

P.A.C. SPA

VIA ALESSANDRO VOLTA 3 - 39100 BOLZANO

SHARE CAPITAL: € 10,000,000.00= (fully paid-up)

TAX CODE AND BOLZANO COMPANY REGISTER NUMBER:

00387190176

ECONOMIC AND ADMINISTRATIVE INDEX (R.E.A) NO. 184636 BOLZANO CHAMBER OF COMMERCE VAT number: 00558850988

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

BALANCE SHEET

ASSETS	31 December 2016	31 December 2015
A) RECEIVABLES FROM SHAREHOLDERS FOR PAYMENTS STILL DUE	-	-
B) FIXED ASSETS		
I - Intangible fixed assets		
7) Other	-	21,696
Total	-	21,696
II - Tangible fixed assets		
1) Land and buildings	5,476,818	5,708,605
2) Plants and machinery	4,715,459	3,044,809
3) Industrial equipment	769,428	499,033
4) Other assets	465,881	395,985
Total	11,427,585	9,648,432
III) Financial fixed assets		
1) equity investments		
a) Subsidiary companies	7,827,164	485,689
b) Affiliated companies	457,427	841,157
c) Other companies	3,258,400	3,405,995
2) Receivables		
d) Others	2,587,729	2,587,729

3) other securities	15,000	15,000
Total	14,145,721	7,335,570
TOTAL FIXED ASSETS (B)	25,573,306	17,005,698
C) WORKING CAPITAL		
I) Inventories		
1) raw and ancillary materials and consumables	1,219,922	858,466
2) work in progress	6,773,367	7,339,336
3) Work in progress on order	20,168,657	14,952,757
4) Finished products and goods	-	-
Total	28,161,946	23,150,559
II) Receivables		
1) Customers	17,892,537	10,927,789
2) Subsidiary companies	153,230	2,319,540
3) Affiliated companies	10,412,935	14,551,023
4 bis) Tax receivables	1,207,504	159,605
5) Others	1,746,049	1,479,999
Total	31,412,255	29,437,956
IV) Cash and other valuables on hand		
1) Bank and postal deposits	11,540,250	1,098,175
2) Cash and other valuables on hand	21,499	13,688
Total	11,561,749	1,111,863
TOTAL WORKING CAPITAL (C)	71,135,951	53,700,378
D) ACCRUALS AND DEFERRALS	775,573	1,447,940
TOTAL ASSETS (A+B+C+D)	97,484,829	72,154,016

LIABILITIES

A) NET EQUITY

I) Share Capital	10,000,000	10,000,000
IV) Legal reserve	456,863	385,039
VII) Other reserves, specified separately		
- Extraordinary reserve	1,136,571	30,630
- Reserve pursuant to art.55 of Italian Presidential Decree 917	-	-
- Revaluation reserve	-	-
- Optional reserve	-	-
- Rounding off reserve	-	-
Total other reserves	1,136,571	30,630
VIII – Retained earnings (losses) carried forward	-	-
IX) Profit (loss) for the year	598,007	1,436,484
TOTAL EQUITY (A)	12,191,441	11,852,153

B) RESERVES FOR RISKS AND CHARGES

3) other	-	-
TOTAL PROVISIONS (B)		
C) EMPLOYEE TERMINATION INDEMNITIES	1,697,361	1,714,561
D) PAYABLES		
4) Payables to banks	26,202,547	18,418,329
5) Payables to other providers of finance	12,095,335	8,251,642
Payables due within next year	5,197,393	2,373,205
Payables due beyond next year	6,897,941	5,878,437
6) Advances	13,821,744	5,365,118
7) Payables to suppliers	16,671,091	11,767,279
8) Subsidiary companies	-	168,799
9) Affiliated companies	8,951,120	9,330,246
12) Tax payables	360,687	582,674

Payables due within next year	360,687	582,674
Payables due beyond next year	-	-
13) Payables to welfare and social security agencies	411,923	346,176
14) Other payables	5,079,742	4,314,719
TOTAL PAYABLES (D)	83,594,189	58,544,982
E) ACCRUALS AND DEFERRALS	1,839	42,320
TOTAL LIABILITIES (A+B+C+D+E)	97,484,829	72,154,016

PROFIT AND LOSS ACCOUNT

A) Value of production

1) Revenues from sales and services	52,229,393	51,592,686
2) Change in products being worked	(565,969)	(495,720)
3) Change in work-in-progress on order	5,215,900	1,216,742
4) Increase in fixed assets from in-house work	-	-
5) Other revenues and proceeds	1,408,085	3,860,507
Total	58,287,410	56,174,215

B) Cost of production

6) for raw and ancillary materials, consumables and goods	16,793,762	8,208,615
7) For services	25,239,750	33,418,057
8) For use of third-party goods	473,330	338,511
9) For personnel		
a) Salaries and wages	7,940,100	5,458,759
b) Welfare and social security	3,070,097	2,363,984

c) Severance pay	177,375	127,590
Total	11,187,572	7,950,333
10) Amortisation/depreciation and write-downs		
a) depreciation of intangible		
fixed assets	-	24,932
b) depreciation of tangible		
fixed assets	1,525,602	950,707
Total	1,525,602	975,639
11) change in inventories of raw and ancillary materials and consumables and goods	(361,456)	37,133
13) Other provisions	-	-
14) Other operating charges	935,583	1,637,524
Total	55,794,143	52,565,812
Difference between value and cost of production (A - B)	2,493,267	3,608,403
C) Financial proceeds and charges		
15) Proceeds from shareholdings	70,400	35,200
16) Other financial proceeds		
d) Proceeds other than the above	20,822	886
17) Interests and other financial charges	1,613,807	1,406,784
Total (15+16-17)	(1,522,585)	(1,370,698)
D) Adjustments to the value of financial assets		
18) write-ups		
19) write-downs		
Earnings before taxes (A-B+-C+-D)	970,682	2,237,705
20) income taxes for the year		
- Current taxes	372,675	801,221
- Deferred taxes	-	-

- Substitute tax	-	-
21) profit (loss) for the year	598,007	1,436,484

Bolzano, 30 March 2017

These financial statements correspond to the entries in the Company's accounts

The Chairman of the Board of Directors

(Mario Parolini)

P.A.C. S.p.A.

Registered address: **Via A. Volta 3 -39100 BOLZANO**

Share Capital: **€.10,000,000.00=, fully paid up**

**Bolzano Chamber of Commerce Economic and Administrative Index
(R.E.A.) no. 184636**

**Tax Code and Bolzano Company Register No.: 00387190176 – VAT
NUMBER: 00558850988**

REPORT ON OPERATIONS RELEVANT TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Dear Shareholders,

The financial statements for the year ended 31/12/2016, which the Board of Directors is submitting for your approval, show, after deduction of depreciation of € 1,525,602, a pre-tax profit of € 970,682 and, after allocations for taxes of € 372,675, a net profit of € 598,007.

The high depreciation value, which is the highest in the last few financial years and which is up by 50% over last year, as well as providing the exact extent of the operating result, is also an indication of how 2016 was above all characterised by massive investments in machinery and production equipment, which were required for the execution of the work and to ensure the company's competitiveness in the coming financial years both in national and international markets. A considerable proportion of the investments made and which are ongoing, are in fact allocated for foreign operations, in particular the hydroelectric project called "Agago-Achwa

Hydropower Project", whose performance should be highlighted in this Report.

As you will remember, this is a P.A.C. investment project in Uganda which comprises the construction of hydroelectric power stations and then the sale of the power produced, which began in 2011 and is also intended to lead to the acquisition of foreign orders. P.A.C. S.p.a. participates in this project both as an investor, through a company established under Ugandan law, to which the authorisations and permits obtained by P.A.C. over previous years have been transferred, and in the capacity of contractor (EPC - Contractor) with regard to the construction of the civil works of the hydroelectricity station. Work on the first hydroelectricity plant on the Achwa River, called HPP2, began in 2015 with the worksite facilities which then began operating in 2016. The construction of the HPP2 plant will see the involvement of P.A.C. SPA throughout all of 2017 too and the implementation of the plant is expected by the end of 2018. Work on the second hydroelectric plant, called HPP1, which has the same characteristics as the HPP2 one above, is expected to start in the second half of 2017.

From an operational and management standpoint, the execution of the works is done through a branch of P.A.C. in Uganda, established in 2015. The branch is not a separate company but an internal administrative unit in P.A.C. that makes it possible to be a legal entity in Uganda, especially for tax purposes. Consequently, all the revenues, costs and profits already obtained through the branch in 2016 are included in these P.A.C. S.p.A. financial statements.

As mentioned above, P.A.C. S.p.A., in the Ugandan project, also operates in the capacity of investor. This implies a commitment to contributing to the project's equity. As thoroughly explained in the comments to previous financial statements, this occurred through the company under Ugandan law ARPE Limited, of which P.A.C. S.p.A. held 40% of the share capital. ARPE Limited is responsible for all the concessions and permits required for the construction and management of the plants; ARPE obtained, from a pool of banks headed by the German bank DEG, the necessary funding, which is supplementary to the equity paid by ARPE partners, for the construction of the hydroelectric plant called HPP2.

The equity paid by the partners equals 25% of the value of the HPP2 project. This payment had been entered by P.A.C., for its own share, in the 2015 financial statements under receivables from affiliated companies.

In the 2015 financial statements report, mention was made of the intervention of SIMEST (Italian Company for Businesses Abroad), a S.p.A. (joint stock company) controlled by Cassa Depositi e Prestiti, as a minority partner within the project for the construction of the HPP2 plant. On June 15, 2016 P.A.C. signed a contract with SIMEST for the acquisition by the latter of a minority stake in SIPA HOLDINGS LTD, owned 51% by P.A.C. and 49% by SIMEST

SIPA Holdings Ltd took over the stake of P.A.C. in Arpe Limited.

The share capital of Sipa Holdings Limited amounts to US\$ 11,350,000 distributed between P.A.C. and SIMEST partners as described above.

Simest S.p.A. paid up its 49% stake in full, while the P.A.C. share was paid up by consolidating the funds already paid to ARPE in previous financial years and in the 2016 financial year.

Therefore, the loans entered in P.A.C.'s 2015 financial statements under receivables from affiliated companies were accounted for in 2016 under financial fixed assets, under the equity investments in the item relevant to subsidiary companies, resulting in a swap between working capital and fixed assets.

The SIMEST / SIPA operation therefore entailed the intervention of a major partner who contributed equity for USD 5,561,500, accounting for 49% of SIPA's share capital paid by SIMEST, thus allowing the equity portion to be reached needed to fulfil the financing operation granted by the pool of banks led by the German bank DEG and signed at the end of 2016.

Paragraph 1 of art. 2428 of the Civil Code not only requires an analysis of the various aspects of the operations but also a description of the main risks to which the Company may be exposed. Three typical risk areas for a company such as P.A.C. S.p.A. can be identified: occupational safety, respect for the environment, and issues related to the respect for professional ethics provided by law 231/2001; a fourth one can be added: foreign operations. As far as this latter point is concerned, Uganda has no problems related to political and social stability. P.A.C. has adapted to local legislation without any particular difficulties and has put in place all the necessary organizational and insurance requirements to safely carry out work in Uganda.

With reference to occupational safety, we refer fully to what has already been stated in previous reports. P.A.C. S.p.A. strictly applies all occupational health and safety standards envisaged by Italian decree 81/2008. The company has held safety certification under the OHSAS 18001 standard for several years. This certification and its maintenance are a major achievement, and demonstrate the fundamental attention given by the company to prevention and safety in workplaces and the protection of workers' health. Reflecting this policy, the role of the Employer has been in existence for years, pursuant to Italian Legislative Decree 81/2008, i.e. a management position empowered for the direct, effective management of all aspects of employer relations in general, and safety and environmental obligations. In complex organisations and ones that have more than one operating unit (work sites) like P.A.C. S.p.A., the Employer is assisted by "mandated managers" and "foremen". The Employer has made these appointments as appropriate during the various years, and they continue to be made as it becomes necessary to nominate mandated managers through notary-witnessed deeds and appoint foremen, in compliance with Legislative Decree 81/2008.

Environmental factors have also been dealt with responsibly and effectively, as the maintenance of ISO 14001 environmental certification indicates. The environmental management system is applied wherever the company operates: construction sites, warehouses, workshops and offices. The legal framework related to environmental certification has been amended and this entails the need to adapt the procedures applied by

P.A.C. to the new regulatory framework. The deadline provided by the law for the adaptation is September 2018 and the company is already working on this.

Moving on to the third risk area, the company has had a code of ethics for years now and an organisation, management and control model in accordance with the provisions of Leg. Decree 231/2001 is operational. For more efficient management of internal controls, more appropriate to the company's organisation, since 2014 the functions of Supervisory Body have been assigned to the Board of Statutory Auditors, to avoid the duplication of functions and potential conflicts of jurisdiction. The application of the code of ethics is imperative for a company like P.A.C. S.p.A. that works prevalently in the public works sector, but it must not be forgotten that the proper application of the procedure constitutes an important opportunity for growth and development, including in relation to the more general responsibilities that a company is called on to assume in society. It should also be added that P.A.C. S.P.A. has obtained the highest three-star "Legality Rating" issued by the AGCM (Antitrust Authority).

P.A.C. S.P.A. has held ISO 9001 quality certification for over 20 years. And again in 2016 it updated the integrated quality, environment and safety manual, which provides guidance for the implementation of good practice in all aspects of the company's life. As for the environmental standard, changes were made to ISO 9001 in the legislative framework. The legal deadline for adjustment is September 2018 in this case too, and

adaptations of the internal procedures to the legislation are advancing in tandem.

In 2015 P.A.C. S.p.A. embarked on a path that it will lead in the next few years to a "generational change". This is a medium-term process with the aim of business continuity and the maintenance of the guiding principles of our Company. It is for this reason that collaboration began with The Europea House – Ambrosetti S.p.a. company, which avails itself of highly qualified and specialised professionals. The path is pursued along two lines: training for the persons involved and reorganisation of the company structure in order to be able to tackle the generational change with the appropriate timings and due attention.

Attention is now turned to the main economic and financial aspects of the company's performance; reference should be made to the accompanying note for detailed discussion of the various financial statement items.

- *OMISSIS* -