Cogenpower PLC

Annual Report & Accounts

2016

Contents

Low-carbon energy business supplying cost effective and cleaner energy to urban communities underpinned by the Company's innovative Anaconda technology.

Chairman's statement

Dear Shareholder

It was a difficult year for the Group. A key factor in this was the impact on the Group's cashflow caused by the actions of the GSE, the Italian electricity supervisory body that regulates the entitlement to Green Certificate (GC) incentives and which, since the beginning of 2016, has been responsible for settling amounts owed to holders of GCs. The GSE's actions have been extensively reported in the Company's announcements and have effectively deprived the Group of €1.6 million of cash flow between June 2016 and June 2017. Using an undisclosed method of recalculation, the GSE sought not only to reduce the Group's legitimate entitlement to GCs for 2015 and part of 2016 (after which the GC scheme ended), but also to amend retrospectively the Group's prior years' entitlements that they themselves had verified and approved.

The result of a recent court hearing supported the Group's position and an anti-state-monopoly law has just been passed by the Italian Parliament, prohibiting retroactive changes of the above kind. However, this ongoing dispute and consequent lack of working capital has been a huge distraction for the executives, undermined the Group's ability to raise funds and slowed the strategic development plan.

Nevertheless, the Group has not stopped innovating and developing its technology, as you will read in the CEO's report, and the high energy efficiency of the Anaconda technology and the opportunity for consolidating the Italian, privately-owned Combined Heat and Power and District Heating (CHPDH) market have proved to be of interest to infrastructure funds, with whom we have been in close discussion.

Despite the challenges faced by the Group, important progress has been made on a very thorough reshaping of the business towards core competencies and applying downward pressure on costs.

Suspension of shares and Group strategy

On 26 June 2017 the Company announced that it had become apparent that the Group would not be in a position to publish its 2016 accounts by 30 June 2017 due to delays with the audit of the Italian subsidiaries and, as a result, the Company's shares were suspended from trading on AIM. Notwithstanding the publication of the full year results today, the Group's shares will remain temporarily suspended from trading on AIM for the reasons outlined below.

The Group has been undertaking an extensive strategic re-assessment of how it moves forward and is in advanced discussions on a potential fundraising from new investors to put the Company in an improved working capital position. As part of this fundraising, which will require shareholder approval, the Group will be seeking to put a Company Voluntary Arrangement (CVA) proposal to the creditors and shareholders of Cogenpower plc. The strategic re-assessment also includes consideration by the Board of the Group of the potential sale of the Group's operating subsidiaries.

The Group's shares will remain suspended from trading on AIM pending the announcement of such fundraising proposals.

David Pickering, Chairman

CEO's report

Whilst 2016 was a difficult year and our lack of development capital severely limited our ability to implement our growth strategy, we have nevertheless moved the business forward on a number of fronts, starting with the streamlining of the activities and the decision to close Cogenpower Gas & Power, our former retail arm. That process is almost concluded, but, with only 8 months of sales included in our results, Group turnover was predictably lower than the previous year (€4.9 million compared to €6.5 million in 2015).

The focus is now on developing our Anaconda technology even further and we have an operational model for CHPDH that is profitable without incentives. Working with the infrastructure funds, we have developed a credible business model which, with sensible levels of leverage, has an IRR of over 20%.

Progress has come from more than one area:

The accuracy of matching heat supply to heat demand in the CHPDH division has been further enhanced by the development of generic algorithms. These allow the sequencing program, which optimises heat production and delivery, to provide a lowest cost solution in an estimated 15 minutes rather than 4 hours, as before. This means production can be adapted almost in real-time if weather forecasts prove to be wrong. We also announced that the plant in Borgaro, near Turin, is now fully automated, bringing with it significant opex benefits. Just to emphasise the scale of this achievement, this is an operation that serves over 4,500 end-users: and yet it is unmanned, with automatic billing and receivables follow-up.

The other area we are now returning to is Cogenpower Energia, providing consultancy and implementation services to the local Italian market, developing highly sophisticated energy solutions to individual clients who wish to both save cost and contribute to environmental improvement. This area, traditionally a source of good quality earnings, has not had the attention it deserved since IPO due to the hugely distracting influence of the problems we lived through with the aborted Esseti acquisition and the GSE. Now, however, we have a series of contracts and proposals in our pipeline.

Operations report

Combined Heat and Power and District Heating

The Anaconda CHP unit with heat storage and back up boilers delivers and stores heat to meet different levels of demand without burning any unnecessary fuel, thereby achieving more than 90% energy efficiency.

The Group's flagship operational site in Borgaro Torinese, a suburb of Turin, Italy, is equipped with the Anaconda technology. It consists of a combined heat and power plant, back-up boilers, a heat storage facility and fibre-optic infrastructure that runs along the 6.5 kilometre, heavily insulated main pipe circuit. Branch pipes connect the main pipe to customers' premises. The pipework is overlaid with a fibre-optic network to collect consumption data in real time and to allow the control of valves along the route.

At each customer location, there is a sub-station consisting of a heat exchanger and monitoring and metering equipment. The heat exchanger transfers heat energy from the Cogenpower hot water network to the customer's building pipework in order to provide space heating, (plus cooling for a large hotel) and hot sanitary water. The metering equipment supplies, amongst other data, information used for automatic billing and for predicting usage patterns through its Artificial Intelligence system.

The original heat is generated from a Combined Heat and Power (CHP) unit at the Group's operational centre on the outskirts of the town of Borgaro Torinese. There, electrical energy is produced by a gas-fired generator and sold to the grid. The by-product heat created by the process is captured and stored in a highly sophisticated heat storage vessel. When there is heat demand from our customers, the central processor makes the optimum selection on how to meet that demand: from the heat storage, from the production of the CHP unit or from stand-alone boilers – or a combination of all three. The predictive systems have been refined to such an extent that Anaconda achieves energy efficiency levels of more than 90%.

CEO's report

CONTINUED

Other than during the winter months, the CHP unit is only put into operation when the grid prices for electricity are at their highest. This is feasible because the hot water storage system allows the production of heat to be de-coupled from the distribution of heat and the highly developed predictive technology developed by the Group can almost perfectly match heat demand with the minimum energy consumption to service it. An added complication is that the grid requires to be notified one day in advance of the load that it will be receiving; again, the Anaconda predictive technology will factor that in and make the optimal decisions.

Key statistics

Euro'000	2016	2016 adjusted	2015
Revenue	2,954	3,326	3,337
Gross Profit	1,424	1,796	1,858
GP%	48%	54%	56%
Contribution/EBITDA	558	930	1,384
EBITDA%	17%	30%	41%

In 2016, not only was it one of the warmest winters on record, but the gross profit and EBITDA were both negatively affected by the ending of the Green Certificate system, which was terminated in October 2016. In addition, the actions of the GSE mentioned above have meant that we have had to take a very conservative view on the amount of Green Certificate revenue recognised in 2016, to bring into line the aggregate of the amounts recognised in 2015 and 2016 with the amounts the GSE has recalculated. This has had a negative effect of circa €372,000 on group revenue, EBITDA and profit before tax. The "2016 adjusted" column shows the result with the €372,000 included.

Anaconda biomass extension

We reported last year that we were moving forward with the development of a biomass-powered electricity generator and boiler. There has since been a reduction in the feed-in tariffs for electricity produced from biomass and this has caused us to reconsider the viability of the project. We have developed an alternative, less complex solution which still satisfies our desire to build a hybrid biomass/gas plant and further reduce the net CO_2 emissions of our already low-emission configuration.

The new model uses just a biomass boiler instead of an ORC generator and boiler. The capex is significantly lower and still gives major benefits through reduced wear on the current generator and reduced fuel cost. The significant additional feature is that this model does not rely on government incentives to be profitable.

A biomass boiler is at its most efficient when there is steady output of heat, as it is does not have the instant response characteristics of gas (due to the relatively long time taken to reach a productive temperature). Therefore, in the absence of constant production, it will share the burden with the highly flexible gas-fuelled plant, providing a base load, with gas being used to manage any peaks of demand. The Anaconda Artificial Intelligence technologies developed by Cogenpower are ideal for optimising the management of a hybrid plant.

Our strategy for developing green-field opportunities is to begin with a flexible gas-fuelled solution. Once critical mass (i.e. we face a steady and reliable aggregate heat demand) and base loads are established, we can convert the plant to a biomass/gas hybrid. This strategy enables immediate improvements to emissions through better energy use to be followed by a significant second phase improvement via biomass. The energy efficiencies achieved by the Anaconda technology at the existing plant, even without biomass, already reduce emissions by 3,000 tonnes of CO_2 per annum, compared to traditional heating methods.

CEO's report

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Energy Services – Cogenpower Energia

Cogenpower Energia is a legacy energy services business, which upgrades blocks of flats and commercial buildings with condensing boilers and micro-CHP plants in addition to supplying heat and electricity to customers.

The strategy is to revitalise the consulting and implementation service, developing highly efficient solutions for environmentally conscious clients. This was always a good source of low-season revenues and has a good profit margin. A lack of resources in 2016 resulted in a reduction in activity, but a number of new projects are currently being undertaken.

Key statistics

Euro'000	**2016**	**2015**
Revenue	734	903
Gross Profit	317	292
GM%	43%	32%
Contribution/EBITDA	17	(144)
EBITDA%	2%	(5%)

Retail gas and electricity

Cogenpower Gas & Power has been closed. It stopped taking new business at the end of September 2016 and is now in the process of being wound up.

The decline in electricity prices and extra responsibilities imposed by the Italian state meant that the division was not only generating insufficient margin to cover its costs, but it was a distraction for management from the core business of selling heat.

The impact on 2016 turnover has clearly been significant (€1,062,000 in 2016 compared to €2,113,000 in 2015), but we have a permanent cost saving and an opportunity to restructure its balance sheet, which we are in the process of doing.

Outlook

The difficult year we have had has forced us to reassess how we as a group move forward. The issues with both the GSE and Esseti introduced major uncertainties that we have mainly put behind us, but we still have a few months of work to emerge from them. As mentioned in the Chairman's report, we expect to take action very soon to resolve matters and return to stable operations.

Dr. Francesco Vallone, Founder and CEO

CFO's report

Review of financial performance

We are reporting a loss before tax of €2.2 million on revenues of €4.9 million, compared to a 2015 loss before tax of €1.2 million on revenues of €6.4 million (the drop in revenue being mainly due to the closure of the retail business part of the way through the year).

The Company has had significant challenges to deal with since flotation.

The Esseti Energia acquisition became very problematic. Despite extensive due diligence, the acquisition turned out not to be what had been expected, and we were exposed to potential closure of the plant by the regional authorities and a significantly lower level of feed-in-tariff than we had been led to believe. We therefore successfully sold the business back to the original owner five months after the acquisition, completing in May 2016, thereby removing significantly bigger risks. When looking at what we had hoped to achieve in terms of earnings in 2016, the impact on our EBITDA compared to budget was around €550,000, of which €450,000 from not having the expected Esseti contribution in the results and an additional €100,000 relating to a loan to Esseti; up to now uncollectable. The plant has since been closed down by the regional authorities.

The other factor, which has been referred to extensively, is the dispute with the GSE, which arbitrarily reduced our entitlement to Green Certificate revenues by over €370,000 for the 2015 and 2016 financial years, a reduction which we have taken in these 2016 numbers. We had also budgeted for the receipt of €200,000 of legacy CO_2 credits, but for technical reasons, these were delayed by a year, but we are cautiously hopeful of receiving these credits soon.

These distractions also meant that very little time was spent on the Cogenpower Energia business and its revenues reflect that – a drop of over 20% on the previous year. But that business has recovered significantly in 2017 and should be a solid contributor going forward.

Margins in the two core activities were robust, moving at a group level from 37% in 2015 to 40% in 2016. If you were to add in the missing Green Certificate revenues of €372,000, the 2016 margin would have moved to 44%. What is even more significant is the virtual elimination of overhead in the CHPDH division since its transition to full automation. Looking at the viability of the plant as a business in its own right, it produced a gross profit in 2016 of over €1.4 million, which becomes its effective EBITDA.

In terms of expenses, we had the additional burden of the Plc running costs, which were around €400,000 of core cost and the closing of Gas & Power meant a very rigorous and prudent scrutiny of its balance sheet with over €350,000 of additional provisions being charged to the income statement.

Despite the challenges, the over-arching achievements of 2016 and the first half of 2017 have been a very thorough reshaping of the business towards core competencies and continual downward pressure on costs. Closures are expensive in the short-term, but once costs and distracting components of the business are eliminated, the profitable areas can grow more readily. This is what we are now expecting of both the Anaconda and Energia divisions as they leverage the Group's technology and know-how.

Cash and working capital

As at 31 December 2016, the Group had €7.2 million of net current liabilities – an improvement of €2.3 million compared to one year earlier. After a long and well documented dispute with the Italian authorities in relation to Green Certificates, the Board can now report that the Italian judicial system is fully supportive of the Company's position and the Board is confident that the Company will substantially recover the carrying value of the Green Certificate receivables by the end of the 4^{th} quarter 2017. It is similarly confident of bringing in the amounts due in relation to CO_2 incentives. However, the unavailability of the €1.6 million cash represented by those two receivables has meant that the Company was unable to keep to its commitments under deferred payment plans negotiated in 2016. The Company was supported during this difficult period by its main financing banker, which deferred two quarters of capital repayments in order to give the Italian group much needed working capital whilst it assessed its options. We are currently seeking to restructure the indebtedness of the recently closed Italian retail subsidiary – which has the highest level of indebtedness.

CFO's report

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This process is being undertaken in the context of discussions with a major infrastructure fund to invest in various Italian projects and also separate discussions with other parties on investment at the parent company level, as detailed in the Chairman's Statement.

Having considered the current status of the strategy to remedy the Group's funding issues, the Directors are of the opinion that the Group can obtain adequate financial resources to enable it to continue in operation for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements. There can, however, be no certainty that the transactions noted above will complete and therefore there is a material uncertainty that could cast doubt on the Group's ability to continue as a going concern and discharge its liabilities as they fall due. These financial statements do not contain any adjustments that would be required if the Company could not continue as a going concern.

Risk and responsibility

Risk management and mitigation

The Group seeks to identify and mitigate risk systematically with a continuous proactive assessment of threats to the stability of the Group's income and capital.

Market risk

Risk	Mitigation
Volatility of gas and electricity prices that can undermine margins	• Closing of retail business • Annual fixing of gas prices • Plan to add biomass extension, giving 'dual fuel' option
Borrowings subject to interest rate movements on Euribor	• Close monitoring of market trends • Where deemed necessary, use of interest rate swap derivatives to remove risk
Exposure to currency risk with UK activities	• Close monitoring of exposure levels • Use of hedges and forward contracts to de-risk exposures

Operational risk

Risk	Mitigation
Failure of plant and equipment	• Back-up systems • Redundant off-site back-up • Insurance cover in place
Data risk of customers' private information being accessed	• High level security processes • Staff training on cyber risk • Constant threat monitoring
Data risk of accounting and other records being lost	• High level security processes • Tiered back-up procedures
Software upgrade risk: upgrading NAVision to latest version	• Expertise within management group • Timing to avoid riskiest periods
Industrial accident risk	• Plant fully automated • Adherence to key ISO standards • Health and Safety regime under constant board scrutiny
Environmental risk	• Adherence to key ISO and other standards • Use of top tier suppliers • Comprehensive maintenance programmes

CFO's report

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Corporate social responsibility

Environmental focus

Cogenpower is committed to operating responsibly. The Company has always respected the environment and the environmental laws, which are very rigorous in Italy. We want to provide a cleaner environment and will therefore always strive to attain maximum use of the waste heat for district heating and thereby minimise the burning of any fuel to achieve the heating or cooling required by our customers.

Ethical focus

We have zero tolerance of any form of overt or covert bribery or corrupt practices. We promote a working environment that is free from discrimination or harassment and maintain an "open door" policy for all employees at all levels. We are committed to dealing fairly and openly with our business partners and suppliers and to act always with the utmost transparency.

This strategic report was approved by the board of directors and signed on its behalf by:

Martin Groak, *Chief Financial Officer*

28 September 2017

Board of Directors

David Pickering, *Non-Executive Chairman (Appointed 2015)*

- An experienced Non-Executive and Executive Director of both public and private businesses in the services sector
- Founder of business and IT consultancy Charteris which became one of the top 40 business consultancies in the UK. Led the successful flotation of the business on AIM
- Led the growth of Logica's energy & utilities business to become one of the company's largest operating units
- A Chartered Engineer and Fellow of the British Computer Society
- Chairman of the Remuneration Committee

Francesco Vallone, *Chief Executive and Founder*

- Founded the Group in 2004
- 19 years of experience in technology, of which 13 years in the energy market
- Worked in international research centres focused on controlled thermonuclear fusion and in the semi-conductor industry, and in engineering, marketing and management roles of a New York Stock Exchange listed company
- MA in theoretical physics from University of Turin (Italy) and MBA in General Management from Pepperdine University of Malibu (California, USA)

Martin Groak, *Chief Financial Officer (Appointed 2015)*

- Over 35 years of international business experience
- Former Chartered Accountant (ICAEW: 1978-2012)
- Italian-speaker, with a strong background in finance and financial control. Sectors: oil exploration, energy, logistics and physical trading
- Formerly a director of five UK publicly listed companies. Currently Non-Executive Director of Tanfield Group plc, an AIM quoted investment company focused on the engineering sector
- Managed the finances of the UK's second generation nuclear power station fleet. Integrated and organised finance for two privatised German municipal CHPDH companies

Ilaria Cannata, *Corporate Development Director*

- More than ten years' experience at Cogenpower
- Expertise in due diligence activities associated with potential acquisitions, executing market research, feasibility studies, strategic planning and business and strategic development business experience
- Prior to joining Cogenpower in 2006 worked in public relations for Mailander srl and was involved in several projects for publicly listed companies
- MA in International Political Science, from University of Florence (Italy)

Richard Day, *Non-Executive Director (Appointed 2015)*

- Diverse management experience and extensive knowledge of capital markets, fund raisings and corporate governance
- Founding partner of Arden Partners and was Head of Corporate Finance from 2002 to 2015
- 12 years at Cazenove & Co and worked for City law firms including Simmons & Simmons and Charles Russell
- Chairman of Audit and AIM Rules Compliance Committee

Senior management team

Paolo Prataviera, *Director of Production and Maintenance*

- Eight years' experience at Cogenpower
- Expertise in developing SCADA-based control systems
- Finalising MSc in mechanical and electronic engineering from Turin Polytecnico (Italy)

Corporate governance statement

Since 12 February 2016, Cogenpower Plc's shares have been traded on AIM. The Company is not subject to the requirements of the UK Corporate Governance Code, nor is it required to disclose its specific policies in relation to corporate governance.

The Directors, however, support high standards of corporate governance and, so far as is practicable, will progressively adopt best practices in line with the UK Corporate Governance Code and recommendations of the Quoted Companies Alliance (QCA).

The Board of Directors

The Board meets frequently to consider all aspects of the Group's activities. A formal schedule of matters reserved for the Board has been issued and approved and includes overall strategy and approval of major capital expenditure.

Remuneration committee

The Group's Remuneration Committee comprises David Pickering (Chairman) and Richard Day. The main purpose of the Remuneration Committee is to:

- make recommendations to the Board on an overall remuneration policy for Executive Directors and other senior executives in order to retain, attract and motivate high quality executives capable of achieving the Group's objectives; and
- demonstrate to shareholders that the remuneration of the Executive Directors of the Group is set by a committee whose members have no personal interest in the outcome of their decision and who will have due regard to the interests of the shareholders.)

The Remuneration Committee meets on an ad-hoc basis.

Audit and AIM rules compliance committee

The Committee members are Richard Day (Chairman) and David Pickering. Its brief is to monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price-sensitive nature.

It oversees the selection of Auditors and will hold meetings with the Auditors at appropriate moments during the preparation and completion of the Group's annual report and financial statements.

It is also responsible for assuring compliance with AIM rules.

The Audit and AIM Rules Compliance Committee meets at least twice per financial year.

Directors' remuneration report

Directors' remuneration

The total remuneration of the Directors for the year was as follows (€)

Name	Fees/Basic Salary	Post-employment benefit	Total 2016	Total 2015
Francesco Vallone	194,138	–	194,138	177,333
Maria Ilaria Cannata	53,586	3,337	56,923	86,890
Martin Groak	93,600	–	93,600	–
David Pickering	54,545	–	54,545	–
Richard Day	31,602	–	31,602	–
	427,471	**3,337**	**430,808**	**264,223**

The salaries of David Pickering, Martin Groak and Richard Day totalling €179,747 have been accrued but are unpaid as at the date of this report. Payment has been deferred pending an improvement to the Group's working capital position. Their engagement by the Company commenced on 5 February 2016. Up to that point and during part of 2015, they were engaged as consultants to Cogenpower S.r.l. to provide support to the Group in its campaign to be listed on AIM. The amounts paid and accrued under their respective consultancy arrangements are disclosed under note 25: Related Parties.

Interest in shares

The following directors had interests in the shares* of the Company during the year

Director	2016 Shareholding at maximum point	2015 Shareholding at maximum point
Francesco Vallone[1]	38,174,998	37,848,880
Maria Ilaria Cannata[2]	443,320	443,320
Martin Groak[3]	143,000	–
David Pickering	72,000	–
Richard Day[4]	72,000	–

* Ordinary shares of 0.25p

1 Total held either directly or indirectly, through RESIPAR Investments S.r.l. or Golem S.r.l., both companies wholly owned by Francesco Vallone

2 Of which 221,660 are held by S. Chanoine, M.Ilaria Cannata's husband and a former officer of Cogenpower S.r.l.

3 Held through Marker Management Services Ltd., a company controlled by Martin Groak

4 Held through RJD Corporate Ltd., a company controlled by Richard Day

An executive option scheme came into effect on 5 February 2016 and the number of shares over which options were granted to directors were:

Director	Number of shares over which options were granted
Francesco Vallone	1,500,000
Maria Ilaria Cannata	500,000
Martin Groak	500,000

The exercise price of the options is £0.20 (20p). The options vest on 5 February 2019 and can be exercised during the following seven years.

Report of the Directors

The Directors present their report together with the audited financial statements for the year ended 31 December 2016.

Results and dividends

The results for the year are set out on page 18.

The Directors do not recommend payment of a final dividend (31 December 2015: €Nil).

Principal activity

The principal activity of the Group is the design, build, management and ownership of highly energy-efficient Combined Heat and Power plant with integrated District Heating (CHPDH).

Going concern

As at 31 December 2016, the Group had €7.2 million of net current liabilities – an improvement of €2.3 million compared to one year earlier. After a long and well documented dispute with the Italian authorities in relation to Green Certificates, the Board can now report that the Italian judicial system is fully supportive of the Company's position and the Board is confident that the Company will substantially recover the carrying value of the Green Certificate receivables by the end of the 4th quarter 2017. It is similarly confident of bringing in the amounts due in relation to CO_2 incentives. However, the unavailability of the €1.6 million cash represented by those two receivables has meant that the Company was unable to keep to its commitments under deferred payment plans negotiated in 2016. The Company was supported during this difficult period by its main financing banker, which deferred two quarters of capital repayments in order to give the Italian group much needed working capital whilst it assessed its options. Having taken expert advice, the Italian group is currently seeking to restructure the indebtedness of its retail subsidiary – which has the highest level of indebtedness – and believes it will succeed.

This process is being undertaken in the context of an offer to invest in the Italian subsidiary by a major infrastructure fund with whom discussions have matured to a non-binding, conditional offer to launch an acquisition campaign in the Italian CHPDH market.

At the Plc holding company level, it has become clear that the Italian group, without expanding its operating base, and thereby its ability to generate additional free cash, will have difficulty supporting the overhead of the Plc, which has therefore sought, and secured, a conditional offer to invest in the parent Company. The Board is confident that the conditions to this financing, which will include approval by shareholders, can be met.

Having considered the current status of the strategy to remedy the Group's funding issues, the Directors are of the opinion that the Group can obtain adequate financial resources to enable it to continue in operation for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements. There can, however, be no certainty that the transactions noted above will complete and therefore there is a material uncertainty that could cast doubt on the Group's ability to continue as a going concern and discharge its liabilities as they fall due. These financial statements do not contain any adjustments that would be required if the Company could not continue as a going concern.

Financial instruments

Details of the use of financial instruments by the Group are contained in note 4 to the financial statements.

Report of the Directors

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Directors

The Directors of the Company during the year were:

David Pickering:	Non-Executive Chairman
Dr Francesco Vallone	Chief Executive Officer
Martin Groak	Chief Financial Officer
Dr Ilaria Cannata	Corporate Development Director
Richard Day	Non-Executive Director

Details of Directors' interests in shares are disclosed in the Directors' Remuneration Report.

Directors' responsibilities

The directors are responsible for preparing the strategic report, the director's report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Parent Company financial statements have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the Group financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- state whether the Company financial statements have been prepared in accordance with UK GAAP (FRS 101), subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Report of the Directors
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Auditors

Due to independence issues arising from outstanding amounts owed by the Company to BDO LLP (BDO), it was not practical for BDO to continue as the Company's auditor and they agreed to resign, as announced on 10 May 2017. Welbeck Associates Ltd. were announced as their replacement on 19 June 2017, appointed by the directors, and their appointment will be ratified at the Extraordinary General Meeting of Shareholders (EGM) to be held to approve these accounts.

All the current Directors have taken all reasonable steps to make themselves aware of any information required by the Company's auditors for the purposes of their audit and to establish that the auditors are aware of that information.

The Directors are not aware of any relevant audit information of which the auditors are unaware.

Welbeck Associates Ltd. have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the above-mentioned EGM.

By order of the Board

Martin Groak, Chief Financial Officer

28 September 2017

Independent auditors' report

to the members of Cogenpower plc

We have audited the financial statements of Cogenpower plc for the year ended 31 December 2016, which comprise the Group Statement of Comprehensive Income, the Group and Company Statements of Financial Position, the Group Statement of Cash Flows, the Group and Company Statement of Changes in Equity and the related notes. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non financial information in the Group Strategic Report and the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group and Parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

CONTINUED

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the Group's ability to continue as a going concern. The Group incurred a net loss of €2.4 million during the year ended 31 December 2016 and, at that date, the Group's total liabilities exceeded its total assets by €1 million and it had net current liabilities of €7.2 million. These conditions, along with the other matters explained in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would be required if the Group could not continue as a going concern.

Opinion on other matter prescribed by the companies act 2006

In our opinion, based on the work undertaken in the course of the audit, the information given in the Chairman's Statement, Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. No material misstatements in the Chairman's Statement, Strategic Report and the Director's Report have been identified.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jonathan Bradley-Hoare (Senior statutory auditor)
for and on behalf of Welbeck Associates
Chartered Accountants and Statutory Auditors
30 Percy Street
London, United Kingdom
W1T 2DB

28 September 2017

Consolidated statement of total comprehensive income

Euro'000	Note	Year ended 31 December 2016	Year ended 31 December 2015 (restated)
Revenue from goods and services	(5)(6)	4,893	6,353
Cost of sales	(7)	(2,950)	(3,977)
Gross profit		**1,943**	**2,376**
Other operating income		10	10
Administrative expenses	(8)(9)	(2,249)	(1,462)
Depreciation and Amortisation	(13)(14)	(630)	(618)
Other operating expenses	(8)	(820)	(802)
Loss from operations		**(1,746)**	**(496)**
Finance Expense	(10)	(621)	(716)
Finance income	(10)	118	32
Net Finance Expense		**(503)**	**(684)**
Loss before tax		**(2,249)**	**(1,180)**
Tax expense	(11)	(124)	(112)
Loss for the year attributable to equity holders of the parent company		**(2,373)**	**(1,292)**
Discontinued operations (net of tax)		–	(19)
Total comprehensive loss attributable to equity holders of the parent company		**(2,373)**	**(1,311)**
Loss per share for loss attributable to the equity holders of the parent during the year			
Basic and diluted (€cents)	(12)	(4.8)	(3.3)

Consolidated statement of financial position

Euro'000	Note	Year ended 31 December 2016	Year ended 31 December 2015
Non-current assets			
Property, plant and equipment	(13)	10,471	15,017
Intangible assets	(14)	85	248
Investments		12	22
Deferred tax assets	(22)	448	635
Total non-current assets		**11,016**	**15,922**
Current assets			
Inventories	(16)	26	738
Trade and other receivables	(17)	2,808	4,485
Cash and cash equivalents		13	278
Total current assets		**2,847**	**5,501**
Total assets		**13,863**	**21,423**
Current liabilities			
Trade and other payables	(18)	4,981	8,828
Provisions	(19)	228	423
Borrowings	(20)	1,574	3,020
Corporation taxes	(21)	1,047	567
Other taxes	(21)	2,256	2,235
Total current liabilities		**10,086**	**15,073**
Non-current liabilities			
Borrowings	(20)	4,116	6,502
Other non-current taxes	(21)	597	581
Total non-current liabilities		**4,713**	**7,083**
Total liabilities		**14,799**	**22,156**
Net assets/(liabilities)		**(936)**	**(733)**
Equity attributable to equity holders of the Parent			
Share Capital	(23)	171	138
Share premium account	(23)	2,129	–
Merger reserve		3,035	3,035
Retained earnings		(6,271)	(3,906)
Total equity		**(936)**	**(733)**

The financial statements of Cogenpower plc, registered number 09301329, were approved by the Board of Directors and authorised for issue on 28 September 2017.

Signed on behalf of the Board by:

Martin Groak, Chief Financial Officer

Consolidated statement of changes in equity

€'000	Note	Share capital	Share premium	Retained Earnings	Merger reserve	Total
Equity as at 1 January 2015		**2,000**	**1,173**	**(2,595)**	**–**	**578**
Elimination on reorganisation		(2,000)	(1,173)	–	3,035	(138)
Issue of share capital		138	–	–	–	138
Total comprehensive loss for the year		–	–	(1,311)	–	(1,311)
Equity as at 31 December 2015		**138**	**–**	**(3,906)**	**3,035**	**(733)**
Total comprehensive loss for the year		–	–	(2,373)	–	(2,373)
Adjustment on disposal of Esseti		–	–	8	–	8
Issue of shares		33	2,590	–	–	2,623
Less: expenses of share issue		–	(461)	–	–	(461)
Equity as at 31 December 2016		**171**	**2,129**	**(6,271)**	**3,035**	**(936)**

Consolidated statement of cash flows

Euro'000	Note	Year ended 31 December 2016	Year ended 31 December 2015
Operating activities			
(Loss) before tax		(2,249)	(1,199)
Adjustments for:			
Amortisation of intangible assets	(14)	68	74
Depreciation of property, plant and equipment	(13)	562	543
Impairment of intangible asset	(14)	–	139
Write off of amounts due from Esseti		104	–
Fair value movement on investment		10	–
Finance expense	(10)	621	727
Finance income	(10)	(118)	(32)
(Increase)/Decrease in trade and other receivables		1,271	(294)
Decrease/(increase) in inventories		–	6
(Decrease) in provisions		(195)	(39)
Increase/(Decrease) in trade and other payables		(297)	1,820
Increase in other taxes		524	526
Cash (used in)/generated from operations		**301**	**2,271**
Income tax recovered/(paid)	(21)	40	(194)
Net cash flows from operating activities		**341**	**2,077**
Investing activities			
Finance income less foreign exchange gain		22	32
Reclassification of inventory to plant and equipment		–	(453)
Purchase of intangibles	(14)	(15)	(14)
Purchase of investments		–	(8)
Net cash used in disposal/acquisition of subsidiary	(26)	(74)	(22)
Net cash used in investing activities		**(67)**	**(465)**
Financing activities			
Repayment of loans		(284)	(559)
Repayment of bank overdraft		(785)	(167)
Finance expense net of non-cash item		(523)	(727)
Proceeds from sale of shares net of issue costs		1,053	–
Net cash used in financing activities		**(539)**	**(1,453)**
Cash flow of the period		**(265)**	**159**
Cash and cash equivalents at beginning of period		278	119
Cash and cash equivalents at end of period		**13**	**278**
Net change in cash and cash equivalents		**(265)**	**159**

Notes to the consolidated financial information

1. General information

Description of business

Cogenpower Plc was founded in November 2014 in England and in August 2015, through a share-for share exchange, acquired 100% of Cogenpower S.p.A. (since renamed Cogenpower S.r.l.) a company based near Turin, Italy, which has been in operation since 2004. Cogenpower S.r.l. has two Italian subsidiaries located within suburban Turin, one of which is in the process of being liquidated following the withdrawal by the Group from the retail gas and electricity supply business.

The Group is a low carbon energy business focused on the provision and development of 'Combined Heat and Power and District Heating' (CHPDH) networks in towns and cities with populations below 50,000.

The Group has three distinct business units, one of which discontinued operations prior to the date of this report:

- The operation of CHPDH projects that comprise a power plant, which can run on natural gas and/or other fuel, able to produce simultaneously electricity and heat and a district heating network to deliver the produced heat to private and public residential and office buildings and other facilities;
- Retrofitting blocks of flats and commercial buildings with condensing boilers or micro CHP plants to supply residents with heat and electricity and consultancy services for advanced power solutions; and
- Retailing electricity and natural gas to a mixture of domestic and commercial consumers. This business unit ceased acquiring new business in September 2016 and is being wound down.

2. Accounting policies

Basis of preparation

The Consolidated Financial Statements of Cogenpower Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), issued by the International Accounting Standards Board (IASB), including interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified for any financial assets which are stated at fair value through profit or loss. The Consolidated Financial Statements are presented in Euros, which is the presentation currency for the Consolidated Financial Statements. The functional currency of each of the group entities is also Euros.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment and complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 3.

As noted above, in August 2015, the Company obtained control of the entire share capital of Cogenpower S.r.l by way of a group reorganisation. This transaction fell outside the scope of IFRS 3 "Business Combinations". Accordingly, the transaction was accounted for using the principles of merger accounting set out in FRS 102, the Financial Reporting Standard Applicable in the UK and Republic of Ireland. This policy, which does not conflict with IFRS, reflects the economic substance of the transaction.

Transaction costs of equity transactions relating to the issue and admission of the Company's shares are accounted for as a deduction from equity where they relate to the issue of new shares and listing costs are charged to the Group Income Statement.

2. Accounting policies (continued)

New standards, interpretations and amendments not yet effective

The following standards, interpretations and amendments, have been published but have not been endorsed by the European Union, or are not effective for the periods presented and the Group has chosen not to early adopt.

- IFRS 9: Financial Instruments (effective 1 January 2018)
- IFRS 15: Revenue from customer contracts (effective 1 January 2018)
- IFRS 16: Unified treatment of leases (effective 1 January 2019)

Management is currently assessing the impact of these amendments, revisions and interpretations on its financial statements and will continue to consider whether they will have a material impact.

Going concern

As at 31 December 2016, the Group had €7.2 million of net current liabilities – an improvement of €2.3 million compared to one year earlier. After a long and well documented dispute with the Italian authorities in relation to Green Certificates, the Board can now report that the Italian judicial system is fully supportive of the Company's position and the Board is confident that the Company will substantially recover the carrying value of the Green Certificate receivables by the end of the 4th quarter 2017. It is similarly confident of bringing in the amounts due in relation to CO_2 incentives. However, the unavailability of the €1.6 million cash represented by those two receivables has meant that the Company was unable to keep to its commitments under deferred payment plans negotiated in 2016. The Company was supported during this difficult period by its main financing banker, which deferred two quarters of capital repayments in order to give the Italian group much needed working capital whilst it assessed its options. Having taken expert advice, the Italian group is currently seeking to restructure the indebtedness of its retail subsidiary – which has the highest level of indebtedness – and believes it will succeed.

This process is being undertaken in the context of an offer to invest in the Italian group by a major infrastructure fund with whom discussions have matured to a non-binding, conditional offer to launch an acquisition campaign in the Italian CHPDH market.

At the Plc holding company level, it has become clear that the Italian group, without expanding its operating base; and thereby its ability to generate additional free cash, will have difficulty supporting the overhead of the Plc, which has therefore sought, and secured, a conditional offer from a broker to secure investments in the parent Company. The Board is confident that the conditions to this financing, which will include approval by shareholders, can be met.

Having considered the current status of the strategy to remedy the Group's funding issues, the Directors are of the opinion that the Group can obtain adequate financial resources to enable it to continue in operation for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the financial statements. There can, however, be no certainty that the transactions noted above will complete and therefore there is a material uncertainty that could cast doubt on the Group's ability to continue as a going concern and discharge its liabilities as they fall due. These financial statements do not contain any adjustments that would be required if the Company could not continue as a going concern.

Basis of consolidation

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Notes to the consolidated financial information

CONTINUED

2. Accounting policies (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present:

- power over the investee,
- exposure to variable returns from the investee, and
- the ability of the investor to use its power to affect those variable returns.

Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Merger accounting is used where two companies under common ownership perform what would be a reverse acquisition had they not been under common ownership. In that way, the original company's business carries on effectively uninterrupted. As IFRS does not have a standard for mergers, such a transaction is accounted for using an appropriate accounting standard relative to the country of the entity that becomes dominant pursuant to the merger. Since the reserves are merged rather than acquired, the non-dominant entity's share capital and reserves (other than retained earnings) are eliminated on consolidation, this gives rise to a merger reserve which takes the place of the eliminated reserves and is equal to the difference between the dominant entity's share capital and reserves (other than retained earnings) and the those of the non-dominant entity eliminated on consolidation. The retained earnings are aggregated and carried forward.

Green Certificates

Green Certificates (GCs) relate to district heating performed without the burning of additional fossil fuels and were typically issued by the Italian government agency overseeing the electricity supply in Italy (GSE) during the month of June following the end of the relevant calendar year. The scheme ended on 31 October 2016 and the trading platform for these certificates was dismantled during 2016. The GSE then became fully responsible for the financial settlement of the value of certificates earned, replacing their role as certifier of entitlement to GCs and market-maker and rendering GCs similar to a feed-in-tariff. Under the revised procedures, the GSE was invoiced directly for certificates earned for 2015 and 2016. Prior to the year-end, the agency published the price for which they would redeem each Certificate and, based on an estimate of the qualifying electricity produced, Management accrued for the income to be invoiced.

2. Accounting policies (continued)

(Up to and including the 31.12. 2015 accounts, the accounting policy was different as it was then a traded instrument. This is recognised as grant income in profit or loss and is netted off against production expense in line with the requirements of IAS 20. Following the year end when the Green Certificates were received these were recognised as inventory and the grant receivable was settled. When the risks and rewards of owning the certificates passed to the third party broker, revenue was recognised. At this point the inventory was derecognised and the cost of sale recognised in the consolidated statement of comprehensive income.)

Following the change in system in 2016, the GSE unilaterally decided to change the basis of calculating the entitlement to GCs and sought to apply this change retroactively to certificates they had previously approved. This action has been successfully challenged by the Company in the courts and a law limiting the powers of monopolistic government agencies and which supports the Company's position has been passed by the Italian Parliament.

Management has applied judgement based on professional advice reflecting the status of legal proceedings and the progress of the law on monopolistic government agencies in valuing the receivables from GCs in these accounts.

Revenue Recognition

Revenue for the Group is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity. The Group has the following revenue streams:

CHPDH

- Supply of electricity and heat – revenue is recognised when supply is passed to the end customer. Revenue is measured at the market price for the electricity on the date of the transaction and heat is measured at the contracted price
- Green Certificates – see above accounting policy.
- Consultancy and installation of bespoke heating and cooling systems. Revenue is recognised when invoiced, which may be at agreed stages for lengthier projects.
- Retail/resale of electricity and gas. Revenue is recognised when supply is passed to the end customer. Revenue is measured at contracted prices multiplied by usage. (This activity was terminated in September 2016, but is fully consolidated in these accounts as receivables were still being collected in 2017).
- The revenues relating to the supply of electricity and heat are invoiced and recognised on a monthly basis. Green Certificates, following the change of procedures described above, are accrued at each year end and consultancy revenues are recognised in the month they invoiced, or, where the contract provides for stage payments.

Revenues are reported net of the following:

- VAT
- Excise and duties where the Group is acting as agents for the collection thereof

Notes to the consolidated financial information

CONTINUED

2. Accounting policies (continued)

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight line basis over their useful economic lives.

Intangible asset

Licences	5 years

Internally generated intangible assets

The Group has developed internally a number of control systems and predictive software which are used in the optimisation of the Group's CHPDH plant's operations.

Where internal resources are applied to this development of intangible assets, the costs of the relevant personnel are time-apportioned and the cost directly relating to the development of the asset is capitalised as part of the cost base. Where the time cost relates to research, this is expensed to the profit or loss in the period in which it was incurred. Internally generated intangible assets are not depreciated until the asset is brought into use.

Research and Development

Pure research costs are expensed as they occur until such time as a viable project or commercially valuable product prototype has been developed, at which time the costs and subsequent costs in relation to its development are capitalised. They are amortised over their useful lives once completed and tested for impairment at each year end on the basis of either intrinsic value or value-in-use.

Property, plant and equipment

Property, Plant and equipment ('PPE') are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate items of PPE.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other income/(expenses)" in the income statement.

The costs associated with Assets under Construction, whether third party or internal are capitalised without the addition of margin and are tested for impairment at the end of each accounting period.

Where the Group's employees are actively contributing to the building of plant and equipment, the time they expend on such work is calculated and the appropriate proportion of their total cost of employment is deducted from administrative costs and capitalised at cost as part of the tangible asset in development. Where the time relates to maintenance activity this is expensed to the profit or loss in the period in which it occurs.

Depreciation is provided on all items of property, plant and equipment in order to write off their carrying value over the expected useful economic lives. Land is not depreciated. Assets under construction are not depreciated until the asset is brought into use.

2. Accounting policies (continued)

Depreciation is provided at the following rates:

Buildings	–	3%
Plant & Equipment	–	4% – 9%
District heating network	–	3%
Fixtures and fittings	–	12% – 20%

Impairment of non-financial assets

The carrying values of non-financial assets are reviewed for impairment when there is an indication that assets might be impaired. When the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the smallest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the consolidated income statement, except to the extent they reverse previous gains recognised in the consolidated statement of comprehensive income.

Financial assets

The Group classifies its financial assets into the categories, discussed below, due to the purpose for which the asset was acquired.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transactions costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents.

Cash and cash equivalents include cash held at bank and in the Group companies' offices. Bank overdrafts are shown within loans and borrowings in current liabilities in the consolidated statement of financial position.

Notes to the consolidated financial information

CONTINUED

2. Accounting policies (continued)

Invoice discounting

Where funds have been received against discounted sales invoices, a separate presentation is adopted whereby the gross amount of the sales invoice discounted is shown on the balance sheet within trade debtors until the funds are received from the customer and a corresponding liability in respect of the proceeds advanced shown within bank loans. The amounts are shown gross because the Group retains the credit risk over the debtors.

Financial liabilities

The Group classified the following financial liabilities as other financial liabilities at amortised cost:

Bank loans are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost ensuring the interest element of the borrowing is expensed over the repayment period at a constant rate.

Trade payables, other borrowings and other short-term monetary liabilities, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

Share premium

To the extent that the company's ordinary shares are issued for a consideration greater than the nominal value of those shares the excess is deemed Share Premium. Costs directly associated with the issuing of those shares are deducted from the share premium account, subject to local statutory guidelines.

Retained earnings

Retained earnings are the cumulative, consolidated after-tax profits less losses of the Group, after the elimination of inter-company sales and purchases.

Merger reserve

Land and buildings are shown at cost, or, where there has been a change of fiscal classification, the revised valuation placed on it by the fiscal authorities, following an independent survey. The difference between the revised value and the depreciated cost at the time of the asset(s) in question has been held in the revaluation reserve. Following the share-for-share exchange that transferred ownership of the Group from Cogenpower S.r.l. to Cogenpower Plc, the former's revaluation reserve has been subsumed into a merger reserve.

Share Based Payments

The Company issued a total of 3,500,000 options to acquire shares to three directors and two key managers on 5 February 2016. The Company has performed a Black-Scholes simulation exercise to ascertain the cost implications of the options as at 31.12.2016 (which were immaterial) using the following key inputs and outputs:

2. Accounting policies (continued)

Key inputs

Share Price	£0.2000
Strike (or exercise) Price	£0.2000
Time to expiration at date of grant (i.e. life of option) in years	1.50
Dividend yield	0.00%
Risk free rate	1.50%

Option details

Number of share options	3,500,000
Vesting period in years	3.00
Vesting conditions	0.0%

Key outputs

Limitations of the model

1. The Black Scholes model assumes that options will be exercised at the date of their expiration. Many employee share options have long lives and are usually exercisable in the period between vesting date and the end of the option's life. Accordingly, many of the options will be exercised early and this would need to be compensated for in the model by adjusting the expected expiration date.

2. The presence of convertible debt or other dilutive events which may, as the dilutions happen, affect both the valuation of the underlying shares and the dividends to be paid on them.

3. The model assumes a constant dividend yield. The reliability of the model may become impaired if dividend yields are high.

4. A market condition, such as target share price, upon which vesting (or exercisability) is conditioned, may affect the valuation of share options and may prohibit the use of the Black Scholes model

Calculated fair value of options	€0.0000938
Profit and loss charge (Euros)	€110

As the amount is *de minimis*, share based payments are not presented in these accounts.

Leased assets

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the consolidated statement of comprehensive income on a straight line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

Income taxes

Income tax for each reporting period comprises current and deferred tax.

Current tax is the expected amount of income taxes payable in respect of the taxable profit for the year and is measured using the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Italian corporate entities are subject to a corporate income tax (IRES) and to a regional production tax (IRAP).

Notes to the consolidated financial information

CONTINUED

2. Accounting policies (continued)

As the interest expense that may be deducted from taxable income is currently capped under Italian fiscal law to 30% of Earnings Before Interest and Taxation, Depreciation and Amortisation (EBITDA), this can lead to the existence of a deferred tax asset position.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated statement of financial position differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of the cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer, Finance Director and Corporate Development Director.

The Board considers that the Group has three operating segments and one discontinued operation, as defined under IFRS 8. Management reviews the performance of the Group by reference to total results against budget.

The operating segments are:

- Combined Heat and Power District Heating (CHPDH),
- Gas & Power Supply (discontinued in 2017)
- Energy Services
- Discontinued: Esseti Biomass-fuelled power generation

The total profit measures are operating profit and profit for the year, both disclosed on the face of the consolidated income statement. No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial information.

2. Accounting policies (continued)

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each financial reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

A contingent asset is a probable asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

Employee benefits

Post-employment benefits

Employees departing the Italian Cogenpower group, whether voluntarily or involuntarily, are entitled to receive post-employment benefits ("TFR") in cash of approximately one month's salary, less social security deductions, for each year worked. These are the only post-employment benefits employees received. Amounts are accrued but there is no cash fund to support this liability as the number of people in the scheme is small (as at the date of this report: 2 people).

Functional and foreign currencies

i. *Functional and presentation currency*

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The consolidated financial statements are presented in Euro, which is the Group's presentation currency.

ii. *Transactions and balances*

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates approximating to those ruling at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the rates ruling as of that date. Non-monetary assets and liabilities are not retranslated. All exchange differences are recognised in profit or loss.

The rate of exchange at the 31.12.16 between the British £ and the Euro was £1 = €1.17

Notes to the consolidated financial information

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3. Critical accounting estimates and judgements

Management makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Accounting estimates

(a) Green certificates

Green Certificates were awarded to Cogenpower S.r.l. for its use of the heat created as a by-product of electricity generation to provide heating and hot water to properties connected to its district heating network. The Certificates were previously issued by the Italian government agency during the month of June after the end of the production year following a review of the company's detailed submission of qualifying production. The government agency published prior to the year-end the price at which they will redeem Certificates once granted.

At the year-end Management would estimate the grant income to accrue for each financial period based on the electricity produced in the period and the amount of heat energy from that production that can be used productively without requiring further fuel to be burnt. The assessment of which part of the production qualifies for Green Certificates is a well-established process and the company's submissions have been accepted for the previous six years. The Green Certificates were awarded for eight years and the GSE, the regulatory body that previously reviewed and accepted the submissions, took over responsibility for payments with respect to Green Certificates for the two final years of the scheme's existence, being 2015 and 2016. They performed their customary review of entitlement in the first quarter of 2016, but unilaterally decided to recalculate prior years' entitlement that they had previously awarded. The recalculation presented to Cogenpower had used significantly different criteria to those they had accepted in the previous six years and used this as a pretext to withhold payment for current certificates. Management has always believed its estimates to be materially correct and instituted court proceedings against the GSE for their recalculation to be refuted and the withholding of payments to be overturned. The outcome was that the Company's case was adjudged by the court to have merit and a final judgement would be made in March 2018. In addition, a bill was passed by the Italian Parliament in 2017 that prohibits state monopolies such as the GSE from retroactive decisions on matters they have previously approved. The likely timing for this bill to become law is at the end of the third, or beginning of the fourth quarter of 2017.

In these accounts, although disputed, the GSE's revised calculation method for 2015 and 2016 has been used and the 2016 amount that has been recognised in revenue has been adjusted down, so that the aggregate receivables from Green Certificates for 2015 and 2016 are equal to those receivable under the GSE's revised calculation method. Had those revenues not been adjusted down, revenues, earnings and receivables would each have been improved by approximately €370,000.

Given the positive results of legal and legislative developments, these accounts do not recognise any liability for the GSE's attempt to recalculate previous years' entitlement.

(b) Useful lives of depreciable assets

Management reviews its estimates of the useful lives of depreciable assets at each reporting date, based on the expected utilisation of each asset. Uncertainties in these estimates relate to technical obsolescence that may change the utilisation of certain items of plant and equipment, heating network and software.

3. Critical accounting estimates and judgements (continued)

(c) Inventories

Management estimates the net realisable value of inventory, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by market-driven changes that reduce the future selling price.

Key judgements

(d) Capitalisation of development expenditure in intangible assets

The Group capitalises development costs provided the conditions in IAS 38 have been met. Consequently Management are required to continually assess the commercial potential of the asset under development. Impairment testing of capitalised development costs is carried out when indicators of impairment are noted. Management carries out impairment tests by assessing the assets' value in use. This assessment is based upon risk adjusted future cash flows discounted using appropriate discount rates. These future cash flows are based on forecasts and therefore subject to significant judgements regarding timing and value of cash flows, discount rates, inflation and heat and electricity prices.

(e) Recoverability of deferred tax

Under current Italian fiscal regulations, interest charges can only be offset against taxable income provided they do not exceed 30% of EBITDA. To the extent that interest does exceed that amount, a deferred tax asset is created, and this is the principal component of this asset. As i) the Italian group is profitable at the EBITDA level and expects to be more so as the costs surrounding the IPO fall away and the benefits of efficiency improvements flow through; ii) Loans funding the plant are being repaid, therefore the interest component of the repayments is falling; and iii) the Italian group's corporate tax affairs are being unified rather than being taxed as separate entities, to benefit from any synergies, Management concurs with the view of its Italian tax adviser that it is reasonable to adjudge the deferred tax as recoverable where it arises from the interest cap described above. An impairment of €187,000 (2015: Nil) has been made in these accounts in respect of movements arising for other reasons.

(f) Provision for doubtful debts

Management performs an assessment of the recoverability of debtors when evidence arises that demonstrates the collection is uncertain. Management periodically reassesses the adequacy of the allowance for doubtful debts in conjunction with its credit policy and discussions with each specific customer. Judgement is applied at the point where recoverability is deemed uncertain and thus when a provision is to be recognised. Receivables in the financial statements are shown net of the provision for doubtful debts.

(g) Carrying amount of tangible assets under construction

Tangible assets under construction relate to CHPDH and ORC projects. Management is confident that the Group is able to complete these projects and considers that their carrying amount is recoverable.

4. Financial instruments: risk management

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Group does not currently use derivative financial instruments.

The Group does not issue or use financial instruments of a speculative nature.

Notes to the consolidated financial information

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4. Financial instruments: risk management (continued)

The Group is exposed to the following financial risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Market risk

The Group is exposed to risks that arise from its use of financial instruments. The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Bank loans

The fair values of the primary financial assets and liabilities of the Group together with their carrying values are as follows:

	2016 Carrying Value €'000	2016 Fair value €'000	2015 Carrying Value €'000	2015 Fair value €'000
Financial assets				
Trade receivables	1,301	1,301	1,935	1,935
Other receivables	1,507	1,507	943	943
Cash and cash equivalents	13	13	278	278
Financial liabilities				
Trade payables	4,193	4,193	7,693	7,693
Other payables	788	788	1,135	1, 135
Borrowings	5,690	5,690	9,522	9,522

Basis of determining fair value

Certain assets and liabilities designated and carried at amortised cost are borrowings, receivables and payables. The carrying value of all financial instruments at 31 December 2016 and 2015 approximate to fair value due to their short- term nature.

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from unadjusted quoted market prices for identical assets or liabilities

Level 2 fair value measurements are those derived from inputs other than those quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices)

Level 3 fair value measurements are those derived from valuation techniques that includes inputs for the assets or liability that are not based on observable market data

Other than share based payments, where the impact has been shown to be not material, the Group does not currently have any financial instruments that are derivative in nature.

4. Financial instruments: risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales and payments from government bodies for incentives. As at 31 December 2016 the Group has trade receivables of €1.3 million (31 December 2015: €1.9 million).

The Group is exposed to credit risk in respect of these balances such that, if one or more of the customers encounters financial difficulties, this could materially and adversely affect the Group's financial results. The Group attempts to mitigate credit risk by assessing the credit rating of new customers prior to entering into contracts and by entering contracts with customers with agreed credit terms. In particular, the main source of revenue is from heating contracts with large buildings; frequently condominiums. In order to reduce risk, the Company does not contract with the individual home-owner, but with the building management company.

The most vulnerable business unit for credit risk was Cogenpower Gas & Power S.r.l., which, until September 2016, retailed electricity and gas to private customers who might not be able to pay, or who might dispute invoices; and obtained supply contracts with energy suppliers who might not fulfil their supply obligations. This business unit was closed to new business and its existing contracts were not renewed when they expired and were taken on by other, unrelated energy retailers.

The Group only deposits its cash with major banking institutions.

The Directors have provided for any material uncertainties and are unaware of any additional factors affecting the recoverability of outstanding balances at 31 December 2016 and consequently provisions have been made for all known bad and doubtful debts.

CO_2 receivables relate to legacy incentives granted by the Italian government that finished in 2012. These and are being paid out relatively slowly. As at 31 December 2016, the Group had €391,000 outstanding (2015: €391,000). Payments are made by the relevant agency only in the first and fourth quarters. The outstanding amount has been reconfirmed by the agency and is expected to be cleared during 2017 and 2018.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances to meet expected requirements for a period of at least 30 days. The Group also uses an invoice discounting facility to help manage this risk.

Notes to the consolidated financial information

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4. Financial instruments: risk management (continued)

The following are the undiscounted contractual maturities of financial liabilities, including interest, as at each balance sheet date:

31 December 2016

	2016 carrying value €'000	2016 contractual cash flows €'000	0-1year €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
Borrowings	5,729	6,412	1,449	810	2,309	1,844
Trade and other payables	4,981	4,981	4,981	–	–	–
Totals	**10,710**	**11,393**	**6,430**	**810**	**2,309**	**1,844**

31 December 2015

	2015 carrying value €'000	2015 contractual cash flows** €'000	0-1 year** €'000	1-2 years €'000	2-5 years €'000	> 5 years €'000
Borrowings*	9,670	(10,260)	(2,909)	(1,087)	(3,161)	(3,103)
Trade and other payables**	7,693	(7,693)	(6,940)	(690)	(63)	–
Totals	**17,363**	**(17,953)**	**(9,849)**	**(1,777)**	**(3,224)**	**(3,103)**

* Borrowings are shown grossed up, adding back associated costs. They also include €2,765,000 of borrowings within Esseti Energia S.r.l. (Esseti), a subsidiary that was sold back to its original owner on 6 May 2016 pursuant to a contract that voided the original acquisition contract.

** Contractual cash flows and the 0-12 months figures with respect to borrowings include Esseti's leasing commitments, being 83 monthly tranches of €27,560.

Contractual cash flows and the 0-12 months figures include with respect to Trade payables:

a) €794,000 of debts that suppliers had agreed before the year-end to convert to equity on 12 February 2016

b) €1,272,000 of payables within Esseti.

Interest rate risk

Interest rate risk arises from the Group's borrowings, the largest of which have maturities between 2021 and 2025. The interest rate is expressed as Euribor + a margin, dependent upon the loan. Although the margin is fixed for the period of the loan, Euribor is a floating rate. It is estimated that a 100 basis point (1%) rise in the Euribor rate would have reduced profit and equity by €48,000 in 2016 (2015: €48,000).

Other market risk

Following the Group's withdrawal from the retail gas and electricity sector, market risk arises from Cogenpower Srl (SRL) purchasing gas to power its power plant and the price for which it sells the heat produced. Current annual contracts for gas to be consumed are effective from 1 September and are linked to the TTF gas price index. Approximately one third of SRL's revenues are from sales of electricity, which are naturally hedged because they move with gas prices (gas is the main fuel used for the production of electricity in Italy). SRL's heat supply contracts are re-priced each quarter, based on the movement of fuel prices according to official indices. There is no additional exposure on the unmatched portion of SRL's production, for which the Group's algorithmic predictive software seeks to obtain the optimum selling price to the grid. The overall hedging position is monitored regularly and management considers the appropriateness or otherwise of purchasing derivative instruments to mitigate potential emerging exposures. The Group has currently no such derivative instrument.

4. Financial instruments: risk management (continued)

Capital and financial risk management

The Group's capital is made up of share capital, including share premium, merger reserves and retained earnings. At 31 December 2016 these totalled -€936,000 (2015: -€733,000)

The Group's objectives when maintaining capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of shareholders' equity as set out in the consolidated statement of changes in equity. In 2016, all working capital requirements were financed from existing cash resources.

5. Revenue

Net revenues were as follow:

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Revenue arising from:		
Provision of CHPDH services	2,954	3,337
Provision of Gas and Power supply	1,205	2,113
Provision of energy services	734	903
	4,893	**6,353**

Net revenues were attributed as follows:

Analysis of concentration of customers Top customers:

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Customer 1	461	807
Customer 2	416	610
Customer 3	365	607
	1,242	2,024
% of total	*25%*	*32%*
Others	3,651	4,329
Total	**4,893**	**6,353**

Notes to the consolidated financial information

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6. Operating segments

The Group consists of 3 operating divisions which management regards as the only operating segments:

- Combined Heat and Power and District Heating (CHPDH)
- Gas and Power Supply (Retail energy)
- Energy Services which retrofit individual buildings with energy solutions (Energy services)

There are no geographical segments as the business currently produces 100% of its revenue within Italy.

2016 Producing Units	CHPDH	Retail Energy	Energy services	Corporate	Total
Revenues	2,954	1,205	734	–	4,893
Cost of sales	(1,530)	(1,003)	(417)	–	(2,950)
Gross profit	**1,424**	**202**	**317**	**–**	**1,943**
Other income	10	–	–	–	10
Operational Administrative expenses	(876)	(494)	(300)	(579)	(2,249)
Operational EBITDA	**558**	**(292)**	**17**	**(579)**	**(296)**
Exceptional items	(72)	(27)	(32)	–	(131)
Depreciation and amortisation	(536)	(25)	(69)	–	(630)
Finance expense	(536)	(43)	(40)	(2)	(621)
Finance income	12	7	4	95	118
Tax (expense)/recovery	(185)	–	61	–	(124)
Profit after taxation from production	**(759)**	**(380)**	**(59)**	**(486)**	**(1,684)**
IPO and related costs including taxation	**(156)**			**(533)**	**(689)**
Loss for the year					**(2,373)**
Additions to non-current assets	**195**	**–**	**2**	**–**	**197**
Current assets	**2,099**	**137**	**572**	**39**	**2,847**
Total assets	**12,691**	**137**	**996**	**39**	**13,863**
Total liabilities	**8,274**	**5,514**	**523**	**488**	**14,799**
Net Assets	**4,417**	**(5,377)**	**473**	**(449)**	**(936)**

6. Operating segments (continued)

2015 (restated post disposal of Esseti) Producing Units	CHPDH	Retail Energy	Energy services	Corporate	Total
Revenues	3,337	2,113	903	–	6,353
Cost of sales	(1,479)	(1,887)	(611)	–	(3,977)
Gross profit	**1,858**	**226**	**292**	**–**	**2,376**
Other income	10	–	–	–	10
Operational Administrative expenses	(484)	(333)	(436)	–	(1,253)
Operational EBITDA	**1,384**	**(107)**	**(144)**	**–**	**1,133**
Exceptional provision	–	(208)	–	–	(208)
Depreciation and amortisation	(516)	(29)	(73)	–	(618)
Finance expense	(535)	(169)	(12)	–	(716)
Finance income	13	14	5	–	32
Tax expense	(142)	16	14	–	(112)
Profit after taxation from production	**204**	**(483)**	**(210)**	**–**	**(489)**
Loss from discontinued operation	**–**	**–**	**–**	**–**	**(19)**
IPO and related costs including taxation	**–**	**–**	**–**	**(803)**	**(803)**
Loss for the year	**–**	**–**	**–**	**(803)**	**(1,311)**
Additions to non-current assets	**810**	**–**	**227**	**–**	**1,037**
Current assets	**2,787**	**836**	**621**	**321**	**4,565**
Total assets	**13,803**	**943**	**1,630**	**397**	**16,773**
Total liabilities	**(10,215)**	**(5,710)**	**(553)**	**(1,093)**	**(17,571)**

7. Cost of sales

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Biomass	–	108
Gas purchased for resale and production	1,859	2,217
Electricity purchased for resale	249	609
Electricity distribution	556	742
Gas transportation	154	206
Maintenance	132	203
Cost of sales	**2,950**	**4,085**

Notes to the consolidated financial information

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8. Operating profit

The operating profit is stated after charging:

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Staff costs	891	726
Depreciation	562	575
Intangible assets amortisation	68	74
Development costs expensed	42	14
Lease payments	107	155
Auditors' remuneration:		
Audit fees of the Company	29	33
Audit fees of the subsidiaries	20	20
Corporate finance advice for the IPO	293	145
Other accounting services	2	84
Other professional services	20	30
Other taxation services	2	11

The auditor of the Company was Welbeck Associates Ltd, who did not provide other services to the Company (In 2015 BDO LLP was the auditor, who also provided corporate finance advice with respect to the IPO and other taxation services.)

The auditor of the subsidiaries in 2015 and 2016 was BDO Italia S.p.A., who also provided due diligence services to Cogenpower S.r.l. with respect to potential acquisitions.

IPO Costs

Included in other operating expenses are €689,000 (2015 €803,000) costs relating to the IPO, expensed as follows:

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Legal fees	420	82
Corporate finance advice	293	185
Brokerage fees	70	–
Marketing	34	23
Consultancy	95	86
Accounting	184	84
Travel	–	90
Other professional	54	64
internal costs	–	189
Sub-total	1,150	803
Less: written off to share premium	(461)	–
	689	**803**

9. Staff costs

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Wages and salaries (including directors)	706	691
Social security costs	135	135
Other post-employment benefits	50	31
	891	**857**
Less: Staff costs capitalised	–	(131)
	891	**726**

Staff costs include labour costs consisting of direct wages, social security costs and statutory post-employment benefits.

Where employees work on developing tangible and intangible non-current assets, the employment cost associated with the relevant working hours is capitalised and included in the cost of the asset.

Key management personnel

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Salaries and fees	525	439
Post-employment benefits	90	12
Other employment costs	33	117
Total	**648**	**568**

Key management personnel are the directors of the Company and the Senior management team.

10. Finance income and expense

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Finance income		
Currency exchange profits less losses	96	–
Bank interest and interest charged to customers	22	32
	118	32
Finance expenses		
Bank interest	138	242
Bank loan interest	205	125
Other finance expenses	278	349
	621	**716**

Currency exchange profits arose principally when the GBP to Euro rate dropped sharply between the dates when debt-for-equity contracts were fixed in GBP terms and when the equity was in fact issued.

Notes to the consolidated financial information

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10. Finance income and expense (continued)

Bank interest represents principally the financial expenses related to factoring of trade receivables. Other finance expenses include €123,000 (2015: €132,000) with respect to amounts paid and accruing to the Vallone family, plus costs, for providing personal guarantees for borrowings; €104,000 (2015: €11,000) in respect of IFRS adjustments for amortising costs associated with secured bank loans; and €58,000 (2015: €74,000) in interest and penalties for late payment of taxes.

11. Income tax

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Current tax expense		
Current tax on profits for the period	–	–
Adjustment re prior year charge	(61)	141
Deferred tax income		
Movement on deferred tax asset	185	(26)
Reversal of deferred tax liability	–	(3)
Total Tax Expense	**124**	**112**

The Group's activities are all within the Italian state where two corporate taxation regimes operate:

- IRES is the state tax which was levied at 27.5% of taxable income (from 2017: 24%)
- IRAP is a regional tax, for which the standard rate is 3.9%, with certain local variations permitted. For 2016, IRAP was assessed to be €nil (2015: €39,000)

In calculating IRES taxable income, interest costs in excess of 30% of EBITDA are disallowed, but are retained on the balance sheet as a deferred tax asset and may be applied against taxes when the interest charge falls below 30% of EBITDA.

Each company within the Group was taxed as a separate entity until 2017.

Notes to the consolidated financial information

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11. Income tax (continued)

The reconciliation between the theoretical income taxes calculated on the basis of the theoretical tax rate and income taxes recognized was as follows:

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Loss for the period before tax	(2,249)	(1,199)
Expected tax benefit	(536)	(330)
Tax effect of non-deductible expenses	–	112
Tax deduction for share capitalisation in Italy	–	(12)
Tax losses, interest cap and timing difference recognised	(61)	(98)
Fair value adjustment to deferred tax asset	185	–
Effect of changes in tax rate and impact on deferred tax	–	66
Tax losses and timing differences not recognised	536	335
	124	**73**
IRAP	–	39
Total tax expense	**124**	**112**

Gross tax losses available but not utilised as at 31 December 2016 amount to €3,888,000 (2015: 1,639,000)

12. Earnings per share

	Year ended 31 December 2016 Euro'000	Year ended 31 December 2015 Euro'000
Earnings		
Loss used in calculating basic and diluted earnings	(2,373)	(1,311)
Number of shares		
Weighted average number of shares for the purpose of basic and diluted earnings per share	49,000,083	40,000,000

The basic and diluted earnings per share for 2016 and 2015 were determined by dividing the Loss attributable to the equity holders of the parent by the weighted average number of shares outstanding during the periods. Dilutive instruments are ignored when the overall result is a loss.

Under a share-for-share exchange that took place on 25 August 2015, the former shareholders of Cogenpower S.r.l. exchanged their 2,000,000 ordinary shares of €1 each in that company for 2,000,000 ordinary shares of 5p each in Cogenpower Plc. The new shares were subsequently subdivided into 40,000,000 ordinary shares of 0.25p.

On 12 February 2016, pursuant to the Company's Initial Public Offering on the AIM Market, a further 10,166,760 new ordinary shares were issued, bringing the total to 50,166,760.

Notes to the consolidated financial information

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13. Property, plant and equipment

	Land Euro'000	Buildings Euro'000	Plant & Equipment Euro'000	District Heating network Euro'000	Fixtures & Fittings Euro'000	Assets Under Construction Euro'000	Total Euro'000
COST							
At 1 January 2015	195	970	6,311	6,857	118	534	14,985
Additions	119	–	22	14	–	868	1,023
Acquisition of Esseti	–	–	3,594	–	–	–	3,594
At 31 December 2015	**314**	**970**	**9,927**	**6,871**	**118**	**1,402**	**19,602**
Additions	–	–	180	–	–	–	180
Project cancellation	–	–	–	–	–	(570)	(570)
Impaired	–	–	–	–	(4)	–	(4)
Disposals: Esseti	–	–	(3,615)	–	–	–	(3,615)
At 31 December 2016	**314**	**970**	**6,492**	**6,871**	**114**	**832**	**15,593**
DEPRECIATION							
At 1 January 2015	–	(181)	(2,611)	(1,165)	(85)	–	(4,042)
Charge for year	–	(29)	(301)	(202)	(11)	–	(543)
At 31 December 2015	**–**	**(210)**	**(2,912)**	**(1,367)**	**(96)**	**–**	**(4,585)**
Charge for year	–	(29)	(317)	(209)	(7)	–	(562)
On disposal	–	–	21	–	4	–	25
At 31 December 2016	–	(239)	(3,208)	(1,576)	(99)	–	(5,122)
NET BOOK VALUE							
At 31 December 2015	**314**	**760**	**7,015**	**5,504**	**22**	**1,402**	**15,017**
At 31 December 2016	**314**	**731**	**3,284**	**5,295**	**15**	**832**	**10,471**

Plant and Equipment includes the Anaconda power plant, its heat storage system and the Cogenpower Energia power plant. Additions of €180,000 relate to a chiller that had been in stock, held for resale, but is now planned to be used for a project to build an air-conditioned office suite.

The Esseti ORC Biomass plant, acquired in 2015, was disposed of in 2016.

In Assets under construction, the ORC biomass electricity generator project was halted and replaced by a biomass boiler project and an amount of €570,000 that had been accrued was written back.

Notes to the consolidated financial information

CONTINUED

14. Intangible assets

	Software Licences Euro'000	Land usage Rights Euro'000	Assets under development Euro'000	Total Euro'000
COST				
At 1 January 2015	432	–	280	712
Additions:	14	110	–	124
Transferred to software licences	280	–	(280)	–
Less: impairment	(139)	–	–	(139)
At 31 December 2015	**587**	**110**	**–**	**697**
Additions:	13	–	2	15
Disposals	–	(110)	–	(110)
At 31 December 2016	**600**	**–**	**2**	**602**
AMORTISATION				
At 1 January 2015	(375)	–	–	(375)
Charge for year	(74)	–	–	(74)
At 31 December 2015	**(449)**	**–**	**–**	**(449)**
Charge for year	(68)	–	–	(68)
On disposals	–	–	–	–
At 31 December 2016	**(517)**	**–**	**–**	**(517)**
NET BOOK VALUE				
At 31 December 2015	**138**	**110**	**–**	**248**
At 31 December 2016	**83**	**–**	**2**	**85**

Although Cogenpower Gas & Power Srl has closed its business, investments in software of €61,000 attributable to that subsidiary have been subject to an impairment test and assessed by management as being valuable to the rest of the group. Therefore, this investment has not been impaired.

Notes to the consolidated financial information

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15. Subsidiaries

The principal subsidiaries of the Company, all of which have been included in the consolidated financial information, were all owned 100% at 31 December 2016 and are as follows:

Name	Principal activity	Ownership
Cogenpower S.r.l.	CHPDH	**Cogenpower Plc**
Cogenpower Energia S.r.l.	Energy Services	**Cogenpower S.r.l.**
Cogenpower Gas &Power S.r.l.*	Supply of natural gas and electricity	**Cogenpower S.r.l.**

*Cogenpower Gas & Power stopped accepting new clients at the end of September 2016.

16. Inventories

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Finished goods and goods for resale	26	205
Biomass (unchipped)	–	533
	26	**738**

Inventories only consist of consumables and spare parts for maintenance after reclassifying as a tangible asset a chiller unit previously held for resale at a value of €180,000. The Biomass stock from 2015 relates to Esseti Energia S.r.l., a business disposed of in May 2016.

17. Trade and other receivables

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Trade receivables	415	1,935
Green Certificates accrued income	1,347	886
CO_2 credits	391	391
Excise duties and other indirect taxes receivable	275	341
Other receivables	248	552
Prepayments	132	380
	2,808	**4,485**

Trade receivables are shown net of provisions for doubtful debts of €278,000 (2015: €154,000).

Other receivables are shown net of provisions for doubtful debts of €162,000 (2015: €nil).

17. Trade and other receivables (continued)

Ageing analysis of trade receivables

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Current and not past due	306	1,968
1 to 2 months	49	138
2 to 3 months	291	142
Over 3 months	48	4
	694	2,252
Less: provision for doubtful debts	(278)	(317)
Trade receivables before incentives	416	1,935
CV-TLR (Green Certificates)	1,347	886
CO_2 Credits	391	391
Total trade receivables	2,154	3,212
Other receivables	654	1,273
Total trade and other receivables	**2,808**	**4,485**

18. Trade and other payables

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Trade payables	4,477	7,693
Payments received on account	–	164
Employment costs	440	154
Other payables	64	817
	4,981	**8,828**

Trade payables in 2015 include €794,000 of creditors who had agreed before the year-end to convert their debt to equity in the Company on flotation (February 2016) and €1,272,000 of debts owed to creditors of Esseti Energia S.r.l., a subsidiary that was sold back to the original vendor in May 2016. Other payables in 2015 include €511,000 due to the same original vendor and which also fell away in May 2016.

Employment cost payables include the Italian employee severance indemnity (TFR) obligation amounting to €69,000 at 31 December 2016 (2015: €130,000). TFR is an employee severance indemnity regulated by article 2120 of the Italian Civil code, payable when the employee leaves employment or retires. The provision is based on the employees' payroll cost. Management has concluded that that the impact of inflating and discounting this provision is immaterial. Current long term inflation rates in Italy are between 1-2% and yields on 10 year government bonds (1.5%-2%). The service cost charged to the profit and loss in the year was €27,000 (2015: €31,000) and benefits totalling €85,000 (2015: €13,000) were paid to 4 employees who left the Group and 2 employees whose roles were reclassified.

Notes to the consolidated financial information

CONTINUED

19. Provisions

	Tax risks Euro'000	Legal proceedings Euro'000	CGP Engineering reserve Euro'000	Financial Guarantees Provision Euro'000	Total Euro'000
As at 1 January 2015	140	93	168	61	462
Movements in 2015					
Released	–	(93)	(69)	(61)	(223)
Charge to income	60	–	–	–	60
Used	–	–	(99)	–	(99)
Increased	223	–	–	–	223
As at 1 January 2016	423	–	–	–	423
Movements in 2016					
Charge to income	57	–	–	–	57
Used	(252)	–	–	–	(252)
Movement	(195)	–	–	–	(195)
As at 31 December 2016	**228**	**–**	**–**	**–**	**228**

The tax provisions relate to penalties and interest for late payment of taxes.

20. Borrowings

Cogenpower S.r.l.has both long-term borrowings funding fixed assets and short-term credit facilities for working capital. Borrowings shown in current and non-current liabilities are as follows:

In current liabilities

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
1. Finanz.Unicredit 4070471**	97	96
2. Finanz.Unicredit 4059671**	326	321
3. Finanz.Unicredit 3804987**	132	129
4. Finanz.BCCooperativo 92139	84	48
5. Leasing Carige bank	–	252
Other short-term credit facilities	935	2,174
	1,574	**3,020**

Other short-term credit facilities include borrowings against factored trade receivables of €545,000 (2015: €812,000).

Notes to the consolidated financial information

CONTINUED

20. Borrowings (continued)

In non-current liabilities

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
1. Finanz.Unicredit 4070471**	723	772
2. Finanz.Unicredit 4059671**	1,968	2,085
3. Finanz.Unicredit 3804987**	1,389	1,394
4. Finanz.BCCooperativo 92139	36	84
5. Leasing Carige Bank	–	2,167
	4,116	**6,502**
Total of borrowings	**5,690**	**9,522**

Loans

	Outstanding 31/12/2016 €'000	Original facility €'000	Interest rate	Maturity Date	Repayment	Security
1. Finanz.Unicredit 4070471**	820	1,500	Euribor+3.25%	31 December 2024	Quarterly	Mortgage on land and lien facilities
2. Finanz.Unicredit 4059671**	2,306	4,400	Euribor+3.00%	31 December 2023	Quarterly	Mortgage on land and lien on moveable property
3. Finanz.Unicredit 3804987**	1,548	2,000	Euribor+4.25%	31 December 2026	Quarterly	Vallone family guarantees
4. Finanz. BC Cooperativo 92139	120	400	Euribor+1.25%	12 July 2018	Quarterly	None
	4,794	**8,300**				

Credit Agreements with Unicredit Bank stipulate a number of commonly used covenants, including the maintenance of a minimum ratio of "NFP" (Net debt) to "EBITDA" and "NFP" to "Equity" (as defined in the Credit Agreement). At 31.12.2016, the event of default has not yet materialised and the Directors are confident that there is a significant chance that it will not materialise (31.12.15 – no breach of covenants).

Notes to the consolidated financial information

CONTINUED

21. Corporation and other taxes

Corporation Tax	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Opening Balance	1,148	1,201
Tax recovered/paid	(40)	(194)
Current Tax	(61)	141
Closing balance	**1,047**	**1,148**

Included in the closing balance are rescheduled amounts payable after 12 months of €nil (2015: €581,000).

Other tax liabilities

Other taxes	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Excises	164	164
Net VAT	2,091	1,753
Employee taxes	460	225
Other	138	93
Total	**2,853**	**2,235**

Included in Net VAT are rescheduled amounts payable after 12 months of €597,000 (2015: €nil).

22. Deferred Tax

The movements and analysis of balances on the deferred tax assets (DTA) account are as shown below:

	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Opening balance	635	609
Movements:		
Tax effect of eliminated inter-company margins	–	(3)
Tax effect of interest cost not deductible due to cap	–	30
Tax losses in Cogenpower Energia	–	21
Other	(187)	47
Alignment of new IRES rate (24% from 27.5%)	–	(66)
Recognised in income statement: Tax expense	(187)	29
Other recognized in retained earnings (impairment)	–	(3)
Closing balance	**448**	**635**

Notes to the consolidated financial information

CONTINUED

22. Deferred Tax (continued)

Deferred tax asset balances	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Represented by		
Tax effect of:		
Non-deductible amortisation	–	26
Provision for doubtful debts	–	56
Cap on deductible interest	433	433
Unused losses	–	43
Intercompany eliminations	–	80
Other	15	(3)
Closing balance	**448**	**635**

The movement on the deferred tax liability account is as shown below:

Deferred tax asset balances	As at 31 December 2016 Euro'000	As at 31 December 2015 Euro'000
Opening balance	–	10
Amortised loan costs tax-effect	–	(10)
Closing balance	**–**	**–**

23. Share capital

At 1 January 2015, the fully paid-up share capital of Group amounted to €2,000,000, which represented the share capital of Cogenpower S.r.l.(SRL) of 2,000,000 ordinary shares of €1.

On 28 August 2015, via a share-for-share exchange, the shareholders of SRL exchanged their shares for 2,000,000 ordinary shares of £0.05 (5p) in Cogenpower Plc, giving a nominal share value of £100,000. The exchange rate on that date was £1 = €1.375, giving a Euro nominal share value of €137,500.

On 30 December 2015, by shareholder resolution, the 2,000,000 ordinary shares in Cogenpower Plc were subdivided into 40,000,000 shares of 0.25p.

On 12 February 2016, in conjunction with the Company's Initial Public Offering ("IPO") and listing on the AIM Market, 10,166,760 new Ordinary shares were issued at a price of £0.20 per share, with a nominal value of £0.0025 (0.25 pence) each and share premium arising on issue of £0.1975 (19.75 pence) per share at an exchange rate of £1=€1.29.

Notes to the consolidated financial information

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23. Share capital (continued)

Nominal Share Capital:

Shares issued	Share capital in £	Share capital in €	Total in €'000
10,166,760	£25,417	€32,788	33

Share Premium

Shares issued	Share premium in £	Share premium in €	
10,166,760	£2,007,935	€2,590,236	
Less: expenses of issue		(€461,154)	
		€2,129,082	2,129
Total added to equity			**2,162**

Of the 10,166,760 new shares issued:

- 5,000,000 were issued for cash, raising €1,290,000 before costs and €829,000 after €461,000 of expenses related to the fundraise, which were charged to equity; and
- 5,166,760 were issued to extinguish amounts owed to trade creditors.

	Number of Shares Euros	Nominal Value €
As at 1 January 2015	2,000,000	2,000,000
Movements:		
Share for share exchange: taken to merger reserve	–	(1,862,500)
Subdivision of shares	38,000,000	–
As at 1 January 2016	**40,000,000**	**137,500**
New equity issued		
For cash	5,000,000	16,125
To extinguish debt	5,166,760	16,663
As at 31 December 2016	**50,166,760**	**170,288**

24. Operating leases

As at 31 December 2016:

Amounts paid and financial commitments: €'000

Payments:

Leased Asset	Current period	Within 12 months	1-2 years	2-5 years
Vehicles	31	31	16	16
Office equipment	20	20	15	10
Offices*	36	24	24	32
Total commitments	**87**	**75**	**55**	**58**
Other non-recurring	20			
Total paid	**107**			

Notes to the consolidated financial information

CONTINUED

24. Operating leases (continued)

As at 31 December 2015:

Amounts paid and financial commitments: €'000

Payments:

Leased Asset	Current period	Within 12 months	1-2 years	2-5 years
Vehicles	32	23	23	12
Office equipment	20	20	20	10
Offices	51	47	34	60
Total commitments	**103**	**90**	**77**	**82**
Other non-recurring	52			
Total paid	**155**			

*The Italian Head Office has a lease to 30/04/2020, but the Group can cancel the lease with 6 months' notice

25. Related party transactions

Invoiced services by Directors of Cogenpower Plc to Cogenpower S.r.l.(SRL)

During part of 2015 and the month of January 2016, David Pickering, Richard Day and Martin Groak were engaged as consultants to Cogenpower S.r.l. to assist in listing the Company on the AIM stock exchange. They became directors of Cogenpower Plc in August 2015, but their terms of engagement as directors would only be confirmed if the Company's shares were admitted to trade on AIM, which occurred in February 2016, therefore no fees were payable with respect to their directorships until 5 February 2016.

At the time of the IPO, each of the directors exchanged part of what they were owed into equity in the Company.

Amounts invoiced and accrued in respect of these services (provided through their management service companies) and the amounts subsequently converted to equity were as follows:

Name (role post IPO)	Service Company	Amounts invoiced and accrued 31 December 2015	Amounts converted to equity at IPO	Amounts invoiced in 2016	Amounts paid during 2016	Amounts unpaid as at 31 December 2016
David Pickering (Chairman)	Esprit Partners Ltd*	€72,000	(€19,000)	€4,700	–	€57,700
Richard Day (Non-Executive)	RJD Corporate Ltd	€35,700	(€19,000)	€2,000	–	€18,700
Martin Groak (CFO)	Marker Management Services Ltd	€61,500	(€37,800)	€17,800	(€33,200)	€8,300**
Total		**€169,200**	**(€75,800)**	**€24,500**	**(€33,200)**	**€84,700**

* Esprit Partners Ltd was wound up during 2016 and its assets assigned to David Pickering.

** This amount was settled in 2017 at 20% of face value.

The total of the amounts invoiced and accrued in 2015 were outstanding as at 31.12.2015

Guarantees

The Vallone family has provided personal bank guarantees to Unicredit S.p.A. and other banks over a number of years. In March 2010 these personal guarantees were increased in value especially by Unicredit and a pledge on about 72% of the shares held by the family through its controlled companies Re Sipar Investments S.r.l. (ReSipar) and Golem S.r.l. (both wholly owned by Francesco Vallone) was added by Unicredit.

Notes to the consolidated financial information

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25. Related party transactions (continued)

Apart from Francesco Vallone, who underwrites the majority of the guarantees, Roberta Di Francesco (wife of Francesco), Giuseppe Vallone (father of Francesco), Maria Traina (mother of Francesco) and Sergio Vallone (brother of Francesco) also provide guarantees. An agreed fee was set at 1.95% of the average value of underwritten loans outstanding. The guarantees cover debt, interest and notional future credit lines and were adjusted to outstanding loan amounts following the IPO in February 2016.

The amounts underwritten were:

	2016 €	2015 €
Opening Balance	11,338,665	11,950,165
Movements	(2,275,639)	(611,500)
Closing Balance	**9,063,026**	**11,338,665**

The average amount outstanding in 2016 on which fees were based was €9,087,000 (2015: €6,418,000).

Fees are charged to Cogenpower S.r.l. by ReSipar Investments S.r.l., a company owned and controlled by Francesco Vallone.

Fees €'000	**2016**	**2015**
Fees included in Finance expenses	107	124

Cogenpower Gas & Power: Rental agreement and related party Manager

A sales office in Borgaro Torinese was rented by Cogenpower Gas & Power from Golem S.r.l. ("Golem"), a company controlled by Francesco Vallone, the CEO of Cogenpower group. The rental agreement was for renewable periods of 1 year from 1/10/2012. The Group made a strategic decision to close Cogenpower Gas & Power and withdrew from acquiring new business at the end of August 2016. The total rent charged during 2016 by Golem to Cogenpower Gas & Power was €8,000 (2015 €12,000).

Sergio Vallone, Francesco Vallone's brother, was Sales Manager for Cogenpower Gas & Power until the business closed at the end of August 2016. He transferred to a different (unrelated) business. His gross salary in 2016 was €14,000 (2015: €22,000) and on departure from the Cogenpower group, he was paid a statutory severance payment (TFR) of €7,800.

Golem: assumption of Cogenpower Engineering liabilities in exchange for shares

Golem assumed the financial responsibility for Cogenpower Engineering S.r.l. ("Engineering"), a former subsidiary of Cogenpower S.r.l. that was in liquidation. In exchange for taking on residual liabilities of Engineering, estimated to be €86,000, Golem was issued with 326,118 new ordinary shares in the Company at IPO.

Ultimate controlling entity

The ultimate controlling entity at 31.12.2016 (and 2015) was Re Sipar Investments S.r.l., a company entirely controlled by Francesco Vallone, the CEO.

26. Disposal of Esseti Energia S.r.l.

On 1 December 2015, Cogenpower S.r.l. completed the acquisition of the entire share capital of Esseti Energia S.r.l. (Esseti), a producer of electricity by burning biomass.

26. Disposal of Esseti Energia S.r.l. (continued)

On 9 May 2016, the Company announced the disposal of (Esseti) to the original vendor, effective 6 May 2016, reversing the transaction described above.

The Company made an announcement explaining the circumstances on 9 May 2016, which may be summarised as follows. Over the four months following the acquisition, Cogenpower progressively gained a full operational understanding of Esseti. Towards the end of that process certain facts that were not fully disclosed as part of the acquisition process came to the Company's attention. As a result, the underlying profitability and performance of Esseti post-acquisition was lower than expected, which impacted the Group's assumptions regarding the opportunities to develop Esseti and achieve the financial returns that had been anticipated. The Board therefore concluded that it would be in the best interests of shareholders for Cogenpower to sell Esseti back to its previous owner, and for Cogenpower to be reimbursed the consideration paid for Esseti and the monies invested in Esseti by Cogenpower since the acquisition (the "Disposal").

The consideration paid for Esseti's shares was duly reimbursed on closing, however, as at the date of this report, Esseti still owed the Group €104,000 for monies invested. This amount has been fully provided for in the accounts.

In addition, the outstanding bank debt of €2.4 million, which was assumed by Cogenpower as part of the acquisition of Esseti, was transferred back to the original owner as part of the Disposal. Any unfulfilled obligations of the original acquisition agreement were cancelled and/or waived.

In the Statement of Comprehensive Income in accordance with the IFRS standard on discontinued operations, the result for 2015 has been restated to exclude revenues and costs attributable to Esseti's activities; however the Statement of Financial Position has not been restated. The table below shows what would have been the effect on assets and liabilities had Esseti been excluded as at 31.12.15.

Effect of reversal of Esseti Acquisition

Consolidated statement of financial position

€'000	31 December 2015 As reported with Esseti	31 December 2015 Less: Esseti	31 December 2015 Restated without Esseti
Total non-current assets	15,922	3,704	12,218
Total current assets	5,501	946	4,555
Total assets	**21,423**	**4,650**	**16,773**
Total current liabilities	15,073	2,453	12,620
Total non-current liabilities	7,083	2,167	4,916
Total Liabilities	**22,156**	**4,620**	**17,536**
Net Assets	**(733)**	**30**	**(763)**
Net current liabilities	**(9,572)**	**(1,507)**	**(8,065)**

Cash on disposal of Esseti includes:

€'000	2016
Cash received	30
Payments on behalf of Esseti	(104)
Closing Balance	**(74)**

Notes to the consolidated financial information

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27. Parent Company exemption

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The Company's loss for the year is €618,000 (for the financial period 7 November 2014 to 31 December 2015: loss of €1,251,000).

28. Post balance sheet events

Restructuring of Cogenpower Gas & Power (G&P)

Following the closure of Cogenpower Gas & Power's activities, the Company was advised to seek to reduce G&P's indebtedness and commence a formal restructuring plan, under the Italian Bankruptcy Law ex-art. 182bis and 182-ter. This was duly begun in February 2017. The procedure, which is the least formal of the restructuring procedures, is nevertheless overseen by a court-appointed official and requires the use of independent advisors. It provides a degree of protection from creditors and allows the company to negotiate individual deals with creditors. The court will only approve the final package if the company can demonstrate to the satisfaction of the court official that it can meet the residual obligations post-haircut. The Company expects the plan to be ready for presentation at the end of September 2017.

Green Certificate dispute with GSE

In relation to its dispute with the GSE regarding the Company's entitlement to Green Certificates (see other references in this report):

a) At a hearing before the Regional Court in Rome held in June 2017, in which the Company contested the GSE's right to recalculate prior years' entitlement to Green Certificates and to offset the deficit arising from that recalculation against current entitlement, the judge ruled that the Company's case had merit. The judge's final judgement will be issued in the first half of 2018.

b) In July 2017, the GSE made a payment of approximately €400,000 to the Company in respect of amounts that were not in dispute.

c) In July 2017, the Italian Parliament passed a law prohibiting, inter alia, government monopolies such as GSE from amending retroactively decisions they had previously approved without conditions.

The Directors are therefore confident of being able to recover the full value of the Green Certificates (€1,347,000) shown on the balance sheet.

UniCredit grant standstill of 2 quarters of capital repayments

In order to assist the Company's cash flow during the lean summer months, UniCredit, the Company's principal banker, granted a standstill of two quarters of capital repayments (March and June quarters) on two out of its three loans. These deferred repayments will be added to the end of the loan repayment period.

Departure of key employee

Paola Prataviera, Director of Production, Operations and Maintenance, resigned with effect from 1 September 2017. His role will be assumed for the time being by Francesco Vallone, the CEO.

Mr Prataviera has joined a major software development company providing control systems and therefore his expertise will be able to be bought in if required.

Suspension of trading in the Company's shares

The Company's shares were suspended from trading when, at the end of June 2017, it became clear that these accounts could not be published before the end of the month, as required under the AIM rules. Trading in the Company's shares can only resume once this Annual Report and Accounts has been published.

Company statement of financial position

AS AT 31 DECEMBER 2016

Euro'000	Note	As at 31 December 2016	As at 31 December 2015
Non-current assets			
Investments	(4)	3,030	1,930
Total non-current assets		3,030	1,930
Current assets			
Trade and other receivables	(5)	427	321
Cash and cash equivalents		10	–
Total current assets		**437**	**321**
Total assets		**3,467**	**2,251**
Current liabilities			
Trade and other payables	(6)	2,344	2,672
Total current liabilities		**2,344**	**2,672**
Total liabilities		**2,344**	**2,672**
Net assets/(liabilities)		**1,123**	**(421)**
Equity attributable to equity holders of the Parent			
Share Capital	(3)	171	138
Share premium		2,129	–
Merger Reserve	(7)	692	692
Retained losses		(1,869)	(1,251)
Total equity		**1,123**	**(421)**

The financial statements of Cogenpower plc, registered number 09301329, were approved by the Board of Directors and authorised for issue on 28 September 2017

Signed on behalf of the Board by:

Martin Groak, Chief Financial Officer

Company statement of changes in equity

€'000	Share capital	Share Premium	Retained Earnings	Merger reserve	Total
At 7 November 2014	–	–	–	–	–
Issue of shares	138	–	–	–	138
Share for share exchange – Group reorganisation	–	–	–	692	692
Comprehensive Income					
Total comprehensive loss for the year	–	–	(1,251)	–	(1,251)
Equity as at 31 December 2015	**138**	**–**	**(1,251)**	**692**	**(421)**
Issue of shares	33	2,129	–	–	2,162
Comprehensive Income					
Total comprehensive loss for the year	–	–	(618)	–	(618)
Equity as at 31 December 2016	**171**	**2,129**	**(1,869)**	**692**	**(1,123)**

Notes to the Company financial statements

FOR THE YEAR ENDED 31 DECEMBER 2016

1. Summary of significant accounting policies

(a) Basis of preparation

The Company's financial statements have been prepared in accordance with the requirements of the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. The financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, fair value measurements, capital management, presentation of a cash flow statement, standards not yet effective, financial risk management, impairment of assets, related party transactions and where required, equivalent disclosure given in the consolidated financial statements.

The directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the FRC Going Concern and Liquidity Risk guidance (October 2009). It is considered appropriate to continue to prepare the financial statements on a going concern basis.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for year is €618,000 (2015: €1,251,000).

Auditor's remuneration is disclosed in note 8 to the consolidated financial statements.

(b) Functional currency

The Company is the holding company of a group based in Italy, where the functional currency is the Euro. The Italian group currently generates all of the revenues of the Group and therefore the Company has also adopted the Euro as its functional currency.

Amounts in these financial statements are shown as €'000 unless otherwise described.

Exchange rates to the £

The Company acquired the Italian group on 28 August 2015 when the exchange rate was £1 = €1.375 and shares issued for that acquisition were translated at that exchange rate. On 12 February 2016, pursuant to the Company's public listing on AIM, new Ordinary shares were issued at a price denominated in GBP. The value of the new shares issued was translated at the closing rate for the day of £1=€1.29.

As at the 31 December 2016, the exchange rate was £1 = €1.17 (31 December 2015: £1 = €1.32).

(c) Income taxes

The Company traded during the period under review, however tax credits have not been accrued. This principle will be applied until such time as the Company has a realistic prospect of being able to generate profits against which such tax credits could be offset.

(d) Investment in subsidiaries

Investments in subsidiaries are made either by a direct cash injection into the subsidiary or by the permanent assumption and discharge of financial obligations on behalf of the subsidiary. Where the latter occurs, the Company will recognise the existence of the obligation at the point where that obligation crystallises through appropriate legal documentation. Where the obligation is to be settled by the issuing of shares in the Company, the obligation will remain in current liabilities until such time as the issuing of shares has been executed. This was the situation at 31 December 2015 and the obligations were settled in full by the issuing of shares in February 2016.

Notes to the Company financial statements

CONTINUED

2. Segment reporting

The principal activity of the Company is that of a holding company for the Group, as well as performing all administrative, corporate finance, strategic and governance functions of the Group. The directors consider this to constitute one reportable segment.

3. Share capital

On incorporation on 7 November 2014, the issued share capital of the Company was £1.00 divided into 100 ordinary shares of £0.01 each, of which 100 were issued as fully paid.

On 28 August 2015, pursuant to an ordinary resolution passed by the sole shareholder of the Company, the issued share capital of the Company was consolidated into 20 ordinary shares of £0.05 each.

On 28 August 2015, pursuant to a share for share exchange agreement (the "Share Exchange Agreement"), the Company acquired the entire issued share capital of Cogenpower S.r.l., in consideration for which the Company allotted and issued a further 1,999,980 Ordinary Shares of £0.05 (5p) each, credited as fully paid, to the Existing Shareholders (the "Share Exchange"), resulting in a nominal share capital of £100,000 converted to €137,500 at the rate prevailing of £1 = €1.375.

On 30 December 2015, by shareholder resolution, the 2,000,000 ordinary shares in Cogenpower Plc were subdivided into 40,000,000 shares of 0.25p.(£0.0025).

On 12 February 2016, in conjunction with the Company's Initial Public Offering ("IPO") and listing on the AIM Market, 10,166,760 new Ordinary shares were issued at a price of £0.20 per share, with a nominal value of £0.0025 (0.25 pence) each and share premium arising on issue of £0.1975 (19.75 pence) per share at an exchange rate of £1=€1.29.

Further details of the Company's allotted, called-up and fully paid share capital are set out in note 23 to the consolidated financial statements. The ordinary shares of the Company carry one vote per share and an equal right to receive any dividend declared.

4. Investments

Investments represent investments in the Company's main Italian subsidiary: Cogenpower S.r.l.

	€'000
Share for share exchange	138
Merger reserve arising on Group reorganisation	692
Capitalisation of intercompany receivables	1,100
As at 31 December 2015	**1,930**
Capitalisation of intercompany receivables	18
Cash injected	1,082
As at 31 December 2016	**3,030**

Notes to the Company financial statements

CONTINUED

5. Receivables

	31 December 2016 €'000	31 December 2015 €'000
Management fees receivable from subsidiary	400	–
VAT recoverable	7	–
Prepayments	–	321
Other	20	–
	427	**321**

Management fees are chargeable by the Company to its subsidiary, representing operating costs of the holding company, plus a mark-up of 5%. This agreement became effective on 5 February 2016.

6. Payables

	31 December 2016 €'000	31 December 2015 €'000
Amounts due to subsidiary	1,780	1,534
Trade creditors	328	1,094
Amounts owed to directors	183	–
Prepayments	–	44
Other	53	–
	2,344	**2,672**

7. Merger reserve

Merger reserve is a difference between the value of the net assets acquired and the value of shares issued during the share for share exchange disclosed in Note 3 above.

Corporate information

Company number
09301329 (England and Wales)

Directors
David Pickering *Non-Executive Chairman*
Dr. Francesco Vallone *Chief Executive Officer*
Martin Groak *Chief Financial Officer*
Maria Ilaria Cannata *Corporate Development Director*
Richard Day *Non-Executive Director*

Company secretary
Martin Groak

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Joint broker
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Auditors
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Principal bankers
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Registrars
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COGENPOWER