# Financial statements 2016 Tper SpA

English version

TPER SPA

## Introduction

In 2016 management continued the trend of the company's economic consolidation, recording a gross profit of EUR 15.4 million, which already pays off prudential provisions and write-downs for EUR 8.8 million, and a net profit of EUR 7.8 million.

TPER's revenues from fares grew a further 3.9% in 2016, despite the considerable growth of the past years (+22.2% in the period 2012-2015), consequently a real increase in demand and for attention to the payment of tickets and to the e service provided.

Combating fare evasion is a priority and a structural activity for TPER, not to impose fines on those passengers without a ticket but because is guaranteed that all passengers have a valid ticket. This actually involves a complex system of actions, accompanied by a massive communications campaign, awareness and education focused on respecting the rules for everyone and an extensive effort in ticket checking on board vehicles. The company's purpose, which is also socially relevant, is to consider paying for tickets as a civic act coherent with attention to legality and support for the quantitative and qualitative improvement of the service. Validating the ticket at the start of each trip – compulsory according to the regional law - makes it evident the virtuous conduct of those who prove to have a valid ticket and, at the statistical level, giving the company an improved and more accurate knowledge of customers' habits and needs in order to provide a better and more suitable service offer.

Thanks to this approach, the sanctions have diminished in the years and for 2016 amounted to EUR 3.6 million collected.

Also in 2016, the company paid particular attention to revising expenditure, with a view to guaranteeing ever-increasing efficiency, without, however, decreasing costs that are essential for efficient and effective management and for the quality of the service. All expenditure items were reviewed, not just the most significant ones.

## Vision and Mission

TPER is an integrated mobility company with core business in local automobile and railway public transport. Various business activities are handled both directly and through subsidiaries and investees.

Born from the merger in 2012 between ATC (a Bologna and Ferrara public transport company) and FER (a regional railway company) and participated by public subjects, TPER is a public limited company operating under industrial market rules.

TPER has structured over the years the various group-level activities in relation to specific service development needs and through industrial agreements with private and public partners linked to service management competitions. The activities carried out include, in addition to rail and road public transport, railway maintenance, freight rail transport, management as an actor in major regional mobility projects, the provision of important mobility services such as parking and car / Bike sharing, park management.

The whole of the activities carried out, and in particular that of local public transport, consists of services of general interest, which need to combine sustainable economic and financial management with the utmost attention to social and environmental impacts.

To pursue the objectives of sustainability and quality, TPER has set up its strategic positioning from an industrial point of view, creating a well-structured company in terms of assets, resources and organisation, while focusing on operational efficiency and the quality of services for travellers, with the goal of growing its services and areas covered.

The company carries out services in the local areas as a result of being awarded European public tender procedures, thus operating in competing market systems. TPER is thus a corporation that operates on the market.

TPER’s mission is to be a competitive company that strictly uses the resources available and offers differentiated, reliable services that can be easily accessed, to best meet users’ expectations, improving the quality of the environment and users’ lives, supporting responsible and sustainable development for the community.

The company’s vision, in line with the objectives of its mission, is focused on the value of the service to people. TPER intends to “decrease distance and make connections on the territory, and be selected due to its integration of services, comfort, low cost and sustainability".

## Regulatory framework

The various activities managed by TPER refer to a complex system of rules for local public services, public companies, procurement, as well as rules governing capital companies. TPER operates in compliance with the rules in force in all these areas.

The 2016 has been a particularly challenging year for the company due to the various fulfillment requirements and the entry into force of new rules. In particular, we refer to rules on procurement regulations, the new law on public companies, the requirements for transparency and the new partial sectoral regulatory framework.

The local public transport service is a service of general interest regulated by rules relating to local public services deriving from the EU and by specific industry standards at national and regional level.

The reference legislation takes into account aspects related to national and international policies on competition and management methods as well as criteria regarding service sustainability and accessibility for users.

In consideration of the difficulty in self-financing the service, also given the social nature of the service, it is necessary to also consider the rules of public financing that indirectly impact the disbursement of public fees intended to support minimum services for public transport and resources for investment in new rolling stock.

In terms of the methods of assignment and management, during 2016 the local public transport sector, just as other services of general interest, was the subject of a reform known as the Madia Decree on local public services, which intended to create a single system of reference rules, overcoming the fragmentation of the last few years.

The decree, though approved by the Council of Ministers, was then not promulgated awaiting targeted audits also following the pronouncement of the Constitutional Court on the Law on Delegation 124/2015. With the expiry of the deadline for the enabling law, the reform procedure came to a grinding halt, enforcing the pre-existing standards and the European industry regulations in particular.

The decree also contained some specific provisions referring to the local public transport service that were resumed only in 2017 and on which - at the end of preparation of the financial statement - are awaiting final regulatory updates.

The LD 50/2017, with regard to local public transport, deals with the subject of investments and sector funding through the National Fund for Government Contribution, is in fact under discussion also taking into account many of the proposed amendments to the law.

The main reference industry rules remain in force, and in particular Italian Legislative Decree no. 422 of 18 November 1997 (known as the Burlando Decree) and EU regulation 1370/2007, as well as the regional implementing rules.

The methods of assignment and management of the local public transport services remain in line with the general criteria of assignment of general interest services of economic importance, such as the assignment with public tender procedure, the assignment to a mixed company through a dual-purpose tender, in-house management.

Specifically, TPER manages its businesses following the execution of public tender procedures, in compliance with the principles of fair treatment, non-discrimination and transparency dictated by EU and national law.

Specifically, Regional Law 30 of 1998 organically governs the regional and local public transport systems in line with the responsibilities assigned by the Constitution.

The principles underlying the regional rules include reducing energy consumption, reducing causes of environmental pollution and protection from atmospheric pollution, also to safeguard individuals.

The regional principles also intend to ensure that individuals and businesses have the best accessibility and usability of the services performed in the local areas, promote a central role of regional local public transport as a driver for economic development and social cohesion, provide incentives for the rational organisation of traffic and circulation and promote the culture of sustainable mobility.

As regards the railways of regional interest, the same Law 30/1998 began the implementation of the mandates set out in Italian Legislative Decree no. 422 of 1997 and the subsequent transfer from the State to the Region of the railway lines formerly under Government Commission Management, assigning to the Emilia-Romagna Region the railway services pertaining to the Region.

As regards the trolleybus sector and urban mobility, with specific official guidelines, the Emilia Romagna Legislative Assembly sets the lines of action regarding the planning and administration of regional public transport.

The latest is the official guideline 2016-2018 of 03/08/2015 regarding the planning and administration of regional and local public transport, pursuant to art. 8 of regional law no. 30 of 1998. This guideline sets the main sources of financing for the industry, envisaging:

1) regional resources that mainly derive from the National Fund for Government Contribution to Local Public Transport Costs, including the railway business;

2) regional resources and other sources (European, government, provincial, municipal and also private) for investments and infrastructure works, which are used to purchase buses and trolleybuses, for bicycle and pedestrian mobility and, more generally, for sustainable mobility and air quality.

The allocation among the provincial areas was approved by the Regional authorities with the "Determination of the minimum services for local public transport 2016-2018" of May 16, 2016.

With reference to the provisions regarding investees, subsidiaries and in-house units of local institutions, Italian Legislative Decree 175/2016 was issued in 2016.

After it was published, the ruling of the Constitutional Court 251/2016 declared some provisions unconstitutional, requiring, also in light of the opinion expressed by the Council of State, after closing the period (Opinion 83/2017), that the decree known as Madia Partecipate be reviewed with “corrective decrees that directly intervene on the legislative decrees and imply the application of the provisions of the mandate”.

While waiting for the corrective measures to be taken, TPER currently applies the provisions set forth in the mentioned decree only for the part pertaining to it, which is the one relating to investees. TPER in fact set up as a company owned.

In compliance with the provisions of the Decree itself, the company communicated to the Court of Accounts, within the set terms, the decision to finance part of the investments required by the Development Plan by issuing securities on the regulated market.

## The reference scenario

2016 was the third year of recovery for the Italian economy, with GDP growing 0.1% in real terms in 2014, 0.8% in 2015 and 0.9% in 2016 (1.0% according to the data corrected for the working days).

This slow and gradual recovery is in any case a good sign when considering the elements of uncertainty existing at global and European level.

Growth was more significant in the second half of 2016 in particular, thanks to the improved industrial production and the growing investments and exports.

Confidence improved among businesses and consumers nationally as well as at European and international level. Private consumption expanded also due to a rise in the real disposable income (1.6% compared to 0.8% in 2015) and the improved conditions for credit access.

The consumption of durable goods grew also thanks to the investments relating to the means of transport (27.3% of total investments); investments in machinery also returned to grow, albeit to a lower extent, consequently to the incentives on the hyper-amortisation implemented with the Stability Law 2016.

Infrastructural investments remain at a standstill, while a slight recovery was reported in the building sector for the first time since 2007, up 1.1%.

Regarding the economic performance of the region, for Emilia Romagna the 2016 has been a positive year. In fact, there has been a 1.4% increase in GDP over 2015, with a forecast for further growth of 1.1% for 2017.

Production and revenue also grow both 1.5% over 2015.

In Emilia Romagna in 2016, employment is on the rise and falling unemployment, in an economic context that is improving compared to 2015, although it is still far from the pre-crisis level.

Finally, there was a slight increase in regional exports, despite the contraction in world trade. In fact, Emilia Romagna's exports increased by 1.3% compared to 2015, in line with the national average (+ 1.2%).

## Main events of 2016

Having entirely consolidated the group system in the year 2015, 2016 was the first year of the 2016-2018 Business Plan, which is aimed at completing the rationalisation process and starting a new expansion phase in terms of both services and new investments.

In 2016 the company started a significant investment plan, defined a route for consolidation at group level and for possible further developments, continued to improve the economic-financial balance and the capital strength, made strategic financial choices and started the process of issuing securities on the regulated market in support of the investment plan without resorting to the involvement of the shareholders.

A summary of the most significant and important operations in 2016 is provided below.

Anti-Evasion Campaign “Io vado e non evado” (Travel without Evading)

In 2016, the campaign of ticket checking at stops and onboard buses continued.

The ordinary, systematic ticket checking was reinforced through direct checks, while, during certain periods of the year, the involvement of a significant number of TPER employees on a voluntary basis also continued as part of the campaign entitled “Io vado e non evado” (Travel without Evading).

The “Io vado e non evado” project, launched by TPER already in 2013 and implemented over time, is based on a rigorous control system, on closeness and mutual respect between the public service and its users, with the goal of contributing to a positive relationship of loyalty between the company and users, capable of strengthening the capacity of listening and increasing awareness of respect of the rules.

The checks on users, active participation of personnel and the communication/information campaign contributed to reducing the rate of fare evasion, an indispensable condition to maintain service levels, accompanied by stabilisation of ticket sales, which significantly increased over the last few years.

During 2016 TPER checked the tickets of approximately 3 million passengers (around 3.3 million in 2015, 3 million in 2014 and 1.9 million in 2013), as a tangible sign of the company's attention to good management.

Guided Transport System Project (GTS) – updates

The project to create a mass passenger transport system to connect the municipalities of Bologna and San Lazzaro, known as the GTS project, was approved in 2002.

As already reported, the extremely critical issues of the last few years have been overcome and it was obtained – on 17 December 2013 – the technical permit from the Ministry of Infrastructure and Transport for the purposes of safety and the confirmation of the project's economic framework, recalculating the grant from the Ministry assigned to the project at EUR 104.8 million, it was possible to restart the works pertaining to the infrastructure works and launch the process for supplying the new Crealis vehicles.

Having completed the works and having closed the construction sites that have the greatest impact on the Bologna city centre, TPER in 2016 continued to create the infrastructure, taking into account commitments and constraints imposed by Ministry of Culture and Tourism after archaeological finds were detected in the work excavations.

While waiting for the conclusion of the GTS connection in question, 32 electrically driven articulated vehicles were in any case commissioned on other urban electrified lines, allowing for the correct regulation and testing of the means and offering the city a transport system complying with the best current standards (air-conditioned vehicles with lowered platforms for facilitated access, video surveillance systems, stop announcements, padded seats… ) with electric means featuring a very low environmental impact.

Obtaining the legality protocol

During 2016 the company started activities to sign the Legality Protocol with the Bologna Prefecture, within a path defined by Confindustria, which promoted this initiative towards the companies in the various territories. The name of TPER S.p.A. was then published at the beginning of 2017 in the Confindustria website in the list of companies subscribing the Legality Protocol.

Dispute on the ATC SpA tax wedge

For 2016 it is important to note that the pending tax disputes regarding the rejection of the IRAP tax break on the "tax wedge" – reported to ATC SpA (company whose demerger contributed to the creation of TPER in 2012) - which were lost in the second instance for the years 2007-2010 and in the first instance for 2011 – continued in the various stages of the proceedings for the various years subject to adjustment. The process of the dispute has not yet been concluded or rendered final.

To date, however, the tax judges that have so far ruled have agreed with the arguments of the Italian Revenue Agency.

For the assessments in this regard, we shall wait for the conclusion of the tax dispute.

Due to the risk of subsidiary solidarity following the 2012 splitting / merger transaction and the current ATC settlement situation, against the potential liability arising from the aforementioned disputes, TPER recorded a further provision in the profit and loss account 2016 for EUR 4 million.

TPER deems that it is entitled to benefit – for these years - from the reduction of regional tax on productive activities (known as the tax wedge) set out in Law no. 296 of 27 December 2006 (Budget Law for 2007) in art. 1, paragraphs 266-270, as amended.

In consideration of the disputes arising from the choices made by ATC for the years 2007-2011 and others several disputes of the Italian Revenue Agency with local public transport companies (where, moreover, the majority of rulings known to date, in both the first and second instances, confirm the applicability of the tax wedge to local public transport companies), TPER has prudently paid IRAP in full – without deductions in the period 2012-14, at the rate of 4.20% since 2012 – and applied for a refund for the portion it deems not due (for the tax break on the “tax wedge” 2012-14 and for the difference with the ordinary IRAP tax rate of 3.90% since 2012).

In 2016 TPER filed an action at first instance for the recognition of the 2012-13 “tax wedge” and consequent repayment of any amount prudentially paid in excess.

## TPER as group leader in the regional tender for the purchase of new buses

During 2016, the contract for the purchase of 177 buses by the transport companies TPER, Seta, Tep and Start Romagna was awarded definitively. The new vehicles started operating in the first half of 2017, which is earlier than planned. The single tender at regional level had been called in the spring of 2016 by TPER, as the group leader of all the regional transport companies, and is part of a wider plan to renew the fleets of wheeled public transport in Emilia-Romagna. The full plan envisages about 350 new means in total between buses and trolleybuses, which from now until 2020 will progressively replace the oldest and most polluting vehicles. The plan envisages the use by the Region of another EUR 47 million between ministerial and European funds, with just as many funds to be added by the transport companies. In total, this is an investment of over EUR 94 million.

## New and stricter rules for rail traffic

With MD 05/08/2016 the 9 regional railway networks (Bologna - Portomaggiore, Casalecchio - Vignola, Reggio Emilia - Ciano D'Enza, Reggio Emilia -Guastalla, Reggio Emilia - Sassuolo, Modena - Sassuolo, Parma - Guastalla, Ferrara - Codigoro and Ferrara - Suzzara) were transferred, with regard to the aspects pertaining to railway safety management, from the Ministry of Transport to the National Agency for Railway Safety, which until then was only responsible for the national RFI network.

This has led to several regulatory measures, including a provision that it provides the obligation of a second agent in the driving cab and the need to limit the maximum speed of the vehicles to 70 km/h on all routes not fitted with the latest train control monitoring systems (SCMT). TPER has thus adjusted the timetables of many lines – due to the speed limit of 70 km/h – trying to minimise any disruption for customers. TPER has had to reorganise also the entire schedule for the personnel in charge of the railway service in connection with the obligation to double up the personnel in the driving cabin. The new timetables also created critical situations for the repercussions of the entire regional rail transport system, which required the reprogramming of some services also in bus transport.

New electric trains in operation

During 2016 TPER commissioned another 5 new ETR 350 Stadler electric trains, all equipped with every comfort according to the highest current quality standards (double restrooms, air-conditioning, security cameras, stop announcement, lowered platform for facilitated access, also for passengers with reduced mobility, bike racks…).

Thanks to putting the new ETR 350 Stadler series 100 into service, since September 2016 the entire service on the Bologna – Vignola line is ensured by new electric trains, with excellent results in terms of punctuality, regularity and user satisfaction, while on the Bologna – Portomaggiore line the third electric train entered into operation.

By resolution CIPE 54/2016, published in the Official Gazette no. 88 of 14/04/2017, Stadler trains were purchased in 2014, in the framework of interventions for the enhancement of rapid mass transport in urban and metropolitan areas, completion of already planned / new itineraries.

Technical problems with some trains

In April 2016 Trenitalia communicated an operating issue that led to the analysis of some mechanical parts of the ATR diesel trains supplied by Pesa, which TPER uses 12 vehicles of.

Procedures and methods were adopted to control the defects encountered that are still present and close communication with the supplier of the rolling stock was implemented. However this immediately led to the impossibility of using two trains out of precaution.

Other updates on the railway service

In relation to the positive response of the services performed, in 2016 TPER kept and increased the services active between Bologna, Parma and Milan initially planned for the EXPO via the use of ETR350s.

In July 2016 the Consorzio Trasporti Integrati consisting of Trenitalia and TPER extended the Service Agreement with the Emilia-Romagna Region with the so-called "Atto Ponte" until 31 December 2018.

By virtue of the Region – FER – Trenitalia – TPER agreement, since April 2016 TPER has rented 2 ETR 350s to Trenitalia for the Bologna – Porretta line.

The Portomaggiore – Dogato line was opened in October 2016.

## Figures on operating activities

TPER conducts its core business in a system of competition – and has since it was established – fully under service agreements entered into following the assignment of services through public tenders (local wheeled public transport in the areas of Bologna and Ferrara, railway local public transport in the Emilia-Romagna Region and – since 2014 – parking services in the municipality of Bologna).

Total kilometres travelled during the year for the passenger bus service came to approximately 44.2 million, broken down by type as follows:

| Wheeled Automobile Services - Final Figures | 2015 | 2016 |
|---|---|---|
| **Total kilometres travelled** | **43,847,740** | **44,157,863** |
| **- Bologna** | **34,960,353** | **35,205,174** |
| - Bologna urban service | 17,492,452 | 17,654,622 |
| - Sundry Municipalities Services | 705,674 | 715,002 |
| - Suburban and Extra-urban services | 16,705,265 | 16,775,387 |
| - Specialised and reserved lines and rentals | 56,962 | 60,163 |
| **- Ferrara** | **8,887,387** | **8,952,689** |
| - Urban service | 2,177,230 | 2,196,344 |
| - Extra-urban service | 5,557,404 | 5,609,029 |
| - Extra-urban taxibus service | 1,147,057 | 1,138,696 |
| - Specialised and reserved lines and rentals | 5,696 | 8,620 |

*The table shows the figures of kilometres travelled (net of trips without passengers not accounted for) relating to the total services managed in the areas of Bologna and Ferrara by the respective companies TPB and TPF, subsidiaries of TPER.*

The average age of the entire fleet on rubber at the end of 2016 was 13,7 years, while the average age of the trolleybus fleet fell to 9.6 years after putting 32 of the 49 new Crealis Neo trolleybuses into service as part of the GTS project.

The distance travelled by railway during the year came to around 5.8 million kilometres, broken down as follows:

| Railway service | 2015 | 2016 |
|---|---|---|
| **Total kilometres travelled** | **5,716,116** | **5,815,418** |
| **- Kilometres - Passenger railways** | **4,982,457** | **5,025,296** |
| - Services on the RFI network | 2,339,354 | 2,377,872 |
| - Service on the FER network | 2,643,103 | 2,647,424 |
| **- Kilometres - Substitute buses** | **467,798** | **499,069** |
| **- Other / transfers** | **265,861** | **291,053** |
| - Services on the RFI network | 62,272 | 78,520 |
| - Service on the FER network | 203,589 | 212,533 |

***(*)****The table shows the number of passengers carried over the complex of services operated in the basins of Bologna and Ferrara by their TPB and TPF companies, controlled by TPER. For rail services, data is estimated based on frequencies*

Of the 14 electric trains ordered (7 in 2014 and 7 in 2015), 2 were commissioned in 2015, 5 in 2016 and 7 in 2017.

150,8 million passengers were transported during the year, broken down as follows:

| | 2015 | 2016 |
|---|---|---|
| **Total passengers transported** | **148.467.230** | **150.782.079** |
| **- Bologna** | **125.190.336** | **127.650.680** |
| Urban service | 105.800.154 | 108.073.193 |
| Aerobus | 1.034.989 | 1.166.129 |
| Suburban/Extra-urban services | 18.097.261 | 18.141.412 |
| Specialised and reserved services | 257.932 | 269.946 |
| **- Ferrara** | **12.949.126** | **12.682.818** |
| Urban service | 8.380.767 | 8.043.340 |
| Extra-urban service | 4.568.358 | 4.639.478 |

| - Railway | 10.327.769 | 10.448.581 |
|---|---|---|
| Passengers on the FER network | 6.136.491 | 6.170.730 |
| Passengers on the RFI network | 4.191.278 | 4.277.851 |

*(*) The table shows the figures of passengers transported relating to the total services managed in the areas of Bologna and Ferrara by the respective companies TPB and TPF, subsidiaries of TPER. For rail services, data is estimated based on frequencies.*

Below the numbers of annual and monthly passes sold in the two areas served are shown:

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Annual Passes** | **Total** | Bologna area | Ferrara area | Railway service | **Total** | Bologna area | Ferrara area | Railway service |
| Urban annual passes | **51,277** | 45,695 | 5,582 | | **47,387** | 41,716 | 5,671 | |
| Extra-Urban annual passes | **21,749** | 16,173 | 5,576 | | **19,557** | 14,162 | 5,395 | |
| Annual passes for the entire network | **6,445** | 6,368 | 77 | | **6,359** | 6,272 | 87 | |
| **TOTAL** | **81,235** | **68,236** | **11,235** | **1,764** | **75,416** | **62,151** | **11,153** | **2,113** |

| | 2015 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Total** | Bologna area | Ferrara area | Railway service | **Total** | Bologna area | Ferrara area | Railway service |
| **Monthly Passes** | **620,378** | **512,621** | **45,459** | **62,298** | **623,694** | **520,423** | **47,297** | **55,974** |

The growth of annual and monthly travel passes continues in both rubber and rail transport. However, there is a reduction in the number of annual subscriptions sold to disadvantaged and over 65 users, partly due to a change in social policies

## Human Resources

As at 31 December 2016, TPER has a headcount of 2,526, consisting of 12 managers, 53 middle managers, 288 office staff and 2,172 workers, of which 7 apprentices. Included above are an agreement of cooperation and a limited-term contract; all the remaining labour agreements have an unlimited term.

During 2016 the Company has hired 97 new employees within the reorganization and development process; of these, 91 employees were hired on unlimited-term contracts, 1 on a limited-term contract and 5 on apprenticeship contracts.

| DIPENDENTI ALLA DATA | 31/12/2015 | 31/12/2016 | Variazione |
|---|---|---|---|
| Dirigenti | 12 | 12 | 0 |
| Quadri | 47 | 53 | 6 |
| Impiegati | 300 | 288 | -12 |
| Operai | 2.146 | 2.165 | 19 |
| Apprendisti | 2 | 7 | 5 |
| Collaboratori | 1 | 1 | 0 |
| **TOTALE** | **2.508** | **2.526** | **18** |

| NUMERO PERSONALE: UNITA' EQUIVALENTI | 2015 | 2016 | Variazione |
|---|---|---|---|
| Media dell'esercizio | 2.437 | 2.433 | -4 |
| Al 31/12 | 2.423 | 2.440 | 17 |

In 2016 a significant training activity was done for more 37,000 hours in total (of which about 5,700 concerned training programmes on safety), recording a 63% increase compared to the previous year and the involvement of 876 employees.

The sessions implemented were designed and defined in relation to the priority objective in the area of personnel management policy, of promoting human capital and professional skills.

## Main economic, equity and financial indicators

In compliance with art. 2428 of the Italian Civil Code, the reclassified Balance Sheet and Income Statement are shown below, as well as the main economic, equity and financial indicators, making reference to the explanatory notes for details.

Profit for the year 2016 came to EUR 7.8 million, after amortisation and depreciation – net of grants on investments – of EUR 7.6 million, provisions and write-downs of EUR 8.4 million, in addition to EUR 0.4 million in inventory write-downs (under costs for changes in inventory).

The breakdown of the write-downs and provisions is shown in the explanatory notes. It is important to note the write-downs of non-performing receivables and the allocations to provisions for write-downs of inventory, scheduled maintenance, pending tax disputes, risk on rolling stock spare parts and fines charged to suppliers.

As indicated also in the explanatory notes, the Directive 2013/34/EU, relating to the consolidated and separate financial statements, was transposed in Italy through Italian Legislative Decree 139/2015, which amended the rules on the financial statements since 2016, but also 2015 was reclassified for comparison purposes.

| | **2015** | **2016** |
|---|---|---|
| Revenues from sales and fees for minimum services | 213,202,193 | 217,623,954 |
| Other revenues and income | 43,316,672 | 34,733,357 |
| **Value of production** | **256,518,865** | **252,357,312** |
| External operating costs | 108,717,874 | 106,495,689 |
| Personnel costs | 109,890,518 | 114,194,101 |
| **EBITDA** | **37,910,473** | **31,667,522** |
| Amortisation and depreciation net of grants | 7,439,983 | 7,603,166 |
| Provisions and write-downs | 13,612,498 | 8,387,282 |
| **EBIT** | **16,857,993** | **15,677,074** |
| Financial income/(charges) | 25,216 | (251,620) |
| **Profit (loss) before taxes** | **16,883,209** | **15,425,454** |
| Taxes for the year | (9,514,744) | (7,662,527) |
| **Profit (loss) for the year** | **7,368,465** | **7,762,927** |

***Other information***

| | | |
|---|---:|---:|
| ***Shareholders' equity*** | ***112,730,150*** | ***120,493,077*** |
| ***Employees as at 31/12*** | ***2,508*** | ***2,526*** |
| ***Number of FTE average personnel for the year*** | ***2,437*** | ***2,433*** |

The income statement tables above, reclassified in summary form as compared to the official income statement table shown below have several differences. In particular:

• the reclassified income statement introduces the “EBITDA”, which is not shown in the tables in the separate financial statements. That margin is determined starting with the value of production in the separate income statement - net of grants on investments - and subtracting all costs with the exception of amortisation, depreciation, provisions and write-downs. More specifically, the item “External operating costs” includes the following cost items from the separate income statement: costs for raw materials, ancillary materials, consumables and merchandise, costs for services, leases and rentals, changes in inventories of raw materials, ancillary materials, consumables and merchandise and sundry operating expenses;

• subtracting amortisation, depreciation, provisions and write-downs and the net financial and extraordinary income from the EBITDA, the profit (loss) before taxes shown in the separate income statement table was determined.

The main equity and financial indicators are shown below.

**TPER - BALANCE SHEET (amounts in Euros)**

| Assets | 2015 | 2016 | Liabilities | 2015 | 2016 |
|---|---|---|---|---|---|
| **Fixed assets** | **280,142,555** | **341,963,593** | **Own funds** | **112,730,150** | **120,493,077** |
| Intangible assets | 1,341,776 | 1,535,332 | Share capital | 68,492,702 | 68,492,702 |
| Tangible assets | 206,997,599 | 267,462,766 | Reserves and profits | 44,237,448 | 52,000,375 |
| Financial fixed assets | 71,803,180 | 71,803,180 | **Consolidated liabilities** | **200,852,302** | **244,481,135** |
| **Current assets** | **145,036,515** | **135,906,203** | | | |
| Inventory | 10,371,730 | 10,141,561 | **Current liabilities** | **111,596,618** | **112,895,584** |
| Deferred liquidity | 0 | 0 | | | |
| Immediate liquidity | 134,664,785 | 125,764,642 | | | |
| **Invested capital** | **425,179,070** | **477,869,796** | **Financing capital** | **425,179,070** | **477,869,796** |

| **FINANCIAL INDICATORS** | | **2015** | **2016** |
|---|---|---|---|
| FINANCIAL-EQUITY STRUCTURAL RATIOS | | | |
| First structural ratio | Own funds/ Fixed assets | 0.40 | 0.35 |
| Second structural ratio | (Own funds + Consolidated liab.) / Fixed assets | 1.12 | 1.07 |
| INCOME RATIOS | | | |
| ROE | Net profit (loss)/Share Capital | 6.54% | 6.44% |
| ROI | EBIT/Invested capital | 3.96% | 3.28% |
| ROS | Profit (loss) before financial income (loss)/ Sales | 7.91% | 7.20% |

The net financial position of the Company as at 31/12/2016 came to EUR -3.6 million.

IRAP (Regional tax) rate

In consideration of several disputes of the Italian Revenue Agency with local public transport companies, TPER prudently settled also 2016 IRAP at the rate of 4.20% – even though it deems that higher rate not due – and shall apply for a refund for the difference from the ordinary IRAP rate of 3.90%.

<u>Deferred taxes</u>

In compliance with the accounting standards adopted and illustrated in the introduction to the explanatory notes to the financial statements, in line with its conduct in drawing up the previous years' financial statements, for prudential purposes the Company did not record the tax credit for prepaid taxes in the accounts. In fact, it is not certain that a positive taxable base will arise in the next few years, considering that a significant portion of revenues are comprised of fees for minimum services, which cannot all be defined a priori in a specific amount. In any event, the table showing the detailed analysis of company deferred taxes is attached to the explanatory notes.

## Other information

Development activities

- *Project of activities to be developed as part of the regional funds POR_FESR 2014-2020*

During 2016, in cooperation with the public transport companies operating in Emilia Romagna (Seta, Start and Tep), the overall project to access the loans of the regional funds POR FESR 2014-2020 was implemented. The activities concerned by the intervention are:

- the creation of a ticket purchasing system on-board the bus which allows the user to directly use a contactless credit card

- the definition of a video surveillance system for urban buses

- the development of electronic ticketing with the possibility of sale/top up of tickets via smartphone and tablet also at tobacconists/newsagents using NFC technology.

- the Action to improve the rail-road-bike modal interchange, upgrading and securing the stops, information displays in the interchange areas.

- *New corporate ERP system*

The new corporate ERP system based on SAP software was implemented. The system, in operation since 1 January 2017, integrates all the important business processes of the company (sales, purchases, inventory management, accounting, management control).

An integrated action plan was implemented to govern the organisational and process change, involving most of the corporate sectors with a great deal of work concerning analysis, development and training.

- *Cybersecurity and Data Protection*

A series of measures were implemented to ensure the IT security of the company and protect its IT and application assets. New security infrastructure was created, with actions taken at hardware and application level, also taking care of the procedural aspects; in particular:

-new browser firewall

-new internet publication system

-new email system

-drafting of the Privacy Impact Assessment (former DPS) pursuant to Italian Legislative Decree 196/2003 including the risk analysis for each IT area

-data centre and network infrastructure upgrade

-completion of the fibre optic network with the Ferrara depot (after Headquarters, Due Madonne, Battindarno, Ferrarese depots).

- *Reserved area of the website*

The services available on the company website (www.tper.it) were improved and a reserved area was created in particular with the aim of developing user loyalty by providing a series of personal services such as:

-Checking the status of personal cards

-Pass renewal

-Fines payment

-On-line renewal of the operating parking passes

-Scheduled appointments at the pass counter

-Display and consultation of sales movements and payments from retailers

-Booking of call services

-Prize contests

- *Tablets for railway personnel*

As regards the railway business, the project of dematerialising the documents relating to railway provisions and regulations was developed further.

Train staff, already equipped with tablets to access the document and management services in cloud environment, now also see the implementation of the logbook and dynamic train sheet functions aimed at reporting the train status, failures, limitations and the provision of the documents accompanying the train.

Branches

The Company conducts its business at the following locations: in Bologna (BO) in Via Saliceto 3, Via Battindarno 121, Via Due Madonne 10, Via Ferrarese 114 and Via delle Biscie 17; in Ferrara (FE) in Via Trenti 35 and Via Porta Reno 182; in Castel di Casio – Prati District (BO), Via Caduti di Nassirya 8; in Imola (BO) in Via Marconi 4; in Casalecchio di Reno (BO) in Via Don Minzoni 13; in Codigoro (FE) in Viale Papa Giovanni XXIII 45; in Comacchio (FE) in Via Provinciale 38; in Sermide (MN) in Via F.lli Bandiera; in Modena (MO) in Piazza A. Manzoni 21; in Reggio Emilia (RE) in Via Orazio Talami 7 and in Guastalla (RE) in Via F.da Volterra.

## TPER Group

As TPER is a Group, it drew up consolidated financial statements based on the rules set out. The Group closed the year with a net profit of EUR 7.8 million.

In addition to the parent company TPER, the area of consolidation includes the subsidiaries as defined by art. 2359 of the Italian Civil Code.

| Area of consolidation | % consolidated | % ownership | % minority interests |
|---|---|---|---|
| TPER SpA (parent company) | 100% | 100.00% | 0% |
| MA.FER Srl | 100% | 100.00% | 0% |
| TPF Soc.Cons.a r.l. | 100% | 97.00% | 3.00% |
| Dinazzano Po SpA | 100% | 95.35% | 4.65% |
| Herm Srl | 100% | 94.95% | 5.05% |
| TPB Soc.Cons.a r.l. | 100% | 85.00% | 15.00% |
| Omnibus Soc.Cons.a r.l. | 100% | 51.00% | 49.00% |
| SST Srl | 100% | 51.00% | 49.00% |

TPER SpA's business is primarily within the company Group. For this reason the report on operations is drawn up only for the separate financial statements, and not for the consolidated financial statements.

Some information on the subsidiaries is shown below, for the company's results please refer to the notes to the financial statements

**MA.FER Srl**

MA.FER.'s main business is maintenance of railway rolling stock.

TPER is the sole shareholder of MA.FER. Srl.

**TPF Soc.Cons.a r.l.**

The corporate purpose of TPF, created in 2006 on start-up of the service following the public tender, is local public transport and all accessory activities in the Ferrara area, where the Company manages a service agreement for urban and inter-urban bus transport, allocating the activities among the consortium members.

The other partner is FE.M. Soc. a r.l., which holds 3% of the share capital.

**Dinazzano Po SpA**

The corporate purpose of Dinazzano Po consists of freight railway service and carrying out railway services for freight transport, in addition to managing railway stops and integrated transport terminals.

The shareholders are Azienda Consorziale Trasporti ACT (RE), the Ravenna Port Authority and Porto Intermodale di Ravenna SAPIR SpA, which each hold 1.55% of the share capital.

**TPB Soc.Cons.a r.l.**

The corporate purpose of TPB, created in 2011 following the public tender for public transport in the Bologna area, is local public transport and all accessory activities in the Bologna area, where the Company manages a service agreement for urban and inter-urban bus transport, allocating the activities among the consortium members.

The other partners are Omnibus Soc. cons. a r.l., which holds 10% of the share capital, and Autoguidovie SpA, which holds 5% of the share capital.

**HERM Holding Emilia-Romagna Mobility Srl**

Herm is the investment holding company that holds 21,416,074 shares (equal to 42.841%) of Seta SpA.

The other shareholder is New Mobility Scarl with 5.05% of the share capital.

**Omnibus Soc.Cons.a r.l.**

Omnibus manages transport and mobility services in general, in the interest of its consortium members.

The other partners are Cosepuri Scpa, with 17% of the share capital, Saca Scarl, with 17% of the share capital and Coerbus Scarl, with 15% of the share capital.

**SST Srl**

SST manages school transport services, transport in general and mobility services in the Ferrara area.

The other partner is FE.M. Soc. a r.l., which holds 49% of the share capital.

## Significant subsequent events

Issue of bonds on the regulated market

During 2016 the directors resolved to resort to the regulated financial markets to find resources that support the investment plan.

After this, the process for the issue of short-term bonds on regulated markets was started in 2017.

With the support of qualified specialists, the company is now verifying the interest of institutional investors in buying TPER debt securities.

Extension of the local public transport service agreement of the Bologna area

Enforcing the right granted to it by art. 3, par. 2 of the service agreement entered into between TPB Scarl (consortium serving the service) and SRM Srl (mobility agency in the Bologna area) on 4 March 2011, TPB itself asked the duration of the agreement to be extended by another three years.

With letter of 28 February 2017, SRM Srl, responding to this request and the requirements being met, communicated its will to extend the agreement until 29 February 2020.

Tender for the management of the parking service in the municipality of Bologna

Bologna Municipal Authorities, with resolution by the Municipal Board, decided to task their Mobility Agency (SRM Srl) with starting the public tender procedure aimed at identifying the new entity entrusted with managing the activities regarding the parking plan and the complementary mobility services in the Municipality of Bologna, identifying the relevant general guidelines. These services, which are currently performed by TPER following the awarding of a similar tender procedure, include:

- the management of the regulated parking on roads and the relevant collection; the purchase, installation and maintenance of the relevant road signs, of the technological devices and of the payment equipment for regulated parking and relevant checking by the traffic wardens pursuant to Law 127/97;

- the management of pay parking in facilities for parking use: Tanari, Prati di Caprara, Staveco, Ex Minganti, Ex Panigal, Foscolo, Borgo-Masini (Ex Buton), Ex Stiassi, Marco Polo, Bitone (Ex Euraquarium), S.Viola;
- the complete management of the service of issue of the passes for access and parking in the controlled traffic zone in the regulated areas of the Parking plan;
- the management of the car-sharing service;
- the management of the bike mobility services.

The Authorities are planning to award these services by 01/01/2018.

In the meanwhile TPER will continue the activities with the same current conditions in accordance with art. 5 of the service agreement in force.

The car and bike-sharing services do not entail any particular form of exclusivity: it is based on this that the Municipal Authorities have reserved the right to identify forms of evolution of these services, envisaging a discontinuation or remodulation of the bike sharing service currently existing in order to arrange for more assignments.

## Business Outlook

TPER has started many demanding processes, having shown to have the ability and the skills needed to face the challenges, which concern the TPL sector and mobility.

TPER's mission is to encourage and expand the use of public transport services in its role as a sustainable, competitive, innovative and transparent mobility company.

In pursuing such objective, the company's vision is that of improving the quality of life and of the environment, to the benefit of travellers, and more generally of the territory it operates in.

Having shown to be efficient and sound, TPER intends to continue along its growth path to support its mission while blending environmental and social sustainability with economic viability.

## Main risks and uncertainties

In conducting its ordinary operations, TPER is mainly exposed to:

a) liquidity risk, with regard to the availability of financial resources adequate to cover its operational activities and repay liabilities assumed;
b) credit risk, connected with both normal trade relationships and the possibility of the default of a financial counterparty.

The Company's strategy to manage financial risks complies and is consistent with the company objectives defined by the Board of Directors.

### Liquidity risk

Liquidity risk is the possibility that financial resources available may be insufficient to cover obligations falling due, also in relation to possible critical issues regarding the disbursement of grants due, deriving from transfers of the Public Administration. The Company is actively committed to overseeing the risk in question, both by taking action on its capacity to generate cash flows and attempting to diversify the sources of financing to cover its needs for operational management and for investments.

### Credit risk

TPER provides public services through subsidiaries, in conjunction with institutions, and the ticketing revenues are primarily managed in cash.

In any event, there are several non-performing receivables, positions which have been individually assessed, and an overall estimate of the risk of outstanding credit positions has been made, for which bad debt provisions have been created, which take account of the estimated recoverable flows.

### Operating and market risks

New risk assessment methods are being developed, which ensure effective data management to prevent operating risks. The Company is not subject to market risk, as it carries out a public service which, though managed under conditions of economic loss, also determined by the low fares which, as known, are not decided by the company, is carried out in the interest of the mobility agencies in the various areas based on specific service agreements.

The Company is a party in legal proceedings connected with the normal course of its operations. Based on the information currently available, the Company deems that these proceeding and lawsuits have been suitable assessed and covered by specific provisions for risks and charges in the financial statements, and will not have significant negative effects on the balance sheet and cash flow or income statement of the Company.

## Proposal on the allocation of profit for the year

Dear Shareholders,

To complete the summary of operational data and company events illustrated above, the TPER's Board of Directors submits for your examination and approval the draft financial statements for 2016 and recommends allocating the profit for the year of EUR 7,762,926.83 as follows:

- EUR 388,146.34 to the legal reserve,

- EUR 2,717,024.39 to the extraordinary reserve.

- EUR 4,657,756.10 to be distributed to the shareholders.

Bologna, 26/05/2017

for the Board of Directors

The Chairperson

Giuseppina Gualtieri

TPER S.p.A.

Headquarters in Bologna - Via di Saliceto 3

Share Capital EUR 68,492,302.00, fully paid-in

BOLOGNA Register of Companies - Tax Code and VAT no. 03182161202

Economic and Administrative Repertoire No. 498539

# Consolidated Financial Statements as at 31/12/2016

## BALANCE SHEET

| ASSETS | 31/12/2016 | 31/12/2015 |
|---|---|---|
| A) SUBSCRIBED CAPITAL UNPAID | | |
| Total subscribed capital unpaid (A) | 0 | 0 |
| B) FIXED ASSETS | | |
| ***I - Intangible assets*** | | |
| **1) Start-up and expansion costs** | **56,601** | **89,837** |
| **2) Development costs** | **0** | **8,700** |
| **3) Industrial patents and intellectual property rights** | **25,514** | **20,246** |
| **4) Concessions, licenses, trademarks and similar rights** | **18,639,623** | **19,031,115** |
| **6) Assets in progress and payments on account** | **512,149** | **943,848** |
| **7) Other** | **7,397,562** | **7,848,505** |
| **Total intangible assets** | **26,631,449** | **27,942,251** |
| ***II - Tangible assets*** | | |
| **1) Land and buildings** | **3,261,113** | **3,331,029** |
| **2) Plants and machinery** | **7,271,434** | **7,646,397** |
| **3) Industrial and commercial equipment** | **2,332,396** | **1,986,319** |
| **4) Other assets** | **117,667,171** | **51,551,408** |
| **5) Assets in progress and payments on account** | **146,347,673** | **150,710,238** |
| **Total tangible assets** | **276,879,787** | **215,225,391** |
| ***III - Financial fixed assets*** | | |
| **1) Equity investments** | | |

| | | |
|---|---|---|
| b) Associates | 11,195,100 | 10,395,100 |
| d) Companies subject to control of the parent companies | 0 | 0 |
| d-bis) Other companies | 3,342,833 | 3,306,350 |
| **Total equity investments** | **14,537,933** | **13,701,450** |
| **2) Receivables** | | |
| **b) Due from associates** | | |
| Within the next financial year | 750,000 | 0 |
| Total receivables due from associates | 750,000 | 0 |
| **c) Due from parent companies** | | |
| Within the next financial year | 2,986,060 | 5,246,905 |
| Total receivables due from parent companies | 2,986,060 | 5,246,905 |
| **d-bis) Due from others** | | |
| Within the next financial year | 3,289,313 | 235,062 |
| Beyond the next financial year | 3,821,988 | 2,837,949 |
| Total receivables due from others | 7,111,301 | 3,073,011 |
| **Total Receivables** | **10,847,361** | **8,319,916** |
| 3) Other securities | 447,543 | 3,852,413 |
| **Total financial fixed assets** | **25,832,837** | **25,873,779** |
| Total fixed assets (B) | 329,344,073 | 269,041,421 |
| C) CURRENT ASSETS | | |
| ***I - Inventories*** | | |
| 1) Raw materials, ancillary materials and consumables | 26,905,045 | 25,212,144 |
| 4) Finished goods and goods for resale | 35,482 | 0 |
| **Total inventories** | **26,940,527** | **25,212,144** |
| ***II - Receivables*** | | |
| **1) Due from customers** | | |
| Within the next financial year | 62,805,618 | 59,896,496 |
| **Total receivables due from customers** | **62,805,618** | **59,896,496** |

| | | |
|---|---|---|
| **3) Due from associates** | | |
| **Within the next financial year** | **12,970,386** | **14,705,248** |
| **Total receivables due from associates** | **12,970,386** | **14,705,248** |
| **4) Due from parent companies** | | |
| **Within the next financial year** | **2,059,594** | **3,557,482** |
| **Total receivables due from parent companies** | **2,059,594** | **3,557,482** |
| **5-bis) Tax credits** | | |
| **Within the next financial year** | **8,359,394** | **4,930,390** |
| **Beyond the next financial year** | **35,213** | **35,213** |
| **Total tax credits** | **8,394,607** | **4,965,603** |
| **5-ter) Prepaid taxes** | **16,391** | **14,571** |
| **5-quater) Due from others** | | |
| **Within the next financial year** | **16,429,397** | **10,467,687** |
| **Beyond the next financial year** | **664,508** | **1,812,351** |
| **Total receivables due from others** | **17,093,905** | **12,280,038** |
| **Total receivables** | **103,340,501** | **95,419,438** |
| ***III - Current financial assets*** | | |
| **6) Other securities** | **0** | **400,000** |
| **Total current financial assets** | **0** | **400,000** |
| ***IV - Cash and cash equivalents*** | | |
| **1) Bank and postal deposits** | **30,221,377** | **47,232,943** |
| **3) Cash and cash equivalents on hand** | **22,067** | **14,285** |
| **Total cash and cash equivalents** | **30,243,444** | **47,247,228** |
| Total current assets (C) | 160,524,472 | 168,278,810 |
| **D) ACCRUED INCOME AND PREPAID EXPENSES** | **2,870,531** | **3,664,751** |
| TOTAL ASSETS | 492,739,076 | 440,984,982 |

BALANCE SHEET

| LIABILITIES | 31/12/2016 | 31/12/2015 |
|---|---|---|
| A) GROUP SHAREHOLDERS' EQUITY | | |

| | | |
|---|---|---|
| **I - Share Capital** | **68,492,702** | **68,492,702** |
| **II - Share premium reserve** | **272,058** | **272,058** |
| **III - Revaluation reserves** | **0** | **0** |
| **IV - Legal reserve** | **3,535,668** | **3,167,244** |
| **V - Reserves pursuant to the Articles of Association** | **0** | **0** |
| ***VI - Other reserves, indicated separately*** | | |
| Capital payments | 32,716,499 | 32,716,499 |
| Merger surplus reserve | 1,515,984 | 1,515,984 |
| **Consolidation reserve** | **-299,911** | **-61,552** |
| **Conversion reserve** | **0** | **0** |
| Sundry other reserves | 6,197,238 | 5,315,766 |
| **Total other reserves** | **40,129,810** | **39,486,697** |
| **VII - Cash flow hedging reserve** | **0** | **0** |
| **VIII - Retained earnings/(losses carried forward)** | **55,142** | **-6,073,630** |
| **IX - Profit (loss) for the year** | **7,608,941** | **7,433,438** |
| **Loss settled in the year** | **0** | **0** |
| **X - Negative reserve for treasury shares on hand** | **0** | **0** |
| **Total Group Shareholders' Equity** | **120,094,321** | **112,778,509** |
| ***Minority interests*** | | |
| Third party capital and reserves | 2,440,718 | 3,331,914 |
| Third party profit (loss) | 74,268 | 72,295 |
| **Total minority interests** | **2,514,986** | **3,404,209** |
| Total consolidated shareholders' equity | 122,609,307 | 116,182,718 |
| B) PROVISIONS FOR RISKS AND CHARGES | | |
| 1) Retirement pay and similar obligations | 0 | 295,000 |
| 2) Taxes, including deferred taxes | 105,984 | 146,464 |
| 3) Derivative liabilities | 507,355 | 668,666 |
| 4) Other | 42,686,339 | 35,321,706 |

| | | |
|---|---|---|
| Total provisions for risks and charges (B) | 43,299,678 | 36,431,836 |
| C) EMPLOYEE SEVERANCE INDEMNITY | 29,370,906 | 31,055,405 |
| D) PAYABLES | | |
| **4) Due to banks** | | |
| **Within the next financial year** | **24,602,175** | **7,946,880** |
| **Beyond the next financial year** | **7,056,173** | **2,403,919** |
| **Total due to banks** | **31,658,348** | **10,350,799** |
| **7) Trade payables** | | |
| **Within the next financial year** | **69,046,480** | **67,023,153** |
| **Beyond the next financial year** | **4,696,916** | **1,753,803** |
| **Total trade payables** | **73,743,396** | **68,776,956** |
| **10) Due to associates** | | |
| **Within the next financial year** | **705,905** | **268,595** |
| **Total due to associates** | **705,905** | **268,595** |
| **11) Due to parent companies** | | |
| **Within the next financial year** | **1,242,696** | **1,577,450** |
| **Total due to parent companies** | **1,242,696** | **1,577,450** |
| **12) Tax payables** | | |
| **Within the next financial year** | **896,752** | **4,263,974** |
| **Total tax payables** | **896,752** | **4,263,974** |
| **13) Due to pension and social security agencies** | | |
| **Within the next financial year** | **2,556,175** | **2,821,966** |
| **Total due to pension and social security agencies** | **2,556,175** | **2,821,966** |
| **14) Other payables** | | |
| **Within the next financial year** | **17,285,097** | **17,141,181** |
| **Beyond the next financial year** | **23,953,390** | **22,544,514** |
| **Total other payables** | **41,238,487** | **39,685,695** |
| Total payables | 152,041,759 | 127,745,435 |
| E) ACCRUED EXPENSES AND DEFERRED INCOME | 145,417,426 | 129,569,588 |
| TOTAL LIABILITIES | 492,739,076 | 440,984,982 |

## INCOME STATEMENT

| | 31/12/2016 | 31/12/2015 |
|---|---|---|
| A) VALUE OF PRODUCTION | | |
| **1) Revenues from sales and services** | **242,668,247** | **235,461,949** |
| **4) Own work capitalised** | **254,343** | **266,092** |
| **5) Other revenues and income** | | |
| **Operating grants** | **47,673,167** | **44,587,661** |
| **Other** | **19,131,210** | **31,371,549** |
| **Total other revenues and income (5)** | **66,804,377** | **75,959,210** |
| Total value of production (A) | 309,726,967 | 311,687,251 |
| B) COSTS OF PRODUCTION: | | |
| **6) Raw materials, ancillary materials, consumables and merchandise** | **38,412,732** | **42,436,727** |
| **7) Services** | **94,126,930** | **92,699,764** |
| **8) Leases and rentals** | **13,297,814** | **11,640,914** |
| **9) Personnel:** | | |
| **a) Wages and salaries** | **90,571,267** | **86,500,180** |
| **b) Social security costs** | **26,542,504** | **25,845,328** |
| **c) Employee severance indemnity** | **6,089,984** | **5,891,366** |
| **e) Other costs** | **830,373** | **827,640** |
| **Total personnel costs (9)** | **124,034,128** | **119,064,514** |
| **10) Amortisation, depreciation and write-downs:** | | |
| **a) Amortisation of intangible assets** | **1,800,129** | **1,793,741** |
| **b) Depreciation of tangible assets** | **12,287,195** | **10,998,827** |
| **d) Write-downs of current receivables and cash and cash equivalents** | **592,207** | **1,562,064** |
| **Total amortisation, depreciation and write-downs (10)** | **14,679,531** | **14,354,632** |
| **11) Changes in inventories of raw materials, ancillary materials, consumables and merchandise** | **-1,728,383** | **-1,722,211** |

| | | |
|---|---|---|
| 12) Provisions for risks | 7,935,252 | 7,730,683 |
| 13) Other provisions | 100,000 | 4,842,413 |
| 14) Sundry operating expenses | 2,757,370 | 2,940,626 |
| Total costs of production (B) | 293,615,374 | 293,988,062 |
| Difference between value and costs of production (A-B) | 16,111,593 | 17,699,189 |
| C) FINANCIAL INCOME AND CHARGES | | |
| 15) Income from equity investments | | |
| Other | 29 | 878 |
| Total income from equity investments (15) | 29 | 878 |
| 16) Other financial income: | | |
| a) From non-current receivables | | |
| Other | 95,845 | 102,277 |
| Total financial income from non-current receivables | 95,845 | 102,277 |
| b) From other permanent investments | 10,836 | 7,060 |
| d) Income other than the above | | |
| Other | 32,815 | 262,586 |
| Total income other than the above (d) | 32,815 | 262,586 |
| Total other financial income (16) | 139,496 | 371,923 |
| 17) Interest and other financial charges | | |
| Other | 508,898 | 438,333 |
| Total interest and other financial charges (17) | 508,898 | 438,333 |
| 17-bis) Foreign exchange gains and losses | 0 | -6 |
| Total financial income and charges (C) (15+16-17+-17-bis) | -369,373 | -65,538 |
| D) VALUE ADJUSTMENTS TO FINANCIAL ASSETS AND LIABILITIES: | | |
| Total value adjustment to financial assets and liabilities (D) (18-19) | 0 | 0 |
| PROFIT (LOSS) BEFORE TAXES (A-B+-C+-D) | 15,742,220 | 17,633,651 |
| 20) Income tax for the year - current, deferred and prepaid | | |
| Current taxes | 8,102,359 | 9,977,196 |

| | | |
|---|---|---|
| **Prepaid and deferred taxes** | **-43,348** | **150,722** |
| Total income tax for the year - current, deferred and prepaid | 8,059,011 | 10,127,918 |
| 21) Consolidated profit (loss) for the year | 7,683,209 | 7,505,733 |
| **Profit attributable to third parties** | **-74,268** | **-72,295** |
| Profit attributable to the group | 7,608,941 | 7,433,438 |

Bologna, 26/05/2017

for the Board of Directors

The Chairperson

Giuseppina Gualtieri

# TPER SPA

## Separate Financial Statements as at 31/12/2016

| Record data | |
|---|---|
| Headquarters in | BOLOGNA |
| Tax Code | 03182161202 |
| Economic and Administrative Repertoire No. | |
| VAT no. | 03182161202 |
| Share capital Euro | 0 fully paid-in |
| Legal form | CORPORATION |
| Main activity sector (ATECO) | |
| Company in liquidation | no |
| Single member company | no |
| Company subjected to other management and coordination activities | no |
| Belongs to a group | no |

Amounts are shown in Euro

## Explanatory notes to the Consolidated Financial Statements as at 31/12/2016

### STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements as at 31/12/2016, composed of the balance sheet, income statement, statement of cash flows and explanatory notes, were prepared in compliance with Italian Legislative Decree no. 127/1991, supplemented, in relation to the aspects not specifically set out in the decree, by the Italian GAAP published by the Italian Accounting Standard Authority (OIC).

The financial statements are also accompanied by the following documents:

- List of companies included in the consolidated financial statements and of equity investments:
  - Companies consolidated on a line-by-line basis (pursuant to art. 26)
  - Other equity investments in subsidiaries and associates
- Statement of reconciliation of the shareholders' equity and profit/(loss) for the year of the parent company and the shareholders' equity and the consolidated profit/(loss) for the year.

Amounts are shown in Euro.

The separate financial statements of the consolidated companies were drawn up by the respective management bodies based on the accounting standards mentioned above.

Most of the balances in the consolidated financial statements relate to the parent company TPER. For more information on these items, refer to the explanatory notes of the TPER Separate Financial Statements.

### Derogations

There were no exceptional cases requiring the application of the derogations pursuant to art. 29, paragraphs 4 and 5 of Italian Legislative Decree 127/1991.

### Consolidation area - Principles of consolidation and conversion

The Consolidated financial statements include the financial statements of TPER SPA and the companies over which it directly or indirectly exercises control.

The assets and liabilities of the consolidated companies are assumed on a line-by-line basis. The book value of the equity investments held by the parent company and the other consolidated companies is eliminated against the related shareholders' equity. The amount of shareholders' equity that exceeds the purchase cost was credited to the consolidated shareholders' equity, under "Consolidation reserve".

The portion of shareholders' equity pertaining to third party shareholders of the consolidated subsidiaries is posted under "Third party capital and reserves" in shareholders' equity, while minority interests in the net profit is shown separately in the consolidated income statement under "Third party profit (loss) for the year".

Payables and receivables and costs and revenues between the consolidated companies were eliminated. Specifically, if significant, the profit and loss deriving from transactions between Group companies which have not yet been realised in relation to third parties were eliminated.

Where necessary, the separate financial statements of the single companies approved by the shareholders' meetings or drawn up by the Boards of Directors for approval were reclassified and adjusted to standardise them with the accounting standards adopted by the Group.

## List of consolidated companies

In relation to the provisions of art. 38, paragraph 2, points a) to d) of Italian Legislative Decree 127/1991, the following lists are shown below:

**List of equity investments consolidated on a line-by-line basis**

| Company name | Registered Office | Currency | Share capital | Group's direct share |
|---|---|---|---|---|
| OMNIBUS Soc. cons. a r.l. | Via di Saliceto, 3 BOLOGNA | EUR | 80,000 | 51.00 |
| TPF Soc. cons. a r.l. | Viale S. Trenti, 35 FERRARA | EUR | 10,000 | 97.00 |
| TPB Soc. cons. a r.l. | Via di Saliceto, 3 BOLOGNA | EUR | 10,000 | 85.00 |
| MA.FER S.r.l. | Via di Saliceto, 3 BOLOGNA | EUR | 3,100,000 | 100.00 |
| DINAZZANO PO S.p.A. | P.zza Guglielmo Marconi, 11 REGGIO EMILIA | EUR | 38,705,000 | 95.35 |
| SST S.r.l. | Viale S. Trenti, 35 FERRARA | EUR | 110,000 | 51.00 |
| Holding Emilia Romagna Mobility S.r.l. | Via Di Saliceto 3 BOLOGNA | EUR | 10,840,000 | 94.95 |
| | | | | |

**List of equity investments in associates and other companies**

| Company name | Registered Office | Currency | Share capital | Group's direct share |
|---|---|---|---|---|
| Marconi Express Spa | Via M.E. Lepido 182/2, Bologna | EUR | 8,000,000 | 25.00 |
| Seta Spa | Strada Sant'Anna 210, Modena | EUR | 11,997,659 | 47.38 |
| Start Romagna Spa | Via A. Spinelli 140, Cesena (FC) | EUR | 29,000,000 | 13.79 |
| Consorzio Bolognese Energia Scrl | Viale Aldo Moro 16, Bologna | EUR | 193,922 | 0.18 |
| Consorzio Trasporti Integrato | Via del Lazzaretto 16, Bologna | EUR | 10,000 | 26.00 |
| | | | | |

## VALUATION CRITERIA

The valuation criteria adopted in drawing up the consolidated financial statements are in line with those used by the Parent Company, supplemented, where necessary, with the accounting standards used for specific items of the consolidated financial statements.

Individual items are valued according to prudence and with a view to the company as a going concern, and taking account of the economic function of the asset and liability elements, based on the principle of the prevalence of substance over form.

Specifically, the following valuation criteria were adopted.

### Intangible assets

Intangible assets are posted, within the limit of the recoverable amount, at purchase or production cost, including any ancillary charges, and amortised systematically in relation to the residual possibility of use.

### Tangible assets

Tangible assets are recognised on the date when the transfer of the risks and benefits connected to the purchased goods takes place and are entered, within the limit of the recoverable amount, at purchase or production cost, net of accumulated depreciation, including all directly attributable ancillary costs and charges.

The cost of fixed assets whose use is limited over time is systematically depreciated each year, based on the economic-technical rates determined in relation to the residual possibility of use.

Assets in progress and payments on account to suppliers are posted under assets based on the cost incurred and/or the advance payment made, including directly attributable expenses.

### Financial fixed assets

Equity investments in associates are valued at the cost incurred, possibly adjusted in the event of impairment.

Receivables posted under financial fixed assets are shown at nominal value.

### Inventories

Inventories are measured by applying the LIFO method.

### Receivables

Receivables are posted at their expected realisable value through allocations to bad debt provisions, posted as a direct deduction from assets and determined in relation to the risk of loss resulting from the specific analysis of individual positions and the historical performance of losses on receivables, as well as country risk. The depreciated cost valuation method is not used as it is not significant for the correct representation of the item.

### Cash and cash equivalents

Cash and cash equivalents at the end of the year are valued at nominal value.

### Accruals and deferrals

Accrued income and prepaid expenses and accrued expenses and deferred income are posted on an accruals basis.

Accrued income, similar to the receivables of the year, was assessed at the expected realisable value.

Accrued expenses, similar to payables, were assessed at the nominal value.

### Provisions for risks and charges

Provisions for risks and charges are allocated to cover losses or payables that will definitively or probably arise, but that, as at the end of the year, could not be determined, either in terms of amount or date of occurrence. The provisions reflect the best possible estimate based on the information available.

### Employee severance indemnity

This reflects the payable, subject to revaluation using specific indices and net of any advances paid, accrued to all employees of the Group at year-end, in line with the rules of law and labour agreements in force.

### Payables

Payables posted under Balance Sheet liabilities are shown at their nominal value, which is deemed representative of their redemption value. The depreciated cost valuation method is not used as it is not significant for the correct representation of the item.

### Income taxes for the year

Current income taxes are posted, for each company, based on an estimate of the taxable income in compliance with the tax rates and regulations in force at the reporting date in each country, taking account of the applicable exemptions and any tax credits due.

Prepaid and deferred taxes are calculated on the temporary differences between the value attributed to the assets and liabilities in the financial statements and the corresponding values for tax purposes, based on the tax rates in force at the time those temporary differences will be reversed. Prepaid taxes are posted only if there is a reasonable certainty that they will be recovered in the future.

## INFORMATION ON THE BALANCE SHEET

### Intangible assets

Intangible assets, equal to EUR 26,631,449, are recognised at historical purchase cost and posted net of amortisation over the years, attributed directly to the single items. Start-up and expansion costs were recognised under assets with the approval of the Board of Statutory Auditors.

The amortisation criteria were as follows:

- Standardised system software and personalised application software are shown under "concessions, licences and trademarks", with amortisation on a straight-line basis over three years;
- Other intangible assets, railway software, start-up costs and research and development are amortised on a straight-line basis over five years;
- the concession for the use of the Dinazzano terminal is amortised at a rate of 2.05%;
- the concession for the use of the Guastalla terminal is amortised at a rate of 4.25%;
- long-term expenses on third party assets are amortised in relation to the duration of the lease agreement.

The breakdown and movements in the single items are shown below:

| | Start-up and expansion costs | Development costs | Industrial patents and intellectual property rights | Concessions, licenses, trademarks and similar rights | Goodwill | Intangible assets in progress and payments on account | Other intangible assets | Total intangible assets |
|---|---|---|---|---|---|---|---|---|
| **Values at the beginning of the year** | | | | | | | | |
| **Cost** | 210,875 | 43,500 | 36,298 | 20,517,951 | 1,299,645 | 943,848 | 9,504,037 | 32,556,154 |
| **Amortisation (Accum. depr.)** | 121,038 | 34,800 | 16,052 | 1,486,836 | 16,527 | 0 | 1,655,532 | 3,330,785 |
| **Write-downs** | 0 | 0 | 0 | 0 | 1,283,118 | 0 | 0 | 1,283,118 |
| **Book values** | 89,837 | 8,700 | 20,246 | 19,031,115 | 0 | 943,848 | 7,848,505 | 27,942,251 |
| **Changes during the year** | | | | | | | | |
| **Amortisation for the year** | 66,436 | 0 | 2,529 | 7,726 | 0 | 0 | 1,723,438 | 1,800,129 |
| **Other changes** | 33,200 | -8,700 | 7,797 | -383,766 | 0 | -431,699 | 1,272,495 | 489,327 |
| **Total changes** | -33,236 | -8,700 | 5,268 | -391,492 | 0 | -431,699 | -450,943 | -1,310,802 |
| **Values at the end of the year** | | | | | | | | |
| **Cost** | 208,412 | 0 | 49,978 | 20,540,054 | 0 | 512,149 | 9,698,271 | 31,008,864 |
| **Amortisation (Accum. depr.)** | 151,811 | 0 | 24,464 | 1,900,431 | 0 | 0 | 2,300,709 | 4,377,415 |
| **Write-downs** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Book values** | 56,601 | 0 | 25,514 | 18,639,623 | 0 | 512,149 | 7,397,562 | 26,631,449 |

The item “Other intangible assets", which includes residual amounts that cannot be classified in the items above, amounted to EUR 7,397,562 (EUR 7,848,505 in the previous year), and breaks down as follows:

| | Description | Values at the beginning of the year | Changes during the year | Values at the end of the year |
|---|---|---|---|---|
| | Formation costs | 321,623 | -193,235 | 128,388 |
| | Long-term costs on third-party assets | 933,818 | 21,385 | 955,203 |
| | Maintenance of third-party build. | 189,943 | -49,209 | 140,734 |
| | Maintenance of third-party terminals | 6,061,691 | -134,827 | 5,926,864 |
| | Other | 341,430 | -95,057 | 246,373 |
| **Total** | | 7,848,505 | -450,943 | 7,397,562 |

## Tangible assets

Tangible assets amounted to EUR 276,879,787 (EUR 215,225,391 in the previous year) and are posted at purchase costs, adjusted by the corresponding accumulated depreciation. The book value in the financial statements takes account of the transaction costs and costs incurred to use the fixed assets. The depreciation charges posted to the income statement were calculated according to the residual possibility of use and, specifically, the use, purpose and economic-technical duration of the assets. The depreciation rates representing the residual possibility of use are as follows:

| | Rate | | Rate |
|---|---|---|---|
| Land | - | School buses | 20% |
| Fixed artworks | 4% | Buses | 10% |
| Buildings used in operations | 2.57% | Trolleybuses | 7.5% |
| Buildings used to provide services | 4% | Automobiles | 25% |
| Buildings - enhanc. maintenance | 4% | Sundry vehicles | 25% |
| Buildings | 4% | Trams | 10% |
| Plants | 10% | Rail cars | 10% |
| Plants - enhanc. maintenance | 10% | Locomotives - coaches | 3.50% |
| Electrical plants | 5% | E483 Locomotives | 3.75% |
| Light buildings - enhanc. maintenance | 10% | Vans | 30% |
| Light buildings | 10% | Lifts | 20% |
| Railway equipment | 10% | Large containers | 15% |
| Substation machinery and equipment | 11.5% | Technical instruments | 20% |
| Workshop machinery and equipment | 20% | Ticket validation machines | 20% |
| Ordinary machinery | 12% | Telephone systems | 20% |
| Office furniture | 12% | Electrical-mechanical machinery | 20% |
| Snack bar equipment | 12% | Mobile telephone systems | 20% |
| Light workshop equipment | 12% | Lighting systems | 20% |
| Trolleybus overhead line | 5% | Lighting poles | 20% |

| | | | |
|---|---|---|---|
| Overhead line - enhanc. maintenance | 5% | Current feeder and ret. cables | 11.5% |
| Light constructions | 5% | Mobile telephone equipment | 10% |

The breakdown and movements in the single items are shown below:

| | Land and buildings | Plant and machinery | Industrial and commercial equipment | Other tangible assets | Tangible assets in progress and payments on account | Total Tangible assets |
|---|---|---|---|---|---|---|
| **Values at the beginning of the year** | | | | | | |
| **Cost** | 4,522,233 | 15,323,455 | 24,964,291 | 284,606,341 | 150,710,238 | 480,126,558 |
| **Amortisation (Accum. depr.)** | 1,191,204 | 7,677,058 | 22,977,972 | 233,054,933 | 0 | 264,901,167 |
| **Book values** | 3,331,029 | 7,646,397 | 1,986,319 | 51,551,408 | 150,710,238 | 215,225,391 |
| **Changes during the year** | | | | | | |
| **Amortisation for the year** | 1,387,231 | 855,002 | 1,008,322 | 9,036,640 | 0 | 12,287,195 |
| **Other changes** | 1,317,315 | 480,039 | 1,354,399 | 75,152,403 | -4,362,565 | 73,941,591 |
| **Total changes** | -69,916 | -374,963 | 346,077 | 66,115,763 | -4,362,565 | 61,654,396 |
| **Values at the end of the year** | | | | | | |
| **Cost** | 4,533,233 | 15,251,940 | 25,705,758 | 350,843,017 | 146,347,673 | 542,681,621 |
| **Amortisation (Accum. depr.)** | 1,272,120 | 7,980,506 | 23,373,362 | 233,175,846 | 0 | 265,801,834 |
| **Book values** | 3,261,113 | 7,271,434 | 2,332,396 | 117,667,171 | 146,347,673 | 276,879,787 |

The item "Assets in progress and payments on account" mainly includes the costs relating to the Guided Transport System (GTS)" and relating to the Metropolitan Railway Service (MRS).

## Financial fixed assets – Equity investments, other securities and derivative assets

The equity investments not included in the area of consolidation equal EUR 14,537,933 (EUR 13,701,450 in the previous year).

The other securities included in financial fixed assets equal EUR 447,543 (EUR 3,852,413 in the previous year).

The breakdown and movements in the single items are shown below:

| | Equity investments in associates | Equity investments in other companies | Total Equity investments | Other securities |
|---|---|---|---|---|
| **Values at the beginning of the year** | | | | |
| **Cost** | 10,395,100 | 3,306,350 | 13,701,450 | 3,852,413 |
| **Write-downs** | -2,500,000 | -700,000 | -3,200,000 | 0 |
| **Book values** | 12,895,100 | 4,006,350 | 16,901,450 | 3,852,413 |
| **Changes during the year** | | | | |

| | | | | |
|---|---|---|---|---|
| **Other changes** | -1,700,000 | -663,517 | -2,363,517 | -3,404,870 |
| **Total changes** | -1,700,000 | -663,517 | -2,363,517 | -3,404,870 |
| **Values at the end of the year** | | | | |
| **Cost** | 13,695,100 | 4,042,833 | 17,737,933 | 447,543 |
| **Write-downs** | 2,500,000 | 700,000 | 3,200,000 | 0 |
| **Book values** | 11,195,100 | 3,342,833 | 14,537,933 | 447,543 |

## Financial fixed assets - Receivables

The receivables included in financial fixed assets equal EUR 10,847,361 (EUR 8,319,916 in the previous year).

The breakdown and movements in the single items are shown below:

| | Opening nominal amount | Opening bad debt provision | Net opening value | Allocations to bad debt provision | Use of the bad debt provision |
|---|---|---|---|---|---|
| **Due from associates within the next financial year** | 0 | 0 | 0 | 0 | 0 |
| **Due from parent companies within the next financial year** | 5,246,905 | 0 | 5,246,905 | 0 | 0 |
| **Due from others within the next financial year** | 235,062 | 0 | 235,062 | 0 | 0 |
| **Due from others beyond the next financial year** | 2,837,949 | 0 | 2,837,949 | 0 | 0 |
| **Total** | 8,319,916 | 0 | 8,319,916 | 0 | 0 |

| | (Write-downs)/ Write-backs | Reclassified from/(to) other items | Other increases/(decreases) | Closing nominal amount | Closing bad debt provision | Net closing value |
|---|---|---|---|---|---|---|
| **Due from associates within the next financial year** | 0 | 0 | 750,000 | 750,000 | 0 | 750,000 |
| **Due from parent companies within the next financial year** | 0 | 0 | -2,260,845 | 2,986,060 | 0 | 2,986,060 |
| **Due from others within the next financial year** | 0 | 0 | 3,054,251 | 3,289,313 | 0 | 3,289,313 |
| **Due from others beyond the next financial year** | 0 | 0 | 984,039 | 3,821,988 | 0 | 3,821,988 |
| **Total** | 0 | 0 | 2,527,445 | 10,847,361 | 0 | 10,847,361 |

## Current assets - Inventories

Inventories are measured at the lower of the purchase cost (art. 2426, no. 10 of the Italian Civil Code), determined using the LIFO criterion on an annual basis, and the realisable value taken from the market trend. The amount of inventories is adjusted by the allocation of Provisions for inventory obsolescence. Inventories included in current assets equal EUR 26,940,527 (EUR 25,212,144 in the previous year). The breakdown and movements in the single items are shown below:

| | Values at the beginning of the year | Change during the year | Values at the end of the year |
|---|---|---|---|
| **Raw materials, ancillary materials and consumables** | 25,212,144 | 1,692,901 | 26,905,045 |
| **Finished goods and goods for resale** | 0 | 35,482 | 35,482 |
| **Total inventories** | 25,212,144 | 1,728,383 | 26,940,527 |

## Current assets - Receivables

The receivables included in current assets equal EUR 103,340,501 (EUR 95,419,438 in the previous year).

The breakdown in the single items is shown below:

| | Within the next financial year | Beyond the financial year | Total nominal value | (Provisions for risks/write-downs) | Net value |
|---|---|---|---|---|---|
| **Due from customers** | 64,716,641 | 0 | 64,716,641 | 1,911,023 | 62,805,618 |
| **Due from associates** | 12,970,386 | 0 | 12,970,386 | 0 | 12,970,386 |
| **Due from parent companies** | 2,059,594 | 0 | 2,059,594 | 0 | 2,059,594 |
| **Tax credits** | 8,359,394 | 35,213 | 8,394,607 | | 8,394,607 |
| **Prepaid taxes** | | | 16,391 | | 16,391 |
| **Others** | 21,653,387 | 664,508 | 22,317,895 | 5,223,990 | 17,093,905 |
| **Total** | 109,759,402 | 699,721 | 110,475,514 | 7,135,013 | 103,340,501 |

Receivables due from parent companies refer to TPER Spa shareholders. There are no receivables expiring beyond 5 years.

## Current assets - Cash and cash equivalents

Cash and cash equivalents included in current assets equal EUR 30,243,444 (EUR 47,247,228 in the previous year).

The breakdown and movements in the single items are shown below:

| | Values at the beginning of the year | Change during the year | Values at the end of the year |
|---|---|---|---|
| **Bank and postal deposits** | 47,232,943 | -17,011,566 | 30,221,377 |
| **Cash and other cash equivalents on hand** | 14,285 | 7,782 | 22,067 |
| **Total cash and cash equivalents** | 47,247,228 | -17,003,784 | 30,243,444 |

## Accrued income and prepaid expenses

Accrued income and prepaid expenses equal EUR 2,870,531 (EUR 3,664,751 in the previous year).

The breakdown and movements in the single items are shown below:

| | Values at the beginning of the year | Change during the year | Values at the end of the year |
|---|---|---|---|
| **Accrued income** | 11,912 | -476 | 11,436 |
| **Prepaid expenses** | 3,652,839 | -793,744 | 2,859,095 |
| **Total accrued income and prepaid expenses** | 3,664,751 | -794,220 | 2,870,531 |

***Breakdown of accrued income:***

| | Description | Amount |
|---|---|---|
| | Interest income | 11,436 |
| **Total** | | 11,436 |

***Breakdown of prepaid expenses:***

| | Description | Amount |
|---|---|---|
| | Cofinancing of locomotives | 119,469 |
| | Rental for Dinazzano terminal | 426,139 |
| | Leases | 245,498 |
| | Hiring | 31,086 |
| | Insurance | 1,798,806 |
| | Utilities | 2,504 |
| | Rolling stock maintenance fee | 118,002 |
| | Sundry | 117,591 |
| **Total** | | 2,859,095 |

## Financial charges posted to Balance Sheet items

All financial charges were posted to Income Statement items.

## Shareholders' equity

The shareholders' equity as at the reporting date came to EUR 122,609,307 (EUR 116,182,718 in the previous year).

The tables below show the changes incurred during the year by the single items that make up the Shareholders' Equity and the detail of the item 'Other Reserves'.

| | Values at the beginning of the year | Assignment of dividends | Other allocations | Increases |
|---|---|---|---|---|
| Share Capital | 68,492,702 | 0 | 0 | 0 |
| Share premium reserve | 272,058 | 0 | 0 | 0 |
| Legal reserve | 3,167,244 | 0 | 0 | 0 |
| Other reserves | | | | |
| Capital payments | 32,716,499 | 0 | 0 | 0 |
| Merger surplus reserve | 1,515,984 | 0 | 0 | 0 |
| Consolidation reserve | -61,552 | 0 | 0 | 0 |
| Sundry other reserves | 5,315,766 | 0 | 0 | 0 |
| Total other reserves | 39,486,697 | 0 | 0 | 0 |
| Retained earnings/(losses carried forward) | -6,073,630 | 0 | 6,128,772 | 0 |
| Profit (loss) for the year | 7,433,438 | 0 | -7,433,438 | |
| Total Group Shareholders' Equity | 112,778,509 | 0 | -1,304,666 | 0 |
| Minority interests | | | | |
| Third party capital and reserves | 3,331,914 | 0 | 0 | 0 |
| Third party profit (loss) | 72,295 | 0 | -72,295 | |
| Total minority interests | 3,404,209 | 0 | -72,295 | 0 |
| Total consolidated shareholders' equity | 116,182,718 | 0 | -1,376,961 | 0 |

| | Decreases | Reclassifications | Profit (loss) for the year | Values at the end of the year |
|---|---|---|---|---|
| Share Capital | 0 | 0 | | 68,492,702 |
| Share premium reserve | 0 | 0 | | 272,058 |
| Legal reserve | 0 | 368,424 | | 3,535,668 |
| Other reserves | | | | |
| Capital payments | 0 | 0 | | 32,716,499 |
| Merger surplus reserve | 0 | 0 | | 1,515,984 |
| Consolidation reserve | 0 | -238,359 | | -299,911 |
| Sundry other reserves | 0 | 881,472 | | 6,197,238 |
| Total other reserves | 0 | 881,472 | | 40,129,810 |
| Retained earnings/(losses carried forward) | 0 | 0 | | 55,142 |
| Profit (loss) for the year | | | 7,608,941 | 7,608,941 |

| | | | | |
|---|---|---|---|---|
| **Total Group Shareholders' Equity** | 0 | 1,249,896 | 7,608,941 | 120,094,321 |
| **Minority interests** | | | | |
| **Third party capital and reserves** | 0 | 0 | | 2,440,718 |
| **Third party profit (loss)** | | | 74,268 | 74,268 |
| **Total minority interests** | 0 | 0 | 74,268 | 2,514,986 |
| **Total consolidated shareholders' equity** | 0 | 1,249,896 | 7,683,209 | 122,609,307 |

The consolidation reserve is the negative difference from the replacement of the book value of equity investments of the Parent Company in the consolidated companies with the corresponding net capital at the time of purchase.

In netting the equity investment in Herm, the positive consolidation difference was fully offset with the consolidation reserve, as the value of accumulated losses of the parent company, pertaining to the Group, was posted to the income statement in previous years.

## Statement summarising the availability of reserves

The information required by art. 2427, point 7-bis of the Italian Civil Code regarding the specification of the items of shareholders' equity with regard to their origin, possibility of use and availability, as well as their use in the previous years is shown in the following tables:

| Description | Closing Balance | Possibility of use (A=increase, B=loss coverage, C=distribution to shareholders) | Available portion | Use in the previous three financial years: Loss coverage | Use in the previous three financial years: Other |
|---|---|---|---|---|---|
| Share Capital | 68,492,702 | | | 0 | 0 |
| Share premium reserve | 272,058 | A, B, C | 272,058 | 0 | 0 |
| Legal reserve | 3,535,668 | B | | 0 | 0 |
| Other reserves | 40,129,810 | A, B, C | 40,129,810 | 0 | 0 |
| Retained earnings/(losses carried forward) | 55,142 | A, B, C | 55,142 | 0 | 0 |
| Total | 112,485,380 | | 40,457,010 | | |
| of which available for distribution | | | 40,457,010 | | |

## Provisions for risks and charges

Provisions for risks and charges are posted under liabilities for a total of EUR 43,299,678 (EUR 36,431,836 in the previous year).

The breakdown and movements in the single items are shown below:

| | Provisions for retirement pay and similar obligations | Provisions for taxes, including deferred taxes | Derivative liabilities | Other provisions | Total provisions for risks and charges |
|---|---|---|---|---|---|
| **Values at the beginning of the year** | 295,000 | 146,464 | 668,666 | 35,321,706 | 36,431,836 |
| **Changes during the year** | | | | | |
| **Other changes** | -295,000 | -40,480 | -161,311 | 7,364,633 | 6,867,842 |
| **Total changes** | -295,000 | -40,480 | -161,311 | 7,364,633 | 6,867,842 |
| **Values at the end of the year** | 0 | 105,984 | 507,355 | 42,686,339 | 43,299,678 |

## Employee severance indemnity

Employee severance indemnity is posted under liabilities for a total of EUR 29,370,906 (EUR 31,055,405 in the previous year).

The breakdown and movements in the single items are shown below:

| | Employee severance indemnity |
|---|---|
| **Values at the beginning of the year** | 31,055,405 |
| **Changes during the year** | |
| **Other changes** | -1,684,499 |
| **Total changes** | -1,684,499 |
| **Values at the end of the year** | 29,370,906 |

## Payables

Payables are posted under liabilities for a total of EUR 152,041,759 (EUR 127,745,435 in the previous year).

The breakdown in the single items is shown below:

| | Values at the beginning of the year | Changes during the year | Values at the end of the year |
|---|---|---|---|
| **Due to banks** | 10,350,799 | 21,307,549 | 31,658,348 |
| **Trade payables** | 68,776,956 | 4,966,440 | 73,743,396 |
| **Due to associates** | 268,595 | 437,310 | 705,905 |
| **Due to parent companies** | 1,577,450 | -334,754 | 1,242,696 |
| **Tax payables** | 4,263,974 | -3,367,222 | 896,752 |
| **Due to pension and social security agencies** | 2,821,966 | -265,791 | 2,556,175 |
| **Other payables** | 39,685,695 | 1,552,792 | 41,238,487 |
| **Total** | 127,745,435 | 24,296,324 | 152,041,759 |

## Payables - Breakdown by expiry

The data relating to the breakdown of payables by expiry is shown below, pursuant to art. 38, paragraph 1, letter e) of Legislative Decree no. 127/1991:

| | Values at the beginning of the year | Change during the year | Values at the end of the year | Portion expiring within the financial year | Portion expiring beyond the financial year | Of which lasting more than 5 years |
|---|---|---|---|---|---|---|
| **Due to banks** | 10,350,799 | 21,307,549 | 31,658,348 | 24,602,175 | 7,056,173 | 0 |
| **Trade payables** | 68,776,956 | 4,966,440 | 73,743,396 | 69,046,480 | 4,696,916 | 0 |
| **Due to associates** | 268,595 | 437,310 | 705,905 | 705,905 | 0 | 0 |
| **Due to parent companies** | 1,577,450 | -334,754 | 1,242,696 | 1,242,696 | 0 | 0 |
| **Tax payables** | 4,263,974 | -3,367,222 | 896,752 | 896,752 | 0 | 0 |
| **Due to pension and social security agencies** | 2,821,966 | -265,791 | 2,556,175 | 2,556,175 | 0 | 0 |
| **Other payables** | 39,685,695 | 1,552,792 | 41,238,487 | 17,285,097 | 23,953,390 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Total payables** | 127,745,435 | 24,296,324 | 152,041,759 | 116,335,280 | 35,706,479 | 0 |

## Payables backed by collateral on company assets

The payables due to banks for mortgages payable which were transferred from FER to TPER as a result of the demerger and merger and subsequently contributed to DINAZZANO PO amounted to a total of EUR 2,403,920 and are shown in the financial statements of the consolidating company. These were backed by deeds of responsibility.

## Accrued expenses and deferred income

Accrued expenses and deferred income are posted under liabilities for a total of EUR 145,417,426 (EUR 129,569,588 in the previous year).
The breakdown and movements in the single items are shown below:

| | Values at the beginning of the year | Change during the year | Values at the end of the year |
|---|---|---|---|
| **Accrued expenses** | 8,234 | -2,424 | 5,810 |
| **Deferred income** | 129,561,354 | 15,850,262 | 145,411,616 |
| **Total accrued expenses and deferred income** | 129,569,588 | 15,847,838 | 145,417,426 |

***Breakdown of accrued expenses:***

| | Description | Amount |
|---|---|---|
| | Maintenance | 4,835 |
| | Pertaining to employees | 784 |
| | Bank fees | 192 |
| **Total** | | 5,811 |

***Breakdown of deferred income:***

| | Description | Amount |
|---|---|---|
| | Grants for investments in the GTS | 78,639,690 |
| | Grants for investment in the MRS | 5,000,000 |
| | Grants for other investments | 40,961,122 |
| | Grants in Fer-Stadler revenue and expenditure account | 6,941,141 |
| | Tickets | 10,870,435 |
| | Contributions | 1,483,941 |
| | Rented assets | 1,486,355 |
| | Rental instalments | 2,938 |
| | Interest income | 20,218 |
| | Sundry | 5,776 |

| | | |
|---|---|---|
| **Total** | | 145,411,616 |

## Guarantees, commitments and risks

At the reporting date, the following commitments were in place:

| Description | 2015 | 2016 | Change |
|---|---|---|---|
| Provision for supply of spare parts | 11,583,810 | 11,583,810 | 0 |
| Sureties from third parties for works | 649,466 | 1,341,505 | 692,039 |
| Sureties given | 2,371,218 | 1,898,145 | -473,073 |
| FER inventory - new supplies of equipment | 1,051,465 | 1,051,465 | 0 |
| Loan agreement (CDP) | 251,395 | 251,395 | 0 |
| Bus free loan | 1,846,276 | 1,176,307 | -669,969 |
| Residual lease rentals | 451,754 | 0 | -451,754 |
| Parent Company (TPER) memorandum accounts | 43,927,376 | 53,122,879 | 9,195,503 |
| **Total** | **62,132,760** | **70,425,506** | **8,292,746** |

# INFORMATION ON THE INCOME STATEMENT

## Revenues from sales and services

Other revenues and income are posted under the value of production on the income statement for a total of EUR 242,668,247 (EUR 235,461,949 in the previous year).

With regard to the provisions of art. 38, paragraph 1, point i) of Italian Legislative Decree no. 127/1991, it is noted that all relevant services were provided in Italy.

## Other revenues and income

Other revenues and income are posted under the value of production on the income statement for a total of EUR 66,804,377 (EUR 75,959,210 in the previous year).

The breakdown in the single items is as follows:

| | Previous year value | Change | Current year value |
|---|---|---|---|
| **Operating grants** | 44,587,661 | 3,085,506 | 47,673,167 |
| **Other** | | | |
| **Capital payments (shares)** | 3,825,496 | 1,032,778 | 4,858,274 |

| | | | |
|---|---|---|---|
| **Total others** | 31,371,549 | 1,032,778 | 19,131,210 |
| **Total other revenues and income** | 75,959,210 | 4,118,284 | 66,804,377 |

## Costs of production

The costs of production on the consolidated income statement amounted to a total of EUR 293,615,374 (EUR 293,988,062 in the previous year).

The breakdown in the single items is as follows:

| Description | Previous Period | Current Period | Change |
|---|---|---|---|
| Costs for services | 92,699,764 | 94,126,930 | 1,427,166 |
| Raw materials, ancillary materials, consumables and merchandise | 42,436,727 | 38,412,732 | -4,023,995 |
| Leases and rentals | 11,640,914 | 13,297,814 | 1,656,900 |
| Personnel | 119,064,514 | 124,034,128 | 4,969,614 |
| Amortisation, depreciation and write-downs | 14,354,632 | 14,679,531 | 324,899 |
| Changes in inventory | -1,722,211 | -1,728,383 | -6,172 |
| Provisions for risks | 7,730,683 | 7,935,252 | 204,569 |
| Other provisions | 4,842,413 | 100,000 | -4,742,413 |
| Sundry operating expenses | 2,940,626 | 2,757,370 | -183,256 |
| **Total** | **293,988,062** | **293,615,374** | **-372,688** |

## Interest and other financial charges

In relation to the provisions of art. 38, paragraph 1, letter l) of Italian Legislative Decree 127/1991 the breakdown of the item "Interest and other financial charges" is shown in the table below:

| | **Interest and other financial charges** |
|---|---|
| **From non-current receivables** | 95,845 |
| **Income other than the above** | 32,815 |
| **From other permanent investments** | 10,836 |
| **Total** | 139,496 |

## Income taxes

The breakdown in the single items is shown below:

| | Current taxes | Taxes related to prior years | Deferred taxes | Prepaid taxes | Income (Charges) from tax transparency |
|---|---|---|---|---|---|
| **IRES (Corporate Tax)** | 6,788,868 | 0 | -41,528 | 1,820 | |
| **IRAP (Regional Tax)** | 1,313,491 | 0 | 0 | 0 | |
| **Total** | 8,102,359 | 0 | -41,528 | 1,820 | 0 |

## OTHER INFORMATION

### Statement of reconciliation of the shareholders' equity and profit/(loss) for the year of the parent company and the consolidated shareholders' equity and consolidated profit/(loss) for the year

| | Shareholders' equity | of which: profit (loss) for the year |
|---|---|---|
| **Balances as per the parent company's separate financial statements** | 112,730,150 | 0 |
| **Profit (loss) for the year** | 7,762,927 | 7,762,927 |
| **Balances as per the parent company's adjusted separate financial statements** | 120,493,077 | 7,762,927 |
| **Effect of measuring equity investments on a line-by-line basis** | | |
| **- Elimination of the book value of investees** | -50,777,123 | |
| **- Shareholders' equity of investees** | 50,827,004 | |
| **- Profit (loss) for the year of the investees** | 203,900 | 203,900 |
| | 253,781 | 203,900 |
| **Other adjustments** | -652,537 | -357,886 |
| **Total adjustments** | -398,756 | -153,986 |
| **Group shareholders' equity and profit (loss) for the year** | 120,094,321 | 7,608,941 |
| **Third party shareholders' equity and profit (loss) for the year** | 2,514,985 | 74,268 |
| **Consolidated shareholders' equity and profit (loss) for the year** | 122,609,306 | 7,683,209 |

### Breakdown of personnel

The information concerning personnel is shown below, pursuant to art. 38, paragraph 1, letter n) of Italian Legislative Decree 127/1991:

| | TPER | DINAZZANO | MAFER | SST | OMNIBUS | TOTAL |
|---|---|---|---|---|---|---|
| **Executives** | 12 | 0 | 1 | 0 | 0 | 13 |
| **Middle managers** | 53 | 0 | 3 | 2 | 0 | 58 |
| **Office staff** | 288 | 10 | 18 | 3 | 2 | 321 |
| **Workers** | 2,165 | 93 | 76 | 40 | 0 | 2,374 |
| **Apprentices** | 7 | 0 | 0 | 0 | 0 | 7 |
| **Freelance workers** | 1 | 4 | 1 | 0 | 0 | 6 |
| **TOTAL** | 2,526 | 107 | 99 | 45 | 2 | 2,779 |

### Remuneration of directors and statutory auditors of the parent company

The information concerning remuneration to directors and statutory auditors of the parent company for carrying out those functions also in other consolidated companies is shown below, pursuant to art. 38, paragraph 1, letter o) of Italian Legislative Decree 127/1991:

| Description | Previous Period | Current Period |
|---|---|---|
| Directors' remuneration | 131,250 | 144,000 |
| Statutory auditors' remuneration | 95,030 | 93,860 |
| Independent auditors' remuneration | 50,000 | 50,000 |
| **TOTAL** | **276,280** | **287,860** |

Pursuant to art. 38, paragraph 1, letter o-septies) of Italian Legislative Decree 127/1991 it is noted that the fees for auditing the consolidated accounts are included in the amount set out for the auditing of the parent company TPER.

### Transactions with related parties

Pursuant to art. 38, paragraph 1, point o-quinquies) of Italian Legislative Decree no. 127/1991, it is specified that the transactions in question were usually carried out at conditions equivalent to those applied to transactions with independent third parties. The transactions were carried out based on the assessments of reciprocal economic advantages, and conditions to be applied were defined in compliance with fairness. In relation to the remuneration paid to members of the Board of Directors and the Board of Statutory Auditors, please refer to that set out in the specific section.

### Agreements not reported on the Balance Sheet

Pursuant to art. 38, paragraph 1, point o-sexies) of Italian Legislative Decree no. 127/1991, it is specified that there are no agreements not reported on the Balance Sheet.

Bologna, 26/05/2017 on behalf of the Board of Directors

The Chairperson
Giuseppina Gualtieri

**TPER S.p.A.**

**Headquarters in Bologna – Via di Saliceto 3**

**Share capital EUR 68,492,702.00, fully paid-in**

**Enrolled in the Register of Companies and Tax Code 031821612202**

*** * * * ***

**Report of the Board of Statutory Auditors to the Financial Statements for the year ended as at 31 December 2016 drawn up pursuant to art. 2429, par. 2 of the Italian Civil Code.**

*** * * * ***

Dear Shareholders,

The separate financial statements and the consolidated financial statements pursuant to law, for the year ended as at 31 December 2016, submitted by your Board of Directors, are comprised of the Balance Sheet, the Income Statement, the Statement of Cash Flow and the Explanatory Notes, as well as the Report on Operations drawn up in compliance with the regulations set out in art. 2423 et seq. of the Italian Civil Code as well as articles 2427 and 2428 of the Italian Civil Code, for the separate financial statements, subject to your approval, and Italian Legislative Decree 127/91 for the Group consolidated financial statements.

Both sets of financial statements contain the information required by regulations in force, in order to provide a true and correct view of the balance sheet, cash flow and income statement of the company.

The relevant explanatory notes and the tables therein facilitate the reading of the numeric data in the balance sheet and income statement, both in the separate financial statements and in the consolidated financial statements, while the comparison with the data from the 2015 separate financial statements (suitably reclassified/adjusted to take into account the new elements introduced by Italian Legislative Decree 139/2015 as regards financial statements) makes it possible to analyse the performance of operations over time.

We verified compliance with the rules of law regarding the preparation of the Report on Operations, also with reference to the supplementary information required by art. 2428 of the Italian Civil Code for the separate financial statements, while this is not drawn up for the consolidated financial statements, as the parent company's business is the main activity within the Group.

This report was approved by the Board and in time for its filing at the company's registered office, within the 15 days prior to the date of calling the shareholders' meeting to approve the separate financial statements together with the report on operations. The Management Body provided the related documents approved on 26 May 2017, regarding the separate financial statements for the year ended as at 31 December 2016, in compliance with the terms set out in art. 2429 of the Italian Civil Code.

The layout of this report is substantially similar to that used for the previous year, and was also based on the provisions of law and Rule no. 7.1. concerning the "Rules of Conduct of the Board of Statutory Auditors - Principles of Conduct for the Board of Statutory Auditors of Unlisted Companies", issued by the Italian National Council of Certified Accountants and Account Experts (CNDCEC) and in force since 30 September 2015.

Firstly, it is important to note that this Board has taken on, since the date (31.7.2015) of its appointment in the current composition, the duty of supervision and control, while the Independent Auditors are assigned to audit the financial statements, which issued their report pursuant to art. 14 of Italian Legislative Decree 39/2010 on today's date, for both the separate financial statements and the consolidated financial statements.

The functions of Supervisory Body pursuant to Italian Legislative Decree 231/2001 are assigned to another, separate company board.

**General premise: knowledge of the company, risk assessment and report on the assignments granted**

Given the now consolidated knowledge that the Board of Statutory Auditors states that it has in relation to the company, regarding:

i) the type of business conducted;

ii) its organisational and accounting structure;

also taking account of the size and problems of the company, it is reiterated that the "planning" phase of the supervisory actions - in which the inherent risks and critical issues pertaining to the two factors mentioned above must be assessed - was implemented through positive feedback on the knowledge already obtained based on the information acquired over the years.

Thus, it was possible to confirm that:

- the typical business conducted by the company did not change over the year in question, and is consistent with the company purpose;
- the organisational structure (which was changed during 2016 through the adoption of a new company organisational chart), as well as the IT structures remained substantially unchanged, though still addressing the changed requirements, for a suitable and effective functional rearrangement;
- human resources dedicated to company business were practically unchanged (considering the average figure), decreasing from 2,437 as at 31 December 2015 to 2,433 as at 31 December 2016, and the majority of employees have unlimited-term contracts;
- that stated above is indirectly confirmed by comparing the results of the values shown in the income statement for the last 2 years, i.e. the year in question (2016) and the previous year (2015). It is also possible to note that the company operated in 2016 in terms substantially comparable with the previous year. As a result, our controls were carried out on those bases, having verified the substantial comparability of the values and results with those of the previous year.

This report thus summarises the activity concerning the disclosure required by art. 2429, paragraph 2 of the Italian Civil Code and, more specifically:

- on the work carried out in fulfilling legally-required duties;
- on the results of the financial year;
- on the observations and recommendations regarding the financial statements, with specific

reference to the possible use by the Management Body of the derogation pursuant to art. 2423, paragraph 4 of the Italian Civil Code;

- on the possible receipt of claims by shareholders pursuant to art. 2408 of the Italian Civil Code.

In any event, we are at your full disposal for more information on any and all aspects during the discussion at the shareholders' meeting.

**Supervisory work carried out**

This Board of Statutory Auditors thus verified compliance with the law and the memorandum of association and compliance with the principles of correct administration.

The work carried out by the Board regarded the timeframe of the entire year. During the year meetings were regularly held pursuant to art. 2404 of the Italian Civil Code, and specific minutes were drawn up for such meetings, duly signed by way of unanimous approval.

During the periodic checks, the Board was informed of the evolution of the business conducted by the company, placing particular focus on contingent and/or extraordinary problems in order to identify their economic and financial impact on the profit (loss) for the year and the equity structure, as well as any risks, such as those deriving from losses on receivables, which are constantly monitored. The necessary, due meetings with the independent auditors appointed, the Internal Audit Department and the Supervisory Body were periodically held, including extraordinary meetings when needed, as well as with the professionals that assist the company in the area of accounting, tax, corporate and legal consultancy and assistance, both technical and specific: these meetings had positive results, with useful exchanges of information.

Relations with the persons operating in said structure - directors, employees, the entire structure and Internal Audit, as well as external consultants - are based on reciprocal cooperation in respect of the roles assigned to each person, having clarified that of the Board of Statutory Auditors.

Thus, the Board periodically assessed the adequacy of the organisational and functional structure of the company and any changes thereto in relation to the minimum requirements resulting from the performance of operations.

The Board of Statutory Auditors then monitored the internal control system of the Company, interacting and coordinating with the head of the Internal Audit Department, the Managing Director and the Supervisory Body.

For the entire year, the Board found that:

- office staff, including internal administrative staff charged with recording company events, have remained essentially unchanged compared to the previous year;
- the level of the staff's technical expertise remains adequate to the type of ordinary company events to be recorded, and the staff has sufficient knowledge of company problems;
- the external consultants and professionals assigned to provide accounting, tax, corporate and labour law assistance did not change. Therefore, they have long-term knowledge of the business conducted and operating problems, including extraordinary problems, which influenced the financial statement results.

Given the management organisational chart and the information required by art. 2381, paragraph 5 of the Italian Civil Code, the necessary information acquired from the Management Body on the general performance of operations and on the business outlook was provided, even more frequently than the minimum set frequency of 6 months. That is, during planned meetings and on individual access by members of the Board of Statutory Auditors at the company headquarters, as well as through telephone and IT contacts/information flows with members of the Board of Directors: as a result of all of the above, the executive directors complied with the requirements set on them by said regulations, both in substance and in form.

In the periods from the start of 2016 to 31/12/2016, the Board of Statutory Auditors participated in the Shareholders' Meetings called and in 18 Board of Directors' meetings. The Board of Statutory Auditors also met 9 times, to carry out its individual activities, and the attendance at and importance of these meetings was recorded in specific minutes, duly signed.

In conclusion, as far as it was possible to verify during the activity carried out in the year, the Board of Statutory Auditors can affirm that:

- the decisions taken by shareholders and the Management Body complied with the law and the articles of association and were not clearly imprudent or such that would definitively compromise the integrity of the company assets;
- sufficient information was acquired relating to the general performance of operations and the business outlook, as well as on the most relevant transactions, in terms of size and characteristics, carried out by the company;
- the operations implemented also complied with the law and the articles of association and were not in potential conflict with the resolutions passed by the Shareholders' Meeting or such that would compromise the integrity of the company assets;
- no specific observations are made regarding the adequacy of the company's organisational structure or regarding the adequacy of the administrative and accounting system, or on the reliability of the latter in correctly representing operational events;
- in carrying out the supervisory activities, as described above, no additional significant events emerged which should be mentioned in this report;
- no action was required to be taken for omissions by the Management Body pursuant to art. 2406 of the Italian Civil Code;
- no claims were received pursuant to art. 2408 of the Italian Civil Code;
- no claims were received pursuant to art. 2409, paragraph 7 of the Italian Civil Code;
- during the year, the Board issued its opinions if and when requested, in compliance with the law;
- pursuant to paragraph 5 of art. 31 of Law Decree 66/2014 - converted into Law no. 89/2014 - the Board may thus confirm that there were no communications to the Shareholder Local Administrations for payments made to settle liquid, enforceable debts, for the purpose of subsequent transmission of the certification as per art. 1, paragraph 14 of Law Decree 35/2013, or for debts still outstanding, as the prerequisites were not met.

**Communication of the figures in the Separate financial statements as at 31.12.2016**

In brief, the separate financial statements, made available to the Board of Statutory Auditors within the terms set out in art. 2429, paragraph 1 of the Italian Civil Code, reported the following figures:

## BALANCE SHEET

| ASSETS | | |
|---|---|---|
| Fixed assets | EUR | 341,963,593 |
| Current assets | EUR | 134,065,342 |
| Accrued income and prepaid expenses | EUR | 1,840,860 |
| **TOTAL ASSETS** | **EUR** | **477,869,796** |

| LIABILITIES | | |
|---|---|---|
| Shareholders' Equity | EUR | 120,493,077 |
| Provisions for risks and charges | EUR | 39,873,037 |
| Employees Severance Indemnity | EUR | 27,243,063 |
| Payables | EUR | 144,872,160 |
| Accrued expenses and deferred income | EUR | 145,388,460 |
| **TOTAL LIABILITIES AND** | | |
| **SHAREHOLDERS' EQUITY** | **EUR** | **477,869,796** |

The profit (loss) for the year, included under shareholders' equity, amounted to EUR 7,762,927 and can be seen in the income statement, which reports the following figures:

| | | |
|---|---|---|
| Value of Production | EUR | 257,215,585 |
| Costs of Production | EUR | (241,538,512) |

| | | |
|---|---|---|
| Financial Income and Charges | EUR | 251,620 |
| Value adjustments to financial assets | EUR | //……… |
| Pre-tax profit (loss) | EUR | 15,425,454 |
| Income taxes for the year | EUR | (7,662,527) |
| Profit (loss) for the year | **EUR** | **7,762,927** |

**AS THE BOARD OF STATUTORY AUDITORS WAS NOT REQUIRED TO CONDUCT AN ANALYTICAL AUDIT OF THE CONTENT OF THE FINANCIAL STATEMENTS, WE HAVE SUPERVISED THE GENERAL LAYOUT OF THE FINANCIAL STATEMENTS AND THEIR GENERAL COMPLIANCE WITH THE LAW IN TERMS OF STRUCTURE AND FORMATION.**

## The financial statements and the supplementary notes in XBRL format

The Board of Statutory Auditors also acknowledged that the Management Body took account of the obligation to draw up both the separate financial statements, comprising the Balance Sheet and Income Statement formats, the Statement of Cash Flow and the Explanatory Notes, and the consolidated financial statements with regard to the Balance Sheet and Income Statement formats and the Statement of Cash Flow, using "XBRL taxonomy", necessary to standardise these documents and make them available for digital processing: this is the obligation required by the Register of Companies managed by the Chambers of Commerce in execution of art. 5, paragraph 4 of Decree of the President of the Council of Ministers no. 304 of 10 December 2008.

As the company financial statements are drawn up in the "ordinary" form, it was verified that the Management Body, in filling in the explanatory notes, and acknowledging the mandatory nature of the tables set out in the XBRL model, used only those which had values other than zero.

## Observations and recommendations on the financial statements and their approval

The draft separate and consolidated financial statements for the year ended as at 31 December 2015 were approved by the Management Body, and are composed of the balance sheet, income statement and explanatory notes.

Furthermore:

- the Management Body already drew up the report on operations pursuant to art. 2428 of the Italian Civil Code;

- those documents were delivered to the Board of Statutory Auditors in time for them to be filed at the company's registered office along with this report, and, that is, irrespective of the term set out in art. 2429, paragraph 1 of the Italian Civil Code;

- statutory auditing is assigned to the Independent Auditors Ria Grant Thornton Spa, which drew up their report pursuant to art. 14 of Italian Legislative Decree no. 39 of 27 January 2010, both on the separate financial statements and the Group consolidated financial statements. The reports show no findings of significant deviations or negative opinions or the impossibility to express an opinion or references to information. Therefore, the opinion issued on both financial statements was positive.

Thus, we examined the draft separate financial statements, and the following additional information is provided in that regard:

- the valuation criteria for asset and liability items subject to that mandatory requirement were checked, and they were found not to be substantially different than those used in the previous year, compliant with the provisions of art. 2426 of the Italian Civil Code;
- we focused our attention on the layout of the draft financial statements, their general compliance with the law in terms of formation and structure, and in that regard we have no specific observations that must be made herein;
- compliance with the rules of law pertaining to drafting the report on operations was verified, and in that regard we have no observations that must be made herein;
- in drawing up the financial statements, the Management Body did not deviate from the legal regulations pursuant to art. 2423, paragraph 4 of the Italian Civil Code;
- we verified that the financial statements correspond to the circumstances and information we became aware of in carrying out the typical duties of the Board of Statutory Auditors and, in that regard, we have no additional observations to make;

- pursuant to art. 2426, paragraph 5 of the Italian Civil Code, we specifically checked the significant values posted under points B) I - 1) of balance sheet assets and, consequently, agreed with their recording, even if the company did not make any additional posts during the year, in relation to the previous year. Merely for information purposes, it is specified that it will be possible to distribute dividends because there are residual profit reserves that are sufficient to cover the residual value of such fixed assets that are to be depreciated (for EUR 37,001);
- we verified the correctness of the information contained in the explanatory notes as regards the absence of receivable and payable financial and monetary positions that originally arose in currencies other than the Euro;
- the explanatory notes provided the information required by art. 2427-bis of the Italian Civil Code relating to financial fixed assets, where recognised at a value higher than their fair value;
- the system of "memorandum accounts and guarantees given" is comprehensively illustrated and commented on in the explanatory notes, ensuring extensive comprehensibility of the financial statements for the year ended as at 31 December 2016;
- we acquired information from the Supervisory Body and viewed its report on the activity carried out, and no critical issues arose from this in relation to the organisational model which must be reported herein;
- with regard to the Management Body's proposal to allocate the net profit for the year shown at the end of the supplementary notes - according to the new legislation provided for by Italian Legislative decree 139/2015 - and of the report on operations, the Board has no observations to make, also noting that this decision lies with the shareholders' meeting.

The net profit verified by the Management Body for the separate financial statements for the year ended as at 31 December 2016, as also shown in the financial statements, came to EUR 7,762,927.

## Conclusions

Based on that set out above, and as far as the Board of Statutory Auditors is aware and discovered during the periodic checks conducted, we unanimously decided that:

- there are no reasons preventing your approval of the draft separate financial statements for the year ended as at 31 December 2016, as drawn up and as submitted to you by the Management Body;

- there are no reasons preventing the proposal to allocate part of the profit to the distribution of dividends to the shareholders as proposed by the board of directors.

Bologna, 9 June 2017

THE BOARD OF STATUTORY AUDITORS

*(Sergio Graziosi)*

*(Davide Cetti)*

*(Monica Manzini)*

Ria
Grant Thornton

**Independent auditors' report**
**in accordance with art. 14 of Legislative Decree**
**n. 39 of January 27, 2010**

**Ria Grant Thornton S.p.A**
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*To the shareholders of*
*TPER S.p.A.*

**Report on the financial statements**

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

*Directors' responsibility for the financial statements*
The directors are responsible for the preparation of these financial statements that give a true and fair view in accordance with Italian laws governing the criteria for preparation.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conduced our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree n. 39 of January 27, 2010.
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 misstatements.
An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional 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 plan and perform 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.

*Opinion*
In our opinion, the financial statements give a true and fair view of the financial position of TPER S.p.A. as of December 31, 2016, of the results of its operations and its cash flows for the year then ended, in accordance with the Italian law governing the criteria for preparation.

**Report on compliance with other laws and regulations**

*Opinion on the consistency of the report on operations with the financial statements*
We have performed the procedures required under auditing standard (SA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of TPER S.p.A., with the financial statements of TPER S.p.A. as of December 31, 2016. In our opinion, the report on operations is consistent with the financial statements of TPER S.p.A. as of December 31, 2016.

Bologna, June 9, 2017

Ria Grant Thornton S.p.A.

*Signed by*

Sandro Gherardini
Partner

*This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international*

**Independent auditors' report**
**in accordance with art. 14 of Legislative Decree**
**n. 39 of January 27, 2010**

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*To the shareholders of*
*TPER S.p.A.*

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of TPER Group, which comprise the statement of financial position as of December 31, 2016, the income statement and the statement of cash flows for the year then ended and the explanatory notes.

*Directors' responsibility for the consolidated financial statements*
The directors are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with Italian laws governing the criteria for preparation.

*Auditors' Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11 of Legislative Decree n. 39 of January 27, 2010.
Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.
An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements that give a true and fair view, in order to plan and perform 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 consolidated financial statements.

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

*Opinion*
In our opinion, the consolidated financial statements give a true and fair view of the financial position of TPER Group as of December 31, 2016, of the results of its operations and its cash flows for the year then ended, in accordance with the Italian law governing the criteria for preparation.

**Report on compliance with other laws and regulations**

*Opinion on the consistency of the report on operations with the consolidated financial statements*
We have performed the procedures required under auditing standard (SA Italia) n. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of TPER S.p.A., with the consolidated financial statements of TPER Group as of December 31, 2016. In our opinion, the report on operations is consistent with the consolidated financial statements of TPER Group as of December 31, 2016.

Bologna, June 9, 2017

Ria Grant Thornton S.p.A.

*Signed by*

Sandro Gherardini
Partner

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