

Italeaf: reports of the independent auditors

It should be noted that the reports of the Independent Auditors EY SpA have been issued today to accompany the Consolidated Annual Financial Report as at 31 December 2017 and the Separate Financial Statements as at 31 December 2017 of Italeaf SpA.

The reports of the independent auditors EY conclude that it is impossible to express an opinion on the financial statements as at 31 December 2017. Please refer to the full text of these reports, which are annexed to this press release.

The Independent Auditors' Reports are available to the public at the Company's registered office and on the Company's website www.italeaf.com in the Investor Relations/Shareholders' Meetings section, where the Consolidated Annual Financial Report as at 31 December 2017 and the Separate Financial Statements as at 31 December 2017 of Italeaf SpA are available.

This press release is also available on the Company website: www.italeaf.com

Italeaf SpA is obliged to make public this information pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out below, at 23.30 CET on 14 June 2018.

Certified Adviser

Mangold Fondkommission AB, +46 (0)8 5030 1550, is the Certified Adviser of Italeaf SpA on Nasdaq First North.

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Italeaf SpA, established in December 2010, is a holding company and a business accelerator for companies and startups in the areas of innovation and cleantech. Italeaf operates as a company builder, promoting the creation and development of industrial startups in the fields of cleantech, smart energy and technological innovation. Italeaf has headquarters and plants in Italy at Nera Montoro (Narni), Terni, Milano and Lecce; has international offices in London and Hong Kong.

The company controls TerniEnergia, listed on the STAR segment of the Italian Stock Exchange and active in the fields of renewable energy, energy efficiency and waste management, and Skyrobotic, in the business development and manufacture of civil and commercial drones in mini and micro classes for the professional market, Numanova, operating in the field of innovative metallurgy and additive manufacturing, and Italeaf RE, a real estate company. Italeaf holds a minority stake in Vitruviano LAB, a research center active in the R&D sector for special materials, green chemistry, digital transformation and cleantech.

Italeaf S.p.A.

Consolidated Financial Statements as of December 31, 2017

Report of the Independent Auditor EY SpA
pursuant to art. 14 of Legislative Decree no. 39 of 27 January 2010

Report of the Independent Auditor pursuant to art. 14 of Legislative Decree no. 39 of 27 January 2010

To the shareholders of Italeaf S.p.A.

Report on the audit of the consolidated financial statements

Statement of impossibility to express an opinion

We have audited the consolidated financial statements of the Italeaf Group (the Group), which comprise the statement of financial position at December 31, 2017, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended and the notes to the consolidated financial statements, which also include a summary of the most significant accounting standards applied.

We do not express an opinion on the consolidated financial statements of the Group due to the effects of the uncertainties described in the section Elements underlying the declaration of impossibility to express an opinion on this report.

Elements underlying the declaration of impossibility to form a judgment

The Group ended 2017 with shareholders' equity of 25.9 million euros, including a net loss for the year of 40.8 million euros. The Group also showed a negative net financial position as at December 31, 2017 of Euro 107.2 million, of which Euro 26.3 million related to a bond issued by the subsidiary TerniEnergia S.p.A. maturing in February 2019, Euro 90.8 million related to debts to financial institutions (banks and leasing companies), Euro 4.5 million related to other financial debts and Euro 4.5 million of cash for which there are restrictions on the free use of the Parent Company. Financial liabilities of 121.6 million euros are shown for the most part under current liabilities, due to the non-payment of 9.1 million euros on bank loans at due dates and the failure to comply with the covenants of the loan agreement at December 31, 2017. Finally, the Group has significant overdue debts to suppliers, social security institutions and the tax authorities for a total of Euro 16.8 million, for which, in some cases, no repayment plans are currently defined with the related counterparties.

The directors point out in the note "Economic trend of the TerniEnergia Group" that the economic and financial results achieved by the Group in the year ended December 31, 2017 confirm the operating difficulties across the main business sectors in which the TerniEnergia Group mainly operates and show that the loss for the year 2017 recorded by the latter and by the Italeaf Group is attributable i) to the decrease in the development activity of photovoltaic and environmental plants (EPC), which recorded a substantial interruption for the same structural costs and ii) to the effects of the announced strategy of disposals from TerniEnergia S.p.A., which led to the alignment of the estimated realisable value of the assets available for sale. In this context, the directors in the note "Assessments on the going concern" report that on April 16, 2018 was approved by the subsidiary TerniEnergia S.p.A. a new recovery plan and relaunch for the period 2018-2022.

TerniEnergia S.p.A., main asset of the Italeaf Group, outlines a path towards achieving a balanced economic, equity and financial position, within which, however, there remain many significant uncertainties on the ability of the TerniEnergia Group to continue to operate as a going concern related to (i) the actual ability of the Group to achieve the liquidity required by the recovery plan through the disposal of assets, (ii) the effective achievement of operating and economic-financial results substantially in line with the forecasts of growth in revenues and margins of the Smart Solution and Service business, (iii) the ability of the TerniEnergia Group to finalise positively the contacts in progress with the financing institutions to obtain the moratoria and renegotiate the financial debts and to complete the complex procedures necessary to reschedule the existing bond. The Directors also point out that Italeaf S.p.A. does not currently have the capacity to generate the cash flows necessary to repay the debt with financial institutions of 15.4 million euros. Only in the medium term will it be able to refer to the cash flows deriving from the subsidiary TerniEnergia S.p.A. after the latter has been restored to health and on which, moreover, the many and significant uncertainties described above persist. In this context, the directors are also evaluating the use of extraordinary transactions, in particular the potential disposal of industrial areas and buildings, functional to the abatement and acceleration of the return from the current debt-exposure, the successful completion of which will in any case depend on the progress of the activities of negotiation with interested third parties.

The above mentioned situation, and in particular the uncertainties related to the ability of the subsidiary TerniEnergia S.p.A. to generate cash flows, as well as the uncertainties related to the outcome of the aforementioned extraordinary transactions aimed at the disposal of industrial areas and buildings owned, functional to the return from the current bank exposure, show that the

assumption of business continuity is subject to many significant uncertainties with potential interactions and possible effects accumulated on the balance sheet.

We have conducted our audit in accordance with international auditing standards (ISA Italia). Our responsibilities under these standards are further described in the Responsibilities section of this report for the audit of consolidated financial statements. We are independent from Italeaf S.p.A. in accordance with the rules and principles of ethics and independence applicable in Italian law to the audit of the balance sheet. However, because of the aspects described in the section Elements underpinning the impossibility of expressing an opinion on this report we were not able to form an opinion on the Group's consolidated financial statements.

Emphasis of matter

We would point out the explanatory note "Assets held for sale" of the consolidated financial statements as at December 31, 2017, which describes, among other things, the reasons on the basis of which the directors consider receivables totalling Euro 9 million claimed by the subsidiary TerniEnergia S.p.A. from the purchasers of some of its subsidiaries sold during 2014 to be recoverable. In particular, the directors report that the disposals of these equity investments are transactions with L&T City Real Estate Ltd (in relation to the sale of Solter S.r.l. and Energia Alternativa S.r.l.) and Ranalli Immobiliare S.r.l. (for the sale of the company Soltarenti S.r.l.), companies referable to a lawyer who has judicial assignments from the same subsidiary TerniEnergia S.p.A., as well as indirect shareholder of the same; in particular, on March 12, 2018 the subsidiary TerniEnergia S.p.A. and the above mentioned parties signed a deed of fulfilment of the termination conditions with the consequent repurchase by the Group of control of these companies, instrumental to a sale of the same to third parties, under a complex transaction of establishment of a newco and contribution of assets, details of which are provided in the notes. This will make it possible to offset the credit of Euro 9 million and to collect the proceeds from the a new sale, currently being defined, for some of the assets held for sale and estimated at approximately Euro 6 million.

Other Aspects

The consolidated financial statements of the Italeaf Group for the year ended December 31, 2016 were audited by another auditor who, on April 14, 2017, expressed an unqualified opinion on those financial statements.

Responsibilities of Directors and Board of Statutory Auditors for the Financial Statements reinforced

The directors are responsible for the preparation of consolidated financial statements that provide an truthful and correct representation in compliance with the Italian regulations governing the criteria of drafting and, within the terms provided for by law, for that part of the internal control withheld by the same necessary to enable the preparation of financial statements that are free from material misstatement, as a result of fraud or unintentional conduct or events.

The directors are responsible for assessing the Group's ability to continue to operate as a going concern and, in preparing consolidated financial statements, to the appropriateness of using the going concern assumption, as well as for an adequate relevant information. Directors use the assumption of going concern in the preparation of the consolidated financial statements, unless they have assessed that the conditions for the liquidation of the parent company Italeaf S.p.A. due to the interruption of its activities or because it has no alternative realistic to these choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms provided for by law, the process of preparation of the financial information of the Company [of the Group].

Responsibility of the independent auditors for auditing the financial statements reinforced

Our objectives are to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or unintentional conduct or events, and to issue an audit report which includes our audit opinion. Reasonable assurance means a high level of assurance but does not provide assurance that an audit carried out in accordance with International Standards on Auditing (ISA Italia) will always identify a material misstatement, if any. Errors may arise from fraud or unintentional conduct or events and are considered to be material if they, either individually or in combination, can reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit in accordance with international auditing standards (ISA Italia), we exercised our professional judgment and maintained our professional scepticism throughout the entire period of the audit. In addition:

- we have identified and assessed the risks of material misstatement in the consolidated financial statements, whether due to fraud or unintentional conduct or events; we have

defined and performed audit procedures in response to such risks; and we have obtained sufficient and appropriate evidence to support our conclusions. The risk of not detecting an error fraud is higher than the risk of not detecting an error significant arising from unintentional conduct or events, as fraud may involve the existence of collusion, falsification, intentional omission or representation misleading or forcing internal control;

- we have acquired an understanding of internal control relevant for the purpose of auditing the financial statements for the purpose of establishing appropriate audit procedures in the circumstances, and not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have assessed the appropriateness of the accounting standards used as well as the reasonableness of the accounting estimates made by the directors and the related information;
- we assessed whether the directors' use of the assumption is appropriate of going concern and, on the basis of the evidence obtained, whether there is any prospect of significant uncertainty about events or circumstances giving rise to doubts the Group's ability to continue to operate as an entity in the functioning;
- we have evaluated the presentation, structure and content of the consolidated financial statements in its entirety complex, including disclosures, and whether the consolidated financial statements are transactions and disclosures underlying events in order to provide a correct representation.
- we have obtained sufficient and appropriate audit evidence on the financial information of companies or of the various economic activities carried out within the Group in order to express an opinion on the consolidated financial statements. We are responsible for management, supervision and carrying out the auditing of the Group's accounts. We are solely responsible for of the audit opinion on the consolidated financial statements.

We have communicated to the managers in charge of the governance activities, identified at an appropriate level as required by the international auditing standards (ISA Italia), among other aspects, the planned scope and timing of the audit and the significant results achieved, including any significant internal control deficiencies identified during the audit.

Report on other legal and regulatory provisions

Opinion pursuant to art. 14, paragraph 2, letter e) of Legislative Decree 27 January 2010, no. 39

The directors of Italeaf S.p.A. are responsible for preparing the report on the management of the Italeaf group at 31 December 2017, including its consistency with the related financial statements and its compliance with legal requirements.

We have been appointed to carry out the procedures set forth in Auditing Standard (SA Italia) no. 720B in order to express an opinion on the consistency of the directors' report with the consolidated financial statements of the Italeaf Group at December 31, 2017 and its compliance with the provisions of the law, as well as with the provisions of the make a statement on any significant errors.

Due to the significance of what is described in the section "Basis of the declaration of impossibility to express an opinion" of the Report on the consolidated financial statements, we are not able to express an opinion on the consistency of the report on operations with the consolidated financial statements of the Italeaf group as at 31 December 2017 and on its compliance with the law, nor to issue the declaration as per Article 14, paragraph 2, letter e), of Legislative Decree no. 39 of 27 January 2010, based on the knowledge and understanding of the company and its context acquired during the audit activity.

Perugia, 14 June 2018

EY S.p.A.

Dante Valobra

(Member)