the risks already mapped and the relevant changes;
- assessing the impacts of the mitigation actions taken;
- identifying new risks;
- reviewing mitigation actions and ranking them in terms of priority, accounting also for the cost/benefit analysis.

The Company is currently finalising the process to formalise and validate the new risk map and has defined the Risk management procedure adopted as part of the ERM (Enterprise Risk Management) model. The risk map is constantly updated and required changes, which were still being implemented as at 31 December 2020, also in light of the expansion of MM's scope of operations.

As for the management of the Covid-19 pandemic's impacts, the Company added the mapping of "pandemic" risk to the risk map and then analysed the main mitigation actions taken by the business structures concerned.

In addition, following a reorganisation of the control structures in early 2021, MM set up an **independent Risk Management function** dedicated exclusively to this task.

The following initiatives are scheduled for 2021:

- monitoring the results of the mitigation actions taken;
- introducing indicators to measure the risk profile for specific material risks;
- identifying potential emerging risks through international benchmarking;
- pursuing top-down training initiatives to promote the "risk culture".

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

#### *The Code of Ethics*

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

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

MM operates according to the principle that human dignity is inviolable, and it must be respected and protected (Article 1 of the Charter of Fundamental Rights of the European Union). Therefore, MM is committed to providing a positive and stimulating work environment for all its employees, ensuring the recognition and respect of their dignity, rights, and cultural and individual diversity, while trying to create a strong corporate culture.

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

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

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

The Organisation, Management and Control Model of MM (OMCM) is the document that **defines and formalises** the **rules, principles, instruments and control mechanisms** adopted by MM to prevent the commission of the offences envisaged by **Italian Legislative Decree 231/2001**. The document is strategic to the Company’s governance and is based on risk assessment and risk management.

The Model is comprised of two parts:

- the General Part, which identifies the structural characteristics of the organisation, as well as the method for creating and disseminating the model, the system of penalties for violations, the operation of the Supervisory Body and the Ethics Committee, the Model’s disclosure requirements, and the training to be provided to employees;
- the Decision-making Protocols, which, consistently with the General Part of the Model, define behavioural guidelines as well as the operational and control procedures observed by all recipients in the discharge of their duties to prevent or mitigate the risk of committing predicate offences as per Articles 24, 24-ter, 25, 25-ter, 25-quinquies, 25-octies, 25-duodecies, and 25-quinquiesdecies of Italian Legislative Decree 231/2001.

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

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

The Model underwent a **major revision** in 2020, therefore the training activities scheduled for the second half of 2020 were postponed to the first half of 2021. All changes and updates to the Model have been approved by the Board of Directors; the most recent update was approved on 18 November 2020, with a subsequent update approved on 7 May 2021.

### Anti-Corruption Policy

In January 2020, the Board of Directors voted to exclude MM from the “transparency and anti-corruption” scope after the company acquired the status of issuer of financial instruments in the wake of a bond issue listed on the Dublin Stock Exchange’s regulated market (Euronext Dublin).

Although the Company is no longer required to adopt a Three-Year Anti-Corruption and Transparency Plan, the Board of Directors saw fit to **voluntarily** adopt an Anti-Corruption Policy to prevent corruption or other practices that could be considered forms of corruption, including attempted corruption.

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

### Procedures

To guarantee the integrity, transparency, correctness and effectiveness of its processes, MM adopts specific procedures and operating instructions for the performance of corporate activities, ensuring compliance with the general principles of **traceability and segregation**. Indeed, MM is aware of the importance of full observance of the system of internal rules by its corporate bodies, the management and all employees.

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

In relation to the 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 first-level structures specific reports on their own activities and on the activities of their executive lines. Furthermore, it receives:

- from the Compliance Function, the “Compliance Plan”, the “Half-yearly and annual reports on the activities carried out” and the “Compliance Reports”;
- from the Data Protection Officer (DPO – pursuant to European Regulation 679/2016) the “Privacy Reports” and the “Half-yearly and annual reports” on privacy;

- from the Internal Audit Function, the inspection plan for its approval, the audit reports and the annual report of the activity carried out;
- from the Risk Manager, the mapping of enterprise risks and related mitigation activities.

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

#### Information flows to the Supervisory Body

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

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

The DPO sends the “Privacy Reports” and the “Half-yearly and annual reports” on privacy.

The Internal Audit function sends the audit reports prepared pursuant to the Supervisory Board’s instructions and the reports relating to Italian Legislative Decree 231/01.

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

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

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

The Engineering Business Unit operates in an in-house providing context, the Water Service Business Unit operates in a regulated sector whose tariff is determined on the basis of the principle of full cost recovery, the Housing Business Unit operates under a multi-year and exclusive contract; also the new Routine Plant and Infrastructure Maintenance Business Unit operates on an in-house providing basis.

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

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

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

It should also be considered that, within the ERM model described above, MM, by adopting a risk assessment and reporting process, aims to make the management of enterprise risks an integral and systematic part of management processes. MM believes that, in order to create and protect the value of an organisation, it is essential to manage risks in a structured manner and based on well-defined principles.

Specifically, the ERM model maps and, defines the actions to mitigate the various enterprise risks; as regards in particular the risk of a business crisis, all the *strategic* risks are dealt with.

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

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

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

Furthermore, the bond loan issued by the Company on 23 December 2016 and the EIB loan agreement signed on 18 November 2016 require that MM complies with specific **financial covenants**, calculated as ratios between income and equity variables, aimed at monitoring the company's financial and economic sustainability. These parameters – taken from MM's financial statements certified by the Independent Auditors – are checked and dispatched to financial counterparties every year. These financial covenants are the following:

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

A further aspect concerning the assessment of the risk of a business crisis is monitored within MM through relations with **Rating Agencies** that are periodically called upon to make their considerations regarding their rating of MM as from 2016. In particular, these Agencies, which in the case of MM are two of the leading global rating agencies (Standard & Poor's and Moody's), hold regular meetings with management to present corporate data and analysis of the net financial position.

On 14 August 2020, Standard & Poor's confirmed MM's BBB rating (with a negative outlook), in line with that of the Municipality of Milan (which is linked to the rating assigned to Italy); on 27 October 2020, S&P's outlook was revised from "negative" to "stable" as a result of a similar action on Italy's rating. On 29 January 2021, Moody's confirmed MM's credit profile, with a Baa3 rating (with a stable outlook).

With particular reference to the monitoring and verification of the risk of a business crisis for 2020, reference should be made to the specific sections of the report on operations and to the chapter "Summary of operations and economic and financial performance".

## **Environment**

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

## **Secondary offices**

Pursuant to paragraph 4 of article 2428 of the Italian Civil Code, it is hereby specified that the company has established 27 secondary offices throughout the territory of the city of Milan and the municipality of Bresso (MI).

## 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 activities carried out in the performance of tasks entrusted by the Municipality of Milan, the following table shows revenues broken down between amounts from the Municipality of Milan and those from third parties.

<b>Breakdown of 2020 revenues</b> <i>(thousand of Euro)</i>	<b>Municipality</b>	<b>Third parties</b>	<b>Total</b>
	183,376	9,035	192,411
	95.3%	4.7%	100.0%

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

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

#### STATEMENT OF FINANCIAL POSITION

##### Trade Receivables

Receivables from the parent company for works, net of advances	16,530,982
Receivables for invoices issued	26,321,044
Receivables for invoices to be issued for services and supplies	56,314,338
Receivables for expenses incurred in the name and on behalf of the Municipality, net of disbursed advances	1,493,910
<b>Total trade receivables</b>	<b>100,660,273</b>

##### Trade Payables

Invoices to be received for services and lease/rental fees	18,359,353
Other trade payables	26,866,969
<b>Total trade payables</b>	<b>45,226,322</b>

##### Other current liabilities

Advances	4,547,614
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#### INCOME STATEMENT

##### Revenues from sales and services

Engineering services	22,741,647
Revenues from the Housing BU – fees relating to property and facility management	13,349,085
Other revenues – supplies and services	9,502,724
<b>Total revenues</b>	<b>45,593,457</b>
<hr/>	
<b>Costs for services</b>	<b>2,772,811</b>

## Relations with subsidiaries of the Municipality of Milan

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

- engineering services in favour of Expo 2015 S.p.A., Milanosport S.p.A., Arexpo S.p.A., Sogemi S.p.A. and AMAT S.r.l.;
- costs for the removal of interference of the transport lines with the Engineering and/or Integrated Water Service Business Units' work charged by ATM S.p.A. and companies of the A2A Group;
- supply of water services to all the subsidiaries of the Municipality of Milan;
- provision of 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 € 22,927,620, as follows:

- € 891,981 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;
- € 22,035,639 to the extraordinary reserve.

In addition, considering that, at the direction of the Municipality of Milan, the company has implemented IT projects totalling € 210,700.46 whose cost was borne by the Housing Business Unit, we propose drawing down € 210,700.46 from the Voluntary Reserve consisting of the portion of retained earnings attributable to the Housing Business Unit.

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

*For the Board of Directors*

*The Chairman*

**SIMONE DRAGONE**



**MM S.P.A.**

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO, 8

Paid-up share capital Euro 36,996,233

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

**Financial statements as at 31/12/2020****STATEMENT OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>Notes</b>	<b>31/12/2020</b>	<b>31/12/2019</b>
<b>ASSETS</b>			
<i>NON-CURRENT ASSETS</i>			
Property, plant and equipment	1.1	68,060,550	68,108,935
Rights over the infrastructure relating to service concession arrangements	1.2	310,250,657	278,385,278
Other intangible assets	1.3	13,216,124	6,959,404
Deferred tax assets	1.4	25,013,895	26,463,149
Other non-current assets	1.5	1,209,491	1,246,257
<b>Total non-current assets</b>		<b>417,750,718</b>	<b>381,163,023</b>
<i>CURRENT ASSETS</i>			
Inventories	1.6	3,861,052	2,959,581
Trade receivables	1.7	248,602,492	232,288,794
Cash and cash equivalents	1.8	50,269,492	88,752,891
Other current assets	1.9	24,648,595	15,224,803
<b>Total current assets</b>		<b>327,381,631</b>	<b>339,226,069</b>
<b>TOTAL ASSETS</b>		<b>745,132,349</b>	<b>720,389,092</b>

## STATEMENT OF FINANCIAL POSITION

LIABILITIES	Notes	31/12/2020	31/12/2019
<b>EQUITY AND LIABILITIES</b>			
<i>EQUITY</i>			
Share capital		36,996,233	36,996,233
Reserves		181,155,511	176,717,451
Net profit (loss)		22,927,620	4,009,671
<b>Total equity</b>	<b>1.10</b>	<b>241,079,364</b>	<b>217,723,355</b>
<i>NON-CURRENT LIABILITIES</i>			
Non-current financial liabilities	1.11	207,061,475	190,219,132
Provisions for risks and charges	1.12	3,958,203	5,013,262
Employee benefits	1.13	7,773,257	8,432,285
Other non-current liabilities	1.14	37,316,155	37,736,875
<b>Total non-current liabilities</b>		<b>256,109,090</b>	<b>241,401,554</b>
<i>CURRENT LIABILITIES</i>			
Current financial liabilities	1.11	37,804,119	69,465,143
Trade payables	1.15	179,137,701	162,512,304
Other current liabilities	1.16	31,002,075	29,286,736
<b>Total current liabilities</b>		<b>247,943,895</b>	<b>261,264,183</b>
<b>TOTAL LIABILITIES</b>		<b>504,052,985</b>	<b>502,665,737</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>745,132,349</b>	<b>720,389,092</b>

**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	31/12/2020	31/12/2019
<b>REVENUES</b>		<b>268,136,726</b>	<b>273,661,212</b>
Revenues	2.1	192,411,136	181,037,505
Revenues arising from work on infrastructure subject to service concession arrangements	2.2	53,673,851	64,934,599
Other revenues and income	2.3	22,051,739	27,689,108
<b>OPERATING COSTS</b>		<b>229,145,267</b>	<b>260,108,620</b>
Costs for raw materials, consumables and goods for resale	2.4	7,417,838	7,702,913
Other operating costs	2.5	2,345,276	1,593,915
Costs for services	2.6	72,445,081	80,475,101
Costs arising from work on infrastructure subject to service concession arrangements	2.7	51,107,275	62,857,575
Personnel costs	2.8	67,834,628	65,662,162
Amortisation/depreciation, impairment and other provisions	2.9	27,916,942	41,731,680
Losses from disposals and divestment of fixed assets	2.10	78,228	85,273
<b>OPERATING PROFIT (LOSS)</b>		<b>38,991,459</b>	<b>13,552,591</b>
Finance income	2.11	305,761	985,473
Finance costs	2.11	6,419,988	7,824,203
<b>NET FINANCE INCOME AND COSTS</b>		<b>(6,114,227)</b>	<b>(6,838,730)</b>
<b>PROFIT (LOSS) BEFORE TAX</b>		<b>32,877,235</b>	<b>6,713,865</b>
Taxes	2.12	9,949,615	2,704,194
<b>NET PROFIT (LOSS)</b>		<b>22,927,620</b>	<b>4,009,671</b>
<b>Other items of comprehensive income not to be reclassified to profit or loss</b>			
Actuarial gains/(losses) on employee benefits		(120,641)	(187,146)
Tax effect related to actuarial gains/(losses) on employee benefits		33,749	42,366
<b>Other items of comprehensive income to be reclassified to profit or loss</b>			
Change in the fair value of cash flow hedges		678,004	582,402
Tax effect on the change in the fair value of cash flow hedges		(162,721)	(139,776)
<b>Total other items of comprehensive income, net of tax effect (B)</b>		<b>428,391</b>	<b>297,846</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR (A)+(B)</b>		<b>23,356,011</b>	<b>4,307,516</b>

## CASH FLOW STATEMENT

<i>(in Euro)</i>	<b>2020</b>	<b>2019</b>
<b>OPERATING ACTIVITIES</b>		
Profit (loss) before tax	32,877,235	6,713,864
<i>Adjustments for</i>		
Depreciation/amortisation of fixed assets	23,168,586	17,106,202
Allocations to bad debt provision	4,351,777	21,286,646
Allocations to provision for risks and charges	474,805	3,338,832
Allocations to provision for write-down of inventories	105,882	61,211
Net finance costs	6,114,224	6,838,728
Other non-cash items	6,861,734	(315,352)
<b>Cash flows from operating activities prior to changes in net working capital</b>	<b>73,954,243</b>	<b>55,030,131</b>
<b>Cash flow generated/(absorbed) by changes in net working capital</b>	<b>(19,664,046)</b>	<b>956,912</b>
- Trade receivables and other assets	(28,603,246)	(33,204,562)
- Inventories	(1,007,355)	(833,583)
- Trade payables and other liabilities	9,946,555	34,995,057
Taxes paid	(6,091,431)	(19,656,892)
Net finance costs paid	(5,480,400)	(5,231,356)
Use of provisions	(1,516,706)	(884,528)
<b>Cash flow generated/(absorbed) by operating activities (A)</b>	<b>41,201,660</b>	<b>30,214,268</b>
<b>INVESTING ACTIVITIES</b>		
Net investments in fixed assets	(65,188,823)	(71,614,974)
<b>Cash flow generated/(absorbed) by investing activities (B)</b>	<b>(65,188,823)</b>	<b>(71,614,974)</b>
<b>FINANCING ACTIVITIES</b>		
Taking-out of medium/long-term loans	-	-
Repayment of medium/long-term loans	(2,112,474)	(2,072,185)
Changes in equity	-	-
Other changes in financial liabilities	(12,383,762)	15,549,299
<b>Cash flow generated/(absorbed) by financing activities (C)</b>	<b>(14,496,236)</b>	<b>13,477,114</b>
<b>Increase/(decrease) in cash and cash equivalents (A)+B +(C)</b>	<b>(38,483,399)</b>	<b>(27,923,593)</b>
Cash and cash equivalents at the beginning of the year	88,752,891	116,676,484
Cash and cash equivalents at the end of the year	50,269,492	88,752,891

## STATEMENT OF CHANGES IN EQUITY

<i>(In Euro)</i>	Share capital	Cash flow hedge reserve	Other reserves	Net profit (loss)	Total equity
<b>As at 01 January 2019</b>	<b>36,996,233</b>	<b>(3,576,965)</b>	<b>149,160,890</b>	<b>30,835,681</b>	<b>213,415,839</b>
Change in the fair value of cash flow hedges, net of tax effect	-	442,625	-	-	442,625
Allocation of profit (loss)	-	-	30,835,681	(30,835,681)	-
Net profit (loss)	-	-	-	4,009,670	4,009,670
Actuarial gains/(losses) on employee benefits, net of tax effect	-	-	(144,782)	-	(144,782)
<b>As at 31 December 2019</b>	<b>36,996,233</b>	<b>(3,134,340)</b>	<b>179,851,789</b>	<b>4,009,670</b>	<b>217,723,352</b>

<i>(In Euro)</i>	Share capital	Cash flow hedge reserve	Other reserves	Net profit (loss)	Total equity
<b>As at 01 January 2020</b>	<b>36,996,233</b>	<b>(3,134,340)</b>	<b>179,851,789</b>	<b>4,009,670</b>	<b>217,723,352</b>
Change in the fair value of cash flow hedges, net of tax effect	-	515,282	-	-	515,282
Allocation of profit (loss)	-	-	4,009,670	(4,009,670)	-
Net profit (loss)	-	-	-	22,927,620	22,927,620
Actuarial gains/(losses) on employee benefits, net of tax effect	-	-	(86,890)	-	(86,890)
<b>As at 31 December 2020</b>	<b>36,996,233</b>	<b>(2,619,058)</b>	<b>183,774,569</b>	<b>22,927,620</b>	<b>241,079,364</b>

*For the Board of Directors*

*The Chairman*

**SIMONE DRAGONE**



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

Registered office in MILAN – VIA DEL VECCHIO POLITECNICO, 8

Paid-up share capital Euro 36,996,233

Registered with the MILAN Chamber of Commerce

Tax Code and Companies Register no. 01742310152

VAT Number: 01742310152 – REA no.: 477753

## **Notes to the Financial Statements as at 31/12/2020**

### **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, ITALY. 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 31/12/2020 were approved by the Board of Directors on 20 May 2021.

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 31/12/2020 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 31/12/2020 were prepared in compliance with the provisions adopted by Consob in relation to financial statements.

The measurement bases are those used for the preparation of last year's financial statements.

## Measurement bases

### General principles

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

limited to twelve months after the end of the reporting period.

The presentation currency for the financial statements is the Euro. The balances are shown in units of Euro.

The notes to the financial statements are expressed in units of Euro unless otherwise indicated.

### Property, plant and equipment

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

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

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

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

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

<b>Integrated Water Service</b>	<b>Depreciation rates</b>
Computers	20%
Cars	25%
Transport vehicles	20%

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

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

### **Leased assets**

Tangible assets subject to lease contracts are recognised as right-of-use assets, as established by IFRS 16, with a corresponding financial liability.

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

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

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

- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Intangible assets**

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

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

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

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

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

The fair value of the construction services of the Integrated Water Service is calculated on the basis of the

costs actually incurred plus a 4.57 % markup, which represents the best estimate regarding the remuneration of internal costs for construction management and design activities, carried out by the Company, which is equal to the markup that would have been applied by a general third-party constructor to carry out the same operations, as provided for by IFRIC 12. The markup is recalculated on an annual basis and the impact on the value of the investments indicated above refers to 2020.

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

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

### **Equity investments**

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

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

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

## Trade receivables and Other assets

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

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

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

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

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

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

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

## Inventories

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

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

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

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

### **Derivative financial instruments**

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

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

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

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

loss associated with a hedge or a part of the hedge that has become ineffective is recognised in profit or loss when the ineffectiveness is recognised.

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

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

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

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

### **Employee benefits**

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

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

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

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

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

of the relevant pension plan.

As from 1 January 2007, the so-called 2007 Budget Law and relevant implementing decrees introduced significant amendments to TFR, including allowing workers to choose where to allocate accrued TFR amounts. In particular, the new TFR flows can be allocated by the worker to preselected pension schemes or held by the company. If external pension forms are chosen, the Company is only subject to payment of a defined contribution into the preselected fund, and as from that date, the new amounts will be considered as defined contribution plans which are not subject to actuarial valuation. Following adoption, as from 1 January 2013, of the amended version of IAS 19 (Employee Benefits), changes in actuarial gains/losses are recognised in other comprehensive income. The new revised version of IAS 19 (Employee Benefits), as governed by EC Regulations 475-2012, was applied.

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

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

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

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

### **Grants**

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

## Recognition of revenues

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

Revenues related to the sale of goods are recognised when the customer obtains control of the goods. Revenues from the provision of services are recognised for an amount that reflects the amount that the Company expects to be entitled to receive upon provision of the services.

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

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

Revenues accrued during the year relating to construction works for the Integrated Water Service are recognised according to the costs incurred for these activities, plus a 4.57% markup, which in 2020 represented the remuneration of the internal costs for project management and construction management activities carried out by the Company, which is equal to the markup that would have been applied by a general constructor (as required by IFRIC 12).

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

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

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

## Taxes

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

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

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

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

Pursuant to IAS 8, the following paragraph “Accounting Standards, Amendments and Interpretations that apply for the first time as from 1 January 2020” contains a brief description of the amendments effective as from 1 January 2020. The paragraph below – “Accounting Standards, Amendments and Interpretations applicable after the end of the year, which were not adopted in advance” – includes details of accounting standards and interpretations that have already been issued, whether endorsed by the European Union or not, which are nevertheless not applicable to the preparation of the financial statements as at 31 December 2020, and whose possible impacts will therefore be reflected in the financial statements of future years.

### **Accounting standards, amendments and interpretations that apply for the first time as from 1 January 2020**

#### **Amendments to IFRS 3 – “Business Combinations”**

Issued on 22 October 2018 and endorsed on 22 April 2020, to resolve the interpretation difficulties that arise when an entity must determine whether it has acquired a business or a Group of assets. The amendments are effective for business combinations for which the acquisition date is on or after 1 January 2020. The amendments have no impact on the company’s financial position and performance.

#### **Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”**

Issued on 26 September 2019 and endorsed on 16 January 2020, they make explicit the changes included in the document “Interest Rate Benchmark Reform” aimed at providing temporary exemptions from applying specific hedge accounting requirements for all hedging relationships directly impacted by interest rate benchmark reform. These amendments are effective for annual periods beginning on or after 1 January 2020. The amendments have no impact on the company’s financial position and performance.

**Amendments to IAS 1 and IAS 8**

Issued on 31 October 2018 and endorsed on 10 December 2019, they provide a new definition of material information while introducing also the concept of “obscuring” information. Their introduction is also intended to align the definition used in the “Conceptual Framework” and the standards themselves. These amendments are effective for annual periods beginning on or after 1 January 2020; earlier application is permitted. The amendments have no impact on the company’s financial position and performance.

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

Issued on 28 May 2020 and endorsed on 12 October 2020, they introduce a practical expedient allowing lessees not to consider potential concessions occurring as a consequence of Covid-19 (e.g., lease payment holidays) as lease modifications. Lessees will thus not be required to revise several leases and will not have to remeasure the respective lease liabilities by using a new discount rate, as they will be able to treat these with changes not resulting in a lease modification. This expedient, applicable to lessees and not lessors, is effective as of 1 June 2020 and is limited to rent concessions up to 30 June 2021 aimed at mitigating the effects of Covid-19. These amendments had no impact on the company’s financial position and performance, as there were no changes in the payments on leases subject to IFRS 16.

[Accounting standards, amendments and interpretations applicable after the end of the year, which were not adopted in advance](#)

**IFRS 17 “Insurance Contracts”**

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

**Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”**

On 28 May 2020, the IASB issued an extension of the temporary exemption from applying IFRS 9 to 1 January 2023, which allows aligning the measurement bases for financial instruments with the new accounting standard IFRS 17 for the measurement of, and accounting for, insurance contracts. The extension is effective for annual periods beginning on or after 1 January 2021. The company expects no impact on its financial position and performance.

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

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

**Amendments to IAS 16 “Property, Plant and Equipment”**

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

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

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

**Risk Management**

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

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

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

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

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

## Market Risk

### *Foreign exchange risk*

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

### Sensitivity analysis relating to foreign exchange risk

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

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

*(in thousands of Euro)*

Sensitivity analysis	RON		AED		Total	
	-10%	10%	-10%	10%	-10%	10%
Year ended 31 December 2020	(2)	1	(4)	3	(6)	4

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 2020**

Interest rate swaps (IRSs)	Start date	Maturity date	Par value	Fair value
			(in thousands of Euro)	(in thousands of Euro)
Intesa Sanpaolo IRS	2006	2026	7,609	(1,216)
BNP Paribas IRS	2009	2028	8,000	(2,230)

**Sensitivity analysis relating to interest rate risk**

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

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

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

With regard to cash and cash equivalents, reference was made to the period average amount and return, while as regards short and medium/long-term financial liabilities, the impact was calculated as at the reference date.

Fixed-rate financial debt was not included in this analysis.

The table below shows the results of the analysis:

<i>(in thousands of Euro)</i>	Impact on profit, net of tax effect		Impact on equity, net of tax effect	
	-50 bps	+50 bps	-50 bps	+50 bps
<b>Sensitivity analysis</b>				
Year ended 31 December 2020	(29)	29	(29)	29

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

### *Credit Risk*

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

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

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

Trade receivables of € 249 million as at 31 December 2020 (€ 232 million as at 1 January 2020) were recognised net of advances for works of € 2,101 million and accounted for net of the impairment calculated by the company's management by estimating expected losses broken down by type of debtor, i.e. private or public. The estimate of expected losses arises from historical experience differentiated by type of debtor, re-measured on the seniority of past due balances, and on any forward-looking elements, which may affect recovery expectations. The measurement of credit positions for which objective conditions of partial or total non-collectability were identified has led to the creation of a bad debt provision, amounting to € 35,175,338 as at 31 December 2020.

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 € 11,323 thousand.

### Liquidity Risk

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

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

The table below provides an analysis of cash flows expected in the years to come in relation to financial liabilities as at 31 December 2020:

<i>(in thousands of Euro)</i>	Balance as at 31 December 2020	Expected outflows			
		Within 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities	244,866	37,804	50,226	156,835	244,866
Trade payables	179,137	179,137	0	0	179,137
Other liabilities	68,318	52,644	3,960	11,714	68,318

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

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

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

### Risks arising from the Covid-19 epidemic

The ongoing health emergency, which started in 2020 and was caused by the spread of Covid-19, has posed, and continues to pose, potential risks for the company. First, there are operational risks: as the current scenario

can negatively affect day-to-day operations, MM must effectively address the disruptions to, and/or changes in, its business.

In addition, considering the essential nature of the service – specifically, but not exclusively, with respect to the Integrated Water Service business line – the risks associated with the health and safety of employees and customers play a significant role, and therefore require ensuring that the risks associated with the performance of essential operations are contained.

Management of organisational and functional impacts:

MM promptly defined an organisational model to deal with the emergency. Specifically, this involved setting up a Crisis Unit, comprised of the Organisation and Human Resources Department, Internal Communication, the Head of the Prevention and Protection Service and the Occupational Physician, with responsibility over the organisational requirements and aimed at ensuring business continuity and proposing necessary actions, which are promptly shared with, and approved, by the Managing Director as well as reported on to the Board of Directors. In addition, the company created a Covid-19 Steering Committee to define corrective and improvement actions as well as manage the resumption of operations going forward.

In the first phase of the emergency, MM had to distinguish between deferrable and non-deferrable operations, aware of the fact that it operates essential services that could not be put on hold. Following the Italian Prime Minister's Decree of 11 March 2020, MM closed its offices except for minimum essential services. Then, it first worked on plans to guarantee essential public services under extreme circumstances and organise the essential public services it operates, which were subsequently implemented by publishing a Company Protocol on the handling of the Covid-19 emergency on the intranet. Then, it reviewed the adequacy of the Risk Assessment Document (DVR, *Documento di Valutazione dei Rischi*) and updated the analysis of the impacts on the jobs exposed to biological risk caused by Covid-19, and subsequently took specific actions to protect the Operational Departments performing essential public services.

As a result, a massive smart working campaign was carried out, following which MM entered into 830 individual smart working contracts and prepared a contingency plan to equip employees with the necessary IT tools.

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

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

#### Management of the pandemic's effects on the financial position and performance

To ensure the consistency and stability of its financial position and performance, during 2020 MM launched a specific project to protect profitability in the face of an external shock. First, it developed an economic model allowing to make preliminary estimates of the potential financial impacts on MM's Business Units expected from the emergency. The subsequent creation of the Covid-19 Steering Committee in April, tasked with assessing the impacts of the emergency and determining mitigation corrective actions, led to a structured analysis of certain aspects relevant to revenues and costs with the ultimate goal of protecting operating margins and ensuring the resilience of MM's financial structure by developing business cases and regularly monitoring select indicators. Some of the key focuses included monitoring the evolution of water consumption, and specifically the decreases caused by the economic downturn and the change in the daily population in the city of Milan, which resulted in lower volumes billed to customers; the temporary suspension of the IWS construction sites and the works managed by the Engineering Business Unit due to the measures to contain the outbreak, with repercussions on the timing of the revenues generated by orders as a result of the revised time schedules; the so-called "Covid-19 costs", i.e., the incremental organisational expenses incurred to address the emergency so as to protect people's health and ensure the continuity of the service; strictly monitoring the costs incurred to dispose of sewage sludge, associated with the fact that it was temporarily impossible to recycle it at cement factories – which required recycling it for agricultural use; and monitoring personnel costs in relation to the significant measures taken, such as the massive use of smart working, the finalisation of union agreements concerning the use of the WSF, and the review of hiring plans.

The prompt reaction to the crisis since the early months of the pandemic, with actions aimed at protecting financial margins and the liquidity position as well as diversifying the company's operations – some of which, by their nature, are not affected by short-term factors – spared MM from the effects of the epidemic overall. This also allowed ending the year with a result in line with stated goals. As for the impacts on cash flows, in addition to the above information on operating profits, Covid-19 has resulted in increased days sales outstanding for the Water Service's customers.

#### Application of IFRS 16 "Leases" in relation to specific issues associated with the consequences of Covid-19

During 2020, the IASB introduced an amendment to IFRS 16 to neutralise the effect of a potential lease

payment/rent holiday/reduction following agreements between the parties in the wake of the Covid-19 pandemic: in the absence of such amendment, lessees would have had to remeasure the right-of-use asset and the related financial liability. MM did not have to enter into agreements for lease payment/rent holidays/reductions, and was therefore not impacted by this amendment.

Management of risks associated with financial assets and liabilities, specifically the liquidity risk and the measurement of expected credit losses

In 2020, there was a negative impact on trade receivables due from customers of the Water Service as a result of the Covid-19 pandemic. In accordance with the resolutions passed by Regulators, the company suspended debt collection from its customers for part of the year. MM considered the effects of this situation when assessing the risk of expected credit losses for the 2020 financial statements and saw fit to allocate an adequate amount to the Bad Debt Provision for the Trade Receivables of the Water Service, which currently totals € 22.5 million.

Critical issues associated with the going concern assumption

As previously described, the strong diversification of the core business, a significant percentage of the margins arising from operations that are regulated or relatively inelastic relative to the economic situation, and the mitigation plans already identified and ready to be activated in case of critical events allow ruling out risks that could affect the company's ability to continue as a going concern.

## Financial assets and liabilities by category

A breakdown of financial assets and liabilities by category as at 31 December 2020 is provided below:

(in thousands of Euro)	As at 31 December 2020				
	Financial assets and liabilities measured at fair value through OCI	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Total
<b>ASSETS:</b>					
Other non-current assets	-	1,209	-	-	1,209
Trade receivables	-	248,602	-	-	248,602
Cash and cash equivalents	-	50,269	-	-	50,269
Other current assets	-	28,509	-	-	28,509
<b>LIABILITIES:</b>					
Non-current financial liabilities	3,446	-	-	203,615	207,061
Other non-current liabilities	-	-	-	37,316	37,316
Trade payables	-	-	-	179,137	179,137

Current financial liabilities	-	-	-	37,804	37,804
Other current liabilities	-	-	-	31,002	31,002

For trade receivables and payables and other short-term receivables and payables, the carrying amount is a reasonable approximation of their respective fair values. It should also be taken into account that the carrying amount of the bond loan recognised under financial liabilities that was issued at the end of December 2016 is also a reasonable approximation of its fair value, considering that for this financial instrument there are no available market quotations, given the absence of transactions.

### Fair Value estimate

The fair value of financial instruments quoted in an active market is based on market prices at the end of the reporting period. The fair value of instruments that are not quoted in an active market is determined using measurement techniques based on a series of methods and assumptions connected to market conditions at the end of the reporting period.

The fair value hierarchy of financial instruments is provided below:

**Level 1:** the fair value is determined based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

**Level 2:** the fair value is determined using observable inputs for the asset or liability in active markets;

**Level 3:** fair value is determined using unobservable inputs for the asset or liability.

The table below summarises the assets and liabilities measured at fair value as at 31 December 2020, based on the inputs used in determining the fair value:

<i>(in thousands of Euro)</i>	As at 31 December 2020		
	Level 1	Level 2	Level 3
Derivative financial instruments (IRSs)	-	(3,446)	-

### Estimates and assumptions

The preparation of these financial statements requires the directors to apply accounting principles and methods which, in certain circumstances, are based on difficult and subjective assumptions and estimates based on past experience and assumptions that are from time to time considered to be reasonable and realistic depending on circumstances. Application of these estimates and assumptions influences the amounts shown in the financial statements as well as the disclosure provided. The financial statement items for which the aforementioned

estimates and assumptions were used may differ from those shown in the statements that reflect the effects of the event subject to estimate, due to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

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

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

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

#### *IFRIC 12 markup*

The fair value of the construction services of the Integrated Water Service is calculated on the basis of the costs actually incurred, plus a 4.57% markup which represents the best estimate, recalculated for 2020, of the remuneration of internal costs for construction management and design activities carried out by the Company, as provided for by IFRIC 12. The markup is calculated on the basis of factors and estimates that may change over time and can therefore result in a change to this amount in the financial statements.

#### *Residual value upon conclusion of the Concession*

MM will receive compensation upon conclusion of the Concession of an amount equal to the residual value of the works and assets realised during the concession period. This amount, which is determined according to rules defined by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) is based on factors and estimates that may change over time, resulting in a change to this amount.

### *Impairment/reversal of impairment*

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

### *Deferred tax assets*

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

### *Provisions for risks and charges*

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

### *Bad debt provision*

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

### *Measurement of derivative financial instruments*

Measurement of the fair value of unquoted financial assets, such as derivative financial instruments, takes

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

### *Measurement of revenues*

As for the Engineering Business Unit, revenues related to work orders for project management and/or construction management are allocated in proportion to the percentage of work undertaken, determined by the ratio between the direct hours already used for contractual activities and total estimated hours, including those to be performed.

As for the IWS Business Unit, revenues include the estimate of revenues accrued for supplies made between the date of the last recording of the actual consumption and the end of the financial year. The recognition of these revenues is determined on the basis of the tariff regulation through the use of complex algorithms and includes a significant degree of estimation.

### **Operating segment disclosure**

Disclosure of business segments was prepared according to IFRS 8 “Operating Segments”, which require that the information be presented consistently with the procedures adopted by the management for the taking of operating decisions. Therefore, identification of the operating segments and the disclosures made are defined based on internal reports used by management for allocating resources to the different segments and for analysis of the relevant performances.

An operating segment is defined by IFRS 8 as the component of an entity: i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); ii) whose operating results are reviewed regularly by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; iii) for which discrete financial information is available.

Management has identified the following segments:

- **Integrated Water Service (IWS):** includes the integrated water services mainly for the population of the city of Milan;
- **Engineering:** includes the provision of engineering, construction management and contracting authority services for works on the transport and the mobility systems and infrastructures of the Municipality of Milan;

- **Housing:** includes the property and facility management operations carried out in the name and on behalf of the Municipality of Milan, with regard to latter's real estate properties;
- **Real Estate and Networks:** includes the assets and the management of public assets previously carried out by MIR prior to the merger with MM;
- **Routine Plant and Infrastructure Maintenance:** includes facility management and construction management activities carried out on the school buildings of the Municipality of Milan and on the facilities managed by other subsidiaries of the Municipality of Milan;
- **Staff:** includes the activities performed by the functions supporting the operating segments whose costs are parametrically allocated to each business unit.

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

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

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

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### Assets

#### 1.1 Property, plant and equipment

Property, plant and equipment amounted to € 68,060,550 (€ 68,108,935 in the previous year).

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

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Assets under construction	Leasehold improvements	Other property, plant and equipment	IFRS 16 – Right of use	Total
<b>Historical cost as at 31.12.2019</b>	<b>73,783,511</b>	<b>25,720,966</b>	<b>4,488,348</b>	<b>3,803,578</b>	<b>3,008,265</b>	<b>7,826,586</b>	<b>4,253,692</b>	<b>122,884,946</b>
<b>Accumulated depreciation as at 31.12.2019</b>	<b>(18,538,427)</b>	<b>(23,447,280)</b>	<b>(4,418,289)</b>	<b>(193,407)</b>	<b>(2,048,262)</b>	<b>(5,052,744)</b>	<b>(1,077,602)</b>	<b>(54,776,011)</b>
Increases for the year	80,520	0	0	2,142,572	0	1,044,367	627,231	<b>3,894,689</b>
Decreases for the year	0	0	0	0	0	0	(58,824)	<b>(58,824)</b>
Reclassifications	0	0	0	0	0	246,403	0	<b>246,403</b>
Foreign Branches' exchange differences	0	0	0	0	0	6	0	<b>6</b>
Depreciation for the year	(1,581,798)	(542,960)	(56,171)	0	(98,036)	(859,545)	(992,149)	<b>(4,130,659)</b>
<b>Balance as at 31.12.2020</b>	<b>53,743,806</b>	<b>1,730,726</b>	<b>13,888</b>	<b>5,752,743</b>	<b>861,967</b>	<b>3,205,073</b>	<b>2,752,348</b>	<b>68,060,550</b>
Historical cost as at 31.12.2020	73,864,031	25,720,966	4,488,348	5,946,150	3,008,265	9,120,618	4,794,716	<b>126,943,093</b>
Accumulated depreciation as at 31.12.2020	(20,120,225)	(23,990,240)	(4,474,460)	(193,407)	(2,146,298)	(5,915,545)	(2,042,368)	<b>(58,882,543)</b>

The increases for the year, totalling € 3,895 thousand, mainly refer to:

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

The increase for the year also includes, for € 1,839 thousand, the net carrying amount of the investments made by AMSA, with which a lease agreement is in place providing for a commitment by the company to purchase the improvements made by the lessee.

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

The “Rights over the infrastructure relating to service concession arrangements” amounted to € 310,250,657 (€ 278,385,278 in the previous year).

Changes in the item for the period from 1 January 2020 to 31 December 2020 are provided below:

	<b>Rights over the infrastructure relating to service concession arrangements</b>
<b>Balance as at 1 January 2020</b>	<b>278,385,278</b>
Historical cost	393,738,022
Accumulated amortisation	(115,352,744)
Increases	53,673,851
FoNI (Fund for New Investments)	(8,158,677)
Decreases	(78,228)
Reclassifications	(229,762)
Amortisation	(13,341,807)
<b>Balance as at 31 December 2020</b>	<b>310,250,657</b>
Historical cost	438,965,523
Accumulated amortisation	(128,714,866)

Pursuant to IFRIC 12, rights over the infrastructure relating to service concession arrangements amounted to € 310,251 thousand as at 31 December 2020. These rights were amortised on a straight-line basis throughout the concession period; the residual amount of € 49.2 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 “FNI” tariff component, adjusted for the corresponding tax effect relating to the “Fund for New Investments”; such component, which consists of an advance of funds for new interventions subject to a restriction on its use, amounts to €71,075,980 as at 31 December 2020. The remaining portion of the “Fund for New Investments”, in keeping with previous years, is recognised under “Revenues” of the Water Service Business Unit.

Investments in 2020 amounted to € 53,673,851 (gross of the increase in the “Fund for New Investments” for 2020) and mainly refer to pipelines, work on the wastewater treatment plant and on various stations, as well as the purchase of new measuring instruments.

### *Impairment test of the infrastructure relating to service concession arrangements*

As at 31 December 2020, the rights over the infrastructure relating to service concession arrangements were tested for impairment. Both internal as well as external sources of information were considered, such as any

significant changes in the use of the assets, their performance compared to original expectations, any technological, market or regulatory change, the trend of interest rates or the cost of capital used to assess the investments. Since the sources of information used did not show any indication of impairment, the impairment test was not performed. Therefore, no impairment losses in relation to the rights over the infrastructure relating to service concession arrangements were recognised in 2020 and the relevant assets were not subject to impairment.

### 1.3 Other intangible assets

“Depreciation of property, plant and equipment” amounted to € 13,216,124 (€ 6,959,404 in the previous year).

Changes in “Other intangible assets” for the period from 1 January 2020 to 31 December 2020 are provided below:

	Balance as at 01/01/2020	Increases in 2020	Reclassifications	Amortisation in 2020	Balance as at 31/12/2020
Software	6,903,069	11,891,253	(16,641)	(5,617,892)	13,159,789
Other intangible assets	56,336	0	0	0	56,336
<b>Total</b>	<b>6,959,404</b>	<b>11,891,253</b>	<b>(16,641)</b>	<b>(5,617,892)</b>	<b>13,216,124</b>

Investments made in 2020 mainly concerned the purchase of the new software for the integrated management of business processes. A significant component of this software, relating to the billing system and the integrated management of Water Service processes, became operational in July 2020 and was therefore amortised for six months from that date.

### 1.4 Deferred tax assets

Deferred tax assets amounted to € 25,013,895 (€ 26,463,149 in the previous year).

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

The item is broken down as follows:

Prepaid tax	2019		2020	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Provisions for risks and charges	5,544,749	1,527,315	4,652,115	1,269,615
Bad debt provision	20,010,312	4,802,475	10,353,566	2,484,856
IRS fair value measurement	4,124,130	989,791	3,446,127	827,070
FoNI (Fund for New Investments) contributions	60,071,961	16,940,293	65,875,275	18,576,827
Late payment interest provision	497,192	119,326	497,192	119,326
Employee benefits	819,517	154,234	901,496	177,167
Write-downs of inventories	389,906	109,953	389,906	109,953
Interest not paid	1,607,373	385,770	1,607,373	385,770
Deferrals for connections of customers	13,531,401	3,457,274	12,779,657	3,070,376
Other items	369,667	92,491	326,460	84,030
<b>Total for the Company</b>	<b>106,966,208</b>	<b>28,578,922</b>	<b>100,829,167</b>	<b>27,104,992</b>
Deferred tax	2019		2020	
	Amount of temporary differences	Tax effect	Amount of temporary differences	Tax effect
Late payment interest	999,483	239,876	900,201	215,199
Tangible fixed assets	6,723,647	1,875,898	6,723,647	1,875,898
<b>Total for the Company</b>	<b>7,723,130</b>	<b>2,115,773</b>	<b>7,623,848</b>	<b>2,091,097</b>
<b>Total prepaid/deferred tax</b>	<b>99,243,078</b>	<b>26,463,149</b>	<b>93,205,319</b>	<b>25,013,895</b>

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

## 1.5 Other non-current assets

Other non-current assets amounted to € 1,209,491 (€ 1,246,257 in the previous year) and are broken down as follows.

	Reporting period	Previous period
Equity investments	990	990
Accrued income and prepaid expenses	962,194	998,074
Guarantee deposits	246,307	247,193
<b>Total</b>	<b>1,209,491</b>	<b>1,246,257</b>

## 1.6 Inventories

Inventories amounted to € 3,861,052 (€ 2,959,581 in the previous year).

This item only refers to spare parts and maintenance materials for the Integrated Water Service. The amount of inventories is recognised net of the provision for write-down of inventories, the amount of which is equal to € 1,019,423.

The change, compared to the previous year, is mainly attributable to the increase in inventories of € 1,522,893. A large part of the materials in stock at the end of the year was installed on the waterworks during the first months of the following year. Inventories are broken down as follows:

	As at 1 January 2020	As at 31 December 2020
Raw materials, consumables and goods for resale	3,357,582	4,880,475
Provision for write-down of inventories	(398,001)	(1,019,423)
<b>Total</b>	<b>2,959,581</b>	<b>3,861,052</b>

### 1.7 Trade receivables

Trade receivables, net of the related bad debt provision, amounted to € 248,602,492 (€ 232,288,794 in the previous year).

The item is broken down as follows.

	Reporting period	Previous period
Due from third parties	185,119,304	164,090,704
Due from parent companies	98,258,526	108,278,360
<b>Total trade receivables – gross</b>	<b>283,377,830</b>	<b>272,369,064</b>
Bad debt provision	(34,775,338)	(40,080,270)
<b>Total trade receivables</b>	<b>248,602,492</b>	<b>232,288,794</b>

#### *Receivables due from third parties*

This item includes receivables of the Engineering and Staff Business Unit for € 43,675,935 relating to services provided to third parties, receivables arising from the management of the Integrated Water Service for € 138,955,631, receivables of the Plant Maintenance Business Unit for € 915,925 and of the Housing Business Unit for € 1,572,053.

#### *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 € 73,838,865, to the Integrated Water System to the tune of € 12,971,669, to the Housing Business Unit to the tune of € 7,848,083 and to the Plant Maintenance Business Unit to the tune of € 3,302,428.

The amount of receivables concerning the Engineering Business Unit is shown net of the advances of € 2,101

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 2019	40,080,270
Use during the year	(9,656,746)
Allocation for the year	4,351,814
<b>Balance as at 31 December 2020</b>	<b>34,775,338</b>

The above-mentioned provision refers for € 22,501,309 to the impairment of receivables due from customers of the Integrated Water Service, for € 12,549,742 to the impairment of receivables of the Engineering Business Unit, mainly due from its Parent Company, and for € 124,286 to the impairment of receivables due from customers of the Plant Maintenance Business Unit.

In particular, with reference to the bad debt provision of the Engineering Business Unit, it should be noted that during the year, following the finalisation of an “Assessment Report” with the Municipality of Milan aimed at assessing and crystallising some company’s receivables relating to very old positions, the final recognition of some important orders concerning the construction of works was carried out. Consequently, this provision was used for an amount of € 9,656,746.

### **1.8 Cash and cash equivalents**

Cash and cash equivalents amounted to € 50,269,492 (€ 88,752,891 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Cash	75,562	12,588
Bank deposits	50,193,930	88,740,303
<b>Total</b>	<b>50,269,492</b>	<b>88,752,891</b>

### **1.9 Other current assets**

Other assets amounted to € 24,648,595 (€ 15,224,803 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Receivables due from tax authorities	4,611,199	7,155,625
Prepayments	18,305,979	6,218,510
Receivables due from social security agencies	591,267	729,764
Other current receivables	1,540,149	1,520,904
Bad debt provision	(400,000)	(400,000)
<b>Total</b>	<b>24,648,595</b>	<b>15,224,803</b>

The item “receivables due from tax authorities” refers to receivables for IRES (corporate tax) and IRAP (regional business tax) refunds for € 1,859,470 (received in 2021), to receivables for tax down payments to be offset for € 2,733,731 and to VAT receivables for € 18,000.

On the other hand, the item “Prepayments”, amounting to € 18,305,979, refers to contract advances paid to contractors in accordance with the provisions of the Procurement Code.

## Equity and liabilities

### 1.10 Equity

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

#### Equity – origin, use and distribution

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

	Amount	Origin/type	Possibility of use	Available portion	Summary of uses in the three previous years – to cover losses	Summary of uses in the three previous years – for other reasons
Capital	36,996,233	subscription / capital reserve	coverage of losses			
Legal reserve	7,399,247	earnings reserve	coverage of losses			
Other reserves						
Merger surplus reserve	47,193,065	Merger surplus reserve	share capital increase, coverage of losses, allocation	47,193,065		
Extraordinary	122,648,670	earnings reserve	share capital	122,648,670		

reserve			increase, coverage of losses, allocation			
Housing Business Unit reserve	2,477,821	earnings reserve	share capital increase, coverage of losses, allocation	2,477,821		
IFRSs transition reserve	4,055,764	IFRSs transition reserve	share capital increase, coverage of losses, allocation	4,055,764		
Cash flow hedge reserve	(2,619,056)			(2,619,056)		
<b>Total</b>	<b>173,756,264</b>			<b>173,756,264</b>		
<b>Total equity</b>	<b>218,151,744</b>					

### 1.11 Current and non-current financial liabilities

Financial liabilities amounted to € 244,865,593 (€ 259,684,276 in the previous year).

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

Current and non-current financial liabilities	As at 31 December 2020		As at 31 December 2019	
	Current portion	Non-current portion	Current portion	Non-current portion
Bank loans	2,154,295	83,211,526	2,112,474	85,336,473
Bond loan	-	98,638,972	-	98,529,306
Other loans	34,000,000	20,047,828	60,000,000	50,394
Bank account overdrafts	-	-	5,666,241	-
Fair value of IRSs	-	3,446,127	-	4,124,130
Payables relating to finance costs	633,824	-	691,248	-
Financial liabilities for rights of use	1,016,000	1,717,021	995,180	2,178,830
<b>Total</b>	<b>37,804,119</b>	<b>207,061,475</b>	<b>69,465,143</b>	<b>190,219,133</b>

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

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

“Financial liabilities for rights of use” payable to third parties have been recognised starting from the previous year, following the application of IFRS 16 for leases previously classified as operating leases.

Information on bank loans and the bond loan is summarised in the table below:

	Par value	Start date	Maturity date	Interest rate	As at 31 December 2020			
					Total	Due within 1 year	Due within 2 to 5 years	Due later than 5 years
<b>Bank loans:</b>								
Floating Rate Loan -BNL	20,000,000	2008	2028	Euribor 6m + 0.25%	8,000,000	1,000,000	4,000,000	3,000,000
Floating Rate Loan – Banca Intesa	20,000,000	2006	2026	Euribor 6m + 0.12%	7,609,816	1,154,297	5,066,952	1,388,567
Fixed Rate Loan – EIB	70,000,000	2018	2034	1.757%	70,000,000	-	15,217,391	54,782,609

Amortised cost							(133,603)	(110,389)
<b>Bond Loan:</b>								
Senior Secured Amortising Fixed Rate Notes	100,000,000	2016	2035	3.15%	100,000,000	-	2,000,000	98,000,000
Amortised cost							(27,221)	(1,333,807)
<b>Total</b>					<b>185,609,816</b>	<b>2,154,297</b>	<b>26,123,520</b>	<b>155,726,980</b>

## 1.12 Provisions for risks and charges

Provisions for risks and charges amounted to € 3,958,203 (€ 5,013,262 in the previous year).

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

	Balance as at 1 January 2020	Increase	Uses/releases	Balance as at 31 December 2020
Provision for risks	2,168,174	474,806	(1,529,864)	1,113,116
Provision for future charges	2,845,087	0	0	2,845,087
<b>Total</b>	<b>5,013,261</b>	<b>474,806</b>	<b>(1,529,864)</b>	<b>3,958,203</b>

The “Provision for risks”, amounting to € 1,113,116, is mainly used to cover estimated future losses on the Engineering Business Unit’s orders in progress with negative margins, insurance deductibles to be paid to insurance companies for claims to be settled and for legal actions and disputes with personnel. The allocation made during the year refers for € 264,565 to losses on orders and for € 210,240 to insurance deductibles.

The “Provision for future charges”, amounting to € 2,845,087, refers to the estimated future costs associated with certain orders of the Engineering Business Unit following the finalisation in 2020 of an “Assessment Report” with the Municipality of Milan in order to assess and crystallise receivables dating back several years.

## 1.13 Employee benefits

This item includes post-employment benefits and other employee benefits amounting to € 7,773,257 (€ 8,432,285 in the previous year).

	Reporting period	Previous period
Post-employment benefits	5,623,533	6,092,156
Other benefits	2,149,724	2,340,129
<b>Total</b>	<b>7,773,257</b>	<b>8,432,285</b>

### *Post-employment benefits*

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

<b>Employee benefits</b>	
Balance as at 31 December 2019	6,092,156
Finance costs	24,876
Actuarial losses	87,074
Amounts paid	(580,574)
<b>Balance as at 31 December 2020</b>	<b>5,623,533</b>

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

Discount rate	-0.02% Engineering, Water Service and Staff B.U. 0.34% Housing and Plant Maintenance B.U.
Inflation rate	1.00%
Expected mortality rate	Italian General Accounting Office table RG48
Expected invalidity rate	INPS1998M/ INPS1998F tables
Expected resignations/advances (annually)	3.10%/ 3%

### *Other employee benefits*

This item totals € 2,149,724 and refers to the amount set aside so far for capitalisation policies that will be paid out to executives at the end of their employment relationship, as provided for in the supplementary contract.

### **1.14 Other non-current liabilities**

Other non-current liabilities amounted to € 37,316,155 (€ 37,736,875 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Guarantee deposits	20,576,334	21,010,993
Deferred income	16,739,821	16,725,882
<b>Total</b>	<b>37,316,155</b>	<b>37,736,875</b>

Deferred income mainly refers to contributions for connections and for network strengthening operations that

will be released annually on a straight-line basis up to the expiry of the Water Service concession agreement.

### 1.15 Trade payables

Trade payables amounted to € 179,137,701 (€ 162,512,305 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Due from third parties	133,910,859	114,775,856
Due from parent companies	45,226,842	47,736,448
<b>Total</b>	<b>179,137,701</b>	<b>162,512,305</b>

This item includes payables referring to the Company's ordinary commercial activities, in relation to the provision of goods, fixed assets and services. As at 31 December 2020, no payables with a residual duration exceeding five years were recognised.

#### *Payables due to third parties*

The balance as at 31 December 2020 included payables related to the Engineering and Staff Business Unit of € 49,562,119, to the Integrated Water Service of € 72,934,934, to the Housing Business Unit of € 6,306,585, to Real Estate and Networks management of € 2,624,708 and to the Routine Plant and Infrastructure Maintenance of € 2,483,116.

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 2020 included payables related to the Engineering Business Unit of € 62,264, to the Integrated Water Service of € 45,120,669 and to the Housing Business Unit of € 43,909.

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

### 1.16 Other current liabilities

Other current liabilities amounted to € 31,002,075 (€ 29,286,737 in the previous year).

The item is broken down as follows:

Other current liabilities	Reporting period	Previous period
Payables due to employees	10,686,891	11,469,449
Payables due to IWS customers	223,138	223,138
Advances	6,442,445	3,238,577
Payables due to social security agencies	4,540,543	4,136,922
VAT and other tax payables	3,639,083	5,636,821
Payables due to Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund)	3,108,387	2,269,893
Other liabilities	2,361,588	2,311,937
<b>Total</b>	<b>31,002,075</b>	<b>29,286,737</b>

The item “Payables due to employees” mainly includes payables for holidays that had not been taken, deferred remuneration, contractual bonuses and leaving incentives yet to be paid.

The item “Payables due to IWS customers” refers to the portion of the Optimal Territorial Area tariff billed in 2012/2013 to be refunded to IWS customers.

The item “Advances” includes advances received from third-party customers for € 1,889,983 and from the Parent Company for € 4,552,459.

The item “Payables due to Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund)”, amounting to € 3,108,387, refers to the amounts collected from IWS customers through the tariff and periodically returned to the Cassa with the aim of implementing forms of equalisation and financing projects for the benefit of consumers.

## NOTES TO THE INCOME STATEMENT

### 2.1 Revenues

Revenues from sales and services amounted to € 192,411,136 (€ 181,037,505 in the previous year).

The item is broken down by Business Unit as follows:

	Reporting period	Previous period
Integrated Water Service	140,576,891	136,282,984
Engineering and Staff	32,218,453	29,576,436
Housing	13,842,453	13,147,948
Plant and Real Estate	2,030,137	2,030,137
Routine Plant and Infrastructure Maintenance	3,743,202	-
<b>Total</b>	<b>192,411,136</b>	<b>181,037,505</b>

Revenues of the Engineering Business Unit are shown net of the cost of work contracted on behalf of third parties, which are passed on to the principals based on concession agreements and service contracts, for an amount equal to € 40,319 thousand for the year ended 31 December 2020. The Routine Plant and Infrastructure Maintenance Business Unit, which generated revenues of € 3,743,202, was established in the current year.

Below is the breakdown by geographic area.

<i>Amounts in thousands of Euro</i>	Reporting period	Previous period
Italy	190,806	179,617
Europe	65	299
Rest of the world	1,540	1,122
<b>Total</b>	<b>192,411</b>	<b>181,038</b>
<i>Amounts in thousands of Euro</i>	Reporting period	Previous period
Italy	190,806	179,617
Europe	65	299
Rest of the world	1,540	1,122
<b>Total</b>	<b>192,411</b>	<b>181,038</b>

## 2.2 Revenues arising from work on infrastructure subject to service concession arrangements

Revenues arising from work on infrastructure subject to service concession arrangements amounted to € 53,673,851 for the year ended 31 December 2020. In compliance with IFRIC 12, these revenues correspond to the work performed on the assets of the Integrated Water Service held on the basis of a concession agreement plus a 4.57% markup, which represents the best estimate regarding the remuneration of internal costs for construction management and design activities carried out by the Company, which is equal to the markup that a general third party constructor would charge to carry out the same operations. The markup is recalculated on an annual basis and the value indicated above refers to 2020.

## 2.3 Other revenues and income

Other revenues and income amounted to € 22,051,739 (€ 27,689,108 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Sundry services carried out by the IWS	1,702,155	1,293,188
Chargebacks and expense refunds	2,171,931	530,266
Increases for internal work	14,300,244	13,212,461
Release of the provision for risks	1,318,828	51,649
Charge of costs for seconded staff	658,780	637,496
Contingent assets	1,250,931	11,003,982
Other revenues and income	626,664	937,860
Grants related to assets	22,206	22,206
<b>Total</b>	<b>22,051,739</b>	<b>27,689,108</b>

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

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

The item “Release of the provision for risks” includes € 408,772 in the reversal of the provision set aside for amounts to be refunded to users not connected to wastewater treatment plants and € 512,949 in the reversal of the provision set aside in previous years for the risk of a refund of the tariff component related to the return on capital invested in the Water Service. In both cases, the risks requiring to maintain the provisions no longer

exist.

## 2.4 Costs for raw materials, consumables and goods for resale

Raw materials and consumables amounted to € 7,417,838 (€ 7,702,913 in the previous year).

Breakdown is shown and described below.

	Reporting period	Previous period
Fuels and lubricants	226,671	266,868
Consumables and other	8,092,638	8,208,417
Changes in raw materials, ancillaries and consumables	(901,472)	(772,372)
<b>Total</b>	<b>7,417,838</b>	<b>7,702,913</b>

## 2.5 Other operating costs

Other operating costs amounted to € 2,345,276 (€ 1,593,915 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Membership fees	302,411	371,768
Taxes and other deductible charges	318,094	368,499
Municipal Property Tax (IMU)	359,665	291,968
Donations	77,930	59,591
Other operating costs	1,287,175	502,089
<b>Total</b>	<b>2,345,276</b>	<b>1,593,915</b>

## 2.6 Costs for services

Costs for services amounted to € 72,445,081 (€ 80,475,101 in the previous year).

The item is broken down as follows:

	Reporting period	Previous period
Utilities (water, electricity)	22,732,934	23,995,509
Gas	783,189	956,601
Outsourced work	918,811	145,310
Maintenance	8,997,314	5,221,760

Technical and legal consulting	7,391,774	7,696,370
Remuneration of directors	87,510	81,742
Remuneration of statutory auditors	93,716	36,288
Marketing and advertising	95,688	432,334
Telephone and postal expense	641,372	855,905
Insurance	2,593,509	2,575,572
Business trips and transfers	147,049	374,790
Other costs for services	6,776,427	7,613,952
Costs for activated carbon regeneration	591,779	1,519,856
Canteen and luncheon vouchers	1,812,138	1,758,689
Services supplied by the Municipality of Milan	2,772,812	3,118,049
Wastewater treatment plant management fee	6,831,835	15,328,712
Waste disposal	7,616,705	7,112,757
Use of third-party assets	1,560,519	1,650,907
<b>Total</b>	<b>72,445,081</b>	<b>80,475,101</b>

A significant contribution to the decline in “Costs for services” came from the reduction in wastewater treatment plant operating costs; in fact, starting from the end of the previous year, the company took over the operation of the Milan Nosedo plant, systematically rationalising costs and achieving significant savings.

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

	Reporting period	Previous period
Rents and leases	935,330	749,999
Royalties, copyrights and patent rights	618,535	892,514
Other costs for use of third-party assets	6,654	8,395
<b>Total</b>	<b>1,560,519</b>	<b>1,650,907</b>

## 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 € 51,107,275 for the year ended 31 December 2020. This item consists of the cost for work on assets held under concession arrangements.

## 2.8 Personnel costs

Personnel costs amounted to € 67,834,628 (€ 65,662,162 in the previous year).

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

	Reporting period	Previous period
Salaries and wages	48,944,129	46,084,827
Social security costs	15,058,838	14,688,667
Post-employment benefits	3,273,087	3,100,292
Other costs	558,574	1,788,375
<b>Total</b>	<b>67,834,628</b>	<b>65,662,162</b>

The increase in labour cost is mainly due to:

- the expansion of the scope resulting from the creation of the Routine Plant and Infrastructure Maintenance Business Unit;
- the increase in the volumes of activities already carried out by MM S.p.A.: the growth in Engineering orders; the first year of the Nosedo wastewater treatment plant being fully integrated, and the management of underpasses;
- the development of additional operations to comply with ARERA's regulatory standards.

The breakdown of personnel by category is as follows:

Number of employees	2020	
	As at year end	Average
Senior managers	36	37
Middle managers	78	71
Clerical workers	820	809
Apprentices	5	3
Workers	354	354
<b>Total</b>	<b>1,293</b>	<b>1,274</b>

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

## 2.9 Amortisation/depreciation, impairment and other provisions

The item amounted to € 27,916,941 (€ 41,731,681 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	23,090,358	17,106,223
Impairment and provisions	4,826,583	24,625,458
<b>Total</b>	<b>27,916,941</b>	<b>41,731,681</b>

The significant decline in "Impairment and provisions" is related to the amount allocated to the bad debt provision of the Engineering Business Unit in the prior year. This was intended to reflect the consequences of the Assessment Report finalised with the Municipality of Milan to crystallise receivables dating back several years and referring to the performance of engineering works. The item "Depreciation of property, plant and

equipment and amortisation of intangible assets” is broken down as follows:

	Reporting period
Property, plant and equipment	4,130,660
Rights over the infrastructure relating to service concession arrangements	13,341,807
Other intangible assets	5,617,892
<b>Total</b>	<b>23,090,358</b>

## 2.10 Impairment loss on the disposal of fixed assets

The impairment loss on the assets held on the basis of a concession agreement, on property, plant and equipment and on intangible assets amounted to € 78,228 (€ 85,273 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	0	0	1,837	1,837
Total property, plant and equipment	0	0	1,837	1,837
- Rights over the infrastructure relating to service concession arrangements	78,228	78,228	83,436	83,436
Total Rights over the infrastructure relating to service concession arrangements	78,228	78,228	83,436	83,436
Impairment losses (Reversal of impairment losses)				
<b>Grand total</b>	<b>78,228</b>	<b>78,228</b>	<b>85,273</b>	<b>85,273</b>

## 2.11 Finance income and costs

Finance costs net of finance income amounted to € 6,114,224 (€ 6,838,728 in the previous year).

Breakdown is shown and described below.

Finance income and costs	Reporting period	Previous period
Interests on trade receivables and late payment penalties	187,891	522,574
Interest income on bank current accounts	1,337	340,276
Foreign exchange gains	116,534	122,623
<b>Total finance income</b>	<b>305,761</b>	<b>985,473</b>
Interest expense on bank loans and borrowings	5,642,608	5,693,664
Bank interest expense	265,922	424,918

Interest cost – employee benefits	24,876	73,284
Foreign exchange losses	138,799	119,006
Other finance costs	347,780	1,513,330
<b>Total finance costs</b>	<b>6,419,985</b>	<b>7,824,201</b>
<b>Net finance income/(costs)</b>	<b>(6,114,224)</b>	<b>(6,838,728)</b>

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

The item “Other finance costs” mainly refers to the interest paid to contractors in relation to the construction of works. In the current year, this amount almost entirely refers to interest paid to contractors of the Engineering B.U.

## 2.12 Income taxes

Income tax expense amounted to € 9,949,615 (€ 2,704,194 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 2020:

	Reporting period	Previous period
Current taxes (IRES)	5,658,825	8,961,720
Current taxes (IRAP)	2,201,249	2,190,664
Prepaid / deferred taxes	2,089,541	(8,448,190)
<b>Total</b>	<b>9,949,615</b>	<b>2,704,194</b>

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

	Year ended 31 December 2020	
		%
Profit (loss) before tax	32,877,235	
Theoretical IRES (corporate tax)	7,890,537	24.00%
Tax effect of permanent differences	(142,170)	
IRAP (Regional business tax)	2,201,249	
<b>Taxes</b>	<b>9,949,615</b>	
<b>Actual tax rate</b>		<b>30.26%</b>

## Other Information

### Off-balance sheet agreements

The Company has no extant off-balance sheet agreements.

### Sureties and guarantees in favour of third parties

As at 31 December 2020, sureties issued by third parties totalled € 5,866 thousand, broken down as follows:

- a guarantee of € 2,750 thousand issued in favour of the Optimal Territorial Area Authority (ATO), as required by the Integrated Water Service concession agreement;
- a guarantee of € 100 thousand issued in favour of the Municipality of Milan for the ordinary upgrading of the water network;
- guarantees of € 3,016 thousand to principals for the performance of contracts.

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

### Disputes

The value of disputes related to contractors' claims deriving from the performance of procurement contracts and pending as at 31 December 2020 approximately amounts to € 8,7 million at historical prices.

It should be noted that, in the event of losing the case, the related costs can be passed on to the granting bodies, since they relate to and result from the works carried out or recovered through the Water Service tariff.

### Related party transactions

The Municipality of Milan holds 100% of the Company's share capital. Therefore, the Company is entirely controlled by the Municipality of Milan.

The Company has opted for the exemption allowed by paragraph 25 of IAS 24 and therefore it is not required to comply with the disclosure obligation provided for by paragraph 18 of IAS 24 regarding related party transactions and existing balances involving the Municipality of Milan and its subsidiaries (including any commitments to them).

Below we provide a description of the Company's relations with the Municipality of Milan and its subsidiaries.

In 2020, the relations with the Municipality of Milan mainly involved:

- engineering technical support services provided to the Municipality of Milan;

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

As at 31 December 2020, the Company's receivables from the Municipality of Milan totalled € 2.1 billion, while its payables due to the Municipality of Milan totalled € 2.1 billion. The Company's revenues collected from the Municipality of Milan totalled € 40 million, while the costs incurred as contracting authority for the Municipality of Milan amounted to Euro 40 million. The costs for services charged back by the parent company to MM amounted to € 2.7 million. It should be noted that, for engineering services, the Company has offset receivables and payables from/to the Municipality of Milan in the financial statements as well as revenues and related costs, since it acts as an intermediary between the Municipality of Milan and third-party contractors. Pursuant to the provisions of IFRS 15, since the Company acts as an agent between the Municipality of Milan and the suppliers of engineering services, revenues and receivables arising from the construction of assets are offset against the relevant costs and payables.

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

- engineering services in favour of Expo 2015 S.p.A., SEA S.p.A., Milanospoort S.p.A., Arexpo S.p.A., Sogemi S.p.A., AMAT and M4 S.p.A;
- costs for the removal of interference of the transport lines with the Engineering and/or Integrated Water Service Business Units' work charged by ATM S.p.A. and companies of the A2A Group;
- supply of water services to all the subsidiaries of the Municipality of Milan;
- purchase of waste disposal services from the Company A2A;

revenues arising from a lease agreement entered into with AMSA S.p.A., in relation to the assets provided to the temporary operator responsible for waste management services for the city of Milan.

### **Significant events after 31 December 2020**

The health emergency, which started in 2020 and was caused by the spread of Covid-19, has posed, and continues to pose, potential risks for the company. To ensure the consistency and stability of its financial position and performance, MM launched a specific project to protect profitability in the face of an external shock. The prompt reaction to the crisis since the early months of the pandemic, with actions aimed at protecting financial margins and the liquidity position as well as diversifying the company's operations – some of which, by their nature, are not affected by short-term factors – spared MM from the effects of the epidemic overall.

The 2021 forecasts are based on the assumption that the year that has just begun will not be significantly affected by the negative impacts caused by the continuation and/or deterioration of the micro- and macro-economic scenario compared to the situation as at the end of 2020. In any case, as it is not possible to accurately forecast the extent and duration of subsequent lockdowns throughout the year and the relevant impacts, management's forecasts for 2021 account for potential risk factors, especially with respect to water demand volumes based on the experience of the actions taken in 2020. The company regularly monitors the evolution of the health situation, its performance, and the deviations from approved plans, and it is ready to take containment measures should significant negative deviations arise during the year.

## Remuneration of corporate bodies and independent auditors

### Remuneration of corporate bodies

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

	Reporting period	Previous period
Directors	87,510	81,742
Board of statutory auditors	36,036	36,288

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

### Remuneration of independent auditors

The remuneration payable to independent auditors totalled € 88,938 for the year ended 31 December 2020.

This amount relates to the following activities:

	Amount
Audit of the financial statements and related activities	60,862
Audit of separate annual reports	4,200
Audit of the "Non-financial Statement" and other activities	23,876
<b>Total as at 31 December 2020</b>	<b>88,938</b>

## Allocation of the profit for the year

It is proposed to the Shareholders' Meeting to allocate the profit for the year, totalling € 22,927,620, as follows:

- € 891,981 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;
- € 22,035,639 to the extraordinary reserve.

In addition, considering that, at the direction of the Municipality of Milan, the company has implemented IT projects totalling € 210,700.46 whose cost was borne by the Housing Business Unit, we propose drawing down € 210,700.46 from the Voluntary Reserve consisting of the portion of retained earnings attributable to the Housing Business Unit.

*For the Board of Directors  
The Chairman  
Simone Dragone*



**ANNEX 1: INDEPENDENT AUDITORS' REPORT OF THE FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 2020**



## ***Independent auditor's report***

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the shareholder of MM SpA

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### ***Report on the Audit of the Financial Statements***

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#### ***Opinion***

We have audited the financial statements of MM SpA (the Company), which comprise the statement of financial position as of 31 December 2020, 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 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

#### ***Basis for Opinion***

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

#### ***Key Audit Matters***

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

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#### ***PricewaterhouseCoopers SpA***

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**Key Audit Matters**

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**Auditing procedures performed in response to key audit matters**

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**Measurement of the bad debt provision for the water segment**

*Note 1.7 to the financial statements “Trade receivables”*

The item ‘Trade receivables’ of the financial statements as of 31 December 2020 includes receivables referred to the Integrated Water Service equal to Euro 138,956 thousand, with the relevant bad debt provision amounting to Euro 22,501 thousand.

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

The Company estimates the non-recoverable amount of trade receivables in accordance with the new international financial reporting standard IFRS 9 – Financial Instruments.

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

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

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



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**Key Audit Matters**

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**Auditing procedures performed in response to key audit matters**

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**Estimation of year-end revenues for the water segment**

*Note 2.1 to the financial statements “Revenues”*

The item ‘Revenues’ of the financial statements as of 31 December 2020 includes revenues referred to the Integrated Water Service equal to Euro 140,577 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 2020;
- We performed a critical analysis of the ‘water balance - sources and uses’ prepared by management (the document that specifies incoming and outgoing flows – including losses – of the water resource) and verified its consistency with the figures in the financial statements;
- We performed substantive tests, on a sample basis, of the adequacy of the estimates used to calculate the amounts of bills to be issued at the year end;
- For a sample of bills, we verified the calculation of estimated consumption billed, verifying its compliance with applicable tariff regulations.



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

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

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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



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

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

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

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

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

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

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

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

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



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## ***Report on Compliance with other Laws and Regulations***

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

The directors of MM SpA are responsible for preparing a report on operations of MM SpA as of 31 December 2020, 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 2020 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 2020 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, 8 June 2021

PricewaterhouseCoopers SpA

*Signed by*

Giulio Grandi  
(Partner)

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



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

**MM SPA**

**BILANCIO D'ESERCIZIO AL 31 DICEMBRE 2020**

## **Relazione della società di revisione indipendente**

ai sensi dell'articolo 14 del DLgs 27 gennaio 2010, n° 39 e dell'articolo 10 del Regolamento (UE) n° 537/2014

All'azionista di MM SpA

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### **Relazione sulla revisione contabile del bilancio d'esercizio**

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#### **Giudizio**

Abbiamo svolto la revisione contabile del bilancio d'esercizio della società MM SpA (la Società), costituito dalla situazione patrimoniale-finanziaria al 31 dicembre 2020, 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 2020, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'articolo 9 del DLgs n° 38/05.

#### **Elementi alla base del giudizio**

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

#### **Aspetti chiave della revisione contabile**

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

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#### **PricewaterhouseCoopers SpA**

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**Aspetti chiave**

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**Procedure di revisione in risposta agli aspetti chiave**

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**Valutazione della congruità del fondo svalutazione crediti del settore idrico**

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

Nella voce "Crediti commerciali" del bilancio al 31 dicembre 2020 sono iscritti crediti riferiti al Servizio Idrico Integrato pari a Euro 138.956 migliaia, il cui relativo fondo svalutazione crediti è pari a Euro 22.501 migliaia.

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

La Società stima il valore inesigibile dei crediti commerciali sulla base delle prescrizioni dettate dal principio contabile internazionale IFRS 9 "Financial Instruments".

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

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

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

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**Aspetti chiave**

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**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 2020 comprende un valore di ricavi riferiti al Servizio Idrico Integrato pari a Euro 140.577 migliaia. I ricavi riferiti al Servizio Idrico Integrato incorporano una componente maturata nell'esercizio stimata attraverso sistemi che utilizzano algoritmi complessi, in particolare per il calcolo stimato dei consumi.

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

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**Procedure di revisione in risposta agli aspetti chiave**

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

- la comprensione e valutazione dei flussi procedurali del ciclo ricavi, la rilevazione dei controlli rilevanti, nonché la verifica su base campionaria dell'efficacia operativa degli stessi;
  - la comprensione e valutazione del processo di fatturazione dei ricavi del settore idrico e la verifica, su base campionaria, dei controlli rilevanti, con particolare riguardo, ma non esclusivo, all'utilizzo delle anagrafiche clienti, ai controlli sulle letture dei contatori, alla stima dei consumi, alla correttezza delle tariffe applicate e alla valorizzazione delle bollette emesse ai consumatori finali;
  - lo svolgimento di procedure di validità su base campionaria sui ricavi contabilizzati nell'esercizio 2020;
  - 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.
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### ***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.

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## ***Relazione su altre disposizioni di legge e regolamentari***

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

Gli amministratori della MM SpA sono responsabili per la predisposizione della relazione sulla gestione della MM SpA al 31 dicembre 2020, 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 2020 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 2020 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, 8 giugno 2021

PricewaterhouseCoopers SpA



Giulio Grandi  
(Revisore legale)