ERG Services

ANNUAL REPORT
AS AT 31 DECEMBER 2016

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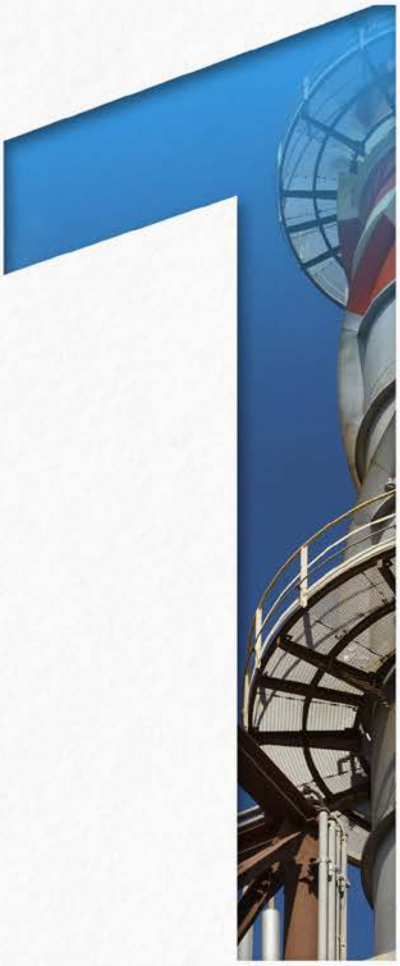

Report on Operations

CORPORATE BODIES

BOARD OF DIRECTORS[1] ERG SERVICES S.P.A.

Chairman
PAOLO LUIGI MERLI

Chief Executive Officer
GIORGIO CORAGGIOSO

Director
RAFFAELLA ROMEI

BOARD OF STATUTORY AUDITORS[1] ERG SERVICES S.P.A.

Chairman
LELIO FORNABAIO

Standing Auditors
ELISABETTA BARISONE
CLAUDIO FACCI

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

1 The Board of Directors and the Board of Statutory Auditors of ERG Services S.r.l. held office until 31 December 2016. Commencing as of 1 January 2017, they were replaced by the Board of Directors and the Board of Statutory Auditors of acquirer ERG S.p.A. as a result of the merger by acquisition of the company.

BOARD OF DIRECTORS [1] ERG S.P.A.

Chairman
EDOARDO GARRONE *(Executive)*

Deputy Chairman
ALESSANDRO GARRONE[2] *(Executive)*
GIOVANNI MONDINI *(Non-executive)*

Chief Executive Officer
LUCA BETTONTE

Directors
MASSIMO BELCREDI *(Independent)*[3]
MARA ANNA RITA CAVERNI *(Independent)*[4]
ALESSANDRO CHIEFFI *(Independent)*[4]
BARBARA COMINELLI *(Independent)*[4]
MARCO COSTAGUTA *(Non-executive)*
LUIGI FERRARIS *(Independent)*[4]
PAOLO FRANCESCO LANZONI *(Independent)*[3]
SILVIA MERLO *(Independent)*[4]

BOARD OF STATUTORY AUDITORS[5] ERG S.P.A.

Chairman
ELENA SPAGNOL

Standing Auditors
LELIO FORNABAIO
STEFANO REMONDINI

INDEPENDENT AUDITORS

DELOITTE & TOUCHE S.p.A.

1 Appointed on 24 April 2015.
2 Director in charge of the Internal Control and Risk Management System.
3 With reference to the matters envisaged by Article 148.3 of the Consolidated Finance Law.
4 With reference to the matters envisaged by Article 148.3 of the Consolidated Finance Law and the matters contained in the current Corporate Governance Code furthered by Borsa Italiana S.p.A.
5 Appointed on 3 May 2016 .

COMPANY PROFILE

The company was incorporated on 3 December 2013 in Genoa, Italy. The share capital of EUR 1,200 thousand was subscribed and entirely paid up by the sole shareholder ERG S.p.A. The primary object of the business is the provision of administrative, accounting, personnel, tax, corporate, financial, IT, technical, and real estate services and connected services.

As part of the "One Company" plan for the organisational and corporate restructuring of ERG Group, on 21 December 2016 an agreement was signed for the merger by acquisition of the Company into the parent company ERG S.p.A. The merger took effect on 1 January 2017.

The decision was motivated primarily on the grounds that the merger of the Company will:

- simplify the structure of the Group and as a result bring organisational and operational benefits;
- improve the efficiency of the corporate structure, making it more consistent with the present needs of the Group;
- optimise decision-making processes and improve the utilisation and development of personnel and skills existing in the companies scoped into the merger through the centralisation by the merger into a single legal entity of the activities currently performed by the acquirer and by the target companies, thereby improving operating efficiency overall;
- build synergies and reduce the combined costs of administration and management.

STRATEGY

The strategy pursued by the Company is aimed primarily at delivering excellence in the provision of support services to all ERG Group companies and enhancing the value of its specialist skills and technological infrastructure.

PERFORMANCE HIGHLIGHTS

The data reported below are stated in millions of euros.

In tables with data shown in millions, total amounts may differ from the sum of the component amounts.

(EUR million)	2016	2015
Total revenues	22.1	20.8
EBITDA	**3.3**	**2.8**
EBIT	0.8	0.5
Profit for the year	**0.4**	**0.1**
Cash flow from operating activities	**5.6**	**5.1**
(Investments) / disposals	(2.5)	(1.7)
Changes in shareholders' equity	–	–
Increase / (decrease) in net financial indebtedness	**3.0**	**3.4**
Net invested capital	**6.5**	**9.2**
Shareholders' equity	10.5	10.1
Net financial indebtedness	**(4.0)**	**(0.9)**
Financial leverage	-61%	-10%

At 31 December 2016, net invested capital was EUR 6.5 million. Financial leverage, expressed as the ratio of net financial indebtedness to net invested capital, was -61%, due to the positive net financial position.

COMMENTS ON THE YEAR'S PERFORMANCE

ECONOMIC AND FINANCIAL RESULTS

The financial statements, stated in Euro, show a profit of EUR 386 thousand, net of amortisation and depreciation totalling EUR 2.5 million and a tax liability of EUR 0.4 million.

In detail, the breakdown of the year's performance shows the following:

- total revenues amounted to EUR 22.1 million, referring substantially to service agreements in place with ERG Group companies. Service fees are based on the charge-back of personnel costs, operating costs and depreciation and amortisation expense, plus a suitable mark-up to ensure the profitability of the services provided. The item was substantially in line with the figure for last year;
- costs for services and other operating costs totalled EUR 10.6 million and primarily consist of IT services, consulting and services rendered, leases, software fees, general services and ancillary personnel costs;
- EBIT amounted to EUR 0.8 million and was primarily affected by margins from the provision of services to Group companies;
- the net financial position was a positive EUR 4.0 million, consisting primarily of the centralised treasury account with the parent company ERG S.p.A. and reflecting growth in current assets.

The Company's financial statements were subject to regulatory audit by the company Deloitte & Touche S.p.A.

SIGNIFICANT EVENTS DURING THE YEAR

On 21 December 2016 an agreement was signed for the merger by acquisition of the Company into the parent company ERG S.p.A. The merger took effect on 1 January 2017.

OPERATING DATA

		2016	2015
Capital expenditure	EUR million	2.7	1.9
Employees	number	105	88

Capital expenditure

Capital expenditure for 2016 (EUR 2.7 million) consisted primarily of the implementation and development of SAP software for international operations and the company ERG Hydro and of IT upgrades.

Employees

Growth in employee numbers was primarily tied to the auditing of operations and personnel over 2016. For more information on the headcount see the section “Human Resources” in this report.

BUSINESS SEGMENTS

The Company continued to apply a “Cost – Based Services” method for the pricing of its services, attributing all costs incurred to the different service lines. The drivers used for allocating costs remained unchanged and are quantitative and measurable, shared with client companies, and comprehensively represent the amount of work generated by each Group company, ensuring that attribution criteria are objective and uniform over time. Accordingly, all costs incurred were allocated on the basis of the drivers, with a suitable mark-up applied to ensure an adequate margin of remuneration.

ERG S.P.A.'S MANAGEMENT AND COORDINATION OF SUBSIDIARIES

The company is subject to the management and coordination of ERG S.p.A.

This includes:

- the definition of business strategies and of the corporate governance systems and shareholding composition;
- the determination of shared general policies with respect to human resources, accounting, budgeting, taxes, finance, risk management, communication, institutional relations, health safety and environment.

In particular, the following decisions were taken within the scope of ERG S.p.A.'s management and coordination role:

- the remuneration of the Chief Executive Officer;
- examination and approval of the Capital Expenditure Budget;
- the merger by acquisition of ERG Services S.p.A. in ERG S.p.A.

Key figures from the last financial statements of ERG S.p.A. are provided at the end of this report.

RISKS AND UNCERTAINTIES

Risk management is an essential and key component of the strategies pursued by any organisation. It is the process by which companies deal with the risks connected with their business, in an effort to obtain enduring long-term benefits that guarantee the sustainability of their business. Good risk management is based on the identification and handling of risks in order to understand the potential impact, both positive and negative, of all the factors that may affect the organisation.

ERG Group, to which ERG Services belongs, has adopted an Integrated Risk Management (IRM) model designed to give a proactive contribution to protecting Group assets and ensure their efficient and effective management in line with the business strategies identified by the Board of Directors.

To this end, the IRM model involves:

- the identification and assessment of the main risks connected with the business plan and the setting of relative management policies, involving market benchmarking to identify best practices in the field;
- continuous checks on the application and effectiveness of the risk management process.

The IRM model takes into account the characteristics of the Group and the business sectors in which it operates, and is regularly updated to take into account developments in framework in which ERG Group operates. The model is based on international best practice in the field (ERM CO.S.O Framework) and is an essential component of the Internal Control and Risk Management System.

The approach adopted involves the periodic assessment of key risks for the Group, both present and future. Involving risk owners, the aim of the assessment is to determine which are the major risks and whether the management strategies and monitoring arrangements in place for their mitigation are adequate. Where necessary, action plans are identified to tighten the internal control and risk management system. Underpinning the Integrated Risk Management system is the awareness, at all levels of the organisation, of the importance of risk management.

In addition, ERG Group, to which ERG Services belongs, has adopted a “Risk Management Policy” that identifies the risks to which the Group is exposed, assigns responsibility for them to “risk owners”, and sets rules for their due handling, monitoring and reporting. The policy document is regularly reviewed to adapt it to internal developments (e.g. organisational or process changes) and to a highly dynamic external operating environment. The most recent version of the policy was updated in October 2016.

As concerns the business of the Company ERG Services, the main risks identified, monitored and managed are (listed in alphabetical order):

- Anti-corruption Compliance Risk;
- Human Capital Risk;

- Human Capital Development Risk;
- Compensation & Retention Risk;
- Information & Communication Technology Risks.

Anti-corruption Compliance Risk

This is the risk of an employee and/or a company being indicted for infringement of anti-corruption laws in force which may entail the application of penalties.

ERG Group, to which ERG Services belongs, unconditionally condemns the use of all corruption practices without exception. To prevent corruption offences, the Company has adopted a system of rules and controls in relation to the national and international legal frameworks in which it operates. Specifically, for all ERG Group companies:

- Rules of conduct are adopted by Group companies (Code of Ethics, Law 231 Compliance Model, Anti-corruption Guidelines), based on their respective characteristics, which all employees are required to follow in the performance of their duties and which prohibit any form of corruption, active or passive, involving public officials or private parties;
- Specific training programmes have been outlined and are delivered to employee to inform them of anti-corruption laws and regulations (and relative penalties) and the system of rules of conduct adopted by the Group;
- A process is in place, with the oversight of the supervisory bodies as per Italian Legislative Decree 231/01, for reports to be made of conduct in breach of the principles endorsed in the Code of Ethics, the Law 231 Compliance Model and Anti-corruption Guidelines.

Risk management strategies are implemented in accordance with company policies.

Human Capital Risk

These are risks relating to the management of human capital which may potentially have an adverse impact on the Company' ability to achieve its objectives. The category includes:

- Human Capital Development Risk;
- Compensation & Retention Risk.

Human Capital Development Risk

This is the risk of the Company's human capital, defined as the set of skills, know-how, education, information and technical capabilities underpinning the human ability to create value for a business, being quantitatively and qualitatively inadequate with respect to business plan objectives.

Given that human capital is a key factor of its business model, ERG Group, to which ERG Services belongs, takes a structured and centralised approach to managing and monitoring this risk at Group level, coordinated by a specially tasked Human Capital Committee and involving specific organisational units that ensure human capital planning, development and constant alignment with business objectives.

The development of managerial culture is underpinned by skill gap analyses, involving a structured process for assessing the skills necessary for a certain task and the skills possessed by the person assigned to the task, the constant monitoring of the indicator HCC (Human Capital Coverage – registered trademark) and the implementation of corrective measures.

In addition to this, the Human Capital Committee identifies and monitors key HR development plans and activities and assists the parent company ERG S.p.A. in decision-making concerning human resources management and rewarding systems.

Compensation & Retention Risk

This is the risk of rewarding systems being out of step with market benchmarks and strategies, with a resulting economic impact on the Company due to the loss of key professional figures.

ERG Group, to which ERG Services belongs, takes a structured and centralised approach to mitigating this risk at Group level, adopting compensation strategies and policies aligned to market benchmarks and based on job matching and weightings, in an effort to ensure the right balance between rewards (both monetary and non-monetary) and meeting retention targets. The Company adopts different retention tools in relation to the strategic importance and seniority of its personnel, with fixed compensation aligned to market benchmarks to ensure retention, while variable incentives ensures that company objectives and individual interests are aligned.

The strategies for mitigating such risks are implemented in accordance with company policies.

Information & Communication Technology Risks

This is the risk that the set of technical and organisational measures adopted to ensure the integrity, availability and confidentiality of automated information and protect the resources used to acquire, store, process and disclose such information are inadequate for their purposes.

Specifically, the main ICT risks identified are:

- Risk of uncontrolled access to networks, systems and data centre premises: this is the risk of unauthorised personnel accessing systems, information or premises hosting computers and compromising their use, thereby jeopardising the integrity and the security of the systems and information their contain;
- Risk of vulnerability in computer systems: this is the risk of the ICT system architecture/framework being vulnerable to internal or external attacks or accidental events due to design defects or flaws in implementation, configuration and/or operational management and a lack of awareness of the risks posed by ICT attacks in the company population;
- Risk of technological disaster: this is the risk of chance events dramatically impairing the technological infrastructure serving company operations.

ERG Group, to which ERG Services belongs, manages its operations using ICT systems designed to support key operational, administrative and commercial processes. ERG Services seeks to mitigate ICT risks through the following key control objectives, identified in accordance with the ISO 27001:2013 standards and the Cobit 5 Model:

- Constant protection of the confidentiality, integrity and availability of information managed on ICT systems;
- Adoption of specific rules of conduct governing the use of work stations and ICT tools, aimed at ensuring suitable levels of information security;
- Outsourcing of the management of key systems to a supplier possessing a data centre with high, formally certified levels and standards of physical security;
- Adoption of tools for managing, checking and logging logical and physical access to systems, based on best practice in field;
- Use of automated tools for the detection and management of accidents and anomalies;
- Implementation of processes for the design, development, operation, maintenance, assistance and disposal of computer infrastructure, network services and applications for mitigating the vulnerability of ICT systems, in line with best practices.

The integration and consolidation plan for the Company's ICT systems, based on changes in recent years in corporate ownership structures, is now in its final stage of implementation. The new arrangements will deliver key benefits, helping to reduce associated ICT risks thanks to the risk management approach taken.

To mitigate the potential risk to business continuity associated with interruptions in strategic ICT processes, ERG Services has Disaster Recovery arrangements in place that ensure the continuity of services and data through an alternative data centre, the efficiency of which is regularly audited.

The constant protection of company information is an objective to which ERG Group, to which ERG Services belongs, is firmly committed and to mitigate risks to information it adopts and implements a series of processes and systems designed to protect, retain and retrieve the information stored on its computer systems. Accordingly, ERG Services classifies all information contained and managed through computer applications and in electronic documents in the course of company processes. The confidentiality and security of that information is protected by specific tools for segregating access to information and by specific contractual agreement with third parties that may need to access the information. To improve the arrangements, organisational roles and technical roles are aligned in the segregation of duties model implemented on systems. In addition, the Company regularly conducts internal and external vulnerability assessments to measure cyber security levels.

Risk mitigation strategies are implemented in accordance with company policies.

HEALTH, SAFETY AND ENVIRONMENT

Protecting persons' health and safety and the environment is a priority that has always characterised the ERG Group's enterprise culture: the prevention and management of the connected risks are therefore central in the implementation of the Group's strategic guidelines. The Company fully complies with those strategic guidelines.

The new organisational set up and corporate structure of the Group and strategic decisions focused increasingly on renewable energy sources underpinned the need for a review, conducted in 2016, of how health and safety and environmental issues and, in general, Group corporate social responsibility (CSR) is managed.

In line with the principles and guidelines set out in the Code of Ethics, the Group's activities were directed at achieving its business objectives while protecting the environment where the Group operates and safeguarding the internal and external stakeholders with whom it interacts.

Over the year, ERG Services worked to fulfil all legal requirements applicable to its operations (designations, powers, documentary records, training, etc.), in particular as concerns the regulatory compliance (risk assessment report, designation of mandatory and optional officers contemplated by regulations in force, the introduction of health surveillance and mandatory training, etc.) of the Company's new operating unit at the Terni Hydroelectric Complex. In addition, in 2016, as part of the joint project with the parent company ERG S.p.A. started last year, ERG Services was responsible for maintaining in workplaces the Health & Safety System adopted and certified at the end of 2015 in accordance with the OHSAS 18001:2007 international standard.

During the year no critical issues emerged in this area of Company operations, part of the broader field of corporate social responsibility.
The objective is to continuously improve the system, which will be merged with that of ERG S.p.A. following the merger of ERG Services into the parent company as part of the One Company organisational plan.

PRIVACY

In 2016, ERG Group continued to invest suitable resources and efforts to ensure compliance with privacy legislation. The internal system of regulations and the framework of designations and powers were systematically updated and aligned with developments in the external regulatory framework and new internal organisational arrangements to ensure compliance with the Privacy Code (Italian Legislative Decree 196/2003) and the instructions of the Italian Data Protection Authority.

As concerns the legal requirements connected with the introduction of the new European personal data protection regulation (24 May 2016), ERG Group is working to implement the new regulations, which will become directly applicable in all EU Member States as of 25 May 2018.

HUMAN RESOURCES

At 31 December 2016, the headcount of ERG Services S.p.A. totalled 105 employees, after 19 people joined the Company and 2 people left over the year.

The change in the headcount was driven specifically by the following factors:

- the integration, within the general scope of the Group, of the Hydro business acquired in December 2015, which brought staff working at the Terni Hydroelectric Complex into the perimeter of the Company's headcount;
- the continuation of plans to centralise common service activities, entailing the creation of centres of expertise and the transfer in and out of people with similar skill sets;
- the continuation of re-skilling and outplacement programmes for employees who, in recent years, were not involved in change management and job rotation programmes introduced with the changes to the business perimeter that have characterised the Group's recent history;
- the normal, although extremely low, turnover of employees.

Overall, and especially considering the influx of personnel into the Group as a result of the acquisition of ERG Hydro (formerly Hydro Terni) from E.On Group, growth in headcount was normal in relation to business growth and consistent with the Company's role in the Group (general services provider), as identified in 2014 with the introduction of the current Fast Steering Group organisational model.

In this context, the average age of employees remained substantially stable at around 45 years, with education levels likewise remaining essentially unchanged, showing 95% of the Company population holding a higher school diploma or university degree.

FINANCIAL STATEMENT HIGHLIGHTS

INCOME STATEMENT

(EUR thousand)	2016	2015
Revenues from ordinary operations	22,069	20,485
Other revenues and income	71	283
TOTAL REVENUES	**22,140**	**20,768**
Costs for purchases	(120)	(115)
Change in inventory	–	–
Costs for services and other operating costs	(10,582)	(10,498)
Personnel costs	(8,162)	(7,341)
EBITDA	**3,276**	**2,814**
Economic-technical amortisation, depreciation and write-downs	(2,464)	(2,278)
EBIT	**812**	**537**
Net financial income (expenses)	4	(14)
Value adjustments to financial assets and liabilities	–	–
PROFIT (LOSS) FROM ORDINARY OPERATIONS	**816**	**522**
Income taxes	(430)	(400)
PROFIT (LOSS) FOR THE YEAR	**386**	**122**

Revenues from ordinary operations

Revenues from services refer to service fees charged to ERG Group companies under service agreements. Service fees are set by allocating the Company's personnel costs, operating costs and amortisation and depreciation expense on the basis of allocation drivers. A suitable mark-up is then applied to ensure the profitability of services provided.

Costs for services and other operating costs

Costs for services include IT costs, consulting costs, costs for third-party services, maintenance and insurance costs, and rental fees for software, offices and buildings.

Other operating costs primarily refer to municipal property tax (IMU) and other taxes, excluding income taxes.

Personnel costs

Personnel costs totalled EUR 8.2 million. Company personnel totalled 105 employees (annual average of 104).

Economic-technical amortisation, depreciation and write-downs

Economic-technical amortisation of intangible assets totalled EUR 1.6 million for the year; EUR 0.9 million was booked for the depreciation of tangible assets.

Net financial income (expenses)

The item includes interest expense due to the parent company ERG S.p.A. under centralised treasury arrangements.

Income taxes

Tax on income for the year was a negative EUR 0.4 million, including current and deferred IRES and IRAP taxation.

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2016	31/12/2015
Fixed assets	11,362	11,282
Net working capital	(2,388)	(480)
Employees' severance indemnities	(679)	(494)
Other assets	801	1,526
Other liabilities	(2,553)	(2,632)
NET INVESTED CAPITAL	**6,543**	**9,202**
Shareholders' equity	10,514	10,128
Medium-long-term financial indebtedness	–	–
Short-term financial indebtedness	(3,971)	(927)
SHAREHOLDERS' EQUITY AND FINANCIAL DEBT	**6,543**	**9,202**

Fixed assets

(EUR thousand)	31/12/2016	31/12/2015
Intangible fixed assets	2,866	2,170
Tangible fixed assets	8,454	9,024
Financial fixed assets	42	88
Total	**11,362**	**11,282**

Intangible fixed assets consist primarily of enterprise software, which is licensed for use to other Group companies under service agreements.

Tangible fixed assets include offices owned by the Company, furniture and furnishings and other equipment necessary for the provision of services.

Financial fixed assets consist of security deposits.

Net working capital

(EUR thousand)	31/12/2016	31/12/2015
Trade receivables	1,190	1,981
Trade payables	(3,577)	(2,461)
NET WORKING CAPITAL	**(2,388)**	**(480)**

Trade receivables are chiefly generated by service agreements in place with various Group companies and relative adjustments. At 31 December 2016, trade receivables referred primarily to adjustments under service agreements in place with various Group companies. Trade payables refer primarily to services and capital expenditure in progress. The increase for the year was mainly driven by higher payables for capital expenditure.

Other assets

(EUR thousand)	31/12/2016	31/12/2015
Other receivables due from Group companies	348	955
Tax assets	258	410
Other short-term receivables	31	24
Accrued income and prepaid expenses within 12 months	164	137
Total	**801**	**1,526**

Other receivables due from Group companies primarily consisted of taxes receivable for Group VAT totalling EUR 346 thousand.

Receivables due from tax authorities consisted of EUR 132 thousand in IRAP receivable and deferred tax assets totalling EUR 126 thousand. The decrease for the year was mainly driven by the drop in deferred tax assets following drawdowns of provisions for charges.

Accrued income and prepaid expenses, all short-term, referred primarily to prepaid fees, rents and insurance policies.

Other short-term receivables included advance payments to suppliers.

Other liabilities

(EUR thousand)	31/12/2016	31/12/2015
Taxes payable within 12 months	(265)	(569)
Other short-term payables	(1,710)	(1,367)
Other payables due to Group companies within 12 months	(341)	–
Other provisions for liabilities and charges	(237)	(695)
Total	**(2,553)**	**(2,632)**

Payables due to tax authorities consisted primarily of withholding tax on IRPEF.

Other short-term payables included payables due to personnel and to social security institutions.

Other payables due to Group companies primarily consisted of IRES due under tax consolidation arrangements. In 2015 the amount was receivable due from the parent company ERG S.p.A.

In relation to provisions for liabilities and charges, together with the business unit transferred in 2013 the Company received provisions for charges covering the estimated restructuring and reorganisation charges connected with the transfer. During the year the provisions were drawn down by EUR 0.5 million to cover costs incurred in 2016 as part of the reorganisation process.

Net financial indebtedness

The net financial position at the end of the year showed a positive EUR 3,971 thousand. The figure breaks down as follows:

(EUR thousand)	31/12/2016	31/12/2015
Short-term bank borrowings	–	–
Financial payables due to Group companies	–	(3)
Other short-term financial debts	–	–
Short-term financial liabilities	**–**	**(3)**
Cash and cash equivalents	–	–
Financial receivables due from Group companies	(3,971)	(924)
Other short-term financial receivables	–	–
Short-term financial assets	**(3,971)**	**(924)**
TOTAL	**(3,971)**	**(927)**

Financial receivables due from Group companies referred entirely to the balance of the amount receivable from the parent company ERG S.p.A. under centralised treasury arrangements, including interest. The change was driven by cash flow for the year.

The change in net financial indebtedness for the year is shown in detail below:

(EUR thousand)	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows before changes in working capital	2,680	2,772
Change in operating assets and liabilities	2,910	2,329
Total	**5,590**	**5,101**
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditure	(2,708)	(1,898)
Disposals	163	151
Total	**(2,545)**	**(1,747)**
CASH FLOW FROM SHAREHOLDERS' EQUITY		
Share capital increase	–	–
Distributed dividends	–	–
Other changes in equity	1	–
Total	**1**	**–**
CHANGE IN NET FINANCIAL INDEBTEDNESS	**3,045**	**3,354**
INITIAL NET FINANCIAL INDEBTEDNESS	**(927)**	**2,427**
CHANGE IN DEBT OVER THE PERIOD	**3,045**	**3,354**
FINAL NET FINANCIAL INDEBTEDNESS	**(3,971)**	**(927)**

RESEARCH & DEVELOPMENT

The Company did not engage in research and development over the year.

DEALINGS WITH PARENT COMPANIES, SUBSIDIARIES, AFFILIATES, ASSOCIATES AND OTHER RELATED PARTIES

Dealings with companies belonging to ERG Group, conducted at arm's length conditions, are shown in the table below, broken down by type.

In 2016, the Company provided services primarily to the following Group companies:

- ERG S.p.A.;
- ERG Renew S.p.A.;
- ERG Power Generation S.p.A.

In turn, the Company benefited from the services of the parent company and with the parent company ERG S.p.A. a centralised treasury agreement was established in 2016 to optimise cash balances.

The table below shows the main business and financial dealings in 2016 with Group companies:

	Revenues			Costs		
(EUR thousand)	Sales and services	Other revenues	Financial income	Purchases	Costs for services and other costs	Financial expenses
Parent companies						
ERG S.p.A.	6,004	–	5	–	(535)	(3)
Subsidiaries of parent companies						
I-Faber S.p.A.	2	–	–	–	–	–
ERG Power Generation S.p.A.	9,030	–	–	–	(36)	–
ERG Renew S.p.A.	6,820	–	–	–	(6)	–
TotalErg S.p.A.	2	20	–	(21)	–	–
ERG Wind Holdings (Italy) S.r.l.	–	–	–	–	1	–
EROM	–	1	–	–	–	–
CSO Energy GmbH	–	42	–	–	–	–
ERG Hydro S.r.l.	–	–	–	–	(0)	–
Other	–	–	–	–	(0)	–

	Receivables			Payables		
(EUR thousand)	Trade	Sundry	Financial	Trade	Sundry	Financial
Parent companies						
ERG S.p.A.	–	348	3,971	(59)	(341)	–
Subsidiaries of parent companies						
ERG Power Generation S.p.A.	863	–	–	(10)	–	–
ERG Renew S.p.A.	229	–	–	(5)	–	–
ERG Power S.r.l.	51	–	–	–	–	–
TotalErg S.p.A.	1	–	–	(2)	–	–
EROM	1	–	–	–	–	–
CSO Energy GmbH	42	–	–	–	–	–
Other	–	–	–	–	–	–

TREASURY SHARES AND PARENT COMPANY SHARES

The Company does not hold treasury shares or shares in direct or indirect parent companies in portfolio. During the year the Company did not buy or sell treasury shares or parent company shares.

BRANCH OFFICES

ERG Services S.r.l. is headquartered and has offices in Genoa and branch offices in Rome, Siracusa and Terni.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On **1 January 2017**, the merger by acquisition of the Company into ERG S.p.A. took effect.

BUSINESS OUTLOOK

As a result of the merger, as reported earlier, the Company's operations will converge into the parent company ERG S.p.A., where they continue as usual, but in synergy with and integrated into the decision-making and administrative processes of the parent company.

Specifically, the provision of services to all ERG Group companies will continue, as will efforts to develop specialist skills and technological infrastructure to improve the efficiency of and build synergies among operations.

2

Financial Statements

STATEMENT OF FINANCIAL POSITION

ASSETS

(Eur)		31/12/2016		31/12/2015
(A) SUBSCRIBED CAPITAL UNPAID		**–**		**–**
(B) FIXED ASSETS				
I. Intangible fixed assets				
1) start up and expansion costs		1,435		2,184
2) development costs		–		–
3) patents and know-how		–		–
4) concessions, licences, trademarks and similar rights		–		–
5) goodwill		–		–
6) work in progress and payments on account		1,186,546		426,746
7) other		1,678,375		1,741,378
Total		**2,866,356**		**2,170,307**
II. Tangible fixed assets				
1) land and buildings		6,830,940		7,210,338
2) plant and equipment		224,660		241,922
3) fixtures and fittings, tools and other equipment		–		–
4) other assets		1,250,049		1,548,644
5) work in progress and payments on account		148,620		23,107
Total		**8,454,269**		**9,024,012**
III. Financial fixed assets				
1) equity investments in:				
a) subsidiaries		–		–
b) associates		–		–
c) parent companies		–		–
d) subsidiaries of parent companies		–		–
d)bis other companies		–		–
		–		**–**
2) receivables:	within 12 months:		within 12 months:	
a) due from subsidiaries	–	–	–	–
b) due from associates	–	–	–	–
c) due from parent companies	–	–	–	–
d) due from subsidiaries of parent companies	–	–	–	–
d)bis due from others	–	41,592	–	87,763
		41,592		**87,763**
3) other securities		–		–
4) derivative financial instrument gains		–		–
Total		**41,592**		**87,763**
TOTAL FIXED ASSETS (B)		**11,362,217**		**11,282,082**

(Eur)		31/12/2016		31/12/2015
(C) CURRENT ASSETS				
I. Inventory				
1) raw, ancillary and consumable materials		–		–
2) work in progress and semi-finished goods		–		–
3) construction work in progress		–		–
4) finished products and goods		–		–
5) payments on account		–		–
Total		**–**		**–**
II. Receivables	beyond 12 months:		beyond 12 months:	
1) customer trade	–	3,033	–	55,510
2) due from subsidiaries	–	–	–	–
3) due from associates	–	–	–	–
4) due from parent companies	–	348,539	–	1,212,133
5) due from subsidiaries of parent companies	–	1,186,505	–	1,668,803
5)bis tax receivables	–	131,616	–	182,148
5)ter deferred tax assets	–	126,471	–	227,978
5)quater due from others	–	30,553	–	23,467
Total		**1,826,717**		**3,370,038**
III. Financial assets that are not financial fixed assets				
1) equity investments in subsidiaries		–		–
2) equity investments in associates		–		–
3) equity investments in parent companies		–		–
3)bis equity investments in subsidiaries of parent companies		–		
4) other equity investments		–		–
5) derivative financial instrument gains		–		–
6) other securities		–		–
7) Financial assets under centralised treasury management due from parent companies		3,970,480		924,106
Total		**3,970,480**		**924,106**
IV. Cash and cash equivalents				
1) bank and postal deposits		–		–
2) cheques		–		–
3) cash and notes on hand		–		–
Total		**–**		**–**
TOTAL CURRENT ASSETS (C)		**5,797,197**		**4,294,145**
	beyond 12 months:		beyond 12 months:	
(D) ACCRUED INCOME AND PREPAID EXPENSES	**–**	**163,764**	**–**	**136,733**
TOTAL ASSETS		**17,323,178**		**15,712,959**

LIABILITIES

(Eur)		31/12/2016		31/12/2015
(A) SHAREHOLDERS' EQUITY				
I. Share capital		1,200,000		1,200,000
II. Paid-in capital in excess of par		8,726,957		8,726,957
III. Revaluation reserves		–		–
IV. Legal reserve		10,237		4,152
V. Statutory reserves		–		–
VI. Other reserves, separately indicated:		–		–
Shareholder contribution reserves		–		–
Capital account reserve		–		–
Extraordinary reserve		–		–
Other reserves		–		–
VII. Reserve for cash flow hedging transactions		–		–
VIII. Retained earnings (losses)		190,854		75,236
IX. Profit (loss) for the year		385,891		121,703
X. Negative reserve for treasury shares in portfolio		–		–
TOTAL		**10,513,939**		**10,128,048**
(B) PROVISIONS FOR LIABILITIES AND CHARGES				
1) for pension benefits and similar obligations		–		–
2) for current and deferred taxes		–		–
3) derivative financial instrument losses		–		–
4) other		237,231		695,492
TOTAL		**237,231**		**695,492**
(C) EMPLOYEES' SEVERANCE INDEMNITIES		**679,313**		**494,169**
(D) PAYABLES				
	beyond 12 months:		beyond 12 months:	
1) bonds	–	–	–	–
2) convertible bonds	–	–	–	–
3) shareholder loans	–	–	–	–
4) bank borrowings	–	–	–	308
5) due to other lenders	–	–	–	–
6) payments on account	–	–	–	–
7) trade payables	–	3,501,277	–	2,366,613
8) bills of exchange	–	–	–	–
9) due to subsidiaries	–	–	–	–
10) due to associates	–	–	–	–
11) due to parent companies	–	400,304	–	81,310
11)bis due to subsidiaries of parent companies	–	16,370	–	10,337
12) tax payables	–	265,040	–	569,417
13) due to social security institutions	–	597,118	–	622,438
14) other payables	–	1,112,586	–	744,827
TOTAL		**5,892,695**		**4,395,250**
(E) ACCRUED EXPENSES AND DEFERRED INCOME				
	beyond 12 months:		beyond 12 months:	
	–	–	–	–
TOTAL LIABILITIES		**17,323,178**		**15,712,959**

INCOME STATEMENT

(Eur)	2016	2015
(A) VALUE OF PRODUCTION		
1) revenues from sales and services	22,068,532	20,484,785
2) change in inventories of finished goods, semi-finished goods and work in progress	–	–
3) change in construction work in progress	–	–
4) own work capitalised	–	–
5) other revenues and income		
- miscellaneous	71,139	282,860
- grants related to income	–	–
TOTAL	**22,139,671**	**20,767,645**
(B) COSTS OF PRODUCTION		
6) raw, ancillary and consumable materials and goods	(120,347)	(114,651)
7) services	(6,980,810)	(5,727,283)
8) lease and rental costs	(2,863,337)	(3,236,855)
9) personnel costs:		
a) wages and salaries	(5,771,852)	(5,099,220)
b) social security contributions	(1,686,338)	(1,520,474)
c) employees' severance indemnities	(398,268)	(359,174)
d) pension benefits and similar	–	–
e) other costs	(305,385)	(361,787)
	(8,161,843)	(7,340,654)
10) amortisation, depreciation and write-downs:		
a) amortisation of intangible fixed assets	(1,579,445)	(1,359,926)
b) depreciation of tangible fixed assets	(884,363)	(917,898)
c) other write-downs of fixed assets	–	–
d) write-down of receivables under current assets and cash and cash equivalents	–	–
	(2,463,808)	(2,277,824)
11) change in inventories of raw, ancillary and consumable materials and goods	–	–
12) provisions for liabilities	–	–
13) other provisions	–	(695,479)
14) miscellaneous operating expenses	(737,976)	(838,320)
TOTAL	**(21,328,121)**	**(20,231,065)**
DIFFERENCE BETWEEN VALUE AND COSTS OF PRODUCTION (A-B)	**811,550**	**536,579**

(Eur)	2016	2015
(C) FINANCIAL INCOME AND EXPENSES		
15) income from equity investments:	–	–
- from subsidiaries	–	–
- from associates	–	–
- from parent companies	–	–
- from subsidiaries of parent companies	–	–
	–	**–**
16) other financial income:		
a) from receivables under fixed assets:		
- from subsidiaries	–	–
- from associates	–	–
- from parent companies	–	–
- from subsidiaries of parent companies	–	–
- from others	–	–
	–	**–**
b) from securities under fixed assets, excluding equity investments	–	–
c) from securities under current assets, excluding equity investments	–	–
d) other income:		
- from subsidiaries	–	–
- from associates	–	–
- from parent companies	5,181	6,966
- from subsidiaries of parent companies	–	–
- from others	2,982	–
	8,163	**6,966**
	8,163	**6,966**
17) interest and other financial expenses:		
- due to subsidiaries	–	–
- due to associates	–	–
- due to parent companies	(3,384)	(21,328)
- due to others	(76)	(50)
	(3,460)	**(21,378)**
17)bis Foreign exchange gains and losses	(346)	(10)
TOTAL	**4,357**	**(14,422)**

(Eur)	2016	2015
(D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES		
18) revaluations:		
a) of equity investments	–	–
b) of financial fixed assets, excluding equity investments	–	–
c) of securities under current assets, excluding equity investments	–	–
d) of derivative financial instruments	–	–
	–	**–**
19) write-downs:		
a) of equity investments	–	–
b) of financial fixed assets, excluding equity investments	–	–
c) of securities under current assets, excluding equity investments	–	–
d) of derivative financial instruments	–	–
	–	**–**
TOTAL ADJUSTMENTS (18-19) (D)	**–**	**–**
PROFIT (LOSS) BEFORE TAXES (A -B +/-C +/-D)	**815,907**	**522,157**
20) income taxes for the year, current and deferred	(430,016)	(400,454)
PROFIT (LOSS) FOR THE YEAR	**385,891**	**121,703**

STATEMENT OF CASH FLOWS

(EUR thousand)	2016	2015
A. CASH FLOWS FROM OPERATING ACTIVITIES (INDIRECT METHOD)		
Profit (loss) for the year	386	122
Income taxes	430	400
Interest expense / (interest income)	(4)	14
(Dividends)	–	–
Capital (gains)/losses from the disposal of assets	–	–
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains/losses from disposal	**812**	**537**
Allocations to provisions	–	695
Amortisation/depreciation of fixed assets	2,464	2,278
Write-downs for impairment losses	–	–
Other adjustments for non-monetary reasons	–	–
Value adjustments to financial assets and liabilities of derivative financial instruments that do not entail cash flow movements	–	–
2. Cash flow before changes in net working capital	**3,276**	**3,610**
Decrease / (increase) in inventory	–	–
Decrease / (increase) in trade receivables	791	5,842
Increase / (decrease) in trade payables	1,116	466
Decrease / (increase) in accrued income and prepaid expenses	(25)	39
Increase / (decrease) in accrued expenses and deferred income	–	2
Other changes in net working capital	240	(1,226)
3. Cash flow after changes in net working capital	**6,398**	**8,633**
Interest received / (paid)	7	(14)
(Income taxes paid)	–	(1,152)
Dividends received	–	–
(Drawdown of employees’ severance indemnities provisions)	185	(121)
(Drawdown of provisions)	–	(2,245)
Other receipts and payments	–	–
4. Cash flow after other adjustments	**5,590**	**5,101**
CASH FLOWS FROM OPERATING ACTIVITIES (A)	15,076	17,781

	2016	2015
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Tangible fixed assets		
(Investments)	(424)	(331)
Disposals	109	158
Intangible fixed assets		
(Investments)	(2,284)	(1,567)
Disposals	8	–
Financial fixed assets		
(Investments)	–	(8)
Disposals	46	–
CASH FLOWS FROM INVESTING ACTIVITIES (B)	**(2,545)**	**(1,747)**
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowed capital		
Increase (decrease) in short-term bank borrowings	–	(0)
Increase (decrease) in short-term intra-group payables/receivables	(3,044)	(3,354)
New loans	–	–
Loans repaid	–	–
Shareholders' equity		
Rights issue	–	–
(Capital reimbursement)	–	–
Disposal (purchase) of treasury shares	–	–
Other changes in equity	(1)	–
Dividends (and dividend prepayments) paid	–	–
CASH FLOWS FROM FINANCING ACTIVITIES (C)	**(3,045)**	**(3,354)**
Increase (decrease) in cash and cash equivalents (A ± B ± C)	9,486	12,680
Cash and cash equivalents - opening balance	**–**	**–**
Cash and cash equivalents - closing balance	**–**	**–**

EXPLANATORY NOTES

COMPANY PROFILE

The object of the company business is to provide, for the other related companies of the group, services as organization, creation and provision of administrative, accounting, personnel, tax, corporate, financial, IT, technical and real estate services and connected or related services.

The object of the business, in Italy and around the world, is the organisation, creation and provision of administrative, accounting, personnel, tax, corporate, financial, IT, technical, and real estate services and connected or related services.

On 20 December 2013, the shareholders approved the resolution to raise the share capital from EUR 120 thousand to EUR 1,200 thousand through the issue of 9,000 new shares with a par value of EUR 120 each. The new shares were entirely subscribed by the sole shareholder ERG S.p.A. and issued with the contribution of a business unit. The contribution became effective as of 1 January 2014 and was made by taking over the carrying amounts of the assets and liabilities as booked in the accounts of the contributing company, under tax neutral regime.

The business unit contributed consisted primarily of operations relating to services formerly provided by ERG S.p.A. to ERG Group companies.

In particular, the business unit included service staff operations, rental services for data centres, hardware ICT tool and application software, the provision of support services for the use of existing systems and the development of new systems, rental of facilities and relative accessory services and car spaces.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

On 1 January 2017, the merger by acquisition of the Company into ERG S.p.A. took effect. Consequently, as of 1 January 2017 the Company was dissolved and its corporate officers discharged, with all powers of attorney given in the name of company expired. As such, the acquirer, ERG S.p.A. has succeeded in a universal capacity to assets and liabilities of the target company.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The financial statements for 2016 were prepared in accordance with laws in force governing their preparation, as interpreted and integrated by the accounting principles issued by the Italian National Councils of Professional and Certified Public Accountants and the Italian Accounting Standard Setter, taking into consideration reforms and updates to Italian GAAP.

The financial statements were prepared on a going-concern basis, given that operations will continue within the scope of the acquirer ERG S.p.A.'s operations, and consist of the Statement of Financial Position, the Income Statement, Statement of Cash Flows (prepared respectively in accordance with the provisions of Articles 2424 and 2424-bis, Articles 2425 and 2425-bis and Article 2425-ter of the Italian Civil Code) and these Explanatory Notes.

The purpose of the Explanatory Notes is to illustrate, analyse and in some cases provide additional information to the financial statements, and contains the disclosures required by Articles 2427 and 2427-bis and other provisions of the Italian Civil Code governing financial statements and by other previous laws. They also provide all the complementary information considered necessary for a more transparent and complete understanding of operations, even if not required by specific provisions of law.

For greater clarity of presentation, all amounts stated in the Explanatory Notes have been rounded to the nearest thousands of Euro. Consequently, in some tables, total amounts may differ slightly from the sum of the figures listed.

ACCOUNTING STANDARDS AND VALUATION CRITERIA

The accounting standards and valuation criteria applied are designed to give a true and fair view of the financial position and performance of the Company and profit for the year, as required by Articles 2423 et seq. of the Italian Civil Code. Items were measured in accordance with the prudence concept and on an accrual basis, on the assumption that the business is a going concern and on the principle of substance over form, introduced by Italian Legislative Decree 6/2003. Italian Legislative Decree 139/2015 additionally states that recognition, valuation, presentation and disclosure obligations need not be observed if their fulfilment is irrelevant to the purpose of providing a true and fair view. Obligations concerning the due keeping of accounting records remain applicable.

The financial reporting principles specified in Article 2423 of the Italian Civil Code were applied without exemptions.

The accounting policies reported below were adapted in accordance with the amendments, additions and new principles introduced to the Italian Civil Code by Italian Legislative Decree 139/2015, implementing Directive 2013/34/EU concerning financial reporting. In particular, Italian GAAP were reformulated by the Italian Standard Setter and issued on 22 December 2016.

The section "Pro-forma Financial Statements at 31 December 2015" states the effect of the application of the new principles cited on statement of financial position items, on shareholders' equity at 1 January 2016, and on the statement of financial position, the income statement and the statement of cash flows for 2015, reported for comparative purposes.

Intangible fixed assets

These assets are recognised at the historical cost of purchase and carried net of amortisation charged directly to the individual items over the years. The cost includes ancillary costs and direct and indirect costs, for the share reasonably attributable to the asset, incurred from their creation to the moment when the asset is ready for use, as well as financial expenses incurred to fund their creation (internally or by third parties) until the moment they are ready for use.

The values of assets received in contribution correspond to the carrying amounts recorded in the accounts of the contributing company and amortisation has continued in full continuity with the amortisation rates previously applied. Said rates are considered fully consistent with the remaining useful life of the assets.

Start-up and expansion costs are amortised on a straight-line basis over a period of five years.

Advertising and research costs are expensed entirely in the year in which they are incurred.

Improvements to third-party assets are capitalised and recognised as "other intangible fixed assets" if they cannot be separated from the asset itself (otherwise they are recognised as items of "tangible fixed assets"), and are systematically amortised at the lower of their expected useful life or the residual lease term, including any renewal period if dependant on the Company.

If, independently of accumulated amortisation, an impairment loss is recognised, the asset is written down by the same amount. If in future years the conditions justifying the write-down no longer exist, the carrying amount of the asset is restored to the value it would have had if the write-down for impairment had not taken place, with the exception of goodwill and the "deferred charges" contemplated in Article 2426, point 5, of the Italian Civil Code.

Software is amortised at a rate of 33%, whereas improvements to third-party assets are amortised at 20%.

Tangible fixed assets

These are recognised at the cost of purchase plus any ancillary costs directly attributable to the asset and costs incurred for its use, less any material trade and cash discounts.

Carrying amounts are adjusted annually by an amount equal to accumulated depreciation. Depreciation is expensed in the income statement and calculated systematically on a straight-line basis at rates representing the estimated useful life of the asset of reference.

If, independently of accumulated depreciation, an impairment loss is recognised, the asset is written down by the same amount. If in future years the conditions justifying the write-down no longer exist, the original value is restored less depreciation only.

The values of assets received in contribution correspond to the carrying amounts recorded in the accounts of the contributing company and depreciation has continued in full continuity with the depreciation rates previously applied. Said rates are considered fully consistent with the remaining useful life of the assets.

Italian Legislative Decree 139/2015 replaced the concept of "economic function" with the "economic substance" doctrine. In this regard, OIC 16 states that fixed assets should be initially recognised at the date at which the risks and rewards connected with the acquired asset are transferred, specifying that the transfer of risks and rewards usually occurs when ownership is legally transferred. It goes on to clarify, however, that "if, by virtue of specific contractual clauses, the date of transfer of risks and rewards does not coincide with the date of transfer of legal ownership, the date of transfer of risks and rewards should prevail" and that "all contractual clauses need to be analysed to determine that situation".

Write-downs for the impairment of tangible and intangible fixed assets

In accordance with OIC 9, the Company tests its intangible assets and property, plant and equipment for impairment at least once a year to determine whether there are indications that they may be impaired. If such an indication exists, it is necessary to estimate the recoverable value of the asset to determine the amount of any write-downs.

When it is not possible to estimate the recoverable value of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

The recoverable amount of an asset is the higher between its fair value, less the costs of the sale, and its value in use determined as the present value of expected future cash flows.

Impairment is recognised if the recoverable value is less than the carrying value. Should the impairment of a fixed asset, other than goodwill and deferred charges, subsequently no longer apply or be reduced, the carrying value of the asset or cash-generating unit is restored to the new estimate of the recoverable value, without exceeding the value that would have been determined if no impairment had been recognised.

Receivables

Receivables are recognised in accounts on the amortised cost method, taking into account their timeframes and their estimated fair value. The amortised cost method is not applied when its effects are immaterial, i.e., when transaction costs, commissions paid by the parties and any other difference between the initial value of the receivable and its value at maturity are negligible or when receivables are short-term (with a maturity of less than 12 months). Trade receivables due beyond 12 months from their initial recognition, where no interest is paid or paid at rates significantly lower than market interest rates, and relative proceeds are initially recognised by discounting the future cash flows at the market interest rate. The difference between the initial carrying amount of receivables and their nominal amount is charged to the income statement as financial income over the life of the receivables using the effective interest rate method.

All trade receivables shown in the financial statements are due within 12 months and hence carried at their nominal amount.

The receivables shown are also stated at their estimated fair value. Receivables are adjusted to their estimated fair value through the allocation of specific provisions for bad debts, measured considering country risk and general economic and industry conditions.

Receivables due in foreign currencies are converted into Euro at the exchange rate applicable at the transaction date; any difference between that value and the amount effectively collected is charged to the income statement as financial income or expense.

Exchange rate differences arising in foreign currency receivables valued at the year-end exchange rate and the rate applicable at the transaction date are charged to the income statement.

Financial assets

In accordance with OIC 14, receivables arising from centralised treasury services (cash pooling) are recognised, where permitted by collection terms, as "financial assets under centralised treasury management" under "Financial assets that are not financial fixed assets", with indication given of the counterparty (e.g., parent company, subsidiary, etc.). If short-term collection terms are not satisfied, the receivables are carried as financial fixed assets.

Cash and cash equivalents

These are stated at their nominal value, with separate indication given of bank and postal deposits and cash and notes on hand.

Accruals and deferrals

Accruals and deferrals include costs and revenues accruing to the year but payable/receivable in subsequent years and costs and revenues paid/received during the year but accruing to subsequent years, in accordance with the accrual basis of accounting.

Provisions for liabilities and charges

Provisions for liabilities and charges are allocated to cover liabilities of a determinate nature that are certain or probable, the exact amount of which, however, or future date is unknown at the reporting date.

Contingent liabilities are recognised in the financial statements and carried as provisions when their likelihood is high and the amount of the obligation can be estimated reliably. Amounts are estimated on both a prudent and accrual basis of accounting, principles which do not permit the allocation of provisions for generic risks or without economic justification. Risks for which a related liability is merely possible or for which no objective estimate can be made of the connected liability are reported in the Explanatory Notes without the allocation of provisions for liabilities and charges. Risks whose likelihood would appear to be remote are not taken into consideration.

Employees' severance indemnities

Employees' severance indemnities show the benefits accruing to employees in the event of the termination of their employment at the reporting date. Severance indemnities allocated for the year and the revaluation of existing provisions are measured in accordance with laws in force. Severance indemnities are shown in item C of Liabilities, with relative provisions shown in item B9 of the income statement.

With the introduction of the Italian 2007 Budget Law and relative implementing decrees, commencing as of 1 January 2007 severance indemnities accruing to employees are paid into pension funds or the treasury fund established by INPS. Accordingly, severance indemnities accruing after 1 January 2007 are treated in the same way as other social security contributions, regardless of whether they are paid into supplemental retirement schemes or the INPS treasury fund. As such, the item shows severance indemnities accruing to employees before the date of the reform but not yet paid out, less any prepayments made in accordance with laws in force.

Payables

Payables are recognised on the amortised cost method, taking into account their timeframes. The amortised cost method is not applicable to payables when its effects are immaterial. Effects are considered immaterial for short-term payables (due within 12 months). In relation to the amortised cost method, see the remarks reported for receivables. Payables due in foreign currencies are converted into Euro at the exchange rate applicable at the transaction date; any difference between that value and the amount effectively paid is charged to the income statement as financial income or expense. Exchange rate differences arising in foreign currency payables valued at the year-end exchange rate and the rate applicable at the transaction date are charged to the income statement.

Statement of Cash Flows

The statement of cash flows shows inflows and outflows of cash and cash equivalents over the year.

Individual cash flows are stated separately in the statement of cash flows under one of the following categories:

a. operating activities;

b. investing activities;

c. financing activities.

The categories are shown in the above order.

Cash flow from operating activities is measured using the indirect method, i.e., by adjusting the profit or loss for the year shown in the income statement.

The algebraic sum of the cash flows for each of the above categories gives the net change (increase or decrease) in cash and cash equivalents for the year.

The statement of cash flows is presented in a progressive format.

Accounting standard OIC 10 introduced the following changes:

- interest paid and interest received are stated separately as cash flow from operating activities, except where they refer directly to investments (investing activities) or loans (financing activities);
- dividends received and dividends paid are stated separately as cash flow from operating activities and cash flow from financing activities respectively;
- cash flows connected with income taxes are stated separately and classified under operating activities.

Income Statement

Income and charges are recognised in the income statement on an accrual basis.

Revenues and costs for the year

Revenues from the sale of goods are recognised when ownership is substantially and not formally transferred, with the substantial transfer of ownership determined by the transfer of risks and rewards.

Revenues from services are recognised upon the completion of the service and/or when amounts become owing.

Transactions with related parties are conducted at arm's length.

Costs are recognised on an accrual basis, regardless of the collection and payment date, net of returns, discounts, rebates and premiums.

Financial income and expenses

Financial income and expenses are recognised on an accrual basis. Costs connected with the factoring (with or without recourse) of receivables of any nature (trade, financial or other) are charged to the year to which they accrue.

Foreign currency items

Non-monetary assets and liabilities originally stated in foreign currencies are carried in the statement of financial position at the exchange rate applicable when they are acquired, i.e., at initial recognition cost.

Monetary assets and liabilities originally stated in foreign currencies are converted in the financial statements at the spot exchange rate at the reporting date; the related foreign currency gains and losses are charged to the income statement and any resulting net gain is held in a non-distributable reserve until it is realised.

Current and deferred taxes

Current taxes are calculated based on estimated taxable income in accordance with tax regulations in force, taking into account application of the "national tax consolidation" regime by the consolidator ERG S.p.A.

Deferred tax assets and liabilities are calculated, with provisions allocated, on the basis of temporary differences between the value of a certain asset or liability under statutory reporting requirements and its value for tax purposes, on both a prudent and accrual basis. Their measurement takes into account the estimated tax rate applicable to the Company for the year in which the differences will contribute to taxable income, considering the tax rates in force or announced as of the reporting date; the resulting amounts are posted in the "deferred tax provision" booked under provisions for liabilities and charges in Liabilities and in item 4-ter) and in "deferred tax assets" under Current Assets.

Deferred tax assets are recognised for all deductible temporary differences on a prudent basis if it can reasonably be assumed that taxable income in the years in which the assets will become refundable will not be less than the differences that will be offset.

Deferred tax liabilities are instead recognised on all taxable temporary differences.

In accordance with Article 2424 of the Italian Civil Code, deferred tax assets are shown in the statement of financial position as "deferred tax assets" under Current Assets, whereas deferred tax liabilities are shown in the "deferred tax provision" booked under "Provisions for liabilities and charges".

Tax assets and liabilities are cleared by the consolidator.

Under tax consolidation arrangements, each consolidated company transfers its (positive or negative) taxable income to the consolidator; the consolidator recognises a receivable due from the company equal to the IRES tax payable (the consolidated company recognises a payable due to the consolidator). If, instead, the taxable income contributed is negative, the consolidator recognises a payable equal to the IRES tax on the loss effectively offset at Group level (the consolidated company recognises a receivable due from the consolidator).

Italian Law 208 of 28 December 2015 ("2016 Stability Law") introduced tax cuts lowering the IRES tax rate from 27.5% to 24% as of 1 January 2017.

Accordingly, the tax rate applied for the purposes of calculating deferred tax assets was a IRES nominal rate of 24% for income items that will be taxed in future years, plus the IRAP rate (4.82%) where applicable.

Company preparing the consolidated financial statements

The company preparing the consolidated financial statements for the greater corporate group to which the Company belongs is San Quirico S.p.A., registered office in Via Ciovasso 4, Milan, Italy. The Consolidated Financial Statement of San Quirico S.p.A. is available from the registered office.

The company preparing the consolidated financial statements for the smaller corporate group to which the Company belongs is ERG S.p.A., registered office in Via De Marini 1, Genoa, Italy. The Consolidated Financial Statements of ERG S.p.A. is available from the registered office in Via De Marini 1, Genoa and on the corporate website.

Use of estimates

Preparation of the financial statements requires the Company to make estimates and assumptions that have an impact on the values of the assets and liabilities reported in the financial statements and on information relating to contingent assets and liabilities. Estimates are made using information available and subjective judgment and are based on experience.

By their very nature, estimates and assumptions used may vary from year to year, and therefore, it cannot be excluded that in subsequent years the current financial statement values may differ as a result of the change in the subjective assessments used.

The main estimates for which subjective assessments are more heavily required were used, inter alia, for:

- determining the useful life of assets, relative amortisation and depreciation rates and any write-downs for impairment losses;
- provisions for liabilities related to legal and tax disputes for which a financial outlay is deemed likely and the amount of the resulting charges can be reasonably estimated;
- deferred tax assets, recognised on the basis of future taxability of expected profits generated in accordance with business plans as well as of the expected renewal of tax consolidation regimes.

Estimates and assumptions are revised periodically and the effects of each change are reflected in the Income Statement in the period when the change took place.

Pro-forma Financial Statements at 31 December 2015

In general, new Italian GAAP allow companies to report prospectively in their financial statements any effects deriving from changes introduced to a previous accounting principle. Accordingly, items referring to transactions that continue to have an effect on the financial statements may be measured and reported in accordance with the previous accounting principle, unless otherwise specified in provisions for the first-time application of the new national GAAP. Changes introduced by the reforms of Italian Legislative Decree 139/2015 and by updated accounting principles which impacted these financial statements primarily concerned:

- the review of reporting formats with the elimination of extraordinary income components, which are now reported by their nature, the inclusion of items concerning dealings with subsidiaries of parent companies and the elimination of memorandum accounts;
- the reclassification of receivables due from parent companies under central treasury management from item C) II 4) “receivables due from parent companies” to item C) III 7) “financial assets under central treasury management due from parent companies”.

The effects of the application of new Italian GAAP are summarised below:

STATEMENT OF FINANCIAL POSITION

ASSETS

(EUR thousand)	Approved 2015 Financial Statements	Adoption new ITA GAAP	Revised Financial Statements
FIXED ASSETS			
Intangible fixed assets	2,170,307	–	2,170,307
Tangible fixed assets	9,024,012	–	9,024,012
Financial fixed assets	87,763	–	87,763
TOTAL FIXED ASSETS	**11,282,082**	**–**	**11,282,082**
CURRENT ASSETS			
Receivables	4,294,145	(924,106)	3,370,039
Financial assets	–	924,106	924,106
Cash and cash equivalents	–	–	–
TOTAL CURRENT ASSETS	**4,294,145**	**–**	**4,294,145**
ACCRUALS AND DEFERRALS	**136,733**	**–**	**136,733**
TOTAL ASSETS	**15,712,959**	**–**	**15,712,959**

LIABILITIES

(EUR thousand)	Approved 2015 Financial Statements	Adoption new ITA GAAP	Revised Financial Statements
Shareholders' equity	10,128,048	–	10,128,048
Provisions for liabilities and charges	695,492	–	695,492
Employees' severance indemnities	494,169	–	494,169
Payables	4.395.250		4,395,250
TOTAL LIABILITIES	**5,584,911**	**–**	**5,584,912**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**15,712,959**	**–**	**15,712,959**

No impact was had on the income statement, statement of cash flows or shareholders' equity.

STATEMENT OF FINANCIAL POSITION ANALYSIS

Commentary is provided below on the Statement of Financial Position, with items compared to the balances at 31 December 2015.

ASSETS

FIXED ASSETS

Intangible fixed assets (EUR 2,866 thousand)

	Start up and expansion costs	Work in progress and payments on account	Other	Total
Historical cost	3,157	427	22,505	26,088
Amortisation	(3,155)	–	(20,763)	(23,918)
BALANCE AT 31/12/2015	**2**	**427**	**1,742**	**2,170**
Changes during the year:				
Acquisitions	–	1,134	1,150	2,284
Capitalisation/reclassification	–	(374)	374	–
Disposals and divestments	–	–	(8)	(8)
Amortisation	(1)	–	(1,579)	(1,580)
Write-downs	–	–	–	–
Change	–	–	–	–
Other changes	–	–	(1)	(1)
Historical cost	3,157	1,187	24,016	28,360
Amortisation	(3,156)	–	(22,338)	(25,494)
BALANCE AT 31/12/2016	**1**	**1,187**	**1,678**	**2,866**

Intangible fixed assets include start-up and expansion costs connected with the establishment of the company, improvements to third-party assets and software used by the various ERG Group companies that have service agreements in place with the Company. The item amounted to EUR 2,866 thousand, net of amortisation. Start-up and expansion costs are amortised over five years; software is amortised over three years.

Acquisitions for the year refer mainly to the implementation of SAP software at foreign companies and ERG Hydro and the implementation of other software at ERG Hydro already in use by other ERG Group companies.

Tangible fixed assets (EUR 8,455 thousand)

	Land and buildings	Plant and equipment	Other assets	Work in progress and payments on account	Total
Historical cost	14,497	794	8,857	23	24,171
Revaluations	–	–	–	–	–
	14,497	**794**	**8,857**	**23**	**24,171**
Depreciation	(7,286)	(552)	(7,309)	–	(15,147)
Write-downs	–	–	–	–	–
BALANCE AT 31/12/2015	**7,211**	**242**	**1,548**	**23**	**9,024**
Changes during the year:					
Acquisitions	–	77	205	142	424
Capitalisation/reclassification	–	–	17	(17)	–
Disposals and divestments	–	(43)	(66)	–	(109)
Depreciation	(379)	(51)	(454)	–	(884)
Write-downs	–	–	–	–	–
Change	–	–	–	–	–
Other changes	(1)	–	1	–	–
Historical cost	14,497	769	8,870	149	24,285
Revaluations	–	–	–	–	–
	14,497	**769**	**8,870**	**149**	**24,285**
Depreciation	(7,666)	(544)	(7,620)	–	(15,830)
Write-downs	–	–	–	–	–
BALANCE AT 31/12/2016	**6,831**	**225**	**1,250**	**149**	**8,455**

In detail, the item “Land and buildings” essentially refers to offices, residential property and property with guest facilities for ERG Group employees, including relative accessory areas, appurtenances and car parks.

The item “Other assets” includes furniture, furnishings and office equipment utilised in the provision of services to Group companies. The increase for the year was primarily driven by efforts to integrate the associate ERG Hydro and foreign ERG Group companies and by the installation of servers and television sets in meeting rooms.

Financial fixed assets (EUR 42 thousand)

Financial fixed assets consisted of security deposits carried as financial receivables (EUR 42 thousand), received with the business unit contributed.

CURRENT ASSETS (EUR 5,797 THOUSAND)

Receivables (EUR 1,827 thousand)

(EUR thousand)	31/12/2016	31/12/2015
Customer trade receivables	3	56
Receivables due from parent companies	348	1,212
Receivables due from subsidiaries of parent companies	1,187	1,669
Tax receivables	132	182
Deferred tax assets	126	228
Other receivables	31	24
Total	**1,827**	**3,371**

Receivables due from parent companies (EUR 348 thousand)

(EUR thousand)	31/12/2016	31/12/2015
Trade receivables		
ERG S.p.A.	–	257
Sundry receivables		
ERG S.p.A.	348	955
Total	**348**	**1,212**

Other receivables due from the parent company essentially refer to the share of Group VAT receivable for a total of EUR 346 thousand.

Receivables due from subsidiaries of parent companies (EUR 1,187 thousand)

The item refers to trade receivables due from Group companies for seconded personnel.

Tax receivables (EUR 132 thousand)

Tax receivables referred to surplus IRAP tax paid in advance in 2016 compared to the effective tax charge.

Deferred tax assets (EUR 126 thousand)

	31/12/2016	
	Total temporary differences	Tax effect
Provisions for liabilities	105	29
Other changes in IRES	405	97
Total	**510**	**126**

Deferred tax assets primarily include EUR 29 thousand in provisions for charges and EUR 97 thousand in other income deductible in future financial years.

Deferred tax assets were posted in the financial statements at 31 December 2016 on the grounds that it is reasonably certain that they will be recovered in the years when their refund is expected. This assumption is founded primarily on the Company's participation in tax consolidation arrangements under the parent company ERG S.p.A., considering the positive taxable income expected at Group level.

Deferred tax assets were calculated at the nominal IRES rate (24%) plus the IRAP rate (3.9%), where applicable.

Financial assets that are not financial fixed assets (EUR 3,971 thousand)

(EUR thousand)	31/12/2016	31/12/2015
Financial assets under centralised treasury management due from parent companies	3,971	924
Total	**3,971**	**924**

The item amounted to EUR 3,971 thousand, including balances under centralised treasury management due from the parent company ERG S.p.A.

As explained in the section "Accounting standards and valuation criteria", the item was introduced by OIC 14 under new Italian GAAP. The corresponding amount for 2015, originally classified as "receivables due from parent companies", was reclassified accordingly.

Accrued income and prepaid expenses (EUR 163 thousand)

(EUR thousand)	31/12/2016	31/12/2015
Prepaid expenses of rights	–	39
Prepaid expenses of maintenance fees	42	26
Prepaid expenses of insurance premiums	2	3
Other prepaid expenses	119	69
Total	**163**	**137**

The asset items are shown below broken down by maturity:

	within 12 months	within 5 years	beyond 5 years	Total
Receivables under financial fixed assets				
– due from others	–	42	–	42
Receivables under current assets				
– customer trade	3	–	–	3
– due from parent companies	349	–	–	349
– due from subsidiaries of parent companies	1,187	–	–	1,187
– due from tax authorities	132	–	–	132
– deferred tax assets	126	–	–	126
– due from others	31	–	–	31
Financial assets that are not financial fixed assets				
– due from parent companies	3,970	–	–	3,970
Accrued income and prepaid expenses				
– prepaid expenses	164	–	–	164
Total	**5,961**	**42**	**–**	**6,003**

LIABILITIES

SHAREHOLDERS' EQUITY (EUR 10,514 THOUSAND)

Share capital (EUR 1,200 thousand)

The share capital of EUR 1,200 thousand, fully paid up, is divided into 10,000 shares with a par value of EUR 120 each, held entirely by the sole shareholder ERG S.p.A.

Paid-in capital in excess of par (EUR 8,727 thousand)

The reserve was generated entirely in 2014 following the subscription by ERG S.p.A. of new share capital increase against the contribution of a business unit.

Changes in shareholders' equity

The table below shows changes in shareholders' equity over the year:

	Capital	Legal reserve	Other r eserves	Retained earnings (losses)	Profit (loss) for the period	Total shareholders' equity
Balance at 31/12/2014	**1,200**	**–**	**8,727**	**(4)**	**83**	**10,006**
Allocation of profit for previous year	–	4	–	79	(83)	–
Profit for the year	–	–	–	–	122	122
Balance at 31/12/2015	**1,200**	**4**	**8,727**	**75**	**122**	**10,128**
Allocation of profit for previous year	–	6	–	116	(122)	–
Profit for the year	–	-	–	–	386	386
Saldo al 31/12/2016	**1,200**	**10**	**8,727**	**191**	**386**	**10,514**

The following table lists shareholders' equity items, indicating for each of them the possible utilisation, as well as any tax restrictions.

	Amount	Possibility of utilisation	Amount available	Amount tax suspended
Share Capital	1,200	–	–	–
Paid-in capital in excess of par	8,727	A,B	8,727	–
Legal reserve	10	–	–	–
Retained earnings (losses)	191	A,B,C	191	–
Net profit (loss) for the year	386	A,B,C	386	–
Total	**10,514**		**9,304**	**–**
Amount not distributable			20	
Residual amount distributable			**9,284**	

Key: A - for share capital increasee – B - to cover losses – C - for distribution to shareholders

The amount not distributable refers to:	
1) amount to be allocated to the legal reserve	19
2) statement of financial position value of start up and expansion costs before taxes	1
	20

Provisions for liabilities and charges (EUR 237 thousand)

(EUR thousand)	31/12/2016	31/12/2015
Provisions for pension benefits and similar obligations	–	–
Provisions for current and deferred taxes	–	–
Derivative financial instrument losses	–	–
Other provisions	(237)	(695)
Total	**(237)**	**(695)**

The item "other provisions" includes provisions received from ERG S.p.A. with the business unit contributed, covering the estimated restructuring and reorganisation costs connected with the transfer. During the year the provisions were drawn down by EUR 458 thousand to cover costs incurred in 2016 as part of the reorganisation process.

Employees' severance indemnities (EUR 679 thousand)

			Changes	
	31/12/2016	31/12/2015	Increases	Decreases
Employees' severance indemnities	679	494	773	(588)
Total	**679**	**494**	**773**	**(588)**

The item refers to severance indemnities accrued by employees up until the entry into force of reforms introduced by the Italian 2007 Budget Law and relative implementing decrees, revalued in accordance with statutory provisions and stated net of amounts paid out during the year.

Payables (EUR 5,892 thousand)

Payables are summarised as follows:

(EUR thousand)	31/12/2016	31/12/2015
Trade payables	3.501	2.367
Payables due to parent companies	400	81
Payables due to subsidiaries of parent companies	16	10
Tax payables	265	569
Payables due to social security institutions	597	622
Other payables	1.113	746
Total	**5.892**	**4.395**

Trade payables (EUR 3,501 thousand)

Trade payables mainly refer to payables for commercial services due within 12 months to entities resident in Italy. The item includes EUR 1,086 thousand in trade payables and EUR 2,415 in payables for invoices to be received. The increase for the year was driven primarily by higher payables for capital expenditure.

Payables due to parent companies (EUR 400 thousand)

The item refers to the acquisition of IRES tax receivable from the consolidator ERG S.p.A., transferred in accordance with Article 43-ter of Italian Presidential Decree 602/73. The tax receivable acquired will be used to offset other taxes.

Tax payables (EUR 265 thousand)

The item consists of payables for withholding tax.

Payables due to social security institutions (EUR 597 thousand)

The item consists of contributions owing on wages and salaries paid for December 2016 for social security obligations.

Other payables (EUR 1,113 thousand)

Other payables include amounts payable to personnel, including the estimated production bonus and other variable incentives connected with company objectives.

The liability items are shown below broken down by maturity:

	within 12 months	within 5 years	beyond 5 years	Total
Payables				
- shareholder loans	–	–	–	–
- bank borrowings	–	–	–	–
- trade payables	3,501	–	–	3,501
- due to parent companies	400	–	–	400
- due to subsidiaries of parent companies	16	–	–	16
- due to associates	–	–	–	–
- tax payables	265	–	–	265
- due to social security institutions	597	–	–	597
- other payables	1,113	–	–	1,113
Accrued expenses and deferred income				
- accrued expenses and deferred income	–	–	–	–
Total	**5,893**	**–**	**–**	**5,893**

INCOME STATEMENT ANALYSIS

VALUE OF PRODUCTION (EUR 22,140 THOUSAND)

Revenues from sales and services (EUR 22,069 thousand)

(EUR thousand)	2016	2015
Revenues from sales and services - third parties	210	–
Revenues from sales and services - affiliates	15,855	13.873
Revenues from sales and services - parent companies	6.004	6.612
Total	**22,069**	**20,485**

Revenues from services refer to service agreements in place with group companies. Service agreements are organised by service lines, to which costs incurred are then allocated on the basis of drivers representing the amount of work generated by each group company, which ensure that allocation criteria are objective and uniform over time. The profit margin for the Company is given by a suitable mark-up, applied to ensure the profitability of services provided.

The breakdown of revenues from services is shown below:

	2016	2015
Third-party customers	210	–
ERG S.p.A.	4,653	6,612
ERG Renew S.p.A.	4,943	6,246
ERG Power Generation S.p.A.	6,126	6,671
ERG Supply & Trading S.p.A.		825
ISAB Energy S.r.l.	–	106
Sigea S.r.l.	–	13
Other	4	12
Total	**15,935**	**20,485**

Other revenues and income (EUR 71 thousand)

Other revenues primarily consist of costs charged back to Group companies.

COST OF PRODUCTION (EUR 21,328 THOUSAND)

Purchases of raw, ancillary and consumable materials and goods (EUR 120 thousand)

(EUR thousand)	2016	2015
Costs for raw, ancillary and consumable materials	120	115
Total	**120**	**115**

Costs for services (EUR 6,981 thousand)

(EUR thousand)	2016	2015
Service costs from third parties	6,405	5,140
Service costs from affiliates	41	40
Service costs from parent companies	535	547
Total	**6,981**	**5,727**

Costs for services from parent companies include services provided by the parent company ERG S.p.A. primarily in relation to a service staff agreement and costs charged by the parent company (CEO fees).

Services provided by third parties break down as follows:

(EUR thousand)	2016	2015
Maintenance costs	174	168
Technical, legal and other consulting costs	773	660
Statutory Auditors' fees	30	30
Utilities and supplies	1,035	786
Insurance expenses	74	52
Other services	4,319	3,444
Total	**6,405**	**5,140**

Other third-party services consist mainly of maintenance, IT, technical consulting and legal advisory services provided by specialist companies. Insurance costs refer to insurance premiums paid during the year.

In 2016 a total of EUR 30 thousand was paid in fees to the Board of Statutory Auditors.

"Costs for services" also include EUR 286 thousand in fees paid to the independent auditors Deloitte & Touche S.p.A., which break down as follows:

	Deloitte & Touche S.p.A.	Other D&T Network companies
Auditing services	31	–
Other services	24	231
Total	**55**	**231**

Auditing services include the audit of the annual financial statements, the limited review of the half-year report and regular audits of accounts.
Other services relate to “agreed upon procedures” for accounting records and tax consulting engagements awarded to companies belonging to the Deloitte&Touche Network.

Lease and rental costs (EUR 2,864 thousand)

(EUR thousand)	2016	2015
Rent payable	1,402	1,532
Fees	1,282	1,569
Rentals and leases	180	137
Total	**2,864**	**3,238**

The item chiefly consists of office rental fees and software user licences.

Personnel costs (EUR 8,162 thousand)

	2016	2015
Salaries and wages	5,772	5,099
Social security contributions	1,686	1,520
Employees’ severance indemnities	398	359
Other costs	305	362
Total	**8,162**	**7,341**

The item consists of cost components relating to employees, including provisions for annual leave accrued but not used, social security costs, accessory costs, provisions for severance indemnities accrued by employees for the year and estimated production bonuses and variable incentives connected with company objectives.

The following table shows the breakdown of Company personnel (average headcount during the period):

	2016	2015
Executives	8	7
Managers	25	23
Staff	71	64
Total	**104**	**94**

Amortisation and depreciation (EUR 2,278 thousand)

(EUR thousand)	2016	2015
Amortisation of intangible fixed assets	1,579	1,360
Depreciation of tangible fixed assets	884	918
Total	**2,463**	**2,278**

The item consists of amortisation and depreciation expense for intangible and tangible fixed assets.

Miscellaneous operating expenses (EUR 738 thousand)

	2016	2015
Municipal property tax	175	175
Other duties and taxes	95	256
Capital losses	71	–
Sundry operating expenses	397	407
Total	**738**	**838**

The item chiefly consists of municipal property tax (IMU) on real estate owned and administration fees on buildings owned by the Company.

FINANCIAL INCOME AND EXPENSES (EUR 5 THOUSAND)

(EUR thousand)	2016	2015
Other financial income	8	7
Interest and other financial expenses	(3)	(21)
Total	**5**	**(14)**

The item includes interest income and interest expense due from/to the parent company ERG S.p.A. under the centralised treasury management agreement and interest income on security deposits.

INCOME TAXES FOR THE YEAR (EUR 431 THOUSAND)

(EUR thousand)	2016	2015
Current income taxes - IRES	(341)	231
Current income taxes - IRAP	(37)	(84)
Deferred tax assets/liabilities	(96)	(495)
Taxes from previous year	43	(52)
Total	**(431)**	**(400)**

Income taxes totalled EUR 431 thousand and consist of current taxes (EUR 378 thousand), deferred tax assets (EUR 96 thousand) and taxes relating to previous years (EUR 43 thousand). Deferred taxes showed a negative balance of EUR 96 thousand. The change for the year was driven primarily by the release of deferred tax assets against drawdowns of provisions for liabilities and charges allocated in previous years and by the deductibility of income components that were taxed in previous years.

The table below shows the reconciliation of the theoretical tax charge and the tax liability reported in the financial statements.

Reconciliation between reported and theoretical tax charges

IRES (Corporate tax)		
Profit (loss) before taxes	816	
Theoretical IRES taxation at 27.5%		224
Permanent tax changes	787	
Taxable income - IRES	1,603	
Current and deferred IRES		**224**
IRES rate (27.5%)		441
Return on EBITDA transferred to ERG for tax consolidation		(6)
Other		
Total IRES		**435**
IRAP		
Difference between value and costs of production	812	
Costs not relevant for IRAP purposes	–	
Total taxable income	**812**	
Theoretical IRAP at 3.9%		**32**
Impact of permanent tax changes	172	
Total taxable income	**984**	
Current and deferred IRAP		**38**
Taxes from previous years		**(43)**
IRES and IRAP reported		**430**

Permanent changes for IRES tax purposes refer to telephone costs, amortisation/depreciation of assets, municipal property tax (IMU) and non-deductible extraordinary losses.

Board of Directors' Proposal

BOARD OF DIRECTORS' PROPOSAL

The Board of Directors' prepared its proposal within the framework of the merger of the Company in ERG S.p.A., which took effect as of 1 January 2017. The proposal is made in accordance with the provisions of Article 2430 of the Italian Civil Code.

"Dear Shareholders,

We close this report by inviting you:

- to approve the financial statements at 31 December 2016, which show a net profit of EUR 385,891.41;
- to allocate EUR 19,294.49 to the legal reserve;
- to carry forward the remaining net profit for the year of EUR 366,596.92."

Genoa, 9 March 2017

for ERG S.p.A. Board of Directors

The President

Edoardo Garrone

KEY FIGURES FROM THE LAST FINANCIAL STATEMENTS OF ERG S.P.A., RESPONSIBLE FOR THE MANAGEMENT AND COORDINATION OF THE COMPANY

STATEMENT OF FINANCIAL POSITION

(EUR thousand)	31/12/2015
Intangible Fixed Assets	106
Property, plant and equipment	2,662
Equity investments	1,173,337
Other financial assets	822,996
Deferred tax assets	13,120
Other non-current assets	5,024
Non-current assets	**2,017,244**
Trade receivables	14,380
Other current receivables and assets	68,588
Current financial assets	52,591
Cash and cash equivalents	616,555
Current assets	**752,114**
TOTAL ASSETS	2,769,358
Shareholders' Equity	**1,748,702**
Employees' severance indemnities	63
Deferred tax liabilities	1,633
Provisions for non-current liabilities and charges	82,736
Non-current financial liabilities	694,960
Other non-current liabilities	4,425
Non-current liabilities	**783,816**
Provisions for current liabilities and charges	9,781
Trade payables	57,130
Current financial liabilities	110,989
Other current liabilities	58,940
Current liabilities	**236,840**
TOTAL LIABILITIES AND EQUITY	2,769,358

INCOME STATEMENT

(EUR thousand)	31/12/2015
Revenues from ordinary operations	58,264
Other revenues and income	11,045
Cost for purchases	(48,871)
Costs for services and other costs	(38,773)
Personnel costs	(17,025)
EBITDA	**(35,360)**
Amortisation, depreciation and write-downs of fixed assets	(282)
Financial income	27,323
Financial expenses	(2,579)
Net income (loss) from equity investments	8,586
PROFIT (LOSS) BEFORE TAXES	**(2,311)**
Income taxes	4,338
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**2,027**
NET PROFIT (LOSS) FOR THE PERIOD	**2,027**

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING FOR APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AS AT 31 DECEMBER 2016, PURSUANT TO ARTICLE 2429, PARAGRAPH 2 OF THE ITALIAN CIVIL CODE

To the Shareholders' Meeting of ERG S.p.A.

This report is drafted by the Board of Statutory Auditors of Erg S.p.A. following the merger by incorporation of ERG Services S.p.A. in ERG S.p.A., effective from 1 January 2017.

The report was drafted on the basis of the information deriving from the activities carried out by the previous Board and acknowledged in its minutes.

During the year ended as at 31 December 2016, we carried out the supervisory activities required of the Board of Statutory Auditors, in accordance with Article 2403 of the Italian Civil Code and Legislative Decree 58/98, as far as applicable, in accordance with the Standards of conduct of the Board of Statutory Auditors at subsidiaries of companies with shares listed on regulated markets, issued by the *Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili* (National Board of Chartered Accountants), taking into account the applicable special regulations.

The Board acknowledges that it was able to verify compliance with the law and the regulations. With reference to the activities carried out in 2016:

- we took part in the shareholders' meetings and in all meetings of the Board of Directors, monitoring compliance with the statutory, legislative and regulatory provisions, which govern the functioning of company bodies;
- we obtained information from the Directors on the overall activities performed by the company and the on the most significant economic, financial and equity transactions, ascertaining that the actions resolved and implemented were in compliance with the law and the company's articles of association, and were not manifestly imprudent or hazardous, did not involve a potential conflict of interest with or were in contrast with the resolutions passed by the shareholders' meeting or as such to compromise the integrity of the company's capital;
- we verified the legitimacy of the management decisions taken by the Administrative Body and their economic adequacy, excluding a check on the merits of their convenience and cost-effectiveness;
- we monitored the adequacy of the internal control system, structured at Group level and constantly updated at both the Company and in the subsidiaries. The Board of Statutory Auditors acknowledged – based on what was reported – the positive judgment of ERG S.p.A.'s Internal Control Committee on the adequacy of the overall internal control system, expressed in its annual report on the activities carried out in 2016;

- we monitored the adequacy of the company's organisational structure and we report that the processes of re-skilling and professional repositioning continued for some staff less exposed, in previous years, to change management or job rotation processes, in conjunction with the changes in the business perimeter at Group level. Furthermore, it acknowledges the integration of staff resources operating at the site of the Terni hydroelectric complex as part of the acquisition of ERG Hydro – formerly Hydro Terni – from the E.ON Group. Thanks to these resources, ERG Services S.p.A. actually reached its target operating headcount of 105 staff, currently deemed suitable to provide the other Group companies with the services defined in the services contracts;
- we acknowledged the joint meetings and, finally, that the report received from the Supervisory Body, established in accordance with Legislative Decree 231/01, did not bring to light any significant criticality during the year for the purposes of the implementation and effectiveness of the Organisation and Management Model;
- the administrative-accounting system, as far as we have verified and ascertained, by obtaining information from the head of the company function, examining company documents and analysing the results of the work performed by the Independent Auditors, is suited to correctly representing the operating events;
- we verified the promptness in providing the parent company with both the data needed to draft the financial statements and the information required to fulfil the communication obligations set forth in articles 114 and 115 of Legislative Decree 58/98;
- as regards security, we were periodically kept up-to-date in 2016 on the activities carried out, consistent with the Sustainability Policy adopted by the Group.

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During the course of the supervisory activity described above:

- we did not record any transaction that, owing to its nature or size, was of an atypical nature or could be defined unusual, either with third parties or intra-group companies or with related parties;
- we noted the existence of ordinary intra-group transactions and with related parties, verifying the existence of and respect for the procedures suited to ensuring that the transactions in question are duly documented, regulated according to normal market conditions and formalised in the appropriate service contracts that are in keeping with the company's interest; these transactions are adequately outlined by the directors in the Financial Statements and in the Report on Operations, to which reference should be made;
- no notifications were sent by shareholders in accordance with article 2408 of the Italian Civil Code;
- we did not identify any omissions, censurable events or irregularities to report to the competent bodies or which are worthy of mention in this report;
- we issued the opinions required by the legal provisions.

We also report:

- the company is subject to the management and coordination of the parent company ERG S.p.A.; this activity comprises not only the definition of the business strategies, but the indication of the strategic guidelines relating to organisational aspects and to personnel policies, management of strategic finance and the Group treasury, management of tax-related issues, especially as regards planning, communication policies and policies regarding the environment, health and safety and IT systems.

- the advertising obligations set forth in article 2497-*bis* of the Italian Civil Code were fulfilled; in particular, the Report on Operations details the decisions taken as part of the management and coordination activities of ERG S.p.A.;
- the company participates in national tax consolidation, pursuant to articles 117 et seq. of the Consolidated Income Tax Law, with the company ERG S.p.A. as consolidating entity;
- the security policy document was updated in light of the technical and organisational changes introduced to the Group's information system.

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The financial statements were audited by Deloitte & Touche S.p.A., already appointed by the parent company ERG S.p.A. to audit its financial statements and consolidated financial statements.

Regular contact was maintained with the independent auditors during the year, through both formal meetings, also attended by the administrative managers of the company, and through informal interactions between individual members of the Board and representatives of the independent auditors, for the purposes of the mutual exchange of significant data and information. The utmost collaboration was always provided, also with regard to work on the preparation of the financial statements, and no events or issues of any significance emerged.

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As regards, in particular, the monitoring of the financial statements, the control was assigned to the independent auditors Deloitte & Touche S.p.A., and we certify that:

- the laws regulating the preparation and arrangement of the financial statements and of the Report on Operations were observed. In addition, the adoption of accounting standards based on the going concern assumption is believed to be correct, based on the information illustrated in the Report on Operations on the development of company business; the financial statements layouts and the accounting standards described in the explanatory notes conform to the legal provisions and are adjusted in relation to company activities;
- as in the previous year the company drafted the financial statements for filing in the Register of Companies in accordance with Italian accounting standards, as recently revised by the OIC (Italian Accounting Standards Setter), preparing periodic reports for the purposes of transmission of the economic-equity position for the drafting of the interim positions and consolidated financial statements of ERG S.p.A. according to international accounting standards (IAS/IFRS);
- the financial statements match the facts and information of which the Board of Statutory Auditors became aware in performing its supervisory duties and in exercising its oversight and inspection powers;
- the Report on Operations meets the requirements set forth in article 2428 of the Italian Civil Code and is consistent with the data and results of the financial statements; it provides extensive information on the market and on the reference legislative framework, on company activities in the different business areas; it provides adequate information on the significant events that occurred during the year – with particular reference to the dismantling of power plants.

The report also outlines:

- the evolution of the reference legislative framework in 2016, with reference to the issues considered to be of most interest and most direct relevance for the activities performed directly or indirectly by the company;
- the main risks and uncertainties to which the company is exposed, pursuant to article 2428 of the Italian Civil Code.
- the Explanatory Notes adequately outline changes in items of shareholders' equity, indicating, for each item, their possibility of use and distributability, as well as any tax restrictions.

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In its report, issued on 27 March 2017, in accordance with article 14 of Legislative Decree no. 39 of 27/1/2010 and article 165 of Legislative Decree no. 58 of 24/2/1998, the Independent Auditors expresses its judgment that *"the financial statements provide a true and fair view of the equity and financial position of ERG Services S.p.A. as at 31 December 2016, of the economic result and of the cash flows for the year ended as at said date, in compliance with the Italian regulations that govern their drafting criteria."*

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The Board of Statutory Auditors, as far as the matters that concern it, having acknowledged the results of the financial statements for the year ended as at 31 December 2016 and of the report of the independent auditors on said financial statements, does not have any objections to raise as regards the approval of the financial statements and the proposals put forward by the directors in their Report on Operations.

Genoa, 28 March 2017

The Board of Statutory Auditors

(Ms. Elena Spagnol)

(Mr. Lelio Fornabaio)

(Mr. Stefano Remondini)

AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Mura di Santa Chiara, 1
16128 Genova
Italia

Tel: +39 010 5317011
Fax: +39 010 5317022
www.deloitte.it

INDEPENDENT AUDITORS' REPORT
PURSUANT TO ART. 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ART. 165 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

To the Shareholders of
ERG S.p.A.

Report on the Financial Statements

We have audited the accompanying financial statements of ERG Services S.p.A., which comprise the balance sheet as at December 31, 2016, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

Management's Responsibility for the Financial Statements

The Company's Directors of ERG S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with the Italian law governing financial statements.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) issued pursuant to art. 11 of Italian Legislative Decree 39/10. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ERG Services S.p.A. as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with the Italian law governing financial statements.

Other Matter

As indicated in the report on operations and in the explanatory notes, on December 21, 2016 there was a merger deed for the absorption of the ERG Services S.p.A. into the parent company ERG S.p.A. The merger was effective as of January 1, 2017.

Report on Other Legal and Regulatory Requirements

Opinion on the consistency of the report on operations with the financial statements

We have performed the procedures indicated in the Auditing Standard (SA Italia) n° 720B in order to express, as required by law, an opinion on the consistency of the report on operations, which is the responsibility of the Directors of ERG S.p.A., with the financial statements of ERG Services S.p.A. as at December 31, 2016. In our opinion the report on operations is consistent with the financial statements of ERG Services S.p.A. as at December 31, 2016.

DELOITTE & TOUCHE S.p.A.

Signed by
Giorgio Barbieri
Partner

Genoa, Italy
March 27, 2017

This report has been translated into the English language solely for the convenience of international readers.

ERG SERVICES S.P.A.

REGISTER OFFICE

via De Marini, 1 - 16149 Genoa

Phone +39 010 2401

Share Capital EUR 1.200.000,00 i.v.

R.E.A. Genoa n. 469901

Company Register Genoa

and Fiscal Code and VAT 02223450996

ERG Services S.p.A. - March 2017
This publication is available in pdf format at www.erg.eu

Written by: Direzione Amministrazione
amministrazione@erg.eu

Editing: Comunicazione e Corporate Image
immagine@erg.eu

WWW.ERG.EU