



2016 Management Report

We pioneered hybrid storage solutions,
transforming intermittent renewables
into a reliable power supply

2016 Management Report

| | | |
|----------|--|-----------|
| 1 | FINANCIAL YEAR 2016 OVERVIEW | 3 |
| 1.1 | Operating highlights: 2,693 tons of CO ₂ saved | 3 |
| 1.2 | Macroeconomic and market scenario | 4 |
| 1.3 | Climate change trends and impacts on the global energy storage landscape | 5 |
| 1.4 | Significant Events in 2016..... | 6 |
| 2 | POST-CLOSURE EVENTS AND BUSINESS OUTLOOK | 9 |
| 2.1 | Significant events since 31 December 2016 | 9 |
| 2.2 | Business Outlook | 9 |
| 3 | FINANCIAL YEAR 2016 OVERVIEW | 11 |
| 3.1 | KEY FINANCIAL HIGHLIGHTS | 11 |
| 3.2 | Consolidated Income Statement | 13 |
| 3.3 | Consolidated Balance Sheet | 14 |
| 3.4 | Consolidated Statement of changes in Equity..... | 15 |
| 3.5 | Consolidated cash flow statement..... | 16 |
| 4 | CONCLUSIONS | 17 |

1 FINANCIAL YEAR 2016 OVERVIEW

1.1 Operating highlights: 2,693 tons of CO₂ saved

Electro Power Systems S.A. (the “Group” or “EPS”) in 2016 has consolidated its business model as a player operating in the sustainable energy sector, pioneering hybrid-storage solutions and micro-grids that, in line with the Group’s mission, transform intermittent renewables into a reliable power supply.

2016 has been the first year in which the Group focused exclusively on hybrid, storage and power conversion solutions for both flexibility and capacity requirements of any national grid or micro-grid, developing and commercializing:

- in developed countries, energy storage systems to stabilize electrical grids heavily penetrated by renewable sources (“Grid Support”); and
- in emerging economies, microgrids to power off-grid areas at a lower cost than fossil fuels (“Off-Grid Power Generation”).

This dualism of hybrid solutions which can provide at the same time flexibility and capacity to any grid or micro-grid, is aimed at solving the problem of intermittence of renewables and contribute to the implementation of the energy transition, namely the development of a balanced electricity generation model on the basis of new renewable energy sources (wind and photovoltaic power) and of electricity distribution via so-called smart grids.

Capacity requirements of any electrical grid or microgrid have been historically the first focus of the Group, and for that reason, the Group heavily invested in the research and development of ElectroSelf™, a hydrogen and oxygen storage system managed and optimised by a technology platform composed of proprietary power and control electronics coupled with a unique proprietary software (the “Balance of System”), entirely developed and produced within the Group.

Continuous investments made in the past in that sector, and the know-how and technology of the Group particularly focused at the Balance of System level and on the so-called “vertical integration”, enabled in 2016 the intelligent coupling with traditional batteries and power generation technologies, allowing the commercial deployment by the Group a flexible Balance of System, suitable for integration with hydrogen, batteries, generators, and

any kind of renewable source, named HyESS™, *Hybrid Energy Storage Systems*.

In addition, when coupled with power generation technologies, notably renewables energy sources or eventually generators, HyESS™ demonstrated its ability to become a veritable self sustainable base-load energy source named “microgrid” or “hybrid power plant”.

As a result, in the new HyESS™ configuration, the ElectroSelf™ technology platform has been integrated at the Balance of System level, and the hydrogen storage became an optional module of the Group’s systems, representing however one of the major distinctive factor if the EPS product offer in the market.

This positioning as a “pure-play” specialized in hybrid solutions with a structured know-how at the Balance of System level, has sparked interest worldwide in the market, and even recognized by McKinsey at the Utility of the Future Forum in Singapore in 2016 and by Bloomberg New Energy Finance.

Thanks to the acquisition of Elvi Energy which took effect on 1 January 2016, the Group has further enhanced that positioning in the market as a technology-neutral system provider and energy storage player with a full suite of products and a technology entirely developed internally. This is the reason why, despite the certification of the HyESS™ coupled with hydrogen has been finalized in July 2016 only, the Group started to commercialize and install both HyESS™ and Microgrids in early 2016.

As of today, the Group has installed and has under commissioning in aggregate 36 large scale projects, and in the Grid Support sector successfully commissioned and completed 3 systems with Terna, the largest grid operator in Europe, that developed the first multitechnology storage installation and the biggest storage project in Europe.

In that project, in 2016 the Group commissioned the 2MWh system with General Electric and continued the testing with the Italian Authority for Electricity (AEEGSI) of the two 1 MWh systems with Toshiba installed by Elvi Energy in 2015.

In addition to the Grid Support projects with Terna, in 2016 EPS developed one of largest installed base of microgrids worldwide, serving with its technology:

- a 12 MW microgrid for a mining site in Australia powering approx. 1,600 people;
- 10.4 MW microgrids in aggregate for two resorts in Maldives powering approx. 2,300 people;

- 8.3 MW microgrids for two cities in Somalia powering approx. 162,000 people; and
- a microgrid integrated with 1MWh of hydrogen storage for a village in Chile powering approx. 300 people

for in aggregate 2,693 tons CO₂ saved and over 165,000 customers powered by renewables and the EPS hybrid energy storage systems every day.

The capacity of the Group to achieve such results in 2016 notably rests on its holding of intellectual property rights and know-how accumulated over more than ten years of experience on site and research with the *Politecnico di Milano* and *Politecnico di Torino*

In that context, in 2016 EPS has consolidated its vision of becoming an energy company and the world's reference for a clean energy culture and smart grid excellence. An innovative company which creates value for stakeholders by providing net-zero solutions completely safe, reliable, competitive and sustainable.

Seeking innovation and sustainability of the energy transition have been confirmed also in 2016 as the core values of the Group and they continue to be expressed by the three main cornerstones:

- reliability for our partners;
- proactivity for our customers;
- technological excellence any product and in any solution deployed.

1.2 Macroeconomic and market scenario

The world economy stumbled in 2015, amid weak aggregate demand, falling commodity prices and increasing financial market volatility in major economies which continued in 2016 recording an edge down of 2.3 percent.

Although the global economy accelerated in the final quarter 2016, the result was well below the expected forecast and the 3 percent growth rate of 2015. This performance, considered by the World Bank as the weakest since the global financial crisis of 2008, arose amid stalling global goods trade, weak investments but mostly under heightened policy uncertainty. The deceleration in global activity reflected a continued stagnation among commodity-exporting Emerging Markets and Developing Economies ("EMDEs") and a weakening growth in major high income countries with advanced economies.

Countries with advanced economies continued to be afflicted by weak underlying growth and low inflation. Their economies are still reeling from the geopolitical events that characterized 2016: a still-inflamed Middle East, constant attacks in Europe, the United Kingdom's decision to leave the European Union and the electoral outcome in the United States; while uncertainty about future policy direction increased.

Nonetheless, among the advanced economies activity rebounded strongly in the United States after a weak first half 2016. Developments in the U.S. economy, due to its size and international linkages, are bound to have substantial implications for the global economy. Current forecasts and macroeconomic projections are more blurry considering the absence of concrete legislative proposals and therefore do not incorporate the potential effects of policy proposals suggested by the new U.S. administration, as their scope is still highly uncertain. Fiscal stimulus, if implemented, could result on a stronger U.S. growth than currently predicted. However, some other policy changes, or persistent policy uncertainty, could dampen U.S. and international growth prospects. As a result U.S. growth is predicted to increase modestly to 2.2 percent in 2017.

The Eurozone economy ended 2016 on a dim note. Rising populism, Brexit and terrorist attacks, on top of other political events, have been affecting the economy's momentum. Euro Area growth slowed from 2 percent in 2015 to 1.6 percent in 2016, as both domestic demand and exports lost momentum. Economic growth in the EU is expected to moderate to 1.4 percent in 2017. The low levels of investment, the decline in the working-age population, and the secular productivity slump have collectively depressed the EU's growth potential. As investment is unlikely to return to pre-crisis levels and as it will be difficult to stem the decline in the working-age population, productivity growth has become increasingly important for sustaining the general economy progress of the zone.

The outcome on 2016 for EMDE regions with large numbers of commodity exporters remains mixed. Economic growth in EMDEs reached an estimated 3.4 percent in 2016, slightly below the subdued pace of 2015. As part of an ongoing economic rebalancing, growth in China has been concentrated primarily in services (industrial production has stabilized at moderate levels), thus being a bit stronger than expected supported by continued policy stimulus, but nonetheless it has decelerated to 6.7 percent in 2016.

In 2017 EMDE economic development is expected to accelerate to 4.2 percent and to an average of 4.7 percent in 2018-19. Forecast show that EMDEs will

contribute to 1.6 percentage points to global growth in 2017, accounting for about 60 percent of global accrual for the first time since 2013. Given the expected increases in commodity prices, particularly for oil, the divergence in growth outlooks between commodity exporters and importers is on track to narrow.

In Latin America and the Caribbean, in Europe and Central Asia, economic development is expected to accelerate in 2017, mainly reflecting a bottoming out in activity in Brazil and Russia, while in the Middle East and North Africa will pick up modestly as oil prices recover. While growth should rebound in Sub-Saharan Africa as well, the improvement is notably weaker than previously expected, as some commodity exporters struggle to adjust to past deterioration in their terms of trade.

Growth in low-income countries (LICs) remained relatively subdued in 2016 (at 4.7 percent), but their external environment is expected to improve gradually, with commodity prices increasing moderately from low levels and global trade regaining momentum. It is expected to recover to 5.6 percent in 2017, while it will be substantially weaker in oil exporters than in metals exporters, although remaining strong in most commodity importers, partly supported by large public investment. However, fragile countries will see a less vigorous recovery over the forecast horizon, as political uncertainty and security challenges continue to hinder private investment.

1.3 Climate change trends and impacts on the global energy storage landscape

By 2040, consumers and businesses will drive an ongoing evolution in energy needs, shaped by advances in technology and waves of economic growth. At the same time, both supply and demand will be affected by a wide range of government policies, including ones that seek to expand access to modern energy and those that aim to reduce the risks of global climate change. In this time frame oil, natural gas and coal are expected to continue to meet a larger part of global demand.

For a century, these sources have been the foundation of the modern energy that has enabled current living style and they remain abundant, reliable and affordable. Still, significant changes are coming.

Policies to address greenhouse gas (GHG) emissions will increasingly influence the energy landscape. Global energy-related CO₂ emissions

will likely peak around 2030. The member nations of the Organisation for Economic Co-operation and Development (OECD), where CO₂ emissions are declining, are expected lead this shift. With strong gains in energy efficiency and significant changes in the world's energy mix – driven by economics and climate policies – the CO₂ intensity of the global economy should be cut in half by 2040.

The period to 2040 is expected to reflect a dramatic expansion of the world's population and the global middle class and global demand for energy is expected to rise by 25 percent. To keep pace with demand, the world will need to pursue all economic energy sources. By 2040, zero-emission energy sources will make up 60% of installed capacity. Wind and solar will account for 64% of the 8.6TW of new power generating capacity added worldwide over the next 25 years, and for almost 60% of the \$11.4 trillion invested.

While already competitive in a number of countries today without policy support, the cost of onshore wind is expected to drop 41% by 2040, driven primarily by improving capacity. The solar (PV) experience curve also marches on, but decline in technology cost is increasingly accompanied by a reduction in the cost of development.

Solar's precipitous cost decline sees it emerge as the least-cost generation technology in most countries by 2030. It will account for 3.7TW, or 43%, of new power generating capacity added in 2016-40 and for over \$3 trillion of new investment. Small-scale solar makes up a bit more than a third of this new capacity. Starting with Europe, Australia and the US but quickly spreading to India and other countries, households and businesses will add solar PV on the rooftops to offset retail power bills almost everywhere. The bulk of solar PV is utility-scale, installation of which will accelerate in China, Europe, the US and Africa from 2025 and in India from 2030. Overall, solar PV supplies 15% of world electricity by 2040, seeing an average \$135 billion invested per year over the next 25 years.

Over the next 25 years, light duty electric vehicles (EVs) will provide 2,701TWh of additional electricity demand, to reach 8% of world consumption. EVs will make up 25% of the global car fleet by 2040, putting continuous downward pressure on battery costs through technology development, economies of scale and manufacturing experience. Cheaper batteries increasingly bring small-scale and grid-scale storage options into play.

As new wind and solar capacity is added worldwide, generation using these technologies rises ninefold to 10,591TWh by 2040, and to 30% of the global total,

from 5% in 2015. By 2040, Germany, Mexico, the UK and Australia all have average wind and solar penetration of more than 50%. With the increase in renewable generation comes a fall in the run-hours of coal and gas plants, contributing to the retirement of 819GW of coal and 691GW of gas worldwide over the next 25 years. The fossil plants remaining on-line will increasingly be needed, along with new flexible capacity, to help meet peak demand, as well as to ramp up when solar comes offline in the evening.

The combination of pollution regulations, carbon prices and weak electricity demand growth, drives net closure of 286GW of coal in OECD economies to 2040. Meanwhile, China's moratorium on new coal-fired power post-2020 as it deals with its air pollution, coupled with its near-term slowdown in electricity demand growth, means that country sees 66GW less coal installed to 2040 than anticipated last year. Despite an uptick in the near term, by 2020 US coal has joined Europe in terminal decline. However, low coal prices mean more new coal in countries such as India which will see 258GW of new capacity and a trebling of coal consumption by 2040.

Gas' role as a 'transitional fuel' appears overstated outside the US as it accounts for just 16% of global generation in 2040, up just 7% from 2015. Gas demand increases about 10% to 2026 as France, the UK and Germany retire nuclear plants and consumption rises in North America and the Middle East. However from 2027, gas generation begins to fall in Europe, and then in the US and China. India once again is the major economy to buck the trend, becoming Asia's largest gas power market by 2040, with 79GW of cumulative capacity.

The Asia-Pacific region will experience colossal growth in new power generation capacity over the next 25 years, with installed capacity tripling and electricity generation doubling. Renewable energy will make up nearly two-thirds of the 4,890GW added during this period. Onshore wind will bring in the largest share of investment at \$1.3 trillion, while utility-scale PV sees \$897 billion. This mountain of capacity will drive renewable energy penetration to 38% by 2040, up from 21% in 2015.

Europe sees significant decarbonisation to 2040, with renewables rising to 70% of generation in 2040. Solar accounts for almost half of all new capacity. This is driven initially by small-scale PV, before ongoing cost declines makes large-scale solar cost-competitive. Onshore wind sees half of all new investment in Europe as green-field projects increasingly give way to repowering.

Different countries in the Americas will follow different pathways to change. In North America, total capacity

stands to grow by a third to 2040 as the region forms a more integrated market in which electricity and natural gas flow across borders in unprecedented quantities and renewables take greater prominence. Natural gas will play a key role in electricity generation across North America over the next decade, accounting for 15% of all new build, at the same time renewables continue to grow, helped in the short term by US tax incentives but in the medium term by out-competing gas and coal in many countries. Latin America sees over \$798 billion of investment in new power generation capacity as it continues to diversify away from an over-reliance on drought-prone hydro.

In the Middle East & Africa, renewables enjoy an eightfold increase over the next 25 years to reach 55% of all power generating capacity by 2040, up from 16% today.

The higher renewables penetration, means that power systems will increasingly need to reward system services such as demand response, battery storage, interconnectors and control systems that work along with traditional firm capacity to help match supply with demand and has given rise to new challenges that have seen storage technology take centre stage. Storage is an enabler of this transition in two main ways:

- off-grid solutions: to serve the 2.4 billion people and energy-intensive businesses around the world that are not currently reached by an electric power grid, so as to replace diesel fueled generators and make better use of renewable energy sources; and
- grid support: as intermittent and unpredictable renewable energy progressively displaces traditional power plants, electricity grids increasingly need storage systems that provide both capacity and flexibility.

1.4 Significant Events in 2016

The following principal events have occurred in 2016:

- **Elvi Energy and MCM acquisitions:** on 18 January 2016 the Group announced the acquisition of 70% of MCM, a leading R&D center of excellence. The Company already held 30% of MCM, thanks to the acquisition of Elvi Energy, launched on 14 December 2015 and completed on 29 December 2015 with effectiveness on and from 1 January 2016. The transaction, closed for 315,000 euros of which around 76% will be reinvested in the Company, has been the last step which led to the

acquisition of 100% of Elvi Energy and MCM, for a total of 2,756,922 euros of which 51% will be reinvested via a capital increase reserved to Elvi and Elvi Energy management team.

- **Commissioning of the microgrid in Somalia:** on 29 February 2016 the Group announced the commissioning of a new Hybrid Power Plant, located in Garowe (Somalia). This project will allow the reduction of diesel consumption by more than 2,000 litres per day, powering approx. 100,000 people by renewables only. The Hybrid Power Plant is mainly composed by solar panels, wind turbines, energy storage system, backup generator and medium voltage distribution system and it is fully remotely controlled. The Hybrid Power Plant serves a 3.5MW load, and is expected to be shortly further extended with 450kW of wind energy, covering with renewables and storage more than 25% of the energy need of the city.
- **Microgrid in the Maldives:** on 16 March 2016 the Group announced a 2MW Hybrid Power Plant, that will power a resort completely off-grid located in the Maldives. This project will involve the engineering, supply and installation of a renewable and storage turnkey solution that allows the reduction of diesel consumption by approx. 275,000 litres per year, while cutting greenhouse gas emissions by around 165 CO2 tonnes per year. The power plant is mainly composed by solar panels, energy storage system, advanced control system, power centre and is a real power plant fully remotely controlled.
- **Microgrid in Australia:** on 11 May 2016, the Group signed an agreement with Toshiba, which has commissioned for a company part of the Toshiba Group a 1 MW storage system for a Hybrid Power Plant that will ensure sustainable energy supplies to a mining site in Australia. This plant will manage a peak demand of more than 2 MW and when completed it will include 3 MW of solar panels, 2 MW wind turbines, all coupled with a 1 MW storage system.
- **Extension of the microgrid in Somalia:** on 20 July 2016 the Group announced the launch of the second phase of the most innovative power plant in Africa, which, by storing energy, enables intermittent renewable sources to be transformed into a stable power source. The deal was signed with the National Energy Corporation of Somalia (NECSOM) to expand its power plant. This new order was signed less than five months after launching the first step toward a Hybrid Power Plant in Garowe, capital of Somalia's Puntland state.
- **Certification of HyESS integrated with hydrogen:** on 2 August 2016 the Group announced that the certification testing of the HyESS (*Hybrid Energy Storage System*) integrated with the hydrogen storage module, in line with market and timeline expectations, was successfully completed, after tests conducted by leading and independent international laboratories. The commissioning of the first hybrid power plant with HyESS integrated with the hydrogen-storage module has been planned in Chile.
- **Financing for 10 million euros:** to further support Group's growth, on 19 September 2016 Unicredit granted EPS with a short term credit line of euro 500 thousand to provide additional working capital and a medium-long term credit line of euro 2.000,0 thousand mainly dedicated to EPS's development plan. On 26 October 2016 entered into an agreement for €6.5 million of new committed credit lines with Intesa Sanpaolo and its subsidiaries to support future growth. Intesa Sanpaolo will also act as House Bank of the Group. In addition to credit lines totalling €9 million with Intesa Sanpaolo and Unicredit, a new medium-long term credit line of €1 million was approved by Banca Sella on 9 November 2016, bringing aggregate debt financing raised by the Group in 2016 to €10 million, of which €6.5 is in medium-long term, with an average spread of 3.66%
- **Management team strengthening:** on 20 September 2016 the Group announced the executive team and corporate governance had been strengthened with new additions and appointments:
 - *Paolo Bonetti*, after key roles in Rabobank, Fiat Group and Banca IMI and more than 10 years of experience as Chief Financial Officer at The Royal Bank of Scotland, CDB Webtech and M&C, has been appointed Chief Financial Officer;
 - *Michela Costa*, PhD and qualified lawyer, was a senior associate at Clifford Chance and then General Counsel at British Petroleum and Sorgenia for 10 years. She has been appointed Executive Vice President of Operations and will coordinate the Group's HR, Legal and Corporate Affairs, Safety and Communications departments;
 - *Andrea Rossi*, MBA, was an investment banker at Merrill Lynch and Thomson Reuters, an entrepreneur in Restopolis (which today is TheFork.it, of the Tripadvisor Group) and Chief Financial Officer at Vailog. Andrea has been appointed Chief Business Officer and is

responsible for internal control and related operations and for Group's information system.

- *Daniele Rosati*, PhD in electrical engineering, visiting professor at Politecnico of Milan and responsible for developing and commissioning the most complex projects in the energy-storage field, including the Terna Power Intensive Project approved by the Italian Ministry of Economic Development (MiSE) within the 2012 Defense Plan to increase the security of the Italian electricity system, has been appointed the Group's Vice President responsible for engineering;
- *Nicola Vaninetti*, who has more than 15 years of experience in power electronics for renewable energy systems and storage of the most complex hybrid power plants, has been appointed Vice President responsible for products and hybrid solutions.

2 POST-CLOSING EVENTS AND BUSINESS OUTLOOK

2.1 Significant events since 1st of January 2017

The following principal events have occurred since the end of the 2016 financial year:

- On 19 January 2017, the Group announced the successful delivery, the official start and commissioning phase of the storage systems sired to the *Coober Pedy Renewable Hybrid Power Project's* microgrid in Coober Pedy, Southern Australia. The hybrid power plant, will be connected to a microgrid composed by (in its final configuration) 1 MW of solar panels, 4 MW wind turbines and up to 6 MVA of generators combined with 1 MW of storage system and will be able to cover up to 70% of the demand, supplying the inhabitants of the area – about 1,600 people – with energy from renewable sources for the hybrid power plant's 20-year life.
- On 8 February 2017, the Group announced the performance results on its second microgrid in the Maldives and confirms the CO₂ reduction and that renewables coupled with the EPS storage system cover up to 63% of the resort power requirements, enabling reduction in diesel consumption by 423,000 litres per year, 50% more than expected at the time of commissioning in October 2016.
- On 15 February 2017 the Group announced the commissioning of a hybrid storage system, in partnership with Toshiba, sired to Flinders Island's microgrid for Hydro Tasmania, the Australia's largest producer of renewable energy.
- On 22 February 2017, the Group announced the realization in Sardinia of an energy storage system microgrid for ENAS. The system is connected to the Ottana Experimental Solar Farm consisting of a concentrated solar power (CSP) farm integrated with thermal storage with a capacity of 14 MWh and a concentrated photovoltaic plant (CPV).
- On [] March 2017 the Group announced the appointment through cooptation to the Board of Directors of Michela Costa, Executive Vice President of Operations

2.2 Business Outlook

The global renewable energy sector is showing extraordinary resilience against a backdrop of slow economic growth and depressed commodity prices.

Self-standing microgrids and hybrid energy solutions in emerging markets appear the key revenue growth driver for the Group in 2017. A growth boosted by the rapidly decreasing costs of renewable generation, advances in power conversion and management technology where EPS stands as technology leader and burgeoning demand for alternatives to costly and unreliable diesel as default fuel for electricity generation. Also in grid support applications, emerging markets are set to contest the leadership of advanced economies, given the strain induced by intermittent power flows on underinvested and historically unreliable infrastructure.

The Group in 2016 has sealed the mission to unlock the energy transition, and demonstrated with its installations the ability to master the intermittency of renewable energy sources, thus enabling them to be transformed into stable power sources, solving the grid instability in developed countries, and enabling renewables in emerging economies to power 1/3 of world's population reliably, affordably and sustainably.

The credibility established with the Terna projects partnering with Toshiba and General Electric, and with fully-commercial microgrids and hybrid energy solutions already in operation in Sub-Saharan Africa and South Asia make EPS a market leader, with a growing pipeline of projects across South America, Africa and South-East Asia. In both the grid support and off-grid power generation segments, the Group will continue to be positioned as a turnkey supplier for utilities, grid operators and commercial and industrial customers.

In that context, 2016 has been a year in which the energy storage market potential and continued outstanding growth has been confirmed, upholding the outlook for 2017.

Nearly 900MW of new capacity were announced in the second half of 2016, extending the sustained increase in activity that began in Q4 2014. Over 500MW of utility-scale projects were also commissioned in 2016. An additional 200MW of capacity had estimated commissioning dates in 2016 and will either be confirmed as already commissioned, or are likely to be commissioned in early 2017.

The outlook for energy storage in the US remains positive: despite the uncertainty surrounding the

coming Trump presidency, energy storage uptake has largely been driven at the state level. Massachusetts may become the third state to mandate energy storage, as soon as next year.

501MW of energy storage won as part of the T-4 2016 UK capacity market auction, dwarfing utility-scale activity elsewhere in Europe. Behind-the-meter energy storage continued to make gains in both Germany and Italy.

Activity tailed off in the second half of the year as new policies in Japan and Korea failed to sustain the previous rate of deployment, and a much anticipated storage support program in China failed to materialize. Energy storage tenders in India have also been delayed but in more positive news, there was an increase in activity in South East Asia.

From the outlook perspective, cheaper coal and cheaper gas will not derail the transformation and decarbonisation of the world's power systems. By 2040, zero-emission energy sources will make up 60% of installed capacity according to Bloomberg New Energy Finance. Wind and solar will account for 64% of the 8.6TW of new power generating capacity added worldwide over the next 25 years, and for almost 60% of the \$11.4 trillion invested.

By 2040, flexible capacity, which includes power storage, demand response and all the flexibility and capacity applications that constitute the Grid Support market, will account 8% of the 13,464GW global installed capacity.

In other terms, if by 2040 approximately 42% of the global installed capacity will be made by renewables, 8% would be the size required to Grid Support applications.

The growth of the storage market is also starting to affect emerging and frontier markets. Storage companies are now pushing forward some of the most ambitious new mini-grids and independent energy systems and the same is true for commercial and industrial projects. As a result, off-grid applications in emerging markets are rising up the strategic priority list for several storage companies.

As of today, 1.4 billion people — roughly 18 percent of the earth's population — do not have access to grid electricity. Another 1 billion people are connected to unstable grids and experience regular power outages, classifying them as “under-electrified.” Together, these people offer nearly \$30 billion of potential business to companies working in the off-grid lighting sector .

In addition, diesel generators ensure electricity generation in almost all islands and to all the

commercial and industrial users based in under-electrified areas, despite their high generation costs of around €0.25 per kWh or more, simply because there is no simple, feasible alternative.

This segment of the population, which is sometimes classified as the bottom-of-the-pyramid, has an unfulfilled need that represents a significant market opportunity. Sector growth rates are on a trajectory similar to the one followed by mobile phones, and therefore an outstanding market growth performance is expected.

More than 95% of these people are either in sub-Saharan African or developing Asia, and around 80% are in rural areas.

This is the context where the Group sees 80% of its project pipeline in Africa and Asia, which are the key areas where the Group's investments will be devoted in 2017.

3 FINANCIAL YEAR 2016 OVERVIEW

3.1 KEY FINANCIAL HIGHLIGHTS

| ITEM | 31/12/2016 | 31/12/2015 | Change |
|--|----------------|-----------------|---------------|
| Revenues | 7.088 | 382 | +17,6x |
| Other Income | 227 | 266 | (14,9)% |
| TOTAL REVENUES AND OTHER INCOME | 7.315 | 648 | +10,3x |
| GROSS MARGIN FROM SALES | 3.234 | 513 | +5,3x |
| % of total revenues and other income | 44,2% | 79,1% | |
| EBITDA | (3.976) | (3.152) | +26,2% |
| EBIT | (8.472) | (10.654) | +20,5% |
| NET RESULT | (8.558) | (10.598) | +19,2% |
| CASH POSITION | 5.478 | 8.574 | (36,1)% |
| NET FINANCIAL POSITION | (974) | 8.285 | (1,1)x |

Revenues were € 7.1 million, up +18x year-on-year, confirming good market momentum and the continued revenue trend improvement. Revenues grew particularly in the fourth quarter (€ 3.1 million), outlining a seasonal trend which see the order intake increasing in the first part of the year, and the majority of the revenues generation at the end of the year.

This growth was mainly led by the installations in Africa, Asia Pacific and Latin America (approx. 51% of revenues and other income), answering the strong demand of large utilities and grid operators in the context of their energy transition

Gross margin was € 3.2 million, representing 46% of revenues. This result was achieved thanks to the competitiveness of the Group technology despite the fact that large customers and public tenders tend to stress pricing conditions with a material bargaining power.

The commercial dynamism of the Group is evidenced also by the backlog of orders at € 6.5 million as of today, thanks to € 12.1 million order intake of the last 12 months, that gives a good visibility on 2017 growth. The pipeline of potential projects is still in excess of € 100 million, with an increasing bidding activity confirming the international visibility and strategic positioning around the different

geographies, particularly in Europe and Africa, despite the limited commercial infrastructure.

EBITDA loss amounts to € 4 million for the financial year 2016, down 26% compared with financial year 2015 and in line with market expectations. The loss is mainly due to the personnel and operating expenses costs related to the new Group structure. Compared to 2015, the Group has a new plant in Delebio (SO, Italy), an engineering center in Milan (Italy), increased by 50% its human resources and structured the new organization in 5 Group functions, and 7 departments.

Net result was negative of € 8.6 million, +19.2% year-on-year, mainly impacted by the investments made and the related amortization (€ 1.2 million), non-recurring expenses related to extraordinary activities carried out in 2016 (€ 1.3 million), and the impact of stock options and warrants allocation to the management team completed in 2016 (€ 1.6 million).

Cash in bank accounts at the end of 2016 reported at € 5.5 million. In addition, EPS has available additional € 3.5 million short term credit lines to finance the future working capital exposure. Considering the € 6.5 million medium-long term indebtedness drawn-down in 2016 with an average rate of 3.66%, the Net Financial Position was negative by € 1.0 million.

| REVENUES AND OTHER INCOME BY CLIENT GEOGRAPHICAL AREAS (amounts in Euro) | 31/12/2016 | Weight |
|--|-------------------|---------------|
| Europa | 5.008 | 68% |
| USA and Canada | 513 | 7% |
| Africa | 1.306 | 18% |
| Latin America | 488 | 7% |
| TOTAL REVENUES & OTHER INCOME | 7.315 | 100% |

| TOTAL REVENUES AND OTHER INCOME 2016 BY GEOGRAPHY OF INSTALLATION (amounts in Euro thousands) | 31/12/2016 | Weight |
|---|-------------------|---------------|
| Asia Pacific | 1 827 | 25% |
| Europe | 3 421 | 47% |
| Latin America | 488 | 7% |
| Africa | 1 330 | 18% |
| USA and Canada | 249 | 3% |
| TOTAL REVENUES AND OTHER INCOME | 7 315 | 100% |

3.2 Consolidated Income Statement

| CONSOLIDATED INCOME STATEMENT (amounts in Euro) | NOTES | 31/12/2016 | 31/12/2015 |
|--|-------------|--------------------|---------------------|
| Revenues | 9.1 | 7.087.993 | 381.521 |
| Other Income | 9.2 | 226.823 | 266.495 |
| TOTAL REVENUES AND OTHER INCOME | | 7.314.816 | 648.016 |
| Cost of goods sold | 9.3 | (4.080.960) | (135.357) |
| GROSS MARGIN FROM SALES | | 3.233.856 | 512.659 |
| Personnel costs | 9.4 | (3.696.249) | (1.720.150) |
| Other operating expenses | 9.5 | (2.899.101) | (1.348.270) |
| Other costs for product development and R&D | 9.6 | (614.895) | (595.890) |
| EBITDA ⁽¹⁾ | 9.7 | (3.976.389) | (3.151.651) |
| Amortization and depreciation | 9.9 | (1.219.064) | (86.259) |
| Impairment and write down | 9.10 | (264.343) | 80.369 |
| Non recurring income and expenses | 9.11 | (1.391.870) | (2.850.353) |
| Stock Option and Warrant Plans | 9.8 | (1.620.213) | (4.646.452) |
| EBIT ⁽¹⁾ | 9.12 | (8.471.878) | (10.654.346) |
| Net financial income and expenses | 9.13 | (45.230) | (7.984) |
| Income Taxes | 9.14 | (40.493) | 64.806 |
| NET INCOME (LOSS) | 9.15 | (8.557.601) | (10.597.524) |
| Attributable to: | | | |
| Equity holders of the parent | 9.34 | (8.557.601) | (10.597.524) |
| Non-controlling interests | 9.34 | 0 | 0 |
| Basic earnings per share | 9.34 | (1,09) | (1,93) |
| Weighted average number of ordinary shares outstanding | | 7.881.807 | 5.487.201 |
| Diluted earnings per share | | (0,99) | (1,69) |

⁽¹⁾ EBITDA and EBIT are not defined by IFRS. They are defined, respectively, in notes 9.7

3.3 Consolidated Balance Sheet

| ASSETS (amounts in Euro) | NOTES | 31/12/2016 | 31/12/2015 |
|--|--------------|-------------------|--------------------------|
| Property, plant and equipment | 9.16 | 804.751 | 748.115 |
| Intangible assets | 9.17 | 4.760.511 | 820.243 |
| Other non current financial assets | 9.18 | 151.884 | 65.582 |
| TOTAL NON CURRENT ASSETS | | 5.717.146 | 1.633.940 |
| Trade receivables | 9.19 | 4.806.111 | 1.152.197 |
| Inventories | 9.20 | 1.144.152 | 938.933 |
| Other current assets | 9.21 | 1.546.220 | 3.602.430 |
| Current financial assets | | 0 | 0 |
| Cash and cash equivalent | 9.22 | 5.477.790 | 8.573.811 |
| TOTAL CURRENT ASSETS | | 12.974.273 | 14.267.371 |
| TOTAL ASSETS | | 18.691.419 | 15.901.311 |
| EQUITY AND LIABILITIES (amounts in Euro) | NOTES | 31/12/2016 | 31/12/2015 |
| Issued capital | 9.23 | 1.576.361 | 1,576,470 ⁽²⁾ |
| Share premium | 9.23 | 18.082.718 | 18.082.718 |
| Other Reserves | 9.23 | 6.009.583 | 4.394.821 |
| Retained Earnings | 9.23 | (11.640.814) | (1.029.060) |
| Profit (Loss) for the year | 9.23 | (8.557.601) | (10.597.524) |
| TOTAL EQUITY | 9.23 | 5.470.247 | 12.427.425 |
| Severance indemnity reserve | 9.24 | 667.507 | 336.403 |
| Non current financial liabilities | 9.28 | 4.834.771 | 0 |
| Non current deferred tax liabilities | 9.25 | 198.076 | 0 |
| TOTAL NON CURRENT LIABILITIES | | 5.700.354 | 336.403 |
| Trade payables | 9.26 | 4.566.453 | 2.111.877 |
| Other current liabilities | 9.27 | 1.236.631 | 999.862 |
| Current financial liabilities | 9.28 | 1.712.608 | 25.744 |
| Income tax payable | 9.29 | 5.127 | 0 |
| TOTAL CURRENT LIABILITIES | | 7.520.819 | 3.137.483 |
| TOTAL EQUITY AND LIABILITIES | | 18.691.419 | 15.901.311 |

⁽²⁾ The share capital at 31 December 2015 amounts to € 1,576,361 and not to € 1,576,470 as stated in the Consolidated Financial Report 2015. This figure is corrected in the present report. This correction has no impact on equity or on the results.

3.4 Consolidated Statement of changes in Equity

| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (amounts in Euro) | NOTES | Share Capital | Premium Reserve | Other Reserves | Retained Earnings (Losses) | Profit (Loss) for the period | TOTAL NET EQUITY |
|--|-------------|------------------|-------------------|------------------|----------------------------|------------------------------|------------------|
| Net Equity as of December 31, 2015 | 9.23 | 1.576.470 | 18.082.718 | 4.394.821 | (1.029.060) | (10.597.524) | 12.427.425 |
| <i>Error in 2015 Financial Statement presentation</i> | | (109) | 0 | 109 | 0 | 0 | 0 |
| Net Equity as of December 31, 2015 ⁽³⁾ | 9.23 | 1.576.361 | 18.082.718 | 4.394.930 | (1.029.060) | (10.597.524) | 12.427.425 |
| EPS Group Reorganization | 9.23 | 0 | 0 | 0 | 0 | 0 | 0 |
| Previous year result allocation | 9.23 | 0 | 0 | 0 | (10.597.524) | 10.597.524 | 0 |
| Previous year delta on loss coverage EPSM | 9.23 | 0 | 0 | 6.264 | (6.264) | 0 | 0 |
| Treasury shares | 9.23 | 0 | 0 | 1.478 | 0 | 0 | 1.478 |
| Stock option and warrants | 9.23 | 0 | 0 | 1.620.213 | 0 | 0 | 1.620.213 |
| Shareholder's capital contribution (IPO) | 9.23 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shareholder's capital increase | 9.23 | 0 | 0 | 0 | 0 | 0 | 0 |
| <i>Loss for the period</i> | | 0 | 0 | 0 | 0 | (8.557.601) | (8.557.601) |
| <i>Other Comprehensive Income</i> | | 0 | 0 | (13.302) | (7.966) | 0 | (21.268) |
| <i>Actuarial gains and losses on defined benefit plans</i> | | 0 | 0 | (22.439) | 0 | | (22.439) |
| <i>Currency translation differences</i> | | 0 | 0 | 9.137 | (7.966) | 0 | 1.171 |
| Total comprehensive income | | 0 | 0 | (13.302) | (7.966) | (8.557.601) | (8.578.869) |
| Net Equity as of December 31, 2016 | 9.23 | 1.576.361 | 18.082.718 | 6.009.582 | (11.640.814) | (8.557.601) | 5.470.247 |

(3) The share capital at 31 December 2015 amounts to € 1,576,361 and not to € 1,576,470 as stated in the Consolidated Financial Report 2015. This figure is corrected in the present report. This correction has no impact on equity or on the results.

3.5 Consolidated cash flow statement

| CASH FLOW STATEMENT (amounts in Euro) | NOTES | 31/12/2016 | 31/12/2015 |
|--|-------|--------------------|--------------------|
| Operating activities | | | |
| Net Profit (Loss) | 9.15 | (8.557.601) | (10.597.524) |
| Non-cash adjustment to reconcile profit before tax to net cash flows | | (6.264) | 0 |
| Amortisation and depreciation | 9.9 | 1.219.064 | 86.259 |
| Impairment and write down | 9.10 | 264.343 | (80.369) |
| Stock option and warrant plan accrual | 9.8 | 1.620.213 | 4.646.452 |
| Defined Benefit Plan | 9.24 | 0 | 31.956 |
| Income related to composition with creditors | | 0 | (235.933) |
| Working capital adjustments | | | |
| Decrease (increase) in trade and other receivables and prepayments | 9.19 | (1.691.205) | (3.790.569) |
| Decrease (increase) in inventories | 9.20 | (469.562) | (158.903) |
| Increase (decrease) in trade and other payables | 9.26 | 2.880.574 | 745.226 |
| Increase (decrease) in non current liabilities | 9.27 | 331.104 | 11.764 |
| Net cash flows from operating activities | | (4.409.334) | (9.341.641) |
| Investments | | | |
| Net Decrease (Increase) in intangible assets | 9.17 | (2.220.566) | (706.846) |
| Net Cash flow deriving from business combination | 9.17 | (2.740.902) | 0 |
| Net Decrease (Increase) in tangible assets | 9.16 | (254.499) | (726.261) |
| Net cash flows from investments activities | | (5.215.968) | (1.433.107) |
| Financing | | | |
| Reimbursement of Financial Loans | | 0 | 0 |
| Increase (decrease) in bank debts | 9.28 | 6.521.635 | 0 |
| Shareholders cash injection | | 0 | 0 |
| Purchase of treasury shares | 9.8 | 1.478 | (63.772) |
| Warrants | 9.8 | 1.168 | 4.397 |
| Net Proceeds from increases of Capital | 9.23 | 0 | 17.921.769 |
| Receipt of government grants | 9.2 | 5.000 | 781.253 |
| Net cash flows from financing activities | | 6.529.281 | 18.643.647 |
| EPS S.A. net cash and cash equivalent at Period Beginning | | | 37.000 |
| Net cash and cash equivalent at Period Beginning | | 8.573.811 | 667.913 |
| Net cash flow | | (3.096.021) | 7.868.899 |
| Net Cash and cash equivalent at Period End | | 5.477.790 | 8.573.811 |

4 CONCLUSIONS

Concerning the information about:

- Board member compensation;
- Proposition to the shareholders meeting about losses' destination.

Please refers to the management report to the 2016 statutory management statement of the Company.

Terna 380kV sub-station with EPS storage installation in Ciminna, Sicily (Italy)

