2016
ANNUAL REPORT
AT 31 DECEMBER 2016

REPORT ON OPERATIONS

GENERAL INFORMATION

REGISTERED OFFICE

Via U. Poli, 4
Zola Predosa (Bo)

BOARD OF DIRECTORS

Appointed by the Shareholders' Meeting of 30.11.2016

CHAIRMAN
Marco Canale

VICE CHAIRMAN
Giuliano Di Bernardo

CEO
Aldo Chiarini

MEMBERS OF THE BOARD OF DIRECTORS
Marco Bulgarelli
Rossella Fornasari
Carlo Frau
Folco Goggioli
Paolo Leonardelli
Marco Monis
Franco Carlo Papa
Pier Paolo Quaranta
Matteo Tamburini
Pietro Testoni

BOARD OF STATUTORY AUDITORS

Appointed by the Shareholders' Meeting of 30.11.2016

STANDING AUDITORS
Germano Camellini
Monica Mastropaolo
Vieri Chimenti

ALTERNATE AUDITORS
Antonella Musiani
Augusto Bagnoli

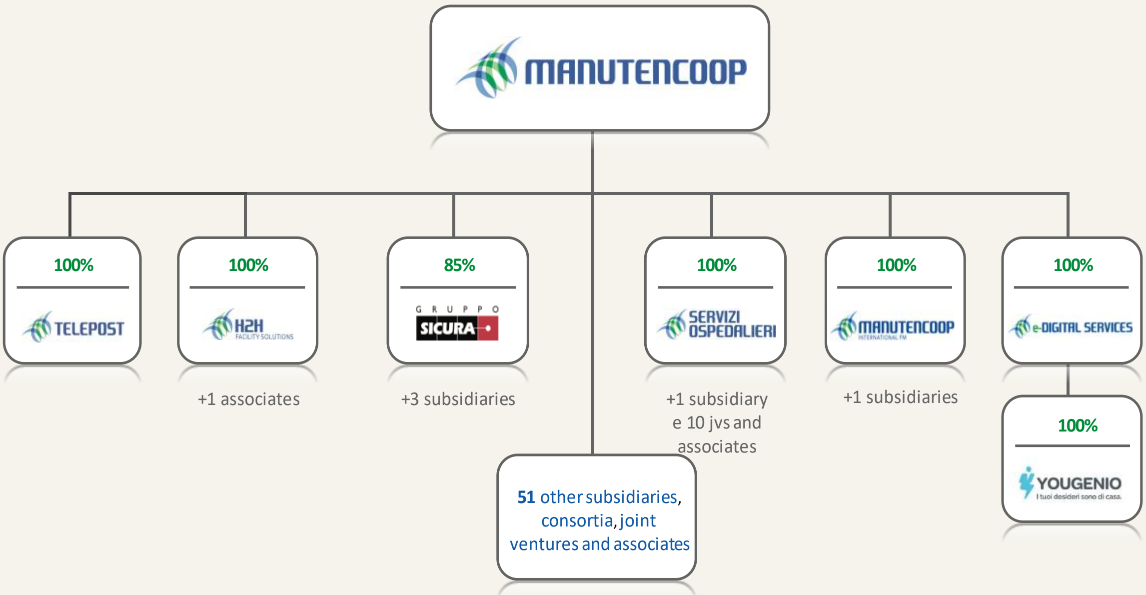
INDEPENDENT AUDITORS

Ernst & Young S.p.A.

PREAMBLE

The Report on Operations for Manutencoop Facility Management S.p.A. ("MFM") was drafted in accordance with art. 2428 of the Italian Civil Code and, as provided for under art. 40 of Legislative Decree 127/1991, is presented in a single document. Where appropriate, priority is given to issues considered important to the companies included in the scope of consolidation as a whole.

At 31 December 2016 the Group controlled by Manutencoop Facility Management S.p.A. ("MFM Group" and "MFM S.p.A." or "the Parent Company" respectively) was made up as follows:



As early as in the 2015 financial year, the Group outlined its objective of strategic growth in international markets, devoting resources specifically devoted to searching for new areas of activity in Europe and outside, which were concentrated into the sub-holding Manutencoop International FM S.r.l.. Again during 2015, e-Digital Services S.r.l. was also established, which was also wholly owned by MFM S.p.A., with the objective of embarking on a path to growth in B2B services markets, which was followed by the launch of a project in B2C market through the start-up company Yougenio S.r.l. during 2016.

Finally, by a deed dated 16 December 2015, there was the merger by incorporation of subsidiaries MACO S.p.A. and SMAIL S.p.A., which produced its accounting, statutory and tax effects starting from 1 January 2016.

Shareholding structure

Ordinary shares issued by the MFM Group and fully paid up at 31 December 2016 amounted to 109,149,600, with a par value of Euro 1 each.

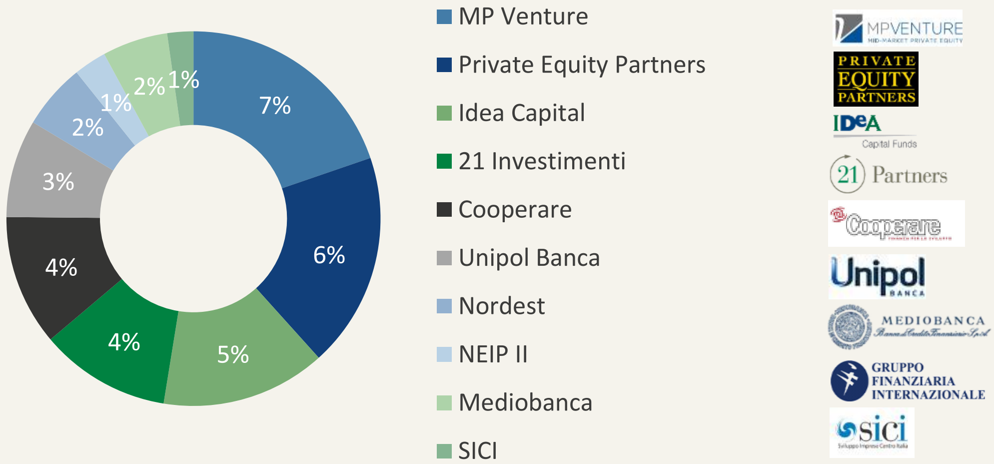
There are no other share classes. The Parent Company does not hold own shares.

At 31 December 2016, Manutencoop Società Cooperativa held a controlling interest of 71.889% in MFM S.p.A. and the remaining stake was held by a pool of Private Equity investors. On 1 July 2013 Manutencoop

Società Cooperativa also acquired an additional stake of 7.028% with retention of title ("riserva di proprietà"), pursuant to and for the purposes of article 1523 of the Italian Civil Code, for which the financial and administrative rights attached pertain to the buyer.

On 19 July 2016 the majority shareholder Manutencoop Società Cooperativa and the Investors signed a new investment agreement and new shareholders' agreements. The new agreements will supersede those that were entered into in 2013 and provide for Manutencoop Società Cooperativa to transfer an additional stake of 12.13% to the minority Shareholders: as a result, it will hold an overall stake of 66.793% in MFM S.p.A.. The new agreements do not provide for additional put options in favour of the Investors in consideration of a number of actions to be taken over subsequent periods of time, aimed at ensuring their exit from the ownership structure of MFM S.p.A. through the sale or listing of the latter's shares, while providing for a compensation obligation on Manutencoop Società Cooperativa in the case of a final sentence relating to the "Consip Scuole" tender proceedings before the Competition Authority. Furthermore, there is a provision for postponing the date of Manutencoop Società Cooperativa's payment obligations set at 1 July 2016 under the Vendor Note in relation to the quotas acquired in 2013 subject to a conditional sale, the extension being set at the earlier of the date of exit of the Investors and 30 June 2019, without prejudice to the Investors' right to further extend the latter time limit. Finally, the new agreements lay down new governance rules that have led to the appointment of a new Chairman and a new Chief Executive Officer, as well as a new composition of the Governing and Control Bodies.
The effectiveness of the agreements reached by the Shareholders was confirmed by the Extraordinary Shareholders' Meeting held on 7 October 2016, which approved the related amendments to the articles of association.

As at the date of approval of the Consolidated Financial Statements at 31 December 2016, the minority shareholders held the following stakes in the share capital of MFM S.p.A.:


7%
6%
5%
4%
4%
3%
2%
1%
2%
1%
MP Venture
Private Equity Partners
Idea Capital
21 Investimenti
Cooperare
Unipol Banca
Nordest
NEIP II
Mediobanca
SICI

MACROECONOMIC AND MARKET SCENARIO

There was an improvement in the global economy in the second half of 2016 which, according to the main forecasts, should continue to strengthen even if at a slower rate than before the crisis. Growth in the United States disappointed expectations, 2016 closing at 1.6% (2.6% in 2015), in spite of the support given to the economy by accommodating policies and the substantial reduction in unemployment; the uncertainties regarding the country's growth prospects and the world economy became more acute after the Presidential elections. Chinese economic growth faltered at 6.7% (6.9% in 2015), but in any case growth for 2017 is estimated at 6.5%. The Japanese rate of expansion is expected to be moderate while the medium-term prospect for the United Kingdom is that growth will be probably pulled back by the greater uncertainty regarding the country's future relations with the EU. Oil prices rose after the OPEC agreement on 30 November and the effects of the previous falls on overall global inflation ceased to be felt.

GDP rose by 1.7% in the Eurozone as a whole: the rise was higher than in the United States for the first time since the crisis broke out in 2008. Against this scenario, in 2016 the Italian economy recorded an average increase of 0.9% gross in GDP and of 1% after the figure was corrected for the two working days fewer than in 2015. Domestic demand contributed 0.4%, divided among 0.2% gross fixed investments, 0.1% public authority expenditure and nil from household spending. Stocks subtracted 0.2% while net foreign demand contributed nothing to growth. In spite of the recovery in the last two years, Italian GDP in 2016 was still more than 7% lower than the peak at the beginning of 2008 and only passed that of 2000 in 2016. Recovery is almost complete in Spain, while France and Germany, which had already recovered pre-crisis levels in 2011, record progress of over 4% and nearly 8% respectively.

The latest forecast for growth in GDP is 0.9% in 2017 and 1.1% both in 2018 and in 2019. In 2019 GDP, however, would still be about 4% lower than in 2007 if these growth estimates are confirmed. Economic activity is still expected to be driven by domestic demand but also by a gradual strengthening of foreign demand already in 2017. Investments are forecast to rise faster than products even if they do not entirely make up for the pronounced drop during the long phase of recession. The accumulation of capital will on one hand be affected by greater global uncertainty, but on the other hand will benefit not only from better prospects of domestic recovery and easy financial terms but also from incentive measures. These will encourage anticipation of expenditure followed by a temporary lull in investments until the end of the forecast horizon. Compared with GDP, investments in productive capital in 2019 will climb back to about the average levels recorded in the pre-crisis decade while spending on construction will be over 3% lower. The rate of consumption growth is estimated to be in line with that of manufacturing, sustained by a rise in employment and disposable income. The increase in employment is forecast to be stimulated mainly by continuing growth; in spite of the end of contributions concessions to spur employers to engage workers on indefinite-term contracts, employment, measured in standard labour units, is to rise cumulatively by about 2% during the three years from 2017 to 2019 (about 2.5% in the private sector). Although there was an increase in the number of people in work, the retirement age rose so that the unemployment rate might only fall gradually, thus possibly coming to 10.8% in 2019 (from 11.9% in 2015). Average inflation was slightly negative in 2016 but is expected to rise slowly (up to 0.9% in 2017, 1.2% in 2018 and 1.5% in 2019) and it should be sustained by higher prices of imported energy products. Price trends, on the other hand, are expected to be restrained by moderate labour cost movements: salaries will only pick up during the last part of the forecast horizon.

The Facility Management market in Italy between 2014 and 2015 reported an increase of about 1%. The total market value was about € 66/67 billion, of which about € 26 billion (39%) relate to outsourced services. These figures may seem “modest” compared with the values in the UK market, but high compared with Eastern Europe and the Balkans. Owing to the macroeconomic situation in Europe, the Facility Management market, both in Italy and in the rest of Europe, may grow because it is driven by the outsourcing of services. Forecasts for the Italian market speak of a rising increase in outsourcing expenditure, which is expected to be equal to about € 28.3 billion (41% of total market) in 2019. In terms of market segments, Healthcare, Government, Business and Commercial account for about 55% of outsourcing expenditure (about € 15 billion) and are also the sectors which will lead the rise in this type of expenditure during the next three years.

NON-GAAP FINANCIAL MEASURES

NON-GAAP FINANCIAL MEASURES

The MFM Group's management monitors and assesses the Group's business performance, results of operations and cash flows by using a number of financial ratios that are not defined under the international accounting standards IAS/IFRS ("Non-GAAP measures") and that are specified below. The Group's management considers that these financial ratios, which are not explicitly expressed in the accounting standards adopted to prepare the Consolidated Financial Statements, provide information which helps to understand and assess its overall financial and equity performance. These are widely used in the sector in which the Group operates but might not be directly comparable with those utilised by other companies, nor are they intended to replace the economic and financial performance ratios prepared in the application of the international accounting standards IAS/IFRS.

	Definition
Backlog	The Backlog is the amount of contract fees not yet accrued and connected with the residual term of the orders, which are held by the Group in the backlog.
Financial capex	Financial capex is the net expenditure on the acquisition of equity investments on business combinations and on grants of long-term loans.
Industrial Capex	Industrial CAPEX are defined as the purchase of (i) Property, plant and equipment, (ii) Property, plant and equipment under lease and (iii) other intangible assets.
NWC	Consolidated Net Working Capital (NWC) is defined as the consolidated NWOC which is added the amount of other operating assets and liabilities (other current assets, other current liabilities, current tax receivables and payables, current provisions for risks and charges).
NWOC	Consolidated Net Operating Working Capital (NWOC) is composed of "trade receivables and advance to supplier" and "inventories", net of "trade payables and advance to customers".
DPO	DPO (Days payables Outstanding) is a weighted average of days for payment of consolidated trade payables calculated as the ratio of trade payables, net of VAT on the amounts already received from the supplier, and costs over the last 12 months related to external production factors (included the capex) multiplied by the days of the reference period.
DSO	DSO (Days Sales Outstanding) is a weighted average of days for collection of consolidated trade receivables calculated as the ratio of trade receivables, net of VAT on the amounts already billed to customers, and revenues over the last 12 months multiplied by the days of the reference period.
EBIT	EBIT represents the Profit (Loss) before taxes gross of: i) Financial charges; ii) Financial income; iii) Dividend and income (loss) from sale of investments; iv) Share of net profit of associates; v) Profit (loss) on exchange rate. The Statement of Profit or Loss shows EBIT as "Operating Income ".
EBITDA	EBITDA represents the Operating Income before allocations to the

	Definition
	accrual of provisions for risks and amortization/depreciation, write-downs and write-backs of assets. EBITDA is a measure used by the Company's management to monitor and assess its operating performance and it is not identified as an accounting measure under IFRS. Therefore, it must not be considered an alternative measurement for evaluating the trend in the Group's profit/loss. Given that the breakdown of EBITDA is not regulated by the accounting standards, the calculation criteria applied by the Group may not be comparable.
Adjusted EBIT or EBITDA	Adjusted EBITDA and Adjusted EBIT do not include non-recurring elements recorded in the consolidated Statement of Profit/Loss for the year, as described in paragraph "Non-recurring events and transactions in the period".
Gross Interest Bearing Financial Indebtedness (GIBFI)	Gross Interest Bearing Financial Indebtedness (GIBFI) is defined as the sum of: i) Current bank overdraft, advance payments and hot money; ii) Current portion of non-current bank debts; iii) Long-term bank debts; iv) Senior Secured Notes; v) Financial lease obligations.
LTM (Last Twelve Months)	LTM values relate to the economic values or financial flows identified in the last 12 months, or in the last 4 financial reporting years.
Net interest bearing financial indebtedness (NIBFI)	Net interest bearing financial indebtedness is defined as Gross Interest Bearing Financial Indebtedness net of Cash and cash equivalents.
NFP	Consolidated Net Financial Position represents the balance of Long-term debt, Derivatives, Bank borrowings (including current portion of long-term debt) and other financial liabilities, net of the amount of current financial assets and Cash and Cash equivalents.
Adjusted NFP or NWOC	Adjusted NWOC and Adjusted NFP include the balance of the trade receivables assigned in the framework of the previous years' assignment without recourse programmes (now abandoned), and not yet collected by the factoring companies.

ADJ EBITDA
in €/mln
101.2
vs 97.1 at 31/12/2015

EBITDA ADJ / REVENUES
10.9%
vs 10.2% at 31/12/2015

EBITDA
in €/mln
95.9
vs 93.1 at 31/12/2015

EBITDA / REVENUES
10.3%
vs 9.7% at 31/12/2015

REVENUES
in €/mln
929.1
vs 955.7 at 31/12/2015

DELTA % ON REVENUES
-2.8%
vs 31/12/2015

NFP / EBITDA
1.9x
vs 2.6x at 31/12/2015

NFP
in €/mln
(180.9)
vs (240.6) at 31/12/2015

ADJ NFP
in €/mln
(193.8)
vs (242.0) at 31/12/2015

ADJ NFP / ADJ EBITDA
1.9x
vs 2.5x at 31/12/2015

EBIT

in €/mln

73.3

vs 9.0 at 31/12/2015

EBIT / REVENUES

7.9%

vs 0.9% at 31/12/2015

ADJ EBIT

in €/mln

66.6

vs 61.5 at 31/12/2015

ADJ EBIT / REVENUES

7.2%

vs 6.4% at 31/12/2015

NET RESULT

in €/mln

33.6

vs (45.4) at 31/12/2015

NET RESULT/REVENUES

3.6%

ND at 31/12/2015

NWOC

in €/mln

114.2

vs 143.7 at 31/12/2015

NWOC / REVENUES

12.3%

vs 15.0% at 31/12/2015

ADJ NWOC

in €/mln

127.1

vs 145.1 at 31/12/2015

ADJ NWOC/REVENUES

13.7%

vs 15.2% at 31/12/2015

1. SUMMARY OF RESULTS AND MAIN EVENTS IN 2016

CONSOLIDATED RESULTS FOR THE 2016 FINANCIAL YEAR (1)

	For the year ended 31 December			
	2016	2015	Change	%
Revenues	929,098	955,729	(26,631)	- 2.8%
Adjusted EBITDA	101,220	97,062	4,158	+ 4.3%
Adjusted EBITDA % of Revenues	*10.9%*	*10.2%*		
Adjusted EBIT	66,640	61,518	5,122	+ 8.3%
Adjusted EBIT % of Revenues	*7.2%*	*6.4%*		
Consolidated Net Profit (Loss)	33,533	(45,369)	78,902	

In 2016, the Group recorded ***Revenues*** of € 929.1 million, with a € 26.6 million reduction (-2.8%) compared to 2015 (€ 955.7 million). The main reason for the fall is that in 2016 there could not be the same substantial gains from plant upgrades in 2015 under some Healthcare facility management contracts; additionally, a large private contract was renewed but for smaller volumes of work. Again during 2015, the Consip Sanità agreement also came to an end, while a number of new agreements are still being awarded. The reduced revenues from facility management was partially offset by volumes developed by start-up operations, specifically as regards those carried out by e-Digital Services. There was also an impact deriving from portfolios renewed for smaller volumes of work in the *Laundering &Sterilisation* SBU owing to a further phase in healthcare cost cutting and the consequent reduction in the number of beds of some hospital trusts.

Finally, revenues from the Other SBU (- € 2.2 million compared to the previous year) came to zero, with the final completion of construction activities carried out by subsidiary MACO S.p.A., which was subsequently merged by incorporation into MFM S.p.A., with accounting, statutory and tax effect from 1 January 2016.

The commercial **backlog** is more or less unchanged (€ 2,845 million compared with € 2,847 million as of 31 December 2015).

On the other hand, **Adjusted EBITDA** showed a considerable increase (+ € 4.2 million, equal to +4.3%), with a positive change also in terms of margins (**Adjusted EBITDA/Revenues**), which passed from 10.2% in 2015 to 10.9% in 2016. The evidence in the results shows the effects of a substantial process of rationalisation of production costs and overheads which the Group started as early as in previous financial years in order to offset the ongoing trend of reduction in volumes. This figure should also be seen in the light of the fact that the Group is paying the start-up costs of the new projects (B2C and international development), which are a total charge to the 2016 budget, against reduced initial volumes of operations, with an overall negative impact of € 4.1 million. On the other hand, during 2015 some contracts concerning energy services were affected by a considerable amount of costs relating to "*Oneri di Sistema*" for a total of € 3.2 million (in addition to further € 3.1 million relating to 2014). During 2016 the estimates of these costs for some sites which had previously not been considered eligible for concessions were reviewed, and this was accompanied by a change in the regulations governing the matter laid down in the "*Milleproroghe* (Thousand Extensions) Decree", as amended and converted by Law of 24 February 2017. Therefore no additional charges on the energy contracts involved were recognised in 2016.

Adjusted EBIT came to € 66.6 million (7.2% of Revenues for the year), up by € 5.1 million compared to € 61.5 million (6.4% of related Revenues) in the previous year. The trend, in line with the information already reported for EBITDA, was mainly attributable to lower amortisation and depreciation of € 0.8 million (mainly due to the actions taken to streamline the linen management in the Laundering&Sterilization SBU), against higher write-downs of trade receivables of € 0.1 million and lower provisions for risks, net of related releases, for € 0.6 million (of which € 0.1 million relating to the long-term bonus system reserved for management, which remained in place until 2015).

The **Consolidated Net Profit** for the year posted a value of € 33.5 million, against a Consolidated Net Loss of € 45.4 million for the financial year ended 31 December 2015.
The income performance of both financial years was significantly affected by the provision for risks of € 48.5 million set aside by the parent company MFM S.p.A. during the 2015 financial year, following an order for sanctions issued by the Competition Authority (*Autorità Garante della Concorrenza e del Mercato*, hereinafter referred to as "AGCM") on 20 January 2016. At 31 December 2016 the amount of the provision for risks was recalculated after the Lazio Regional Administrative Court's partial acceptance of the appeal filed by MFM S.p.A., which substantially reduced the fine to € 14.7 million, in spite of claims for damages submitted by Consip S.p.A., with a net reversal of € 16.3 million. In this regard, see the information reported in the paragraph on "2016 significant events" below.
Compared to the previous year, the Group recorded lower net financial costs by € 5.8 million, mainly due to the acquisition of portions of the Senior Secured Notes through a Tender Offer launched in June 2015 (€ 80 million), which ensured net savings of € 2.9 million, in terms of financial costs on six-monthly coupons, compared to the previous year. Finally, in 2015 higher financial costs were recorded in relation to the fees due to financial intermediaries on the repurchase of the Notes and to the accounting effects of this transaction (concerning the write-off of the related "amortised cost" required by the accounting standards IAS/IFRS), equal to an additional amount of €3.0 million; of these, € 1.9 million related to the proportional amount of financial costs accounted for according to the amortised cost method pursuant to IAS 39 on the Notes repurchased. On the other hand, during 2016 credit facilities were used for factoring without recourse and with recourse, which entailed higher financial costs for € 0.8 million and € 0.3 million, respectively.

Finally, the consolidated net profit for the year includes a positive result from discontinued operations of € 1.1 million, including the related tax effect (€ 0.3 million). It mainly related to an extra price (Earn-out) that MFM S.p.A. (the company into which SMAIL S.p.A. was merged with effect from 1 January 2016) obtained from the disposal of the business unit, which was carried out by the merged company in November 2015, as required by the contract of sale (€ 1.2 million, accompanied by a tax effect of € 0.3 million). On the contrary, 2015 saw a negative result from discontinued operations of € 2.9 million, relating to a negative net result from operations of subsidiary SMAIL S.p.A., which the same used for the maintenance of public lighting systems, involved in the disposal that was completed during the financial year itself (€ 2.4 million, to which must be added a tax income of € 0.8 million). Furthermore, total costs were recognised, which had accrued during the year and which were estimated at € 1.3 million, relating to the continuation of formalities set out as per contract and arising from the disposal of the investment held in MIA S.p.A., which took place in December 2014.

	31 December 2016	31 December 2015	Change
Adjusted Net Operating Working Capital (NWOC)	127,052	145,142	(18,089)
Adjusted Net Financial Position (NFP)	(193,825)	(242,001)	48,175

From an equity and financial point of view, the data relating to the Adjusted Net Working Operating Capital (**NWOC**) recorded a decrease of € 18.1 million, with lower trade receivables for € 51.6 million compared to an Adjusted Net Financial Position (**NFP**) that recorded an increase in the financial year, equal to € 48.2 million. DSO at 31 December 2016 was 170 day (176 day on 30 September 2016 and 185 day at 31 December 2015), thus confirming an improving trend in collection times. DPO, on the other hand, was 226 day (205 day on 30 September 2016 and 234 day at 31 December 2015).

During the year, change in Adjusted Net Working Operating Capital generated a cash flow of € 13.2 million (€ 55.6 million in 2015) which is added to a € 64.8 million cash flow generated from current operations (€ 55.7 million in 2015), while net industrial investments were made for € 29.7 million (€ 23.1 million in 2015), against net financial disinvestments of € 4.5 million (compared to net disinvestments of € 5.7 million in 2015). Finally, during the year, there was a € 10.2 million cash flows for utilizations of provisions for future risks and charges and for employee termination indemnity (€ 14.0 million in 2015), in addition to a positive flow of € 5.6 million for changes in other operating assets and liabilities (€ 29.7 million in 2015). The variations in this item in particular arise from movements in the VAT stock (which recorded, at consolidated level, a net receivable of € 8.0 million at 31 December 2016, against a net receivable of € 3.4 million at 31 December 2015). This stock has become a permanent credit item after the introduction of the new rules governing “Split payment” (which require Public Administrations to pay the VAT charged by their suppliers directly to the Tax Office instead of the suppliers themselves settling the VAT they have charged their customers) and “Reverse charge” (which have reduced VAT on procurement and, to a lesser extent, on sales invoices), introduced by the 2015 Stability Law. Furthermore, a cash flow of € 11.7 million was generated during the year, which arose from the assignment of tax receivables without recourse linked to the application of Decree Law 201 of 6 December 2011, as amended and converted by Law 214 of 22 December 2011, which had allowed various Group companies to submit, during 2012, a request for IRES (Corporate Income) tax refund as a result of the non-deduction of IRAP (Local Production Activity) tax in an overall amount of € 12.4 million, of which € 10.0 million under the tax consolidation regime in place with the parent company Manutencoop Società Cooperativativa. Finally, the account receivable that had been recognised in 2013 in exercising a right of recourse pursuant to Article 18, paragraph 1, of Presidential Decree 633/1972, was collected after a tax inspection which alleged that MFM S.p.A. had not applied some concessionary VAT rate rules to a particular contract. The Company was paid this debt by the customer to which it had been charged after an arbitration award handed down in August 2016, even it had to pay the counterparty € 1.7 million on account of damages, which were recognised under Other operating costs at 31 December 2016.

Non-recurring events and transactions

In 2016 the Group recognized in the Statement of profit or loss some "non-recurring" financial items which impacted on the normal dynamics of the consolidated results. Pursuant to Consob Communication DEM/6064293 of 28 July 2006, "*significant non-recurring events and transactions*" mean events or transactions whose occurrence is non-recurring or those transactions or events that are not repeated frequently as part of normal operations and have a significant impact on the financial position, economic result and cash flows of Group companies.

In detail, the following non-recurring elements are recorded in the Consolidated Statement of Profit/Loss for the year:

(in thousands of Euro)	**For the year ended 31 December**	
	2016	**2015**
Advice on agreements for assignments of trade receivables without recourse	620	
Compensation for damage for arbitration award	1,915	
Structural reorganisation consulting fees	2,111	583
Legal advice on pending administrative disputes	676	198
Tender offer consulting fees		142
"*Oneri di Sistema*" relating to previous years ([2])		3,074
Non-recurring operating costs impacting on EBITDA	**5,323**	**3,997**
Provisions for corporate reorganisation	1,400	
Impairment of fixed assets	614	
Provisions for contractual liability to associates	2,323	
Provisions (Reversals) for risks from administrative disputes	(16,310)	48,510
Non-recurring Expenses (income) impacting on EBIT	**(6,650)**	**48,510**
Write-off of upfront fees related to the Notes bought back		1,902

(in thousands of Euro)	For the year ended 31 December	
	2016	2015
Financial fees		1,069
Non-recurring financial costs	**0**	**2,971**
TOTAL NON-RECURRING ITEMS	**(6,650)**	**55,478**

Consolidated Adjusted EBITDA and EBIT are thus represented as follows:

(in thousands of Euro)	For the year ended 31 December	
	2016	2015
EBITDA	**95,897**	**93,065**
Non-recurring operating items impacting on EBITDA	5,323	3,997
Adjusted EBITDA	**101,220**	**97,062**
Adjusted EBITDA % Revenues	**10.9%**	**10.2%**
EBIT	**73,290**	**9,011**
Non-recurring operating items impacting on EBIT	(6,650)	52,507
Adjusted EBIT	**66,640**	**61,518**
Adjusted EBIT % Revenues	**7.2%**	**6.4%**

2016 SIGNIFICANT EVENTS

Antitrust Authority's order for sanctions on the Consip Tender of 2012

On 20 January 2016 the Competition Authority ("AGCM") considered that it had found a breach of competition rules on the part of some companies which had taken part in a European Union tender for cleaning services in school buildings called by CONSIP in 2012 and levied a fine of € 48.5 million against the Parent Company MFM S.p.A., the amount of which was fully allocated to a specific provision for future risks and charges set aside in the Consolidated Financial Statements at 31 December 2015.

MFM S.p.A., which rejects the arguments on which the charge was based, lodged an appeal against the Authority's order with the Lazio Regional Administrative Court (*Tribunale Amministrativo Regionale*, TAR). On 14 October 2016, the latter court ruled by partially granting the appeal filed by MFM S.p.A. and referring the papers to the Authority for a new calculation of the fine, with the recommendation to reduce both the related taxable base (thus limiting it to the contracted tender amount) and the percentage to be applied to the abovementioned amount (from 15% to 5%).

In any case, while claiming its full non-involvement in the violations being contested, MFM S.p.A. challenged the trial judgment before the Council of State within the time limits prescribed by law; however, the Council made its decision on 28 February 2017, thus confirming the ruling handed down by the Lazio Regional Administrative Court. In any case, MFM S.p.A. will also challenge the Council of State's judgment by filing an appeal with the Supreme Court.

On 23 December 2016 the Authority, based on the ruling handed down by the Lazio Regional Administrative Court, published a new order, with a new calculation of the fine, set at € 14.7 million, which was also challenged by MFM S.p.A. before the Lazio Regional Administrative Court.

As a result of the Competition Authority fine ruling, on 4 February 2016 Consip S.p.A. also initiated a procedure to terminate the Agreements entered into within the tender in question, also informing the Company that it would consider the possibility of excluding it from future tenders for "work of the same type" (pursuant to article 38, paragraph 1, letter f) of Legislative Decree 163/06).

On 23 November 2016 Consip S.p.A. gave MFM S.p.A. notice of the final termination of the agreements, expressly stating that it would confiscate the part of the final guarantee deposit (performance bond) which remained after the deposit had been partially released considering the work done normally up to the termination date. The Company considers that the termination of the agreement will not entail the automatic termination of existing contracts with individual schools but that termination is a mere right on the schools' part.

Finally, on 2 December 2016 Consip S.p.A. formally notified the Italian Anti-Corruption Authority (Autorità Nazionale Anti-Corruzione, ANAC) of its accusations against MFM S.p.A. and notified the latter of its intention to make a report to the Public Prosecutor's Office. On 7 January 2017 the latter served a writ of summons on the entity, asking the Ordinary Court of Rome to establish the unlawfulness of the notice of termination of the agreements and order Consip S.p.A. to compensate for any damage suffered by the company.

When closing the Financial Statements at 31 December 2016, in the light, among other things, of the appeals lodged by the parties, on which the competent courts have already ruled, the Directors recalculated the risk of outflows related to the Competition Authority fine as a maximum amount of € 14.7 million, with the consequent reversal of the excess sum set aside in the Financial Statements at 31 December 2015 (€ 48.5 million). The tender performance bond (initially equal to € 24.5 million) might also be partially enforced if the Company loses the case against Consip S.p.A.. After the Regional Administrative Court's judgment of 14 October 2016, which was substantially confirmed by the Council of State's judgment of 1 March 2017 and which substantially reduced the fine that had previously been imposed while not accepting the Company's argument that it was completely extraneous to the accusations, the Directors made an adjustment of the provisions for future charges in the Financial Statements at 31 December 2016, also taking account of the risk of enforcement of the abovementioned performance bond. MFM S.p.A. could submit sound arguments against the enforcement of the bond in court, but in any case the maximum estimated liability, which is the part of the bond which remains after its partial release owing to the work carried out normally until termination, is € 17.5 million. As a result, the release of the provision for legal disputes is equal to a total of € 16.3 million.
Detailed information on the pending legal proceedings and the further evaluations made by the Directors as at the reporting date of the Financial Statements is contained in the explanatory notes to the Financial Statements (note 17) and o the Consolidated Financial Statements (note 13), to which reference should be made.

Contract relationships with Telecom Italia

On 4 May 2016 Telecom Italia served a formal notice on MFM S.p.A. concerning its intention to not exercise the right of withdrawal from the contract in place (concerning hygiene services and other facility management services), as it had announced on 19 February 2016 in making use of a contractually agreed right in the event of any Company directors being committed for trial. Therefore, the contracts will remain effective until the date of their initial expiry.

Arbitration award concerning a dispute on a charge-back of VAT

During the 2013 financial year, within the scope of an audit carried out in relation to previous tax years, the Tax Authority raised objections against MFM S.p.A. concerning the misapplication of some rules governing VAT reduced rates and issued two PVCs (Processi Verbali di Constatazione, Reports on findings), ordering the payment of a higher VAT for € 4.0 million. Subsequently MFM S.p.A. filed formal notices of acceptance of the PVCs, which were followed by a voluntary tax correction (ravvedimento operoso) concerning the tax years after the audit, with an additional tax payment of € 1.6 million. The overall amount of the tax paid (€5.6 million) was finally charged to the customer on the basis of the right of recourse laid down under article 18, paragraph 1, of Presidential Decree no. 633/1972 and was entered under Other operating assets pending the payment. The subsequent dispute was settled by means of an arbitration award dated August 2016, in the application of the arbitration clause laid down in the contracts, which fully acknowledged the payment of the amounts required by way of recourse for VAT (€5.6 million) to MFM S.p.A., even in consideration of the payment of an amount of € 1.7 million to the customer by way of compensation, which was entered under Other operating costs as at 31 December 2016. The same decision also recognised MFM S.p.A.'s right to request interest for late payment, even in a venue other than that of an arbitration proceeding.

Renewal of Governing Bodies and adoption of a new Governance model

On 29 February 2016, Claudio Levorato resigned from his office as Chairman and Managing Director of the Management Board of MFM S.p.A.. This decision was taken because the Group wished to make a tangible change in Manutencoop Group 's management and prevent the current legal proceedings before the Court of Brindisi in which he is involved from adversely affecting its activities, even if no final and non-appealable judgments have been handed down.

The Vice Chairman of the Management Board and other two members resigned from their positions on the Management Board on the same date. Finally, on 1 March, other four board members also resigned from their positions with the resulting of the reset of the entire corporate body. Pursuant to the Articles of Association, the Company's Supervisory Board then called the Shareholders' Meeting on 6 April 2016 in order to appoint the new members of the new Management Board and at the Shareholders' Meeting held on 29 April 2016 it defined its composition. The same board then held a meeting in order to change the previous structure of delegated powers and authority, appointing from its members three top managers of the Company in order to grant them the delegated operational powers and authority relating to the respective company functions under their responsibility and appointing Guido Dealessi as the Chairman of the board.

The new Investment Agreement that the Majority shareholder Manutencoop Società Cooperativa and the Private Equity Investors entered into on 19 July 2016, together with new Shareholders' Agreements, provides for the renewal and change of the structure of corporate bodies (with a Management Board that increases the number of its members from 11 to 13), as well as the appointment of a new Chairman and CEO, based on shared time-phased steps. This process was completed on 7 October with the appointment of the new Management Board, which appointed Marco Canale as the Chairman of the board itself and Aldo Chiarini as the CEO. The new Chairman was granted the powers prescribed by law, the Articles of Association and the Shareholders' Agreements, while the new CEO was granted the main delegated powers and authority relating to the operational management of the Company.

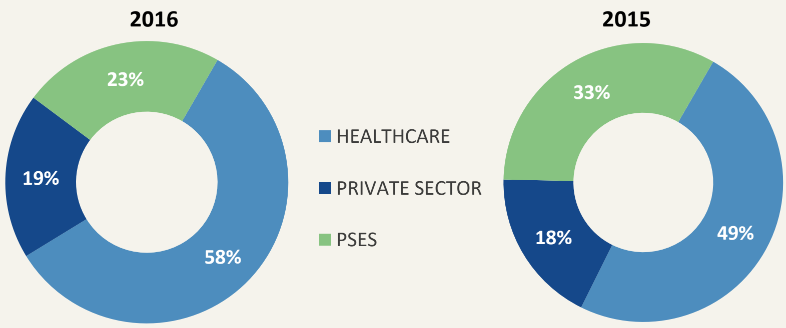
On the same date, again on the basis of the agreements signed in July, the Shareholders also completed the transfer of the existing shares of MFM S.p.A. from Manutencoop Società Cooperativa to the Investors, which then formally increased their stake from 21.083% to 33.207% of the Company's share capital.

On 30 November 2016 the extraordinary Shareholders' Meeting of MFM S.p.A. approved the new Articles of Association, whereby the ordinary management and control system was adopted pursuant to articles 2380 and ff. of the Italian Civil Code. The Shareholders deemed that this model, according to which there is a Board of Directors with management and strategy oversight functions and a Board of Statutory Auditors with control functions, is more in keeping with the objectives the Company intends to pursue, while allowing the Shareholders' Meeting to directly exercise its power to appoint Directors and approve the Financial Statements. All the members of the previous Management Board were confirmed as members of the newly formed Board of Directors, composed of 13 members; furthermore, Marco Canale was appointed as Chairman and Aldo Chiarini as CEO.

2. BUSINESS DEVELOPMENT

In 2016 the Group brought orders for an overall multi-year amount of € 651 million, within which extensions and renewals of contracts already included in its sales portfolio amount to € 316 million.
As in the past, these data regards only long-term contracts obtained in the context of services for “traditional” facility management, for linen rental and for laundry services as well as for the sterilization of surgical instruments, as well as of “B2B” technology services following the recent start-up of e-Digital Services S.r.l.. On the contrary, the figure does not include the commercial portfolio of the companies of the sub-Group owned by Sicura S.p.A., whose contracts have an average term of less than one year and, therefore, a future minor visibility. However, these companies have a not particularly significant impact on consolidated production volumes (equal to about 4% in 2016).
New contracts in the Healthcare sector still affected the total in a significant manner (an overall percentage of 58%, equal to € 375 million, with an increasing percentage compared to 2015), against orders gained for the Public and Private sectors equal to € 153 million and € 123 million, respectively.

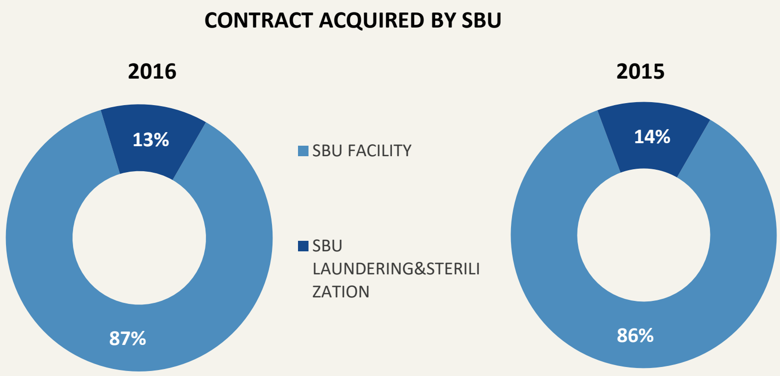
CONTRACTS ACQUIRED BY MARKET



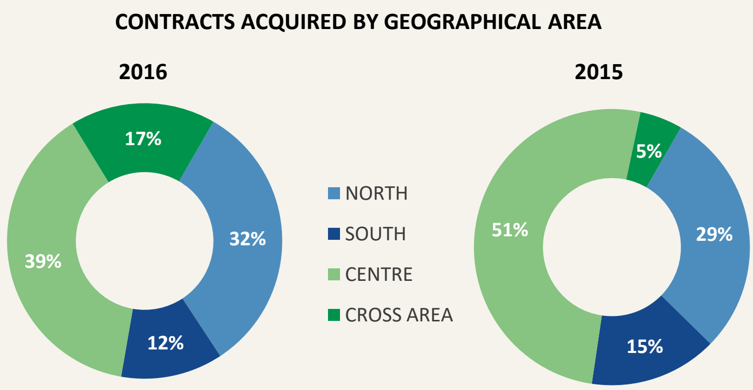
In the Healthcare sector, a significant event occurred as early as in the first quarter, which resulted in MFM S.p.A. becoming the supplier of hygiene and cleaning services of the project company Ospedal Grando S.r.l., which holds the project finance concession for the "Cittadella Sanitaria" (Health District) project at the Treviso Hospital, for a contract term of 16 years. Furthermore, there was the 5-year renewal of the contract for maintenance services at the Gemelli Hospital of the Catholic University of Sacred Heart in Rome and at the Valduce Hospital in Como.
As regards the Private sector there was the renewal of the contracts for hygiene services within the stores in the large-scale retail trade network (GDO, *Grande Distribuzione Organizzata*) (specifically, at the hypermarkets of S.S.C. S.r.l. Carrefour and Coop and the contracts for the maintenance of the technology systems at the properties of the Telecom Italia Group, to be used as CED data processing/Data centers).

Furthermore, there were renewals of contracts with the UNIPOL Group for computerised document management and mailing, and with the network of UNIPOL FONSAI office network for hygiene services.
Finally, in the Public Sector market, some big contracts were acquired for on-board cleaning services on Trenitalia night trains throughout Italy for three years. Furthermore, note the award of the 3-year global service concerning the maintenance of the road network of the City of Bologna and the renewal of the Intercenter 4 agreement concerning hygiene services at public offices in Emilia Romagna. was renewed for an additional period of three years.

Regarding the orders gained in the year in terms of Strategic Business Unit (SBU), the Facility Management segment obtained contracts of € 567 million, while the *Laundering&Sterilization* obtained contracts of € 84 million. In the latter segment, note the renewal of the contract for linen rental and industrial laundering services at the Bologna ASL Local Health Unit at the Hospitals of Legnano and USSL12 Local Social and Health Unit in Venice-Mestre. Furthermore, a new contract was gained from the S. Antonio Abate Hospital in Gallarate (Province of Milan), as was a new contract for the sterilisation of surgical instruments from the ULSS n.3 Local Social and Health Unit in Bassano del Grappa.
In the Facility Management sector, note the contracts gained for energy services at the ASL 4 Local Health Unit of Turin and heat maintenance and management services at the ASP Provincial Health Unit of Palermo, as well as the renewal of hygiene services for the ASL Local Health Unit of Bologna. Finally, a contract was gained for cleaning services at the Bianchi Melacrino Morelli Hospital in Reggio Calabria. All the contracts described above fall within the scope of the contracts gained in the Healthcare market.



Furthermore, a geographical distribution of the commercial portfolio of new acquisitions in the year is provided below:

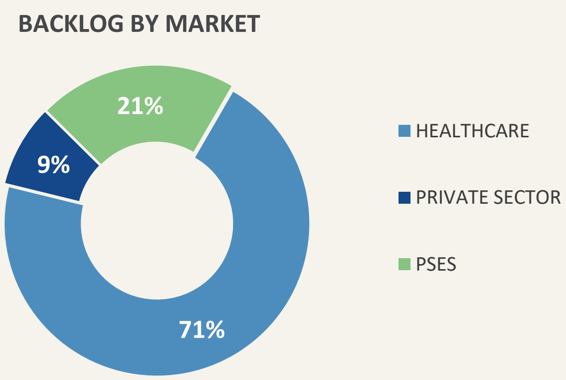


Finally, as at the date of Consolidated Financial Statements at 31 December 2016 the Group had already gained, in the *Laundering&Sterilization* SBU, a major services contract, both for linen rental and industrial laundering and sterilisation of surgical instruments, at the new private hospital of Mater Olbia in Sardinia.

Backlog

The Backlog, i.e. the amount of contractual revenues related to the residual duration of the job orders in the portfolio at that date, is expressed below in millions of Euro:

	2016	2015
Backlog	2,845	2,847



3. THE GROUP'S PERFORMANCE OF OPERATIONS AND CONSOLIDATED FINANCIAL POSITION FOR THE 2016 FINANCIAL YEAR

3.1 Consolidated performance of operations for FY 2016

Below are reported the main income figures relating to 2016, compared to the figures of the previous years:

(in thousands of Euro)	For the year ended 31 December		Change	%
	2016	2015		
Total revenues	929,098	955,729	(26,631)	-2.8%
Total costs of production	(833,201)	(862,664)	29,463	-3.4%
EBITDA	**95,897**	**93,065**	**2,832**	**+3.0%**
EBITDA %	**10.3%**	**9.7%**		**+0.6%**
Amortization, depreciation, write-downs and write-backs of assets	(32,714)	(32,493)	(221)	
Accrual and reversal of provisions for risks and charges	10,107	(51,561)	61,668	
Operating Income (EBIT)	**73,290**	**9,011**	**64,279**	**+713.3%**
EBIT %	**7.9%**	**0.9%**		**+7.0%**
Share of net profit of associates	1,688	90	1,598	
Net financial charges	(27,759)	(33,551)	5,792	
Profit before taxes	**47,219**	**(24,450)**	**71,669**	
Profit before taxes %	**5.1%**	**ND**		
Income taxes	(14,738)	(18,032)	3,294	
Profit from continuing operations	**32,481**	**(42,482)**	**74,963**	
Profit (loss) from discontinued operations	**1,052**	**(2,887)**	**3,939**	
NET PROFIT (LOSS)	**33,533**	**(45,369)**	**78,902**	
NET PROFIT %	**3.6%**	**ND**		
Minority interests	116	(43)	159	
NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**33,649**	**(45,412)**	**79,061**	
NET PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT %	**3.6%**	**ND**		

REVENUES

In 2016 the Group achieved Revenues of € 929.1 million, down by € 26.6 million (-2.8%) compared to € 955.7 million in the previous year. The gradual trend of reduction in sales volumes, which had already occurred in recent years, was once again evident during the second half of 2016, mainly following a change in the portfolio mix. The main reason for the fall in business volumes is that there could not be the same substantial gains from plant upgrades in 2016 as there were in 2015, in addition to the fact that some contracts were renewed in 2016 for smaller volumes of work and at prices which tended to be lower. The processes for the award of some big Agreements in the Public sector were also seen to be persistently slow; it had been expected that these agreements would be closed within the year 2016.

The breakdown of the consolidated Revenues in 2016 is provided below, compared to the previous year, broken down by Market. Revenues from contracts in which the clients are or belong to public or private healthcare establishments in a single "Healthcare" item, which takes the place of the previous classification, according to which contracts with private healthcare establishments were included in the "Private" market and those with public healthcare establishments in the "Public Healthcare" market.

REVENUES BY MARKET

(in thousands of Euro)	For the year ended 31 December				Change
	2016	% of total Revenues	2015	% of total Revenues	
PSEs	253,744	27.3%	242,867	25.4%	10,877
Healthcare	441,499	47.5%	466,344	48.8%	(24,845)
Private sector	233,854	25.2%	246,518	25.8%	(12,664)
CONSOLIDATED REVENUES	**929,098**		**955,729**		**(26,631)**

The breakdown of turnover by market shows that in 2016 there was an increase in the proportion from PSEs, both in absolute values and as a percentage of total (+ € 10.9 million, equal to 27.3% of the consolidated Revenues against 25.4% in 2015). The effect was attributable to some new major orders acquired, including, among the most significant ones, those concerning the operation and maintenance of the municipal assets and the road network of the City of Bologna, against a turnover in the portfolio of Public entities managed through the Consip agreement which did not report any significant change.

The fourth quarter of 2016 saw the confirmation of a decline in sales volumes from the Healthcare segment, which had already been reported during the previous quarters, equal, for the year ended 31 December, to € 441.5 million (- € 24.8 million compared to the previous year), accompanied by a slight decline in terms of contribution compared to consolidated Revenues (47.5% against 48.8% during 2015). However, it should be noted that 2015 saw the termination of the Consip Sanità agreement, which has not been replaced for the time being by the acquisition of other agreements that are still being awarded, as well as the completion of energy improvement works in relation to two important hospitals, for total volumes equal to about 50% of the overall decrease in the specific market turnover. Therefore, the reduction in business volumes in the Healthcare sector in 2016 should not be seen as a current trend, also owing to the increase in Healthcare contracts acquired. Finally, zero amounts were posted, during the 2016 financial year, in the turnover from building construction activities, which MACO S.p.A. carried out under project finance contract at a hospital facility (- € 2.2 million).

Finally, Revenues from the Private market were affected, in absolute terms, by a decline compared to 2015, equal to € 12.7 million, while the impact on total Revenues, which passed from 25.8% at 31 December 2015 to 25.2% at 31 December 2016, remained substantially stable. This trend is apparently due to limited commercial growth combined with a gradual renewal of the contracts in the portfolio for smaller volumes of work and at lower prices on average.

Analysis of revenues by Segment

A comparison of Group Revenues by business segment is provided below.

The business segments were identified on the basis of IFRS 8 and correspond to the following business areas: "*Facility Management*" and "*Laundering & Sterilization*". Furthermore, complementary activities (so-called "*Other*" activities) were identified until 31 December 2015, which related to building management operations that were fully disposed of starting from the 2016 financial year.

REVENUES BY SEGMENT

(in thousands of Euro)	For the year ended 31 December				Change
	2016	% of total Revenues	2015	% of total Revenues	
Facility Management	797,237	85.8%	819,153	85.7%	(21,916)
Laundering & Sterilization	134,788	14.5%	138,568	14.5%	(3,781)
Other			2,205	0.2%	(2,205)
Intra-group elimination	(2,927)	-0.3%	(4,197)	-0.4%	1,270
CONSOLIDATED REVENUES	**929,098**		**955,729**		**(26,631)**

The breakdown of turnover by operating segments confirms that the relative weight remained substantially unchanged in relation to the sectors, equal to 85.8% for the Facility Management in 2016 financial year (85.7% in 2015) and to 14.5% for the Laundering&Sterilization (unchanged compared to 2015) in addition to the final zero amount of Revenues from the Other SBU.

At 31 December 2016, Revenues in the Facility Management sector amounted to € 797.2 million, marking a decrease of € 21.9 million (-2.7%) compared to 2015, mainly owing to the reduction in the number of upgrades to hospital plants owing to the natural expiry of the Consip Sanità agreement (this agreement has not yet been replaced by additional agreements being awarded), as well as to lower revenues from private market following renewals of contracts, mainly linked to the facility management activities.

At 31 December 2016 Laundering & Sterilization segment achieved Revenues of € 134.8 million, against € 138.6 million for year ended 31 December 2015. The fall in the Revenues from this sector is mainly due to the renewal of some contracts in the portfolio for smaller volumes of work because some hospital trusts have reduced the number of beds in order to cut costs. This applies in particular to the revenues from linen rental and industrial laundering services (- € 1.6 million) to which must be added the termination of surgical instrument sterilisation at some important customers, which was only partially offset by the start of operations for new supplies (for a negative differential equal to about € 2.0 million). However, the trend in turnover was affected by the recognition of higher settlements in both services for an overall differential amount of € 1.0 million compared to the previous year.

EBITDA

At 31 December 2016 EBITDA of the Group came to € 95.9 million, against € 93.1 million for the year ended 31 December 2015, showing an increase expressed both in absolute values (+3.0%) and in terms of margins, which passed from 9.7% in 2015 to 10.3% in 2016. The improvement of profit margins was evident and offset by a decreasing trend in Revenues as described above, while considering that EBITDA expensed total *non-recurring costs* of € 5.3 million during 2016 against *non-recurring costs* of € 4.0 million during 2015. Furthermore, note that, to this end, the Group is incurring start-up costs linked to new projects (B2C and international expansion), which fully affect the 2016 financial year against reduced initial volumes of operations, with the overall amount of € 4.1 million.

The overall improvement in profit margins is the most evident effect of the operating (production and overhead) cost efficiency improvement measures which the Group already put in hand at the end of 2014 financial year and which entered in full operation during 2015, to which must be added additional reorganisation actions, the effects of which were fully felt during 2016 and which will be completed during 2017.

Below is provided a comparison of EBITDA by business segment for the year ended 31 December 2016 and for the year ended 31 December 2015:

EBITDA BY SEGMENT

(in thousands of Euro)	For the year ended 31 December				Change
	2016	% of segment Revenues	2015	% of segment Revenues	
Facility Management	59,330	7.4%	60,031	7.3%	(701)
Laundering&Sterilization	36,567	27.1%	33,560	24.2%	3,007
Other			(527)	-23.9%	527
CONSOLIDATED EBITDA	**95,897**	**10.3%**	**93,065**	**9.7%**	**2,832**

The profit margin of the *Facility Management* sector was clearly maintained as a percentage of Revenues (7.4% at 31 December 2016 against 7.3% at 31 December 2015), against segment Revenues that reported a more considerable decline (-2.7% compared to the previous year). The vast majority of the effects of the actions for improvement of efficiency and for cutting fixed costs (both indirect costs and overheads) in order to support the company's margins were felt just as regards the Facility Management SBU and more than offset, during 2016, the effect of volumes and the costs of the abovementioned start-up projects, which are currently included in the Facility Management SBU. It should also be borne in mind that most non-recurring costs described in paragraph 1 above impacted on the results of this SBU (€ 5.1 million at 31 December 2016 against € 4.0 million at 31 December 2015), further confirming that the profit margin has been maintained.

Furthermore, the SBU includes a considerable amount of energy service contracts for which charges relating to "*Oneri di Sistema*" had been set aside for a total of € 6.2 million (of which € 3.1 million relating to 2014) during 2015. During 2016 the estimates of these costs for some sites which had previously not been considered eligible for concessions were reviewed, and this was accompanied by a change in the regulations governing the matter laid down in the "*Milleproroghe* Decree", as amended and converted by Law of 24 February 2017. Therefore no additional charges on the energy contracts involved were recognised in 2016.

In the period ended 31 December 2016, EBITDA in the *Laundering&Sterilization* sector came to € 36.6 million, showing an increase of € 3.0 million in absolute terms compared to 2015, with a +2.9% in terms of profit margins (passing from 24.2% to 27.1% of related Revenues). Also as regards the Laundering&Sterilization SBU, the positive result mainly arose from the effect of the actions taken to improve cost efficiency (albeit subsequently compared to the Facility Management SBU). The income performance was also affected by the abovementioned positive differential balance of settlements of Revenues (+ € 1.0 million), as well as by a lower impact of labour cost and additional charges. Finally, the sector also recognised non-recurring costs of € 0.2 million (which were not present at 31 December 2015).

Finally, at 31 December 2015 the residual construction activities (*Other activities segment*), which are no longer developed since the management no longer considers as strategic, showed a negative EBITDA equal to € 0.5 million.

Costs of production

At 31 December 2016, *Costs of production*, which amounted to € 833.2 million, showed a decrease of € 29.5 million in absolute terms compared to € 862.7 million (-3.4%), posted at 31 December 2015.

(in thousands of Euro)	For the year ended 31 December				Change
	2016	% % of total	2015	% % of total	
Costs of raw materials and consumables	117,615	14,1%	133,155	15,4%	(15,540)
Change in inventories of finished and semi-finished products	55	0.0%			55

(in thousands of Euro)	For the year ended 31 December				Change
	2016	% % of total	2015	% % of total	
Costs for services and use of third-party assets	331,365	39.8%	336,114	39.0%	(4,749)
Personnel costs	376,266	45.2%	380,793	44.1%	(4,527)
Other operating costs	7,900	0.9%	12,602	1.5%	(4,702)
TOTAL COSTS OF PRODUCTION	**833,201**		**862,664**		**(29,463)**

In 2016 *Costs of raw materials and consumables* came to € 117.6 million, showing a decrease of € 15.5 million (-11.7%) compared to 2015, with their incidence on consolidated Revenues showing a reduction from 15.4% to 14.1%. In fact, there was a decrease in both fuel consumption (- € 12.4 million), and consumption of raw materials (- € 3.1 million), mainly due to a different mix of services rendered compared to the previous year, with slightly lower volumes of energy and heat management services. Furthermore, note the abovementioned completion of specific activities for the renovation of hospital facilities (including within the scope of project finance contracts) during 2015, which entailed the payment of a more considerable amount of costs for raw materials used in processing operations.

Costs for services and use of third-party assets showed, in the year ended 31 December 2016, a decrease of € 4.7 million (-1.4%) compared to the year ended 31 December 2015, with a slight increase of the impact on Revenues (39.8% against 39.0%). Specifically, this item includes costs of € 2.3 million for professional services and consulting, considered as a non-recurring item and related to the phase of reorganisation which the Group passed through during the year, as well as the legal fees paid for the action brought against the Competition Authority following the fine imposed in January 2016.

The reduction in costs for services was also accompanied by a reduction in absolute terms in *Personnel costs* (- € 4.5 million, equal to -1.2%), with an incidence on consolidated Revenues that recorded an increase, passing from 44.1% to 45.2%. The average number of employees in service during 2016 was equal to 16,320, while it was 16,179 in the previous year. However, the increase in the average number of human resources employed, due to a different composition of the mix of services rendered and of the consequent make-or-buy decisions, was accompanied by a reduction in the average cost per capita, as a result of the efficiency improvement actions that have been already described above in detail.

At 31 December 2016, finally, *Other operating costs* amounted to € 7.9 million compared with € 12.6 million at 31 December 2015. The item also recorded, during 2016, a non-recurring cost arising from the issue of an arbitration award concerning a dispute pending with a customer, from which MFM S.p.A. had claimed, in exercising a right of recourse as prescribed by law pursuant to article 18, paragraph 1, of Presidential Decree 633/1972, an amount of € 5.6 million on account of VAT, following a PVC issued by the Revenue Agency in 2013 when it had found that said VAT had not yet been invoiced correctly. The

arbitration award has acknowledged the payment of the amounts claimed on account of VAT to MFM S.p.A., albeit in consideration of the payment of an amount of € 1.7 million to the customer on account of compensation for damage.
Furthermore, during 2015 this item had recorded an amount of € 6.2 million relating to "*Oneri di sistema*", which were not recognised through profit or loss during 2016.

Operating Income (EBIT)
In 2016 Consolidated Operating Income (**EBIT**) stood at € 73.3 million, against € 9.0 million in the previous year. However, the operating income performance in 2015 was significantly affected by a provision for risks of € 48.5 million set aside by the parent company MFM S.p.A. following the issue by AGCM of its order for sanctions on 22 December 2015, which was served on 20 January 2016. At 31 December 2016 the amount of the provision for risks was recalculated after the Lazio Regional Administrative Court's partial acceptance of the appeal filed by MFM S.p.A., which substantially reduced, in spite of the abovementioned claims for damages submitted by Consip S.p.A., with a net reversal of € 16.3 million. On the other hand, during 2016, non-recurring provisions of € 2.3 million were recorded for future charges related to disputes involving an associate with which MFM S.p.A. has services agreements in being under which, in some respects, the supplier may have contractual liability, as were provisions for corporate reorganisation of € 1.4 million, again in relation to the parent company MFM S.p.A.. Furthermore, there were also impairment losses on plant and equipment in the form of sterilisation machinery for the Laundering&Sterilisation SBU for € 0.6 million, as a result of the reorganisation of the Teramo production site after the acquisition of the property from Manutencoop Immobiliare S.p.A. and after the bad weather which affected the area.
Net of these items (as well as of other non-recurring costs with effects on EBITDA), **Adjusted EBIT** came to € 66.6 million (€ 61.5 million at 31 December 2015), with a significant improvement in relative margins (Adjusted EBIT/Revenues) which passed from 6.4% to 7.2%.

EBIT was mainly affected by the abovementioned consolidated performance for the period in terms of EBITDA, from which must be deducted *amortization and depreciation* of € 32.7 million (€ 32.5 million at 31 December 2015), *accruals of provisions for risks and charges* of € 7.8 million (€ 55.6 million at 31 December 2015), including the abovementioned non-recurring provision for the AGCM sanction) against *reversals* of € 17.9 million, of which € 16.3 million relating, as mentioned, to the provision set aside for the AGCM ruling (€4.1 million at 31 December 2015).
The Group also reported *write-downs of receivables* of € 4.5 million, against € 4.4 million at 31 December 2016, following risk adjustments on some specific positions. At 31 December 2016 finally, *impairment of fixed assets* were recognized for € 1.0 million (€ 0.1 million at 31 December 2015), which includes the abovementioned amount of € 0.6 million relating to the plant and equipment of the Teramo sites.

Below is reported a comparison of Operating Income (EBIT) by segment in 2016 and 2015:

EBIT BY SEGMENT

(in thousands of Euro)	For the year ended 31 December				Change
	2016	% of segment Revenues	2015	% of segment Revenues	
Facility Management	55,743	7.0%	(4,027)	ND	59,770
Laundering & Sterilization	17,547	13.0%	13,678	9.9%	3,869
Other			(640)	ND	640
CONSOLIDATED EBIT	**73,290**	**7.9%**	**9,011**	**0.9%**	**64,279**

The EBIT in the *Facility Management* segment came to € 55.7 million (7.0% of related segment Revenues) at 31 December 2016, against EBIT of -€ 4.0 million at 31 December 2015.
The comparison reflects the performance in terms of EBITDA (-€ 0.7 million) against higher amortisation and depreciation for € 1.1 million (specifically due to investments in hardware and software infrastructure). Furthermore, higher losses of value were recognised on other balance sheet assets for € 0.3 million, of which € 0.1 million against the write-downs of non-strategic equity investments. Finally, higher write-downs of trade receivables were recognised for € 0.6 million, for a risk assessment on some specific positions of MFM S.p.A., against higher net provisions for future risks and charges for € 2.4 million, fully attributable to non-recurring items.

Actually the *adjusted* values show a significant improvement in the sector's EBIT, which passed from € 44.5 million at 31 December 2015 (net of the provision for risks associated with the AGCM fine, equal to € 48.5 million) to € 48.2 million at 31 December 2016 (net of a reversal of € 16.3 million for the litigation concerning the AGCM fine and of non-recurring provisions of € 3.7 million of the parent company MFM S.p.A., of which € 1.4 million relating to the adjustment to the provision for future charges arising from the termination of employment contracts and € 2.3 million relating to future charges for contractual liability to an associate with which services agreements are in place).

The positive performance of EBITDA in the *Laundering&Sterilization* segment during 2016 (+ € 3.0 million compared to the previous year) fully impacted on the segment EBIT, which, compared to the previous year, showed an increase equal to € 3.9 million, in absolute terms (+ 2.9% in terms of profit margins of related Revenues). Furthermore, among other things, there was the recognition of lower amortisation and depreciation of € 1.3 million (mainly as a result of efficiency improvement measures adopted in the linen rental and industrial laundering segment, and in particular in the linen management) and lower write-downs of receivables for € 0.4 million. Finally, higher net provisions were recognised compared to the

previous year (+€ 0.9 million), taking account in any case of releases relating to the provision for future charges relating to the termination of employment contracts for € 0.8 million during 2015.
Finally, the segment reported losses of value on plant and equipment relating to the industrial laundering site in Teramo for € 0.6 million, which are regarded as non-recurring items, net of which the segment's Adjusted EBIT would be equal to € 18.4 million (no non-recurring variables had been recognised in the segment's EBIT during 2015).
Finally, there is a completely residual effect on EBIT in 2015 from the contribution of the segment of Other activities (€ 0.6 million), within which there were the residual construction activities of MACO S.p.A. only, which were completed during the same year.

Profit before taxes

To the consolidated EBIT must be added net income from companies valued at equity equal to € 1.7 million (€ 0.1 million at 31 December 2015), which reflected, among others, the Group's share of the result of associate Roma Multiservizi S.p.A. for € 1.6 million (negative for € 0.8 million at 31 December 2015, which was also affected by the recognition of non-recurring provision for risks relating to the order for sanctions issued by AGCM, within the same proceedings that involved the Parent Company MFM S.p.A.).
Furthermore, there was the recognition of net financial charges of € 27.8 million (€ 33.6 million in 2015), thus obtaining a Profit before taxes equal to € 47.2 million at 31 December 2016, against a loss before taxes of € 24.5 million at 31 December 2015.

Below is provided the breakdown by nature of net financial charges for the 2016 financial year and for the previous year:

(in thousands of Euro)	For the year ended 31 December		Change
	2016	2015	
Dividends, income (charges) from sale of equity investments	498	(459)	957
Financial income	1,964	984	980
Financial charges	(30,183)	(34,066)	3,883
Profit / (loss) on exchange rate	(38)	(10)	28
NET FINANCIAL CHARGES	**(27,759)**	**(33,551)**	**5,792**

During 2016 dividends were collected from other non-consolidated companies for € 0.5 million (€ 0.4 million at 31 December 2015). Furthermore, the 2015 financial year also saw the recognition of the negative result arising from the partial disposal of the equity investments in associate Progetto Nuovo S. Anna S.r.l., which is currently invested in for a remaining quota of 4%.

Financial income showed an increase for € 1.0 million compared to the previous financial year which was mainly attributable to higher default interest income for € 0.6 million (which arose at the time of the settlement of previous credit positions with some customers) in addition to higher interest income from loans granted to non-consolidated companies for € 0.2 million (mainly project finance companies).

In 2016 the impact of *financial charges* on the consolidated results of operations was equal to € 30.2 million, with a decrease of € 3.9 million compared to € 34.1 million in 2015.
First of all, the item recorded lower financial costs on the bond coupons for € 2.9 million. At 31 December 2015 this item still included, in fact, the financial charges relating to the amounts of Senior Secured Notes repurchased through the Tender Offer in June 2015 only (in an overall nominal value of € 80 million) while the net financial charge for 2016 was fully calculated in relation to a residual portion of the loan, equal to € 300 million. Furthermore, financial charges recorded during 2015 included one-off costs relating to the same Tender in an overall amount of € 3.0 million (of which € 1.9 million relating to the proportional amount of financial charges accounted for at amortised cost according to IAS 39 on the repurchased Notes).
Furthermore, higher financial charges from assignments of receivables with recourse are being recognised for € 0.3 million during 2016 (in relation to the contract in place with Unicredit Factoring), as are higher interest discount costs for € 0.8 million in relation to agreements for the assignment of receivables without recourse in place with Banca Farmafactoring. Finally, 2016 saw the recognition of additional interest discount charges for € 0.6 million in relation to an assignment of tax receivables without recourse linked to the application of Decree Law 201 of 6 December 2011, as amended and converted by Law 214 of 22 December 2011, which had allowed various Group companies to submit, during 2012, a request for IRES (Corporate Income) tax refund as a result of the non-deduction of IRAP (Local Production Activity) tax in an overall amount of € 12.4 million, of which € 10.0 million under the tax consolidation regime in place with the parent company Manutencoop Società Cooperativa.

Consolidated net result

From the Profit before taxes of the financial year (€ 47.2 million) must be deducted taxes of € 14.7 million, thus obtaining a Net Result from continuing operations of €32.5 million for the year ended 31 December 2016 (at 31 December 2015 a negative Net Result equal to € 42.5 million).
The 2016 financial year also saw the recognition of a positive *Profit (loss) from discontinued operations* equal to € 1.1 million, including the related tax effect (€ 0.3 million). It related to the additional price (Earn-out) that MFM S.p.A. (the company incorporating SMAIL S.p.A. with effect from 1 January 2016) obtained on the transfer of the business unit which was carried out by the merged company in November 2015, as provided for in the transfer agreement (€ 1.2 million, plus a tax effect of € 0.3 million). Furthermore, an income of € 0.2 million was recognised in relation to the release by MFM S.p.A. of escrowed sums, in the performance of contract clauses connected with the disposal of MIA S.p.A., which was completed in December 2014.

On the contrary, the 2015 financial year saw a negative *Profit (loss) from discontinued operations* equal to € 2.9 million. In fact, this item included the net negative result for the year relating to the operations of subsidiary SMAIL S.p.A., which conducted the business of maintenance of public lighting systems, whose disposal was completed during the year (€ 2.4 million, to which must be added a tax income of € 0.8 million). This item also includes estimated total costs of € 1.3 million accrued in the year in relation to the continuation of the formalities envisaged as per contract and arising from the abovementioned disposal of the investment in MIA S.p.A..

The table below reports a breakdown of the consolidated tax rate:

(in thousands of Euro)	For the year ended 31 December	
	2016	**2015**
Profit before taxes	**47,219**	**(24,450)**
Provision for risks from the enforcement of Consip guarantee	17,500	
AGCM provision (Reversal)	(33,810)	48,510
Profit before taxes, excluding AGCM provision	**30,909**	**24,060**
Current and deferred IRES tax, including income and charges from Tax Consolidation	(10,315)	(12,607)
Current and deferred IRAP tax	(4,401)	(4,740)
Adjustments to current and deferred taxes related to previous financial years	(24)	(685)
Income taxes	**(14,740)**	**(18,032)**
Tax rate of continuing operations	**47.7%**	**74.9%**
Profit (loss) before taxes from discontinued operations	**1,385**	**(3,713)**
Taxes related to the profit (loss) from discontinued operations	(333)	826
Consolidated Net Profit, excluding AGCM provision	**17,221**	**3,141**
Global tax rate	**46.7%**	**84.6%**

As already described, the **Profit before taxes** includes a considerable reversal relating to the dispute that arose following the imposition of the administrative fine applied by AGCM in 2015 (€ 48.5 million) in relation to the Consip tenders in 2012. This non-recurring provision, which is not deductible for the purposes of calculating the tax burden for the year, also affected, in a significant manner, the Profit before taxes at 31 December 2015. At 31 December 2016 this provision was partially released, despite a new assessment of the overall risk against the alleged enforcement of the sureties on the part of Consip S.p.A.. The tax rate for the year is then analysed by excluding these non-recurring effects, net of which the Profit before taxes at 31 December 2016 and at 31 December 2015 would be equal to € 30.9 million and € 24.1 million, respectively, with an increase of € 6.8 million, against a decrease in the overall tax burden equal to € 3.3 million.

At 31 December 2016 the tax rate of continuing operations came to 47.7% against 74.9% of the previous year, due to the substantial invariance of some tax components (IRAP tax and non-deductible IRES tax charges), the impact of which is reduced when the Profit before taxes increases. Despite a sharp increase in the Profit before taxes, as defined above, the Group recognised lower current and deferred IRES tax on the Result from continuing operations for € 2.3 million, while current and deferred IRAP taxes remained unchanged compared to the previous year (-€ 0.3 million). The change was mainly attributable to the recognition, at 31 December 2016, of deferred tax assets on temporarily non-deductible financial charges and to the substantial invariance of non-deductible charges against an increase in the Profit before taxes.

Furthermore, there was the recognition of lower adjustments to taxes from previous years for € 0.7 million.

Finally, the Group recorded a positive *Profit (loss) from discontinued operations*, equal to € 1.4 million (excluding the related tax effect), mainly due, as mentioned, to the additional price (Earn-out) that MFM S.p.A. obtained from the disposal of the business unit that was carried out by the merged company SMAIL S.p.A. during 2015. Finally, in 2015 the Group recorded a Profit before taxes from discontinued operations of € 3.7 million, including the negative result for the year of the discontinued operations of SMAIL S.p.A. for € 2.4 million, against an income from tax consolidation for € 0.8 million.

Finally, the Group recorded a Net Result attributable to the Group of € 33.6 million, against a negative Net Result attributable to the Group at 31 December 2015 equal to € 45.4 million.

3.2 Analysis of the Statement of financial position as at 31 December 2016

(in thousands of Euro)	31 December 2016	31 December 2015	Change
USES			
Trade receivables and advances to suppliers	456,095	519,194	(63,099)
Inventories	4,382	4,763	(381)
Trade payables and advances from customers	(346,308)	(380,215)	33,907
Net commercial working capital	**114,169**	**143,742**	**(29,573)**
Other elements of working capital	(68,555)	(54,519)	(14,036)
Net working capital	**45,614**	**89,223**	**(43,609)**
Property, plant and equipment	66,110	64,372	1,738
Goodwill and other Intangible assets	396,570	396,461	109
Investments accounted for under the equity method	30,534	28,484	2,050
Other elements of non-current assets	38,913	40,383	(1,470)
Fixed assets	**532,127**	**529,700**	**2,427**
Non-current liabilities	(73,427)	(88,357)	14,930
NET INVESTED CAPITAL	**504,314**	**530,566**	**(26,252)**
SOURCES			
Equity attributable to non-controlling interests	235	380	(145)
Equity attributable to equity holders of the parent	323,137	289,585	33,552

(in thousands of Euro)	31 December 2016	31 December 2015	Change
Shareholders' equity	**323,372**	**289,965**	**33,407**
Net financial indebtedness	180,942	240,601	(59,659)
FINANCING SOURCES	**504,314**	**530,566**	**(26,252)**

Net working capital

At 31 December 2016 Consolidated Net Working Capital (**NWC**) amounted to € 45.6 million, showing a decrease of € 43.6 million compared to 31 December 2015 (€ 89.2 million).

At 31 December 2016, the consolidated Net Working Operating Capital (**NWOC**), composed of Trade receivables and advances to suppliers and inventories, net of Trade payables and advances from customers, was equal to € 114.2 million against € 143.7 million at 31 December 2015. Considering the balance of receivables assigned without recourse by the Group and not yet collected by the factoring agencies (equal to € 12.9 million at 31 December 2016 and € 1.4 million at 31 December 2015), the **Adjusted NWOC** stood at € 127.1 million and € 145.1 million, respectively.

First of all, the change (- € 18.1 million) was due to a decreased stock of trade payables, which came to € 346.3 million at 31 December 2016, showing a decrease of € 33.9 million compared to the balance at 31 December 2015 (€ 380.2 million). On the other hand, the balance of trade receivables also decreased by € 63.1 million (€ 51.6 million considering the balance of receivables assigned by the Group without recourse and not yet collected by the factoring companies).

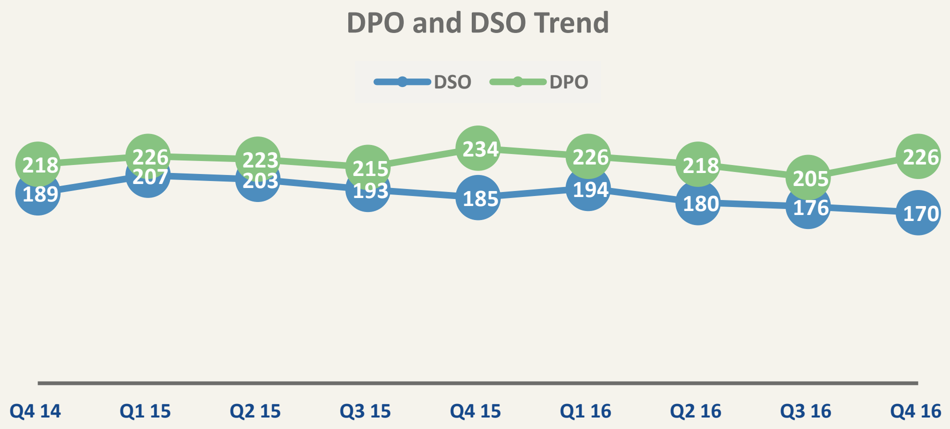
It should be pointed out that, as early as in 2014, the Group started to report a downward trend in invoiced costs (mainly costs for professional services, subcontracted services and industrial capex) which further entails a reduction in the average stock of trade payables. Likewise, as regards trade receivables, the decline in production volumes entailed a physiological reduction in the related average stock.

At 31 December 2016 average DSO was 170 days against 185 days at 31 December 2015 and 176 days at 30 September 2016.

On the contrary, at the end of 2016, a growth trend in DPO was reported on a quarterly basis (226 days at 31 December 2016 against 205 days at 30 September 2016), despite a significant decrease compared to the value posted at 31 December 2015 (234 days).

In general, the previous year's data were affected by delays owing to the introduction of new VAT rules (split payment and reverse charge) which held up invoicing and registration in the initial phase of their application and caused a temporary slowdown in collection and payment times which, however, was absorbed afterwards.

As regards the overall management of cash flows arising from the NWOC, the stabilised trend in receipts from customers (although showing a different trend during the quarters of the year) allowed a greater use of financial resources for payments to suppliers during 2016, thus bringing the DPO in line with more satisfactory levels with a lower use of leverage on the suppliers themselves. However, the DPO trend historically reports delays during the last quarter of the year, when the flow of receipts during the last days of the year is not available soon enough to reschedule the settlement of trade payables so that these payments were only made in 2017.



The balance of the other elements in working capital at 31 December 2016 was a net liability of € 68.6 million, up by € 14.0 million compared to a net liability of € 54.5 million at 31 December 2015:

(in thousands of Euro)	31 December 2016	31 December 2015	Change
Current tax receivables	3,500	23,430	(19,930)
Other current assets	25,932	31,138	(5,206)
Provisions for risks and charges, current	(10,715)	(14,515)	3,800
Current tax payables	(1,363)	0	(1,363)
Other current liabilities	(85,909)	(94,572)	8,663
OTHER ELEMENTS IN WORKING CAPITAL	**(68,555)**	**(54,519)**	**(14,036)**

This increase in net liability of the other working capital elements was due to a combination of factors, mainly including:

- the movements of payables to/receivables from employees and the relative payables to/receivables from social security institutions and the tax authorities, which accounted for a decrease in net liabilities of € 2.1 million;
- an increase in the net credit balance for VAT of the Group companies, equal to € 4.5 million, due to balances systematically generated following the introduction of new regulations governing "Split payments" and "Reverse charges" as early as in 2015;
- a decrease of € 3.8 million in the short-term portion of provisions for risks and charges;

- the collection of a receivable of € 5.6 million, which had been recognised in 2013 in exercising a right of recourse pursuant to Article 18, paragraph 1, of Presidential Decree 633/1972, after a tax inspection which alleged that MFM S.p.A. had not applied some concessionary VAT rate rules. The overall amount of the tax that was paid at the time was collected from the customer following an arbitration award, which was handed down in August 2016 and which ruled that MFM S.p.A. would be paid in full the amounts requested for VAT tax refund, even it had to pay the customer € 1.7 million on account of damages (which were recognised under Other operating costs at 31 December 2016).

Current tax receivables were recognised for € 3.5 million at 31 December 2016, net of a current tax debt of € 1.4 million, against a receivable of € 23.4 million at 31 December 2015, showing an overall decrease of € 21.3 million, of which an amount of € 16.0 million was due to the recognition of net tax payables for the period. Furthermore, the 2016 financial year saw the implementation of an assignment of tax receivables without recourse, linked to the application of Decree Law 201 of 6 December 2011, as amended and converted by Law 214 of 22 December 2011, which had allowed various Group companies to submit, during 2012, a request for IRES tax refund as a result of the non-deduction of IRAP tax in an overall amount of € 12.4 million, of which € 10.0 million under the tax consolidation regime in place with the parent company Manutencoop Società Cooperativa.

Other long-term liabilities

"Other long-term liabilities" mainly include liabilities relating to:

- TFR (employee benefits), equal to € 17.0 million and € 18.4 million at 31 December 2016 and 31 December 2015, respectively;
- long-term portion of Provisions for risks and charges (€ 44.5 million at 31 December 2016 against € 58.7 million at 31 December 2015);
- Deferred tax liabilities of € 11.8 million (€ 11.2 million at 31 December 2015).

Consolidated net financial indebtedness

Details of net financial indebtedness at 31 December 2016 are shown below, as determined on the basis of the instructions laid down in CONSOB Communication no. DEM/6064293 of 28 July 2006, compared to the figures at 31 December 2015.

(in thousands of Euro)	31 December 2016	31 December 2015	Change
A. Cash	38	34	4
B. c/a, bank deposits and consortia, non-proprietary accounts	174,954	114,357	60,597
C. Securities held for trading			
D Cash and cash equivalents (A) + (B) + (C)	**174,992**	**114,391**	**60,601**
E. Current financial assets	**2,387**	**5,257**	**(2,870)**
F. Current bank overdraft	11,857	34,064	(22,207)
G. Current portion of non-current debt	11,176	11,215	(39)
H. Other current financial liabilities	29,806	3,284	26,522

(in thousands of Euro)	31 December 2016	31 December 2015	Change
I. Current financial indebtedness (F)+(G)+(H)	**52,839**	**48,563**	**4,276**
J. Current net financial indebtedness (I) - (D) - (E)	**(124,540)**	**(71,085)**	**(53,455)**
K. Long-term bank debts and Senior Secured Notes	304,648	303,435	1,213
L. Other non-current financial liabilities	834	8,251	(7,417)
M. Derivatives			
N. Non-current financial indebtedness (K) + (L) + (M)	**305,482**	**311,686**	**(6,204)**
O. NET FINANCIAL INDEBTEDNESS (J) + (N)	**180,942**	**240,601**	**(59,659)**

The 2016 financial year saw a decrease in the consolidated Net financial debt, which passed from € 240.6 million at 31 December 2015 to € 180.9 million at 31 December 2016.

On 23 February 2016, within the scope of a review of its financial planning, with the aim of creating the conditions to be able to meet potential non-recurring cash outflow requirements, the Group signed, through MFM S.p.A. and Servizi Ospedalieri S.p.A., a maturity factoring agreement with Banca Farmafactoring S.p.A., concerning the assignment without recourse of receivables from entities in the National Health System, in an annual amount of up to € 100 million. It is a committed credit line with a term of three years. During 2016 assignments of receivables without recourse were made in an amount of € 50.0 million, subject to *derecognition* according to IAS 39, while the amount of receivables assigned but not yet collected by the factor at 31 December 2016 amounted to € 11.6 million (to which must be added an amount of € 1.2 million relating to assignments without recourse that were made in previous financial years and that have been currently discontinued). The consolidated adjusted net financial debt for the amount of receivables assigned to factoring companies that had not been collected by the latter at the reporting date (equal to € 12.9 million at 31 December 2016 against € 1.4 million at 31 December 2015) come to € 193.8 million (€ 242.0 million at 31 December 2015).

At 31 December 2016 the balance of Cash and cash equivalents, net of short-term liabilities, amounted to € 142.3 million (€77.8 million at 31 December 2015):

(in thousands of Euro)	31 December 2016	31 December 2015
Cash and cash equivalents	174,992	114,391
Current bank overdraft, advance payments and hot money	(11,857)	(34,064)
Payables for assignments of trade receivables with recourse	(20,805)	(2,543)
NET CASH AND CASH EQUIVALENTS	**142,330**	**77,784**

The following is a breakdown of the net financial exposure for bank credit lines and obligations for finance leases ("Net interest bearing financial indebtedness") compared to 31 December 2015:

(in thousands of Euro)	31 December 2016	31 December 2015
Cash and cash equivalents	(174,992)	(114,391)
Current bank overdraft, advance payments and hot money	11,857	34,064
Current portion of non-current bank debts	10,681	10,651
Long-term bank debts	10,000	10,000
Senior Secured Notes	294,648	293,435
Finance lease obligations	914	1,484
NET INTEREST BEARING FINANCIAL INDEBTEDNESS	**153,108**	**235,243**

The Net interest bearing financial Indebtedness reported a decrease compared to 31 December 2015 passing from € 235.2 million to € 153.1 million.

This change was mainly due to an increased balance of Cash and cash equivalents, equal to € 60.6 million against a decrease of € 22.2 million in the balance of bank overdrafts, advance payments and hot money.

It should be noted that the current portion of non-current bank debt included at 31 December 2016 and at 31 December 2015 net accrued expenses relating to interest on the bond coupons to be paid in next February (€ 10.7 million, unchanged).

The increase in the balance of consolidated Cash and cash equivalents is shown in the table below: the cash flows for the 2016 financial year are compared with the figures for the previous year. Annex IV to the Consolidated Financial Statements, to which reference should be made, contains a reconciliation between the items in this table and those in the statutory Statement of Cash Flows prepared pursuant to IAS 7.

	2016	2015
At 1 January	**114,391**	**113,382**
Cash flow from current operations	64,778	55,676
Uses of provisions for risks and charges and for employee termination indemnity	(10,175)	(14,012)
Change in adjusted NWOC	13,193	55,588
Industrial capex, net of disposals	(29,699)	(23,098)
Financial capex, net of disposals	4,453	5,692
Change in adjusted net financial liabilities	12,426	(49,089)
Other changes	5,625	(29,747)
AT 31 DECEMBER	**174,992**	**114,391**

The overall cash flows mainly reflect the net effect of:

› a positive cash flow arising from current operations for € 64.8 million (€ 55.7 million at 31 December 2015);

- payments linked to the use of provisions for future risks and charges and for employee termination indemnity for € 10.2 million (€ 14.0 million at 31 December 2015);
- a cash flow of € 13.2 million (compared with a cash flow of € 55.6 million at 31 December 2015) from changes in Adjusted NWOC, resulting from a positive flow correlated to a change in adjusted trade receivables of € 46.6 million (€ 54.6 million in 2015) against a flow absorbed by a reduction in trade payables for € 33.8 million (an increase of € 1.1 million in this balance at 31 December 2015);
- a € 30.5 million net cash flow used in investing activities (€23.9 million at 31 December 2015), net of disposals for € 0.8 million (€ 0,8 million at 31 December 2015).
- Furthermore, there were positive inflows arising from financial investments and financial disinvestments for € 4.5 million, which mainly related to the collection in December 2016 of the last tranche of the deferred consideration relating to the disposals of MIA S.p.A. in December 2014, equal to € 5.0 million and recognised under Non-current financial receivables at 31 December 2015 (positive cash flows at 31 December 2015 for € 5.7 million, of which € 4.2 million relating to the disinvestment from portions of loans to project finance companies).
- There was an increase in adjusted net financial liabilities for € 12.4 million, mainly linked to the increase, during the period, in the financial liability relating to the assignments of receivables with recourse (€ 18.3 million) and in the adjusted financial liability relating to the assignments of receivables without recourse (€ 11.5 million) against a lower use of credit facilities for advances on invoices and hot money (€ 22.2 million). At 31 December 2015 there was a decrease of € 49.1 million in net adjusted financial liabilities mainly due to the use of short-term credit lines for € 36.7 million and medium/long-term lines for € 10 million, in consideration of the buy-back of portions of Senior Secured Notes for an overall nominal value of € 80 million.
- There were changes in other assets and liabilities amounting to a total inflow of € 5.6 million mainly due to the net effect of a positive inflow from the assignment of tax receivables without recourse (€11.7 million) and of the changes that were reported in other operating assets and liabilities during the period, which were mainly due to the seasonal trend in the management of receipts on behalf of ATI (which entailed a decrease in the related net liability for € 4.6 million) and to the absorption of financial resources for higher net credit balances concerning the Group companies' VAT for € 4.5 million. Furthermore, the year saw the collection of a receivable which had been recognised in 2013 in exercising a right of recourse pursuant to Article 18, paragraph 1, of Presidential Decree 633/1972, after a tax inspection which alleged that MFM S.p.A. had not applied some concessionary VAT rate rules. The overall amount of the tax that was paid at the time was collected from the customer following an arbitration award, which was handed down in August 2016 and which ruled that MFM S.p.A. would be paid in full the amounts requested for VAT tax refund (€ 5.6 million), even it had to pay the customer € 1.7 million on account of damages (which were recognised under Other operating costs at 31 December 2016). At 31 December 2015 other changes in cash and cash equivalents were made up of a cash outflow of € 29.7 million, mainly linked to the different trend in flows relating to

the VAT debt compared to previous years, following the introduction of new rules governing split payments and reverse charge.

Industrial and financial capex

In 2016 the Group made net capital expenditures which totalled € 30.5 million, compared to disinvestments of € 0.8 million:

(in thousands of Euro)	For the year ended 31 December	
	2016	2015
Purchases of properties	7,674	
Purchases of plant and equipment	16,003	17,389
Other capital expenditures in intangible assets	6,858	6,614
INDUSTRIAL CAPEX	**30,535**	**24,003**

Purchases of plant and equipment mainly relate to the purchase of linen by Servizi Ospedalieri S.p.A. for the linen rental and industrial laundering activity, in which frequent periodic replacements are necessary (€ 11.3 million at 31 December 2016, against € 10.7 million at 31 December 2015).

Investments in intangible assets for the year amounted to € 6.9 million (€ 6.6 million at 31 December 2015) and mainly related to ICT investments. Of these, an amount of € 0.7 million relates to the start-up Yougenio S.r.l., which started the development of its web platform for the provision of B2C services during the year .

Furthermore, the last quarter of the year saw the completion of the purchase by Servizi Ospedalieri S.p.A. of the properties already used under leases in Ferrara (the registered and administrative office which is partly devoted to industrial laundering operations) and Teramo (industrial laundering plant and facilities for the sterilization of surgical instruments). These properties were owned by Manutencoop Immobiliare S.p.A., a company in the Manutencoop Cooperativa Group. The amount paid for the acquisition by a related party of the two properties (a total of € 7.7 million) was the object of an expert's report which calculated its current market value.

Finally, disinvestments from property, plant and equipment were recorded during the period for € 0.8 million (unchanged compared to 31 December 2015).

Below is reported the breakdown of capital expenditures in terms of SBUs:

(in thousands of Euro)	For the year ended 31 December	
	2016	2015
Facility Management	8,823	7,683
Laundering & Sterilization	21,712	16,320
INDUSTRIAL CAPEX	**30,535**	**24,003**

The positive cash flow of € 4.5 million (€ 5.7 million at 31 December 2015) from financial investments mainly arose following the collection in April 2016 of the first tranche of sums previously escrowed in connection with the sale of MIA S.p.A., which took place in December 2014, following the fulfilment of some contract conditions governing the sale. In December 2016, the second and last tranche was also collected for € 5 million, which had been recognised, at 31 December 2015, under long-term financial assets. At 31 December 2016 the right also arose for MFM S.p.A. to obtain an earn-out equal to € 1.2 million on the transfer of the business of SMAIL S.p.A., which took place in November 2015, entered under short-term financial assets and already collected for € 0.3 million. Furthermore, there was the recognition of payments of loans to associates (including the Turkish joint venture EOS and the newly-acquired company Bologna Global Strade Soc. Cons. a r.l.) for a total amount of € 1.0 million, against the disinvestment of loans previously disbursed to AMG S.r.l. and Malaspina Energy Soc. Cons. a r.l. for € 0.6 million.

At 31 December 2015 the cash flow for financial investments and disinvestments was positive for € 5.7 million and arose from the divestment of a portion of the investment in Progetto Nuovo Sant'Anna S.r.l. and the related shareholders' loan (€ +4.7 million) against new long-term loans disbursed to project finance companies (€ -5.6 million), in addition to the abovementioned reclassification, under short-term financial assets, of a nominal amount of € 5.0 million escrowed in connection with the sale of MIA S.p.A. in December 2014.

Change in Adjusted Net financial liabilities

The table below shows the changes that were recorded in the financial year in the items making up consolidated financial liabilities, including the balance of the receivables assigned without recourse and not yet collected by the factoring companies:

(in thousands of Euro)	31 December 2015	New loans	Refunds and payments for the year	Other changes	31 December 2016
Long-term bank debts	10,000				10,000
Current bank overdraft, advance payments and hot money	34,064	11,857	(34,064)		11,857

(in thousands of Euro)	31 December 2015	New loans	Refunds and payments for the year	Other changes	31 December 2016
Accrued and deferred expenses on loans	10,599		(25,500)	25,535	10,634
Senior Secured Notes	293,435			1,213	294,648
BANK DEBTS	**348,098**	**11,857**	**(59,564)**	**26,748**	**327,139**
Finance lease obligations	1,484		(570)		914
Payables for non-performing trade receivables assignment	2,543	51,796	(33,535)		20,805
Receipts on behalf of assignees of trade receivables without recourse	0	2,744			2,744
Other financial liabilities	8,124			(1,405)	6,719
FINANCIAL LIABILITIES	**360,249**	**66,397**	**(93,669)**	**25,343**	**358,321**
Current financial assets	(5,257)			2,870	(2,387)
NET FINANCIAL LIABILITIES	**354,992**	**66,397**	**(93,669)**	**28,213**	**355,934**
Outstanding amount of receivables assigned to factoring companies without recourse	1,400	50,002	(38,518)		12,883
Adjusted NET FINANCIAL LIABILITIES	**356,392**	**116,399**	**(132,187)**	**28,213**	**368,817**

The year 2016 saw the payment of the net six-monthly coupons on the Senior Secured Notes for a total of € 25.5 million; the settlement date was 2 February and 2 August. As already disclosed to the market, in the last quarter of the 2014 financial year and in June 2015 MFM S.p.A. carried out the buy-back of some of its Senior Secured Notes for a total nominal amount of € 125 million. The bond issue was accounted for in accordance with IAS 39 and entailed the recognition of financial charges during the period arising from the related amortised cost for € 1.2 million. The Notes in the portfolio were not cancelled but kept in a securities account A part of these securities (amounting to a nominal value of € 14 million) was pledged against committed credit line of € 10 million, due 2018, obtained from CCFS.

As at the closing date of the year, short-term uncommitted credit lines had been used for hot money and advances on invoices for € 11.9 million (€34.1 million at 31 December 2015), in order to meet temporary peaks in cash requirements linked to the physiological performance of operations.

Furthermore, MFM S.p.A. entered, as early as in 2015, into an agreement for the assignment with recourse (pro-solvendo), of trade receivables with Unicredit Factoring S.p.A., concerning receivables from customers in the Public sector. During 2016, assignments were made in an overall nominal amount of € 51.8 million, while the amount of receivables assigned but not yet collected by the factor at 31 December 2016 amounted to € 20.8 million (€ 2.5 million at 31 December 2015).

Furthermore, on 23 February 2016 MFM S.p.A. and Servizi Ospedalieri S.p.A. entered into a factoring maturity contract, without recourse (pro-soluto), with Banca Farmafactoring S.p.A. in relation to the assignment of receivables from entities in the National Health System, for an annual amount of up to € 100 million. It is a committed credit line with a term of three years. During the year assignments of receivables without recourse were made for a nominal amount of € 50.0 million, while the amount of receivables assigned but not yet collected by the factor amounted to € 11.7 million at 31 December 2016 (to which must be added an amount of € 1.2 million relating to programmes concerning assignments without recourse that were implemented in previous financial years and that have been currently discontinued). Furthermore, the Group collected amounts of € 2.7 million at 31 December 2016, concerning receivables included in said assignments without recourse, for which the respective debtors have not made any payment to the bank accounts specified by the factor. These amounts constitute a financial liability for the Group, which has given rise to the payment of the same in the first days of the subsequent year.

On 12 July 2016 MFM S.p.A. acquired an additional stake of 5% of the share capital of Sicura S.p.A., a sub-holding company of the related group dedicated to specialist services in the fire fighting and security market, increasing its stake up to 85%. Under other financial liabilities the Group recognises the liability estimated against the put option held by the minority shareholders of the company itself, according to the investment agreement signed upon acquisition in 2008. The purchase described above took place against the payment of amounts proportional to the liability already entered in the Financial Statements at 31 December 2015 (€7.3 million) and therefore for € 1.8 million.

Finally, the short-term financial assets balance was € 2.9 million lower, mainly as a result of the abovementioned collection of the first tranche of the remaining price, not yet collected, for the sale of shares in MIA S.p.A. in December 2014, which had already been entered under this item for € 3.7 million at 31 December 2015, which was followed by the additional collection of the second tranche (equal to € 5 million) in December 2016. Within the scope of the transfer of the business of SMAIL S.p.A., which took place in November 2015, MFM S.p.A. (i.e. the company incorporating the transferring entity) also acquired the right to obtain an earn-out of € 1.2 million, to be collected in monthly instalments in 12 months, of which an amount of € 0.3 million was already collected as at 31 December 2016. Finally, the item in question included an amount of € 0.4 million at 31 December 2016, relating to the balance of pledged current bank accounts dedicated to the operation of the collection service within the scope of the abovementioned agreement for the assignment of trade receivables without recourse signed with Banca Farmafactoring.

3.3 Financial ratios

The main financial balance sheet ratios as at 31 December 2016, calculated at consolidated level, compared with the ratios recorded for the consolidated Financial Statements as at 31 December 2015.
The financial data used for their calculation are normalised, i.e. net of the AGCM provision of 2015 and the reversal of the same provision during 2016, which are thought to distort an assessment of the Group's results, while including all the other non-recurring items.

Profitability ratios

	2016	2015
ROE	6.0%	0.9%
ROI	4.8%	4.7%
ROS	6.1%	6.0%

ROE (*Return on Equity*) provides a summary measurement of the return on capital invested by shareholders, and stood at 6% in 2016, compared to 0.9% in 2015. The ratio reflects a higher consolidated Net Profit compared to the previous year, which is all the more to be appreciated when compared with the impact of other non-recurring charges described in paragraph 1 (€ 9.7 million at 31 December 2016 against € 7.0 million at 31 December 2015). There also was a decrease in the equity reserves for the allocation of negative net Result from the previous year to reserves. Furthermore, note an improved result from discontinued operations, which posted a positive value of € 1.1 million at 31 December 2016 (mainly relating to the earn-out that the Parent Company obtained from the disposal of SMAIL S.p.A., which took place in 2015, net of related tax effect) against a negative result of € 2.9 million at 31 December 2015 (relating to the result for the period recorded by the transferred business, as well as to the price adjustment paid to the buyer of MIA S.p.A., which was disposed of during 2014).

ROI (*Return on Investments*) provides a summary measurement of the operating return on capital invested in the company, and stood at 4.8% in 2016, compared to 4.7% in 2015. The improvement reflects a decrease in the Group's gross Invested Capital, which passed from € 1,227.9 million in 2015 to € 1,199.4 million in 2016 (- 2%), despite against a decrease recorded in in EBIT for the year (€ 57.0 million against € 57.5 million, again by normalising the effects of the provision set aside for AGCM and related release).

ROS (*Return on sales*), provides a summary measurement of the Group's ability to convert turnover to EBIT, and stood at 6.1% in 2016 compared to 6.0% in 2015 against, as already illustrated, a slight decline in the Group's normalised operating result (-0.9%), which was less than proportional compared to the decline in Revenues from sales and services (-2.8%).

Liquidity ratios

	2016	2015
Current ratio	134.2%	129.8%

The general liquidity ratio (*current ratio*) represents the ratio of current assets to current liabilities and expresses the company's ability to cover current outflow (i.e. current liabilities) with current income (i.e. current assets). The increase reflects a decrease in current assets (in particular for a decrease in trade receivables) against a more than proportional decrease in the balance of future current expenses (and specifically of the stock of trade payables).

Ratios of composition of Assets and Liabilities

	2016	2015
Rigidity ratio	44.4%	43.1%
Liquidity ratio	55.3%	56.5%
Indebtedness ratio	0.69	0.69
Medium/Long-term Indebtedness ratio	31.6%	32.6%

The *rigidity ratio*, which expresses long-term loans as a percentage of total loans, was equal to 44.4% in 2016 against 43.1% in 2015, as a result of a reduction in invested capital compared to the previous financial year, which was more than proportional compared to fixed assets, as it was correlated above all to the reduction trends in current assets, and in particular in Trade Receivables.

Likewise, the *liquidity ratio*, which measures the company's elasticity in terms of the ratio of cash and cash equivalents and trade and other receivables (current assets net of inventories) to total loans, stood at 55.3% in 2016, compared to a ratio of 56.5% in the previous year.

The *indebtedness ratio*, which is the ratio of net debt to the sum of net debt and own equity, as defined in the explanatory Notes to the Consolidated Financial Statements, to which reference should be made, stood at 0.69, unchanged compared to the previous year, against a proportional reduction in the net Debt compared to that in Net worth (with the considerable loss for the previous year carried forward).

The medium/long-term indebtedness ratio, expressed as the ratio of consolidated liabilities and total sources of funding, passed from 32.6% in 2015 to 31.6% in 2016, recording a decline that mainly reflects a reduction in medium/long-term loans in the course of the financial year, mainly due to the reclassification of potential payables for the acquisition of minority interests under short-term liabilities (relating in particular to the Put Option on Sicura S.p.A., equal to € 5.4 million at 31 December 2016), against a reduction in funding sources as a result of a reduced financial debt (- € 48.2 million) and the simultaneous increase in Net worth (+ € 32.6 million, due for € 32.9 million to net consolidated result for the year).

Productivity ratios

The growing diversification of services provided by the Group companies entails a mix of work carried out by employees ("internal" workers) and work carried out by third parties ("external" workers). It can also vary significantly depending on the organisation/economic choices made in order to maximise overall productivity.

	2016	2015
Turnover/internal and external personnel costs	144%	146%
Make ratio	58.1%	57.8%

At 31 December 2016 the ratio between *Revenues from sales and services* and the total amount of costs for internal and external personnel used in production (cost of employed workers, cost of external workers, services provided by consortia and professional services) came to 144% (146% at 31 December 2014). In 2016, the ratio was affected by a reduction in turnover against a different mix of composition of operating cost (and in particular in the weight of costs for "internal" personnel, which vary in a non-proportional manner compared to changes in turnover).

The "*make ratio*", i.e. the ratio between the cost of internal labour ("make") and the cost of services provided by third parties, services provided by consortia and professional services points to higher trend than in the previous financial year. This represents a greater recourse to internal production factors than to purchasing services from external sources, just due to a changed mix of contracts in the backlog.

4. ANALYSIS OF THE PROFITABILITY, FINANCIAL POSITION AND CASH FLOWS OF THE PARENT COMPANY MANUTENCOOP FACILITY MANAGEMENT S.P.A.

The observations made regarding the trend in consolidated results and business development of the Group are confirmed if we analyse them at the level of the Parent Company MFM S.p.A..
Indeed, the Group is structured around its Parent Company, in which the main facility management activities were centralised and developed in the past, which are now coupled with more specialist and industry-based activities carried out by investee companies.

Furthermore, income and costs relating to non-recurring events and operations described in Paragraph 1 of the Report on Operations were recognised in the Parent Company's Statement of Profit/Loss for 2016, as stated below:

(in thousands of Euro)	For the year ended at 31 December 2016	2015
Advice on agreements for assignments of trade receivables without recourse	376	
Compensation for damage for arbitration award	1,915	
Structural reorganisation consulting fees	2,111	583
Legal advice on pending administrative disputes	676	198
Tender offer consulting fees		142
"*Oneri di Sistema*" relating to previous years		3,074
Non recurring operating costs impacting on EBITDA	**5,078**	**3,997**
Provisions for corporate reorganization	1,400	
Provisions for contractual liability to associates	2,323	
Provisions (Reversals) for risks from litigation with AGCM	(16,310)	48,510
Non-recurring Expenses (income) impacting on EBIT	**(12,587)**	**48,510**
Write-off of upfront fees related to the Notes bought back		1,902
Financial fees		1,069
Non recurring financial costs	**0**	**2,971**
TOTAL NON RECURRING COSTS	**(7,508)**	**55,478**

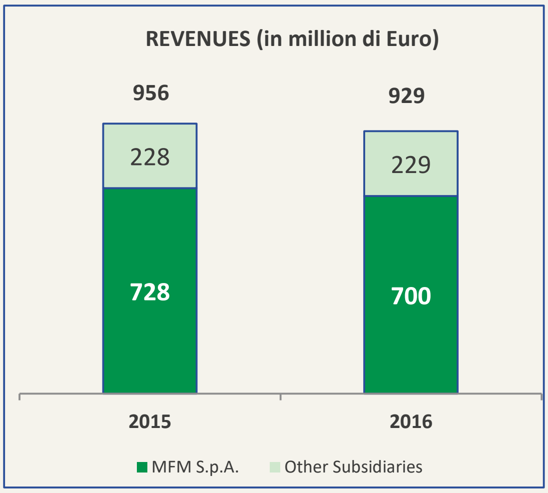
4.1 Economic results

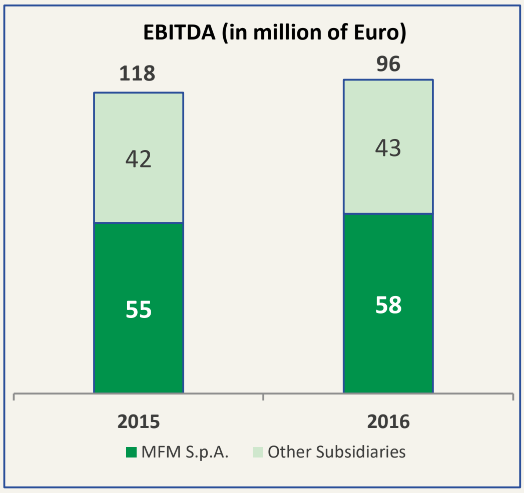
The main income data of the MFM S.p.A. for the year ended 31 December 2016, are shown below, as well as a comparison with the figures from the previous year:

(in thousands of Euro)	For the year ended at 31 December 2016	2015	Change	%
Total revenues	699,766	727,632	(27,865)	-3.8%
Total costs of production	(646,917)	(676,217)	29,300	-4.3%
EBITDA	**52,850**	**51,415**	**1,435**	**+2.8%**
EBITDA %	**7.6%**	**7.1%**		**+0.5%**
Amortization, depreciation, write-downs and write-backs of assets	(13,742)	(10,829)	(2,914)	
Accruals and reversal of provisions for risks and charges	10,504	(55,197)	65,702	
Operating Income (EBIT)	**49,612**	**(14,611)**	**64,223**	**+439.5%**
EBIT %	**7.1%**	**ND**		**+7.1%**
Income (charges) from investments	8,283	10,894	(2,611)	
Net financial charges	(24,394)	(27,996)	3,602	
Profit before taxes	**33,500**	**(31,714)**	**65,214**	
Profit before taxes %	**4.8%**	**ND**		
Income taxes	(8,141)	(11,256)	3,115	
Profit from continuing operations	**25,359**	**(42,970)**	**68,330**	
Profit (loss) from discontinued operations	**1,052**	**(1,286)**	**2,339**	
NET PROFIT (LOSS)	**26,412**	**(44,257)**	**70,668**	
NET PROFIT %	**3.8%**	**ND**		

In 2016, revenues for MFM S.p.A. stood at € 699.8 million, showing a decrease of € 27.9 million compared to € 727.6 million in 2015.

The Parent Company MFM S.p.A. guarantees the Group a sizeable portion of the consolidated results (about 75% of consolidated Revenues), internally developing operational structures for the traditional business of facility management, as well as administrative and technical structures for most of other Group companies as well as the Parent Company itself.





In 2016 EBITDA came to € 52.8 million against € 51.4 million in 2015, with a substantial increase in terms of related margins, which passed from 7.1% at 31 December 2015 to 7.6% at 31 December 2016. In 2016 the Parent Company contributed to consolidated EBITDA for about 57% of the same (unchanged compared to the value posted in the financial year ended 31 December 2015).

The remarks concerning the Group's income performance, in fact, are fully borne out in MFM S.p.A. since the pressure on volumes and prices in the Facility Management segment that have been described more generally and the consequent efficiency improvement actions in support of margins are most obviously concentrated in the Parent Company. At the same time the cost-saving measures which began to be introduced at the end of 2014 met the targets that had been set in 2015, with a recovery in terms of fixed costs and overheads, in absolute terms, equal to about € 5.5 million.

Specifically, there was a reduction in *Costs of raw materials and consumables* for € 11.9 million, *Costs of services* for € 6.1 million, against lower *Personnel costs* for € 6.6 million. Obviously, the different performance in the various cost items was also linked to a different mix of services rendered, with different overall labour costs in the two comparative periods.

Other operating costs showed a considerable reduction (- € 4.7 million). Specifically, this item included costs relating to "Oneri di sistema" for € 6.1 million (of which € 3.1 million relating to 2014 and therefore regarded as non-recurring costs) in 2015. These costs, on the other hand, had no impact on the results of the 2016 financial year because the management revised its overall estimates, also as a result of the possibility of obtaining Efficient System for Users (ESU) approval for sites which were previously considered not eligible for concessions. During 2016, costs were recognised for € 1.7 million concerning an arbitration award relating to the claim submitted by MFM S.p.A. to obtain, by way of recourse (pursuant to Article 18, paragraph 1, of Presidential Decree 633/1972), amounts paid to the Tax Authorities against a PVC issued in 2013 when it had found that said VAT had not yet been applied correctly. This claim (equal to € 5.6 million) was accepted in full and the amounts were actually collected during 2016, despite the payment of sums as compensation for damage to the counterparty.

In 2016 consolidated **EBIT** came to € 49.6 million against negative EBIT of € 14.6 million in 2015. However, the EBIT performance in 2015 had been significantly affected by the provision for risks of € 48.5 million set aside by the Company following the issue by AGCM of the order for sanctions on 22 December 2015, which was then served on 20 January 2016. At 31 December 2016 the amount of the provision for risks was recalculated following the partial acceptance by the Lazio Regional Administrative Court of the appeal submitted by MFM S.p.A., following which the sanction was significantly reduced despite the abovementioned claims for damages submitted by Consip S.p.A., with a net reversal of € 16.3 million. In 2016, non-recurring provisions were recognised for € 2.3 million, relating to future charges associated with disputes which involve the associate with which MFM S.p.A. has service contracts in place, which provide for possible contractual liability on the part of the supplier, in addition to provisions for corporate reorganisation equal to € 1.4 million. Net of these elements (and other non-recurring costs impacting on EBITDA), **Adjusted EBIT** came to € 42.1 million (€ 37.9 million at 31 December 2015), with a significant improvement in relative margins (Adjusted EBIT/Revenues), which passed from 5.2% to 6.0%.

In 2016 *amortisation and depreciation* amounted to € 8.0 million against € 6.7 million at 31 December 2015. This item includes amortisation of intangible assets of € 5.8 million (€ 4.2 million at 31 December 2015) and depreciation of property, plant and equipment of € 2.2 million (€ 2.5 million at 31 December 2015). Finally, *net write-downs of trade receivables* amounted to € 3.4 million (€ 2.7 million at 31 December 2015), as a result of having set aside a provision for risks on some specific positions.
Furthermore, during 2016 note *write-downs of equity investments* of € 2.0 million (€ 1.4 million at 31 December 2015) which were mainly connected to the subsidiaries operating for the business development in international markets. In 2015 these write-downs related to MACO S.p.A. and SMAIL S.p.A. for which a gradual exit from the markets has been completed for these activities and mergers by incorporation into MFM S.p.A. carried out with effect from 1 January 2016.

To EBIT must be added dividends and net income from equity investments amounting to € 8.3 million, compared to € 10.9 million in the previous year. The income reflects, among others, dividends from subsidiaries for € 7.9 million (€ 11.1 million at 31 December 2015), in addition to € 0.3 million from associated companies and minority interests (€ 0.2 million at 31 December 2015):

(in thousands of Euro)	Year ended 31 December	
	2016	**2015**
Servizi Ospedalieri S.p.A.	5,600	6,040
Telepost S.p.A.	1,685	3,030
H2H Facility Solutions S.p.A.	659	1,998
Genesi Uno S.p.A.	237	216
Progetto Nuovo S. Anna S.r.l.	79	
Other minors	8	16
DIVIDENDS	**8,268**	**11,300**

Financial income fell by € 0.8 million compared to the previous year, mainly against lower interest income on intragroup current accounts (- € 0.4 million) and lower income from discounted long-term financial assets for € 0.3 million.

The impact of *financial charges* on the results of operations of the Company was equal to € 30.1 million, showing a reduction of € 4.4 million compared to 2015.
First of all this item recorded lower financial costs on the coupons of the bond issue for € 2.9 million, given the buy-back of portions of Senior Secured Notes for an overall nominal value of € 80 million through the Tender Offer in June 2015 only, against a net financial cost for 2016 that was fully calculated on a remaining portion of the loan, equal to € 300 million. Furthermore, financial costs for 2015 included one-off costs relating to the same Tender for an overall amount of € 3.0 million (of which € 1.9 million relating to the proportional amount of financial costs accounted for at amortised cost pursuant to IAS 39 on the repurchased Notes).
Furthermore, in 2016 higher financial costs from assignments of receivables with recourse were recognised for € 0.3 million (relating to the contract in place with Unicredit Factoring) and higher interest discount costs relating to the agreements for the assignment of receivables without recourse in place with Banca Farmafactoring for € 0.5 million. Finally, during 2016 additional costs were recognised for interest discount for € 0.5 million, relating to an assignment of tax receivables without recourse, associated with the application of Decree Law 201 of 6 December 2011, as amended and converted by Law 214 of 22 December 2011, which had allowed the Company (and the companies merged into the same starting from 2010) to submit a request for IRES tax refund in 2012, due to the non-deduction of IRAP tax for an overall amount of € 9.9 million, of which € 8.1 million under the tax consolidation regime in place with parent company Manutencoop Società Cooperativa.

From the profit before taxes must be deducted taxes of € 8.1 million (€ 11.3 million at 31 December 2015), thus obtaining a positive *Net result from continuing operations* of € 25.4 million (against a negative value of € 43.0 million at 31 December 2015). Furthermore, note a positive profit from discontinued operations of €

1.1 million, including the related tax effect (Euro 0.3 million). It related to the additional price (Earn-out) that MFM S.p.A. (the company merging SMAIL S.p.A. with effect from 1 January 2016) obtained from the disposal of the business unit that the merged company carried out in November 2015, as required from the assignment agreement (€ 1.2 million, to which a tax effect of € 0.3 million was correlated). Furthermore, an income of € 0.2 million had been recognised in relation to the release of escrowed sums, in the performance of the contract conditions governing the disposal of MIA S.p.A., which was completed in December 2014.

The 2015 financial year also recorded a negative *Net Result from discontinued operations* of € 1.3 million, associated with the abovementioned disposal of MIA S.p.A. and in particular to the total costs accrued in the year in relation to the continuation of formalities set out as per contract with the buyer.

Below is the breakdown of the tax rate for the year:

(in thousands of Euro)	For the year ended at 31 December	
	2016	**2015**
Profit before taxes	**33,500**	**(31,714)**
Provision for risks from the enforcement of Consip guarantee	17,500	
AGCM provision (Reversal)	(33,810)	48,510
Profit before taxes, excluding AGCM provision	**17,190**	**16,796**
Current, prepaid and deferred IRES tax, including income and expenses from Tax consolidation	(5,590)	(7,383)
Current and deferred IRAP tax	(2,547)	(3,533)
Adjustments to income taxes related to previous years	(4)	(340)
Income taxes	**(8,141)**	**(11,256)**
Tax rate from continuing operations	**47.4%**	**67.0%**
Profit (loss) before taxes from discontinued operations	**1,385**	**(1,303)**
Taxes on profit (loss) from discontinued operations	(333)	17
Consolidated net profit (loss), excluding AGCM provision	**10,101**	**4,254**
TOTAL TAX RATE	**45.6%**	**72.5%**

As already described, the Profit before taxes includes a considerable reversal relating to the dispute that arose following the imposition of the administrative fine by AGCM in 2015 (€ 48.5 million) in relation to the Consip tenders during 2012. The related non-recurring provision, which is not deductible for the purposes of calculating the tax burden for the year, also significantly affected the Result before tax at 31 December 2015. The analysis of the tax rate for the year was then carried out by excluding these non-recurring effects, net of which the Result before tax at 31 December 2016 and at 31 December 2015 would be equal to € 17.2 million and € 16.8 million, respectively. However, there was a decrease in the overall tax burden equal to € 3.1 million.

At 31 December 2016 the tax rate of continuing operations came to 47.4% against 67.0% for the previous year, as a result of a lower impact from some tax components (IRAP tax and non-deductible IRES tax charges) compared to the substantial invariance of the Result before tax and to the recognition of deferred tax assets on temporarily non-deductible financial costs, which had not been stated at 31 December 2015.

The Company recognised lower current and deferred IRAP tax on the Profit (loss) from continuing operations for a total of € 1.8 million. Furthermore, there was the recognition of lower current and deferred IRAP tax (- € 1.0 million) and lower adjustments on taxes from previous years for € 0.3 million.

Finally, the Company recorded a positive Net profit of € 26.4 million, against a negative net Result of € 44.3 million at 31 December 2015.

4.2 Statement of financial position

Information on the performance of the main equity and financial indicators of the Parent Company as at 31 December 2016 is shown below, compared with the figures for year ended 31 December 2015.

(in thousands of Euro)	31 December 2016	31 December 2015	Change
USES			
Trade receivables and advances to suppliers	356,863	398,477	(41,614)
Inventories	689	884	(195)
Trade payables and advances from customers	(238,764)	(264,404)	25,640
Net commercial working capital	**118,788**	**139,957**	**(16,169)**
Other elements of working capital	(62,411)	(59,959)	(2,452)
Net working capital	**56,377**	**74,998**	**(18,621)**
Property, plant and equipment	8,919	9,529	(611)
Intangible assets	316,978	317,145	(167)
Investments	148,356	143,528	4,829
Other non-current assets	79,802	80,188	(387)
Fixed assets	**554,055**	**550,391**	**3,665**
Non-current liabilities	(60,371)	(75,237)	14,866
NET INVESTED CAPITAL	**550,061**	**550,152**	**(91)**
SOURCES			
Shareholders' equity	324,613	298,362	26,251
Net financial indebtedness	225,449	251,791	(26,342)
TOTAL FINANCING SOURCES	**550,061**	**550,152**	**(91)**

Net working capital

Net working capital (**NWC**) totalled € 56.4 million as at 31 December 2016, compared to a decrease of € 18.6 million compared to the value posted at 31 December 2015 (€ 75.0 million).

Net commercial working capital (**NWOC**), composed of Trade receivables and advances to suppliers and inventories, net of trade payables and advances from customers, stood at € 118.8 million as at 31

December 2016, while it was equal to € 140.0 million at 31 December 2015. The decrease was mainly due to a reduction in the balance of Trade Receivables and advances to suppliers (- € 41.6 million), against a more limited reduction in the balance of Trade payables and advances from customers (-€ 25.6 million). Considering the balance of receivables assigned without recourse by the Group and not yet collected by factors (equal to € 9.2 million at 31 December 2016 and € 1.0 million at 31 December 2015), the **Adjusted NWOC** came to € 128.0 million and € 136.0 million, respectively, with an overall reduction of € 8.0 million.

The balance of the other elements in working capital at 31 December 2016 was a net liability of € 62.4 million, up by € 2.5 million compared to a net liability of € 60.0 million at 31 December 2015:

(in thousands of Euro)	31 December 2016	31 December 2015	Change
Current tax receivables	1,681	12,254	(10,574)
Other current assets	16,957	19,402	(2,445)
Provisions for risks and charges, current	(9,469)	(13,864)	4,395
Other current liabilities	(71,580)	(77,750)	6,171
OTHER ELEMENTS IN WORKING CAPITAL	**(62,411)**	**(59,959)**	**(2,452)**

The increase in net liabilities is attributable to a combination of various factors, mainly including:

- the recognition of lower net credit of € 10.6 million for estimated income tax for the 2015 financial year owing to the higher taxable base in the financial statements at 31 December 2016 on which advances had been paid during the financial year which were calculated according to previous years' performance;
- a reduction in the short-term portion of provisions for risks and charges of € 4.4 million, mainly for the use of the provision for corporate reorganisation, during the year, which had been recognised at 31 December 2015;
- the recognition of lower net VAT payables for € 1.4 million (against a net debt of € 0.9 million at 31 December 2016 against a net debt of € 2.3 million at 31 December 2015), mainly as a result of the trend that followed the introduction, as early as in 2015, of the new regulations governing "Split payments" and "Reverse charge".

Fixed assets

Fixed assets include the following main items:

(in thousands of Euro)	31 December 2016	31 December 2015	Change
Property, plant and equipment and Intangible assets	32,659	33,436	(777)
Goodwill	293,238	293,238	
Equity investments in subsidiaries, associates and joint ventures	148,356	143,528	4,829
Other investments	3,451	2,868	583
Non-current financial assets	57,732	61,372	(3,640)
Other non-current assets	2,023	1,904	119
Deferred tax assets	16,595	14,045	2,551
FIXED ASSETS	**554,055**	**550,391**	**3,665**

The most substantial changes concerned:

- an increase in Equity investments in subsidiaries, associates and joint ventures for € 4.8 million, mainly against the acquisition of an additional investment of 5% of the share capital of Sicura S.p.A. (€ 1.9 million) and payments on account of future capital increase of the newly-established e-Digital Service S.r.l. for € 2.0 million;
- the collection of the last tranche of the financial receivable on 30 December 2016 for sums escrowed in connection with the contract of sale of the investment in MIA S.p.A. in December 2014 (equal to a nominal amount of € 5.0 million), which was recognised under Non-current financial assets at 31 December 2015;
- an increase in the balance of Deferred tax assets, mainly as a result of the recognition of higher deferred tax assets against non-deductible charges compared to the previous year (and in particular on non-deductible financial costs).

Other non-current liabilities

“Other non-current liabilities” include liabilities relating to:

- TFR (employee benefits), equal to € 9.9 million and € 11.0 million at 31 December 2016 and 31 December 2015, respectively;
- long-term portion of provisions for future risks and charges (€ 40.3 million at 31 December 2016 against € 54.6 million at 31 December 2015), which includes the provision for risks set aside as a result of the sanction imposed by AGCM on the Company;
- deferred tax liabilities of € 10.2 million (€ 9.7 million at 31 December 2015).

Net financial indebtedness

The Parent Company’s net financial indebtedness at 31 December 2016 and at 31 December 2015 is reported below:

(in thousands of Euro)	31 December 2016	31 December 2015	Change
Long-term financial liabilities	305,063	303,435	1,628
Bank borrowings and current portion of long-term debt	69,524	60,114	9,410
GROSS FINANCIAL INDEBTEDNESS	**374,587**	**363,549**	**11,038**
Cash and cash equivalents	(137,963)	(84,543)	(53,421)
Other current financial assets	(11,175)	(27,215)	16,040
NET FINANCIAL INDEBTEDNESS	**225,449**	**251,791**	**(26,342)**

2016 saw the payment of the net six-monthly coupons on the Senior Secured Notes of € 25.5 million; the settlement date was 2 February and 2 August (€ 28.9 million in 2015). The reduction in long-term financial payables was mainly attributable to accounting for the effects connected to the "amortised cost" required by IAS39 during the year.

On the reporting date short-term credit lines were used for hot money and advances on invoices for € 11.7 million (against € 27.4 million at 31 December 2015), to meet temporary cash requirements peaks linked to the physiological performance of operations.

As already described in previous paragraphs, MFM S.p.A. also entered into, as early as in 2015, an agreement for the assignment with recourse of trade receivables with Unicredit Factoring S.p.A., concerning receivables from customers in the Public market, against which it carried out assignments for an overall nominal value of € 51.8 million, while the amount of assigned receivables not yet collected by the factor at 31 December 2016, was equal to € 20.8 million (€ 2.5 million at 31 December 2015). Furthermore, assignments without recourse were carried out under the new contract that was executed by the Company and subsidiary Servizi Ospedalieri S.p.A. with Banca Farmafactoring in 2016, concerning the assignment of receivables from entities in the National Health System. During the year MFM S.p.A. carried out assignments of receivables without recourse for a nominal amount of € 26.5 million, while the amount of assigned receivables not yet collected by the Factor at 31 December 2016 was equal to € 8.3 million (to which must be added € 1.0 million relating to programmes of assignments without recourse that were applied in previous years and that have been discontinued). At 31 December 2016, the Group collected sums of € 0.8 million relating to receivables involved in assignments without recourse, for which the respective debtors did not make any payment on the bank accounts specified by the factor.

Furthermore, current financial assets reduced by € 16.0 million, mainly as a result of a reduction in the credit balances of current financial accounts registered in the name of subsidiaries (- € 13.6 million). At December 2015 the item also included the abovementioned first share of escrow against the disposal of the investment in MIA S.p.A., which was collected in May 2016 (€ 3.8 million).

4.3 Reconciliation of shareholders' equity and profit (loss) for the year of the Parent Company with corresponding consolidated figures

(in thousands of Euro)	2016		31 December 2015	
	Profit (loss) for the year	31 December Shareholders' Equity	Profit (loss) for the year	Shareholders' Equity
SHAREHOLDERS' EQUITY AND PROFIT (LOSS) FOR THE YEAR AS SHOWN IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY	**26,412**	**324,613**	**(44,257)**	**298,362**
- Elimination of consolidated equity investment values		(142,106)		(137,054)
- Accounting of Shareholders' Equity to replace the values eliminated		56,625		48,976
- Allocation to consolidation difference		63,724		61,954
- Allocation of tangible assets	(4)	68	(4)	71
- Recognition of financial income/costs on PUT options			(43)	(43)
- Dividends distributed to Group companies	(7,944)		(11,068)	
- Profit generated by consolidated companies	10,854	10,854	7,281	7,281
- Associates and JVs valued at equity	1,905	7,376	(156)	5,186
- Tax effects on consolidation adjustments	71	(296)	(32)	(367)
- Reversal of statutory write-downs	2,461	2,461	3,268	5,468
- Other consolidation adjustments	(106)	(182)	(401)	(249)
Total consolidation adjustments	**7,237**	**(1,476)**	**(1,155)**	**(8,777)**
Shareholders' equity and profit (loss) for the year pertaining to the Parent Company	**33,649**	**323,137**	**(45,412)**	**289,585**
Shareholders' equity and profit (loss) for the year pertaining to Minority Interests	(116)	235	43	380
SHAREHOLDERS' EQUITY AND PROFIT (LOSS) FOR THE YEAR AS SHOWN IN THE CONSOLIDATED FINANCIAL STATEMENTS	**33,533**	**323,372**	**(45,369)**	**289,965**

5. INTERNAL CONTROL AND RISK FACTORS

The existence and operations of the internal control system at the level of the whole organisation and of the individual processes/activities must be satisfactorily supported and documented, both as regards drawing up the controls themselves and testing, conducted to ensure that they are operative and effective. MFM S.p.A. has adopted additional rules for the Control System in order to ensure that the system of internal control is effective at the level of the whole organisation and of the individual processes/activities, the efforts are combined of the large number of persons that run the system, in order to improve the efficiency and efficacy of governance in terms of mitigating and/or covering risk.

The additional rules govern the relations between the persons working in the Group that need to exercise control functions.

After the changes in law and in the self-regulation code, the persons who exercise these functions are:

- the Internal Audit function, reporting to and functioning under the instructions of the Chairman of the Board of Directors;
- the "Organismo di Vigilanza (ODV)", pursuant to Legislative Decree 231/2001.

In carrying out detailed control activities, under the additional rules to the system of Internal Control, a pre-arranged sample has to be tested to see whether control activities are actually being performed. For this purpose, the control activities are analysed and aggregated in accordance with the following parameters:

- type of activity;
- process owner;
- technological platform within which the findings of the tests conducted in compliance with the control objectives are managed.

Operating testing activities relating to the Financial Control Framework implemented by the Company were developed on the basis of shared scopes, which were assessed on the basis of the financial statements of the companies in the MFM Group. For each consolidated company, falling within the scope, a first cycle of audits was conducted described as a "pilot audit" since it concentrated on the in-the-field validation of the strategies for the selection of the sample and of detailing the various aspects of the checks on the operational phases of the controls and on the functioning of the main processes. After this the key controls to be checked are tested every quarter.

Owing to the integration of various control requirements, some were borrowed from the tests conducted in accordance with Legislative Decree 231/2001, such as:

- Financial area
- Area of sensitive activities pursuant to Legislative Decree 231/2001 concerning processes that are also relevant for the purposes of internal control.

Afterwards an area exclusively dedicated to internal control issues was developed. This area was divided into processes being audited:

- Sales and distribution cycle;
- Purchasing cycle;
- General Accounting;
- Separate Financial Statements;
- Consolidated Financial Statements;
- Treasury.

In addition to the risks identified in the current Group's internal control framework, the main risks linked to the market in which the Group operates and to the unique activities performed by Group companies (market risks), as well as the financial risks, are shown below.

Risks related to competition and to the market

The market in which the Group operates is characterised by increasing competitiveness due to the business combination processes underway between operators already equipped with significant organisations in the market of reference and able to develop models for the provision of the service mainly geared towards minimising prices for the customer. Over recent years, this has led to an increasingly tight competitive context which will probably continue in the future too.

In this particularly challenging scenario, two particular events occurred during the first part of 2016 which mean that the risks of existing and future contracts being terminated, withdrawn from or excluded must be assessed more carefully than in the recent past:

- as a result of the Competition Authority fine ruling, on 4 February 2016 CONSIP S.p.A. initiated a procedure to terminate the Agreements entered into with the Parent Company MFM S.p.A. regarding cleaning services of Schools ("Consip Scuole"), which was concluded with the final termination on 23 November 2016. In the same notice Consip S.p.A. also notified the Company that it was going to formally report these facts to ANAC and to the Public Prosecutor's Office. At the same time as the start of the abovementioned procedure, Consip S.p.A. also notified MFM S.p.A. that it would consider the possibility of excluding it from future tenders for "work of the same type". On 2 December 2016 Consip S.p.A. formally notified the Italian Anti-Corruption Authority (*Autorità Nazionale Anti-Corruzione, ANAC*) of its accusations against MFM S.p.A..
- On 19 February 2016 Telecom Italia S.p.A., in making use of a right provided for in contract terms and conditions in the case of the committal for trial of the Company's directors, notified its intention to withdraw from the contract in place; however, subsequently, it finally waived this right by a notice dated 4 May 2016.

With reference to the first case, the assessments made by the Directors as at the reporting date of the Financial Statements are contained in the explanatory notes to the Financial Statements (note 17) and to the Consolidated Financial Statements (note 13), to which reference should be made.

Finally, with reference to the second case, the directors point out that: (i) MFM S.p.A., following the first notice received from Telecom Italia, promptly carried out an internal review involving almost all the contracts with clients in the Private sector, establishing that none of the contracts being reviewed contained provisions that allowed the termination of the same as a result of the occurrence of the same case; (ii) according to the Code of Public Contracts, which regulates contracts concluded with Public Authorities and public Health Units, committal for trial is not merely a reason for terminating the aforesaid contracts: vice versa, a final sentence is required for serious offences that affect professional morality; (iii) at present, following the changes in the Company's governance, the grounds on which Telecom Italia based its withdrawal no longer apply.

Financial risks

Concerning financial risks:

- liquidity
- credit
- interest rates
- exchange rates and
- price risks

the Group deals with in its operations and how they are managed, the subject is discussed in detail under note 33 in the explanatory Notes to the Consolidated Financial Statements, to which reference should be made.

6. ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001

In 2016 some changes were made to the legislation concerning the legal rules affecting the scope of application of Legislative Decree 231/2001.

Specifically, the criminal offence of "Labour trafficking – Article 603-bis of the Italian Criminal Code (notorious in Italy as caporalato)", as introduced by Law 199 of 29 October 2016, governing "Provisions for fighting the phenomenon of illegal labour, the exploitation of agricultural labourers and the realignment of pay in the agricultural sector", has been included in the list of predicate offences under Article 25-quinquies of Legislative Decree 231/2001. The list of offences was also revised in view of changes to some offences referred to in Article 24-bis of Legislative Decree 231/2001 and the abrogation of others, as required by Legislative Decree 7 of 15 January 2016.

As a result of the changes made, MFM S.p.A. updated its own Organisational, Management and Control Model pursuant to Legislative Decree 231/2001 (hereinafter the Model). The update to the Model, considering both the case law assessments and in-depth examination of the new legislative framework, is based on amendments to procedures, the introduction of new activities and observations/suggestions resulting from the controls performed and on changes concerning the corporate organisation. On 20 February 2017 the "ODV" gave its favourable opinion on the draft Model, appointing the chairman of the Supervisory Board to submit it for the approval of the Board of Directors of MFM S.p.A., which took place on 23 February 2017.

The "ODV", which had been appointed on 23 February 2015, was made up as follows:

- two outside members
- a member of the Board Management without delegated powers.

At the meetings of the ODV there was a requirement that a member of the Supervisory Board and a member of the Internal Control Committee should be permanently invited.

During 2016, following the resignation of the Chairman of the Management Board and the Managing Director and of other directors on 29 February, the entire Management Board ceased to hold office and the new members were appointed on 29 April 2016. According to the Model adopted by MFM S.p.A., the ODV remains in office until the expiry of the term of office of the Management Board which appointed it ; for this reason, the ODV also formally ceased to hold office on 29 April 2016. On the same date, the new Management Board appointed, at its first meeting, the new ODV, confirming the previous composition:

- two external professionals, in the persons of Marco Strafurini and Mario Ortello;
- a non-executive member of the Management Board, in the person of Benito Benati, who has also taken on the position of Chairman.

Following the resignation of the members of the Management Board on 29 April 2016, on 7 October 2016 the Supervisory Board met and noted that the proposal to appoint a new Management Board had been submitted at the Appointments Committee meeting which had preceded it. On this date a new management Board was then appointed; as already specified, since, according to the Model adopted by MFM S.p.A., the ODV remains in office until the expiry of the term of office of the Management Board which appointed it, the ODV also formally ceased to hold office on 7 October 2016 and the new Management Board appointed the new ODV at its first meeting.
It was composed as follows:

- two external professionals, in the persons of Marco Strafurini and Mario Ortello;
- a non-executive member of the Management Board, in the person of Pietro Testoni, who has also taken on the position of Chairman.

There was always to be a standing invitation to a member of the Supervisory Board and a member of the Internal Control Committee to attend the ODV meetings.
On 30 November 2016 a plenary Extraordinary Shareholders' Meeting resolved to change the Company's administration and control system to the traditional model of a Board of Directors and a Board of Statutory Auditors. The Management Board, Supervisory Board and the ODV ceased to hold office as a result of this decision. On the same day as that on which the newly formed Board of Directors was appointed, composed of the same persons who were members of the outgoing Management Board, it noted that the ODV had ceased to hold office and appointed a new body composed of the same members as previously, without, however, making provision for any standing invitation to attend its meetings.

In 2016 the "ODV" formally met three times (12 April, 20 July, 10 November).
As regards audit activities, at the first meeting in 2016, the ODV approved the proposed audit plan for 2016, as envisaged in the Model.
In the course of the financial year total of 4 audit cycles were performed, the outcomes of which are summarised in the associated "internal reports on the audit activities of the "ODV", which were sent firstly to the Chairman of the Management Board in a timely fashion and, after the change in the governance, to the Chairman of the Board of Directors.

7. HUMAN RESOURCES AND ORGANISATION

As at the closing date of the 2016 financial year, the MFM Group employed 16,207 workers (at 31 December 2015: 16,434 units), including personnel on lease from the Parent Company Manutencoop Società Cooperativa to Group companies, equal to 451 units (31 December 2015: 483 units).

Below is the Group's staff broken down by different employee categories:

	31 December 2016	31 December 2015
Executives	60	56
Office workers	1,255	1,251
Manual workers	14,892	15,127
EMPLOYEES	**16,207**	**16,434**

Prevention and protection

During 2016 the "Risk Assessment Document" was revised owing to the needs for:

- the designation of a new Chief Executive Officer of MFM S.p.A., Aldo Chiarini;
- the start of new operations of services (road maintenance works);
- a deepened assessment of already existing healthcare activities (transport and moving patients) and industrial activities (auxiliaries);
- an updated risk assessment for:
  - manual load handling;
  - electromagnetic fields;
  - work related stress;
- an updated worker health supervision protocol.

The new document was completed and formalised on 14 December 2016 (review no. 6).

During 2016 the Safety Management System was periodically checked by Rina, the certification body (OHSAS 18001) and some sample orders in the various areas of Operations were also checked.

In 2016 the Prevention and Protection Service conducted 42 audits in the Operations structure, distributed throughout all the areas. These audits were carried out to verify compliance with the regulations governing occupational safety and, in the event of any non-conformities, generated an improvement plan, shared with Area Operations Managers. In any case it has been seen that Safety is managed satisfactorily overall.

Healthcare supervision, performed by 25 occupational physicians widely distributed throughout the country, concerned all personnel exposed to "regulated" risks, i.e. occupational risks that may adversely affect health. The coordinating doctor was also chosen from among these doctors. As a result all the workplaces of MFM S.p.A. are under supervision, with the exception of the hygiene sector for services provided in non-industrial areas, in that the extent of each risk assessed in this sector in the overall risk assessment process is not such as to entail the obligatory inclusion of hygiene in these controls. These members of staff, in any case, have the right to consult the Company doctor on request. According to the revised form of the Risk Assessment document, nevertheless, health supervision was also extended to personnel in the hygiene sector who work as auxiliaries at schools and kindergartens since they are exposed to biological risk (they are subject to the risk of infectious diseases and may come into contact with biological liquids); the health supervision programme, however, had still not ended by the end of 2016. 7,165 workers underwent medical check-ups during 2016.

The Group also has a company procedure to identify the specific details of each accident so as to obtain more accurate statistical reporting which, starting with a survey of the causes - the dynamics - relating to the material agents, makes it possible to more accurately define the areas of intervention and their priority in order to reduce accidents. The latter is assessed through the following rates:

	2015	2015	2014	2013
Impact (no. of accidents x 1,000/no. of employees)	69.62	70.00	85.60	90.22
Frequency (no. of accidents x 1,000,000/no. of worked hours)	58.60	58.74	72.04	75.80
Severity (days of accident x 1,000/ no. of worked hours)	1.53	1.55	1.68	1.74

There were no fatal accidents at work during 2016.
There are currently 22 Workers' Safety Representatives at MFM S.p.A. distributed throughout the areas of Operations In 2016 they were involved in a training/education plan on occupational safety.

35 Health and Safety at Work inspections were also conducted during the year by control bodies (Local Health Authorities (ASL) and Provincial Labour Head Offices) on various operating units throughout the country. Finally, no environmental risk inspections were conducted by control bodies during 2016.

In view of the recent organisational changes, such as the Legal Representative, the Prevention and Protection Manager and the new members of the supervisory committee, the opportunity was taken to review the waste management issue. Although this is a role whose holder gives advice on the law governing this field, the service takes a proactive approach by its very nature and has always tried to identify systemic problems, at the same time striving to propose possible solutions. Manutencoop F.M. traditionally manages two large categories of waste:

- from the maintenance sector, which is produced at the office or address of the waste management company. The Prevention and Protection Service department's advice has always been to centralise management in the area offices, only keeping registers at the clients' premises for the larger contracts and/or for clients which have waste to dispose of a number of times a year (as a guide, more than 10) or for clients in more remote areas (Ancona). In this way registers are kept more professionally because they are compiled more frequently and are better handled;
- from the hygiene sector, 80-90% of which consists of containers, the remainder being old cloths, mops and sponges. When the new classification of hazardous substances came into force in June 2015, many substances became hazardous which had not been in this category before. Consequently discussions began with Legacoop and other enterprises in the hygiene sector with a view to achieving a better clarification of the methods for classifying containers and disposing of them. One of the questions still open is also the possibility of applying Article 266, paragraph 4, to cleaning as well so that waste management can be centralised in temporary depots. Solutions are also being pursued involving the reduction of the quantities of waste by using disposable products and reusing jerrycans at the smaller sites.

MFM S.p.A. is enrolled in the Italian Register of Waste Management Companies under the following categories:

- Category 1 (street cleaning) since 2013
- Category 8 (intermediation) since 2011.

In order to be enrolled in the Italian Register of Waste Management Companies, an enterprise must have a Technical Manager, the duties and responsibilities of which were laid down in Ministerial Decree 120/14 issued by the Ministry of Environment; Maurizio Massanelli has filled this role until now. The Technical Manager is responsible for taking the action necessary to ensure the correct organisation of waste management on the enterprise's part in compliance with current legislation and for checking the condition, quality and suitability of the means used and listed in the entry in the register.

Training

In the course of the 2016 financial year 766 training sessions were held, which involved 6,208 participants for a total of 54,332 training hours.

The table below shows the comprehensive results, divided into 5 subjects:

	2016			2015		
Subject	**Editions**	**Participants**	**Hours**	**Editions**	**Participants**	**Hours**
Safety	405	4,073	29,671	420	5,900	42,982
Technical-professional	269	1,865	20,936	135	1,028	10,864
IT	14	72	1,144			
Quality and Environment	24	164	423	27	221	760
Management	54	34	2,158	7	49	1,094
TOTAL	**766**	**6,208**	**54,332**	**107**	**7,198**	**55,700**

As regards Safety training, the Group continued to arrange special obligatory courses for each organisational position and also certified a group of employees as being able to apply reanimation techniques and use a defibrillator (BLSD – Basic Life Support Defibrillation).

As regards Technical and Professional Training, the Group increased its investments in enhancing its worker's skills arranging training sessions in Administration, Finance, Big Data, Supply Chain, English language, Communication and new digital technology.

Training sessions in Account Management were also held after the Group's internal reorganisation. These courses were for employees who are responsible for customer relationships at a local level and also included instruction on Lean Methodologies to assist in Continuous Improvement.

Seminars on matters which are important for the Company were arranged in collaboration with instructors from in-house functions, such as the New Code of Contracts, Energy Efficiency Certificates and the Public and private Partnership, in collaboration with SDA Bocconi.

As regards Operational functions, training sessions were held both for the hygiene services, such as operating methods and disinfection in public places, in collaboration with the Emilia Romagna Regional Government, and for integrated services, such as certification classes for firefighting equipment maintenance, boiler and refrigerating plant technicians.

Training sessions continued for employees enrolled with the Council of Architects and Engineers, which were necessary in order for them to retain their registration, on the issue of Building Information Model.

As regards Management training, the Group arranged a special training programme for about 30 operational group and second- line managers in order to ensure projects are correctly supervised and that the skills of in-house personnel are used to the full and to encourage and increase the utilisation of new management tools. The themes dealt with were client relations management, the recruitment and training of assistants and knowledge of the Group's main functions, such as commercial activities, tender planning, industrial relations and litigation, safety and quality.

The Company went on with its project involving some employees attending the Executive MBA course of Impresa Cooperativa at the Alma Mater Studiorum Bologna Business School every year; finally, training sessions were held on the issues of Negotiation and Conflict and Change Management.
In 2016 the Company financed 80% of training costs by using the Formatemp and Foncoop Funds, doubling its use of funding compared with the previous year. In addition to these interprofessional funds, the Company took part in and won other funding tenders such as Avviso 25 to hold IT courses, Lombardy Region funds for continuous worker training and Avviso 28 for technical training for personnel on redundancy schemes.

8. ENVIRONMENT AND QUALITY

During 2016 MFM S.p.A. maintained, following an audit carried out by RINA Services (the accredit certification body), the following certifications:

- UNI EN ISO 14001:2004 (Environmental Management System)
- UNI EN ISO 9001:2008 (Quality Management System)
- SA8000:2008 (Social Accountability System)
- UNI CEI EN ISO 50001:2011 (Energy Management Systems)
- BS OHSAS 18001:2007 (Occupational Health and Safety Management System)
- UNI CEI 11352:2014 - Energy Management - Companies providing energy services (ESCO).

In 2016 MFM S.p.A. maintained the qualifying company certification under Regulation (EC) 842/2006, Presidential Decree 43/2012 and ACCREDIA Technical Regulations RT-29 for installation, leakage control, servicing and repair services for fixed refrigeration and air-conditioning equipment and heat pumps containing certain fluorinated greenhouse gases, as well as the ANMDO CERMET standard for the voluntary accreditation of suppliers of hospital cleaning and sanitation services.
As required by Article 30 of Legislative Decree 81/08, as amended, MFM S.p.A. also obtained a certificate for its Safety organisation and management plan for the Planning and delivery of cleaning, hygiene, sanitisation, disinfection and disinfestation services in public and private civil, industrial, commercial, healthcare, logistics and transport sectors.

A UNI EN 14065 certification (laundry treatment for fabrics – biocontamination control system) was obtained for the laundries at Asti and Alessandria (laundries open at the customers in order to support the provision of the service) and an ISO/TS 14067:2013 certificate of conformity (carbon footprint) was also obtained for hygiene services in the healthcare and civil engineering sectors.

Within the MFM Group work continued to achieve certification or uphold requirements for the main following companies:

e-Digital Services	A quality management system certification (UNI EN ISO 9001:2015) was obtained for the "Planning and creation of process & technology outsourcing services for public and private clients . Delivery of call center services".
Sicura S.p.A. and its subsidiaries	Renewal of the certification according to the UNI EN ISO 9001:2015 standard (Quality Management System), assessed in accordance with the instructions in Technical Regulation ACCREDIA RT-05 for the Design, installation and maintenance of firefighting equipment, fire barriers and anti-intrusion systems, anti-shoplifting devices, CCTV circuits and access control systems; the Sale of products and services for safety at work; Provision of environmental, safety and business organisation consulting and training services; the Design, construction and marketing of accident prevention equipment and safety systems for industrial machinery; the Provision of labour medicine and preventive medicine services. Sector IAF: 28,29A. Maintenance of the qualifying company certification under Regulation (EC) 842/2006, Presidential Decree 43/2012 and Accredia Technical Regulations RT-29 for monitoring leakages and recovering fluorinated greenhouse gases, installing, servicing and repairing fixed fire-fighting plants and extinguishers containing such gases. Sicura S.p.A. is also certified to deliver services for the design, installation, ordinary (preventive) maintenance and repair of burglar and robbery alarm systems in accordance with Standard CEI 79-3:2012 – Technical specification CLC/TS 50131-7:2010 – Regulation IMQ - Performance level I – II – III Local area authorised for the release of IMQ certificates of the plants in Vicenza-Padua-Venice-Treviso.
H2H Facility Solutions S.p.A.	Maintenance according to the UNI EN ISO 9001:2008 standard (Quality Management System) and maintenance of the qualifying company certification under Regulation (EC) 842/2006, Presidential Decree 43/2012 and Accredia Technical Regulations RT-29 for installation, leakage control, servicing and repair services for fixed

	refrigeration and air-conditioning equipment and heat pumps containing certain fluorinated greenhouse gases.
Servizi Ospedalieri S.p.A.	Maintenance according to the UNI EN ISO 9001:2008 standard (Quality Management System), UNI EN ISO 13485 standard (Quality Management Systems. Requirements for regulatory purposes), UNI EN 14065:2004 (Laundry Processed Textiles - Biocontamination Control System), UNI EN ISO 20471:2013 (High Visibility Clothing - Test Methods And Requirements), BS OHSAS 18001:2007 (Occupational Health and Safety Management Systems), UNI EN ISO 14001:2004 (Environmental Management System). Furthermore, the Company maintained the EC certification in compliance with Directive 93/42/EEC for the production of sterile kits and obtained the EC certification in compliance with Directive 89/686/EEC for the production of some Personal Protective Equipment. The Company has started the procedures to obtain the certification SA8000, which will be completed in early 2017.
Telepost S.p.A.	Maintenance according to the UNI EN ISO 9001:2008 standard (Quality Management System). Maintenance according to the UNI EN ISO 14001:2004 standard (Environmental Management System).

No final convictions against Group companies for environmental crimes were reported during 2016.

9. RELATED PARTIES TRANSACTIONS

Concerning disclosure requirements laid down in art. 2428 of the Italian Civil Code regarding transactions between Group companies and related parties, it should be noted that all transactions carried out, including those between the Parent Company and its subsidiaries, as well as between the subsidiaries themselves, fall within the scope of ordinary Group operations and are regulated at arm's length.
Equity and economic transactions as at 31 December 2016 are detailed thoroughly in the explanatory Notes to the Consolidated Financial Statements and the Separate Financial Statements of the Parent Company MFM S.p.A. for 2016, to which reference should be made.

10. CORPORATE GOVERNANCE

Until November 2016 the Corporate Governance structure of Manutencoop Facility Management S.p.A. is set up under a two-tier administration and control system, as regulated by articles 2409-octies et seq. of the Italian Civil Code. This model provides a clear distinction between ownership and management, given that the Supervisory Board, composed entirely of independent members, acts as a barrier between the shareholders and the Management Board.

On 30 November 2016 the Extraordinary Shareholders' Meeting of MFM S.p.A. approved the new Articles of Association, whereby the ordinary management and control system was adopted pursuant to articles 2380 and ff. of the Italian Civil Code. This model provides for a Board of Directors, which is responsible for management and the supervision of strategy, and a Board of Statutory Auditors with control functions. The Shareholders considered that the change from dual corporate governance (adopted in May 2018) to a "traditional" form of governance simplifies the administration and control system and is more consistent with the objectives which the Company intends to pursue and allows the Shareholders' Meeting to directly exercise the powers for the appointment of Directors and the approval of the Financial Statements. The Board of Directors and the Board of Statutory Auditors will remain in office for three financial years and, specifically, until the date of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018. All the 13 members of the preceding Management Board were confirmed as members of the newly formed Board of Directors.

11. RESEARCH AND DEVELOPMENT

In 2016, the MFM Group companies did not bear any research and development costs.

12. ADDITIONAL INFORMATION REQUIRED BY ART. 2428 OF THE ITALIAN CIVIL CODE

The company does not hold own shares, or shares or interests in parent companies, neither through trusts nor intermediaries.

In 2016, the company did not purchase or dispose of own shares, or shares or interests in parent companies, neither through trusts nor intermediaries.

13. INFORMATION REQUIRED BY ART. 2497 OF THE ITALIAN CIVIL CODE

Manutencoop Facility Management S.p.A. is subject to the management and coordination activities of Manutencoop Società Cooperativa.

For details on transactions with both the entity that exercises management and coordination activities and with other companies that are subject to these activities, please refer to Explanatory Notes to the consolidated financial statements and the Explanatory Notes to the separate financial statements of the Parent Company Manutencoop Facility Management S.p.A..

14. SECONDARY OFFICES

The MFM Group has no secondary offices.

15. TAX CONSOLIDATION AGREEMENT

The Manutencoop Group opted to apply the Group taxation system, pursuant to articles 117 et seq. of the T.U.I.R. ("*Testo Unico Imposte sui Redditi*", the Italian consolidated Law on Income Tax), which involves Manutencoop Società Cooperativa as consolidating company and the following consolidated companies:

- Manutencoop Facility Management S.p.A. (MFM S.p.A.)
- Servizi Ospedalieri S.p.A.
- SI.MA.GEST 2 Soc. Cons. a r.l.
- H2H Facility Solutions S.p.A.
- Telepost S.p.A.
- e-Digital Services S.r.l.
- Manutencoop International S.r.l.
- Yougenio S.r.l.
- S.AN.GE. Soc. Cons. a r.l.
- S.AN.CO. Soc. Cons. a r.l.
- Sicura S.p.A.
- Protec S.r.l.
- Leonardo S.r.l.

Finally, the above-mentioned Companies participate in Tax Consolidation together with the following Manutencoop Società Cooperativa Subsidiaries but which are not part of the MFM Group:

- Manutencoop Immobiliare S.p.A.
- Segesta Servizi per l'ambiente S.r.l.
- Nugareto S.r.l

16. SUBSEQUENT EVENTS

Regulatory changes concerning "Oneri di sistema"

The Parent Company MFM S.p.A. holds some significant energy service contracts for which charges relating to "Oneri di Sistema" had been set aside for a total of € 6.2 million during 2015. During 2016 the Company reviewed the estimates of these costs for some sites which had previously not been considered eligible for concessions. Therefore no additional charges on the energy contracts involved were recognised in 2016.

On 23 February 2017 the Chamber of Deputies finally approved Decree Law 244 of 30 December 2016, the "Milleproroghe" Decree, and converted it into law. Specifically, the amendments affect the current regulations governing "Oneri di sistema" and in particular "*the following paragraphs are repealed: paragraph 5 of Article 33 of Law 99 of 23 July 2009, as well as paragraphs 1 to 7 and paragraph 9 of Article 24 of Decree Law 91 of 24 June 2014, as amended and converted by law 116 of 11 August 2014. The effects (if any) of repealed rules also cease to apply, which have not yet been felt*". In short, the rule was repealed, which, except for the RIUs (Reti Interne di Utenza, Internal Utility Networks), general oneri di sistema are calculated by making reference to energy consumption. According to the previous Bersani Decree (Legislative Decree 79/99), oneri di sistema are payable according to the energy withdrawn from the grid and, accordingly, any entity that does not withdraw energy from the grid, because it produces electricity on its own account, is exempt from the payment of said charges. Therefore, according to the new regulations, the management of MFM S.p.A. believes that no additional Oneri di Sistema must be recognised during 2017, also given that payment obligations have ceased to apply to those relating to previous years.

On the other hand, this case will remedy some distorting effects of the complex regulations governing energy self-production until 31 December 2017, which would have wrongly changed the regulatory framework for investments already made, in particular in industrial districts, thus frustrating their sustainability. Furthermore, a general reform of the relevant Regulations is desirable and expected during 2018.

Other events after the year-end

On 23 March 2017 AGCM notified MFM S.p.A. of the initiation of a preliminary investigation procedure against the main operators of the Facility Management market in order to establish whether these companies implemented any possible understanding restricting competition, concerning the coordination of the procedures to participate in the tender launched by Consip in 2014 for awarding the Facility Management services to be rendered to the properties that are mainly intended for office use on the part of the Public Authorities (“FM4 Tender”). For more comprehensive information, reference should be made to note 17 of the Financial Statements and to note 13 of the Consolidated Financial Statements.

On 3 April the Naples Public Prosecutor’s Office served a search order against some executives of the Company, which was executed at the registered office of the same. These executives are involved in the investigation started by the Naples Public Prosecutor’s Office as to the tender for awarding cleaning services at a local hospital. For more details, reference should be made to note 34 of the Financial Statements and to note 31 of the Consolidated Financial Statements.

17. OUTLOOK

The third quarter of 2016 saw a substantial confirmation of the expected Group performance: despite a business development that was not fully in line with the targets set for the current year, also due to the delayed award of contracts and agreements, the outlook at the end of the financial year shows a reduction in volumes in line with expectations and a substantial stability of profit margins, thanks to the strategies to rationalise costs and eliminate any potential inefficiency on which were focused on during the last two financial years. The forecasts have been also confirmed for the entire 2016 financial years, concerning slightly higher results in terms of EBITDA margin compared to the previous year.

The new Governance structure, which has been implemented in a short time according to the new shareholders’ agreements that were executed between the majority shareholder Manutencoop Società Cooperativa and the group of minority shareholders in July 2016 at the same time as the new investment agreement, will allow the Group to continue its future strategic projects in order to regain a sustainable growth path.

In financial terms, the Group has considerable available cash funds until 30 September 2016, despite the uncertain outcome of the proceedings pending before the Lazio Regional Administrative Court in relation to the appeal filed against the significant fine levied by the Authority in January 2016. The judgment dated 14 October 2016 reduced, in a significant manner, the required potential financial outlay, thus allowing a more flexible future use on the part of the Group of its financial resources and, however, has not yet settled the dispute, which will certainly imply an additional appeal on the part of MFM S.p.A. with the Council of State within the time limits prescribed by law. Also due to the new legal actions that the Group is about to bring, the updated financial statement measurements reported under accruals to provisions for future risks and charges will be reflected in the consolidated Financial Statements at 31 December 2016, on the basis of more complete and updated information.

18. ALLOCATION OF THE RESULT FOR THE YEAR

In concluding the report on 2016, the Directors invite you to approve the Financial Statements of Manutencoop Facility Management S.p.A. for the year ended 31 December 2016 and to allocate the profit for the year of € 26,411,796.97 as follows:

- € 1,320,589.85 to Legal Reserve
- € 25,091,207.12 to be distributed to shareholders, subject to full coverage of losses from previous years, amounting to € 44,256,591.14 through the partial use of the Extraordinary Reserve that, as a result of this use, reduces from € 73,229,454.01 to Euro 28,972,862.87.

Zola Predosa, 19 April 2017

The Chairman of the Board of Directors

Marco Canale

Manutencoop Facility Management S.p.A.
Registered office: Zola Predosa (BO)
Via U. Poli no. 4

F.C.– VAT – Bologna Register of Companie
no. 02402671206
Share Capital: € 109,149,600.00 fully paid-up