

**FALCK
RENEWABLES
Group**

**Interim financial report
30 September 2016**

Board of directors' meeting

Milan, 10 November 2016

FALCK RENEWABLES SpA
Share capital Euro 291,413,891 fully paid
Direction and coordination by Falck SpA
Registered and fiscal address
20121 Milan – Corso Venezia, 16
REA Milano 1675378
Milan Companies Register
03457730962
VAT and tax code 03457730962

Interim financial report at 30 September 2016

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1. Company officers

1. Company officers

Board of directors

Falck Enrico (*)	Executive Chairman
Corbetta Guido (*)	Deputy Chairman
Volpe Toni (*) (^)	Chief Executive Officer
Caldera Elisabetta (**)	Director
Cremona Emilio (**)	Director
Falck Elisabetta	Director
Falck Federico (*)	Director
Marchi Filippo	Director
Milone Libero (**)	Director
Poggiali Barbara (**)	Director
Rucellai Bernardo (**)	Director

(*) Members of the Executive Committee

(**) Independent members

(^) On 4 February 2016 Mr. Toni Volpe was co-opted (until the first Shareholders' Meeting) to replace Mr. Piero Manzoni, who resigned with effect from 31 December 2015, and was appointed Chief Executive Officer and General Manager starting 22 February 2016. The Shareholders' Meeting of 28 April 2016 appointed Mr. Toni Volpe as the new Director until the end of the term of office of the current directors, i.e. until the date of the shareholders' meeting to approve the financial statements for the year closing on 31 December 2016. The Company Board of Directors later met and appointed Mr. Toni Volpe Chief Executive Officer of Falck Renewables SpA.

Board of statutory auditors

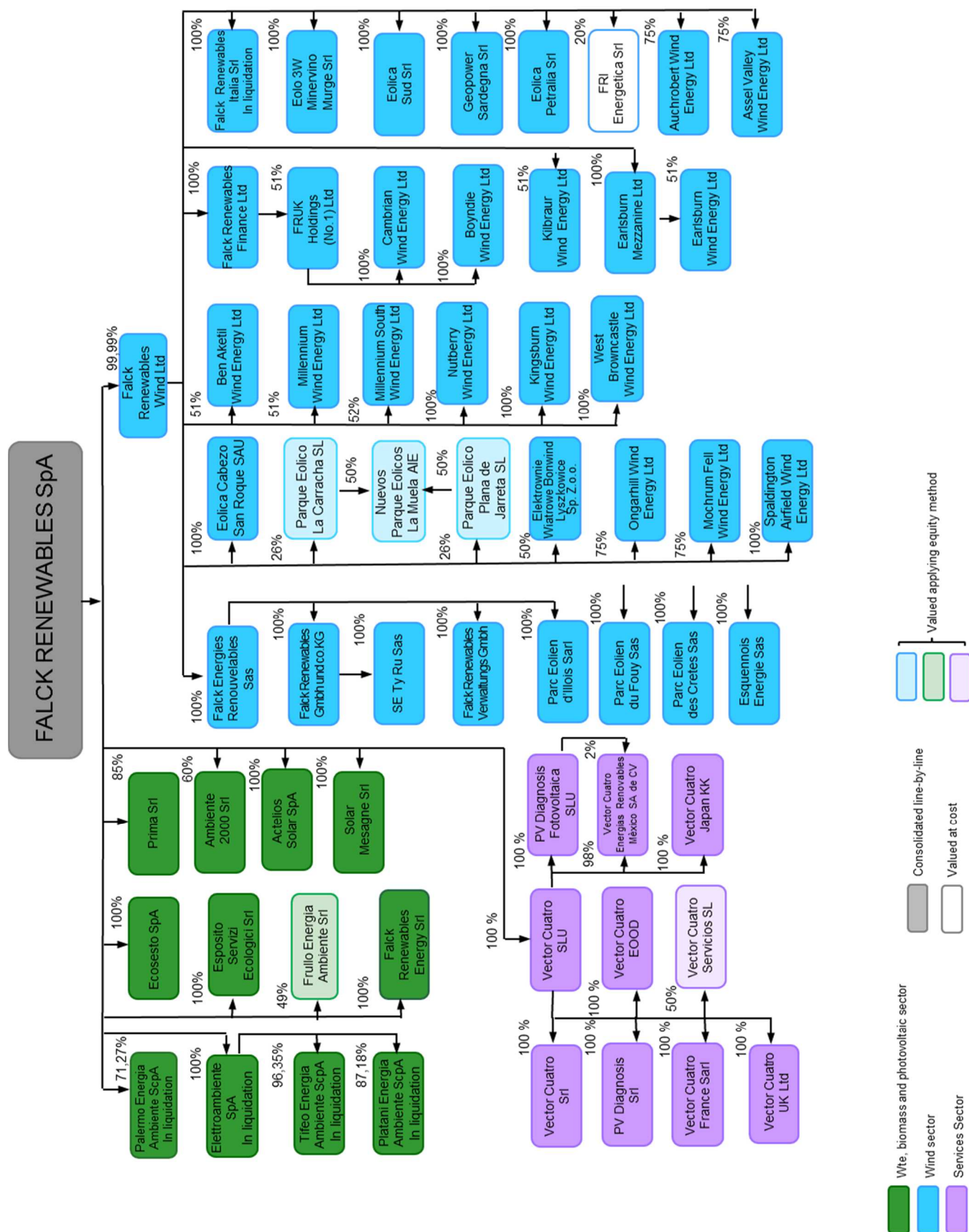
Scarpelli Massimo	Chairman
Conca Giovanna	Statutory auditor
Giussani Alberto	Statutory auditor
Caverni Mara	Substitute statutory auditor
Pezzati Gianluca	Substitute statutory auditor

Independent auditors

EY SpA

2. Group structure

2. Group structure



3. Financial information

3. Financial information

3.1 *Income statement*

	(Euro thousands)				
	3rd quarter 2016	3rd quarter 2015	At 30.9.2016	At 30.9.2015	At 31.12.2015
Revenues	51,229	52,609	179,853	199,843	270,740
Direct labour costs	(2,819)	(2,675)	(8,512)	(8,493)	(11,118)
Direct costs	(31,967)	(34,998)	(102,016)	(114,367)	(155,443)
Cost of sales	(34,786)	(37,673)	(110,528)	(122,860)	(166,561)
Gross profit	16,443	14,936	69,325	76,983	104,179
Other income	251	1,372	2,890	4,409	6,209
Other employee costs	(3,613)	(3,433)	(11,438)	(10,450)	(14,152)
Administrative expenses	(4,421)	(8,112)	(16,414)	(20,159)	(29,923)
Operating profit	8,660	4,763	44,363	50,783	66,313
Finance costs - net	(9,415)	(10,332)	(29,434)	(34,833)	(45,101)
Investment (costs) income	(11)	(4)	(11)	152	151
Income and expenses from equity investments	1,140	940	2,047	2,630	2,433
Profit before income tax	374	(4,633)	16,965	18,732	23,796
Income tax expense					(5,100)
Profit for the period					18,696
Profit attributable to non-controlling interests					13,421
Profit attributable to owners of the parent					5,275
EBITDA (*)	24,520	24,896	95,866	110,022	152,375

(*) EBITDA = EBITDA is measured by the Falck Renewables Group as earnings for the period before investment income and expenses, net financial income/expenses, amortisation and depreciation, impairment losses, charges to risk provisions and the income tax expense. This indicator was calculated applying best market practice taking into consideration the Group's most recent financing contracts.

3. Financial information

3.2 *Net financial position*

	(Euro thousands)				
	30.9.2016	30.6.2016	31.12.2015	Variations	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Short-term third party financial liabilities	(69,950)	(66,191)	(74,153)	(3,759)	4,203
Short-term Group financial liabilities					
Short-term third party financial receivables	1,093	1,011	132	82	961
Short-term Group financial receivables			5		(5)
Other securities					
Cash and cash equivalents	222,325	179,924	128,874	42,401	93,451
Short-term net financial position	153,468	114,744	54,858	38,724	98,610
Medium/long-term third party financial liabilities	(745,057)	(704,618)	(685,485)	(40,439)	(59,572)
Medium/long-term Group financial liabilities					
Other securities					
Medium/long-term financial position	(745,057)	(704,618)	(685,485)	(40,439)	(59,572)
Net financial position pursuant to Consob circular DEM/6064293/2006	(591,589)	(589,874)	(630,627)	(1,715)	39,038
Medium/long-term third party financial receivables	132	725	777	(593)	(645)
Medium/long-term Group financial receivables					
Total net financial position	(591,457)	(589,149)	(629,850)	(2,308)	38,393
- of which non-recourse financing	(712,051)	(672,539)	(634,699)	(39,512)	(77,352)

4. Notes to the interim financial report

4. Notes to the interim financial report

4.1 *Accounting standards, contents and form of the consolidated financial statements*

The interim financial report at 30 September 2016 includes the figures for the parent company Falck Renewables SpA and those of its subsidiaries, in which Falck Renewables SpA directly or indirectly holds a majority of the voting rights in the shareholders' assembly. The companies controlled by the Company jointly with other shareholders (joint ventures) are also consolidated as set out in the IFRS 11 accounting standard, using the equity method.

The Falck Renewables Group consists of 61 companies, of which 55 are consolidated on a line-by-line basis, 5 are consolidated applying the equity method and 1 is valued at cost.

In the first nine months of the year, Beaumont Wind Energy Limited, Ben Aketil 2 Wind Energy Limited, Dunbeath Wind Energy Limited, Kilbraur 2 Wind Energy Limited, Leadhills Wind Energy Limited, Ness Wind Energy Limited and Vector Cuatro Canada INC were liquidated.

Following the acquisition of the 48% investment in AMIA, on 17 December 2015, Falck Renewables SpA controls Palermo Energia Ambiente ScpA in liquidation, whose financial position was consolidated at 31 December 2015, while the operating results were consolidated starting from 1 January 2016.

This interim financial report at 30 September 2016 was drafted in accordance with International Financial Reporting Standards (IAS/IFRS). The income statement presents costs by function, which with regard to measurement of the headings, corresponds to IFRS requirements.

The interim financial report has also been prepared in conformance with article 154-ter, paragraph 5 of Legislative Decree 58/1998.

The accounting policies and measurement criteria used in the preparation of the Interim financial report at 30 September 2016 are consistent with those adopted for the previous year-end financial statements, with the exception of the adoption of new policies, amendments and interpretations effective as of 1 January 2016, which do not have a significant impact on the consolidated financial statements.

4.2 *Principle changes*

The Group uses the following alternative performance indicators:

- a) EBITDA is measured by the Group as earnings for the period before investment income and expenses, net financial income/expenses, amortisation and depreciation, impairment losses, charges to risk provisions and the income tax expense;
- b) Net financial position is defined by the Group as total cash and cash equivalents, current financial assets including shares available for sale, financial liabilities, fair value of financial hedging instruments and other non-current financial assets.

Third quarter 2016 results

During the third quarter of 2016, the Falck Renewables Group recorded earnings before income tax and non-controlling interests of Euro 374 thousand, showing strong growth on the same period in the prior year, which was of Euro -4,633 thousand.

We note that, in general, the third quarter shows a decrease in earnings due to seasonal factors in the wind power sector: instead, cost cutting initiatives led to an increase in earnings before income tax in the third quarter 2016.

Revenues decreased by Euro 1,380 thousand in comparison to the corresponding period in 2015, mainly due to the lower energy revenues caused by (i) the significant reduction in the average selling price of electricity in Italy, Spain and the United Kingdom; (ii) devaluation of the Pound against the Euro (-15.6% in comparison to the third quarter of 2015) with reference to production in the UK. Service and renewable energy plant management revenues rose, on the other hand, by Euro 711 thousand.

Gross profit amounted to Euro 16,443 thousand, an increase of Euro 1,507 thousand; gross operating margin totalled Euro 8,660 thousand (Euro 4,763 thousand in the third quarter of 2015). When expressed as a

4. Notes to the interim financial report

percentage of revenues, gross profit was of 32.1%, compared to 28.4% in the third quarter of 2015. Gross operating margin, when expressed as a percentage of revenues, was of 16.9% (9.1% in the third quarter of 2015).

The operating result in the third quarter of 2015 was affected by the provisions set aside by some Group companies, in particular Prima Srl, Falck Renewables Energy Srl and Eolo 3W Minervino Murge Srl, to cover the risk of electric energy transport and distribution charges for previous years. These provisions amounted to Euro 3,020 thousand.

Cumulative results at 30 September 2016

The cumulative income statement at 30 September 2016 showed earnings before income tax and non-controlling interests of Euro 16,965 thousand, slightly down on the corresponding period in the prior year, of Euro 18,732 thousand.

Revenues for the Falck Renewables Group in the nine months of 2016 amounted to Euro 179,853 thousand, a decrease of Euro 19,990 thousand (-10%) on the same period in 2015.

In the first nine months of 2016, the GWh generated in the wind sector amounted to 1,179 compared to 1,160 recorded in the same period of 2015 (+2% compared to the same 2015 period). The overall GWh generated globally by all of the Group's technologies totalled 1,356 compared to 1,337 in the first nine months of 2015 (+1% compared to the same 2015 period).

The decrease in revenues in the period is mainly due to (i) the significant reduction in the average selling price of electricity in Italy, Spain and the United Kingdom; (ii) the devaluation of the Pound against the Euro, totalling 9.5%, with reference to production in the United Kingdom. The decrease in revenues was partially compensated by the increase in production due to increased production capacity.

The first nine months of 2016 were characterised by electricity selling prices, including the incentive component, down compared to the same period of 2015, in Italy 8% for wind farms, 24% for WtE plants, 16% for biomass plants and 3% for solar plants; in Spain and the United Kingdom the drop in electricity selling prices from wind was 34% and 11% respectively, even though in the latter country this was partly mitigated by previously stipulated electricity sales agreements, while in France the feed in tariff mechanism acted as a safeguard against these changes.

The above is the consequence of low oil and gas prices in a market with a stagnant demand for electricity plus certain specific events in the renewable sector (some of which already forecast by the Group) which negatively affected prices. They are listed below:

- LECs (Levy Exemption Certificates) were abolished in the UK starting in August 2015, which represented an additional source of revenue for renewable plants;
- in Italy, with reference to the Ecosesto SpA biomass plant, starting 01 January 2016 and up until 30 June 2016, in lieu of the annual average electricity selling price set by the Authority for Electricity, Gas and Water, a fixed value was used, as forecast, resulting in a value for a green certificate of Euro 80.3 against Euro 100.7 in the first half of 2015; however, a decree published by the Italian Ministry of Economic Development on 23 June 2016 contains a regulation allowing operators to opt for the general regime, thereby restoring, as of 01 July 2016, the value of the incentive tariff according to the 2007 formula, with significant advantages for the Group in the second half of 2016 given that the incentive increased in the second half from Euro 80.3 to Euro 100.1 per MWh;
- in Italy, with its Resolution 29/2016/R/EFR, the Authority for Electricity, Gas and Water unexpectedly announced that the annual average electricity selling price reported in 2015 is valid for the purposes of defining the green certificates market price for the year 2016 and for the purposes of defining the value of the incentives which replace the green certificates ("GC"). The 2016 incentive tariff is therefore very likely to maintain the same GC values as in 2015, even if not in line with previous years, thereby creating an unexpected discontinuity. While waiting for further information from GSE, the Group has measured green certificates for the year 2016 based on the aforesaid resolution, at Euro 100.1 per MWh.

4. Notes to the interim financial report

With reference to WtE plants, on the other hand, transfer prices continued to grow by 8% on the same period the previous year.

As a result, EBITDA for the 2016 first nine months of 2016 amounted to Euro 95,866 thousand (Euro 110,022 thousand in the same period of 2015), corresponding to 53.3% of revenue (55.1% at 30 September 2015). EBITDA fell in comparison to the first nine months of 2015 (Euro -14,156 thousand), mainly due to lower revenues (Euro -19,990 thousand) in the period in question, which were partially offset by significant cost cutting.

Operating profit, totalling Euro 44,363 thousand, down by Euro 6,420 thousand on the first nine months of 2015, was 24.7% of sales revenues (25.4% at 30 September 2015).

This result was affected by Euro 2,206 thousand in allocations to the bad debt provision by Tifeo Energia Ambiente ScpA in liquidation, and the Euro 381 thousand allocation to risk provisions in relation to some projects currently under development in the United Kingdom.

Charges to risk provisions for the first nine months of 2015, net of funds used, amounted to Euro 3,836 thousand and mainly included Euro 545 thousand performed by the companies operating in the photovoltaic sector in light of the process initiated by the GSE to re-determine the incentive tariff and recover the amounts already awarded following the exclusion from the 2005 ISTAT revaluation of the aforesaid incentive tariff pursuant to implementation of Council of State ruling no. 9 of 4 May 2012, and Euro 3,020 thousand to cover the risk of electricity transport and distribution charges.

Again in the first nine months of 2015, due to selling back of the investment in Verus Energy Oak Ltd to the developer, the goodwill reported for Euro 907 thousand and assets for Euro 134 thousand were written down.

Moreover, following the impairment test performed in the first nine months of 2015, the value of the Rende hybrid plant was written down for Euro 4,044 thousand.

In comparison with the same period of 2015, operating results were boosted by the reduction in local property tax (IMU) for the Italian plants, resulting in savings of Euro 1.8 million.

Net financial charges improved significantly by Euro 5,399 thousand, thanks to lower debt, also thanks to the devaluation of the Pound against the Euro and management's efforts to reduce the cost of debt by renegotiating some financing projects. These effects more than compensated for the fall in interest gains on the Group's cash holdings and the total of Euro 540 thousand in interest expenses imposed by the French government on the owners of onshore wind farms that benefitted from the FiT held to be illegitimate from the date of its implementation up until April 2014¹.

The net financial position including the fair value of derivatives totalled Euro 591,457 thousand at 30 September 2016 (Euro 629,850 thousand at 31 December 2015). Net financial position is defined by the Group as total cash and cash equivalents, current financial assets including shares available for sale, financial liabilities, fair value of financial hedging instruments and other non-current financial assets.

The net financial position, net of the fair value of derivatives (Euro 72,356 thousand), is a net indebtedness of Euro 519,101 thousand, down from Euro 566,602 thousand at 31 December 2015.

Operating cash flow amounted to approximately Euro 89.6 million.

Net investment at 30 September 2016 was of Euro 63.1 million, and Euro 14.0 million were distributed in dividends. The devaluation of the Pound against the Euro had a positive effect worth Euro 35.6 million on net financial debt in Pounds, while the variation in fair value for the derivatives negatively affected the net financial position by Euro 9.8 million.

Lastly, we note that the financial position includes non-recourse loans ("Gross Project Debt") for a total of Euro 712,051 thousand at 30 September 2016 (Euro 634,699 thousand at 31 December 2015). During the

¹ For more details, refer to paragraph 5.1 "Directors' report - Significant events - French wind farm incentive rates"

4. Notes to the interim financial report

first nine months of 2016, the Group took out new financing projects for a total of GBP 122.6 million, at very favourable conditions.

The net financial position includes Euro 55,998 thousand in net financial debt, relating to projects under construction that, at 30 September 2016, have not yet generated the relative revenues. Net of this amount and the fair value of the derivatives, the net financial position would be Euro 463,103 thousand.

The net financial position of the project companies (Project NFP) including Gross Project Debt, the fair value of the derivatives used to hedge interest rate variations for the debt and the liquidity of the financing projects themselves is Euro 672,708 thousand.

Moreover, Gross Project Debt is hedged, using interest rate swaps, against interest rate variations for a total of Euro 515,941 thousand, equal to 72% of the debt.

As a result, the net financial position of Euro 519,101 thousand (excluding the fair value derivatives) is also hedged against interest rate variations using interest rate swaps for a total of more than 99% of the financial debt.

The following table shows a series of information designed to illustrate the composition and policy of the Falck Renewables Group interest rate hedges:

	(Euro thousands)
	30.9.2016
Total NFP without <i>Fair Value</i> Derivatives	519,101
Total covered by the variation in interest rates	515,941
% Coverage/NFP without derivatives	99%
Total Gross Debt with <i>Fair Value Derivatives</i> (GD+FVD)	815,007
of which <i>Project Gross Debt</i> + <i>Project Fair Value Derivatives</i>	784,904
% <i>Project GD</i> with FV Derivatives/(GD+FVD)	96%
Total Gross Debt without <i>Fair Value</i> Derivatives (GD)	742,118
of which <i>Project Gross Debt</i> (<i>Project GD</i>)	712,051
% <i>Project GD</i> /GD	96%
<i>Project Gross Debt</i>	712,051
Total covered by the variation in interest rates	515,941
% <i>Project Coverage</i> /GD	72%
Total Gross Debt (GD)	742,118
Total covered by the variation in interest rates	515,941
% Coverage/GD	70%
Total net financial position with <i>Fair Value</i> Derivatives (NFP)	591,457
of which <i>Project Financing</i> Net Debt (<i>Project NFP</i>) (*)	672,708
% <i>Project NFP</i> /NFP	114%
(*) <i>Project NFP</i> = Gross <i>Project Debt</i> + <i>Project Fair value Derivatives</i> - <i>Project Liquidity</i>	

Installed capacity, divided by type of technology, is show in the table below:

Technology	30.9.2016	31.12.2015	30.9.2015
Wind	708.9	674.6	674.6
WtE	20.0	20.0	20.0
Biomass	15.0	15.0	15.0
Photovoltaic	16.1	16.1	16.1
Total	760.0	725.7	725.7

4. Notes to the interim financial report

The Spaldington Airfield and Kingsburn wind farms in the United Kingdom began operation in May 2016, with a total installed power of 11.75 MW and 22.5 MW respectively.

Non-financial performance indicators

	Unit of measurement	30.9.2016	30.9.2015
Gross electricity generated	GWh	1,356	1,337
Total waste handled	Ton	193,396	207,423

The “Total waste handled” figure also includes intermediate waste.

In the first nine months of 2016, the Group produced 1,356 GWh of energy, up by 1% on the same period in 2015 (1,337 GWh), and handled 193,396 tonnes of waste in comparison to 207,423 tonnes in the same period in 2015, down by 7% on the first nine months of the prior year.

Regarding waste handled, the quantities managed by Esposito Servizi Ecologici Srl decreased due to a fall in the reference market.

Revenue by business category may be analysed as follows:

	3rd quarter 2016	3rd quarter 2015	30.9.2016	30.9.2015
				(Euro thousands)
Sale of electricity	42,386	44,968	154,683	176,451
Waste treatment and disposal	5,132	5,250	14,830	15,152
Operation and management of renewable power plants	2,735	2,023	7,315	6,342
Other services	976	368	3,025	1,898
Total	51,229	52,609	179,853	199,843

Revenues from Services and renewable energy plants were mainly generated by the Vector Cuatro Group.

Profit/(loss) before tax and non-controlling interests are shown in the following table, compared to figures at 30 September 2015:

	3rd quarter 2016	3rd quarter 2015	30.9.2016	30.9.2015
				(Euro thousands)
WtE, biomass and photovoltaic	3,225	374	(1,013)	(4,486)
Wind	(481)	(4,923)	24,233	26,657
Services	413	664	586	540
Falck Renewables SpA	(2,814)	(748)	(3,721)	(3,946)
Consolidation adjustments	31		(3,120)	(33)
Total	374	(4,633)	16,965	18,732

4. Notes to the interim financial report

4.3 Performance of the business sectors

This paragraph shows the key financial highlights and a brief commentary on the sectors that represent the Group.

❖ WtE, biomass and photovoltaic

The key financial highlights of this sector may be summarised as follows:

		(Euro thousands)		
		30.9.2016	30.9.2015	31.12.2015
Revenue		39,159	44,723	59,569
Cost of sales		(33,031)	(41,113)	(59,113)
Gross profit		6,128	3,610	456
Operating (loss)/profit		(81)	(3,048)	(7,300)
Ebitda		9,004	12,780	17,870
(Loss)/profit before income tax		(1,013)	(4,486)	(9,940)
Intangible assets		2,267	2,658	2,540
Property, plant and equipment		87,592	101,026	92,755
Net financial position - indebtedness/(asset)		149,622	167,458	160,334
of which non-recourse financing		30,895	33,282	32,105
Capital expenditure		1,166	875	935
Employees at the period-end	(no.)	83	82	84

This sector focuses on electricity production from renewable sources in particular through the conversion of urban waste to energy (WtE) and from biomass and solar power.

The strategy is developed through the management of operating power plants and the development of new projects, either directly or through joint ventures with leading industrial enterprises.

Revenue in the WtE, biomass and solar power sector decreased compared to 30 September 2015 by Euro 5,564 thousand, primarily due to (i) shut-down for scheduled maintenance of the Rende hybrid plant, (ii) a drop in electricity selling prices for all sector plants (24% for WtE plants, 16% for biomass plants and 3% for solar plants), and (iii) the lower quantities managed by the Esposito Srl company. The fall in revenues was partly offset by the transfer prices for WtE plants, which grew by 8% on the same period in the prior year.

With reference to the Ecosesto SpA biomass plant, starting 01 January 2016 and up until 30 June 2016, in lieu of the annual average electricity selling price set by the Authority for Electricity, Gas and Water, a fixed value was used, as forecast, resulting in a value for a green certificate of Euro 80.3 against Euro 100.7 in the first half of 2015; however, a decree published by the Italian Ministry of Economic Development on 23 June 2016 contains a regulation allowing operators to opt for the general regime, thereby restoring, as of 01 July 2016, the value of the incentive tariff according to the 2007 formula, with significant advantages for the Group in the second half of 2016 given that the incentive increased in the second half from Euro 80.3 to Euro 100.1 per MWh.

Due to the above, EBITDA also fell in comparison to the same period of the prior year (Euro -3,776 thousand), totalling Euro 9,004 thousand and amounting to 23.0% of revenues (28.6% at 30 September 2015): reduced operating costs allowed us to mitigate the impact of the variations in prices and incentives.

Operating profit improved by Euro 2,967 thousand to an operating loss of Euro 81 thousand.

This result was affected by Euro 2,206 thousand in allocations to the bad debt provision by Tifeo Energia Ambiente ScpA in liquidation.

Charges to risk provisions for the first nine months of 2015, net of funds used, amounted to Euro 3,309 thousand and mainly included Euro 545 thousand performed by the companies operating in the photovoltaic

4. Notes to the interim financial report

sector in light of the process initiated by the GSE to re-determine the incentive tariff and recover the amounts already awarded following the exclusion from the 2005 ISTAT revaluation of the aforesaid incentive tariff pursuant to implementation of Council of State ruling no. 9 of 4 May 2012, and Euro 2,764 thousand to cover the risk of electricity transport and distribution charges.

Again in the first nine months of 2015, due to selling back of the investment in Verus Energy Oak Ltd to the developer, the goodwill reported for Euro 907 thousand and assets for Euro 134 thousand were written down.

Moreover, following the impairment test performed in the first nine months of 2015, the value of the Rende hybrid plant was written down for Euro 4,044 thousand.

In comparison with the same period of 2015, operating results were boosted by the reduction in local property tax (IMU) for the Italian plants, resulting in savings of approximately Euro 0.9 million.

The net financial position, a net indebtedness of Euro 149,622 thousand, fell compared to the balance at 31 December 2015 (Euro 160,334 thousand), mainly due to cash generated by operating plants and the tax consolidation of the Sicilian companies (Euro 6,061 thousand). Net of fair value derivatives worth Euro 4,746 thousand, the net financial position would be Euro 144,876 thousand (Euro 156,391 thousand at 31 December 2015).

The net financial position comprises non-recourse financing of Euro 30,895 thousand (31 December 2015 – Euro 32,105 thousand).

Investment in the period amounted to Euro 1,166 thousand, mainly for improvements to the thermovalorisation plant in Trezzo sull'Adda.

❖ Wind

The key financial highlights of this sector may be summarised as follows:

		(Euro thousands)		
		30.9.2016	30.9.2015	31.12.2015
Revenue		133,323	148,733	202,610
Cost of sales		(71,261)	(75,748)	(99,734)
Gross profit		62,062	72,985	102,876
Operating (loss)/profit		54,451	62,392	86,055
Ebitda		96,566	104,452	144,853
(Loss)/profit before income tax		24,233	26,657	39,703
Intangible assets		81,752	93,634	94,151
Property, plant and equipment		838,321	870,715	880,410
Net financial position - indebtedness/(asset)		741,607	755,987	768,338
of which non-recourse financing		681,156	622,202	602,594
Capital expenditure		61,768	37,785	58,324
Employees at the period-end	(no.)	38	34	33

This sector focuses on electricity production through the construction and management of plants that generate electricity using wind energy and the development of new plants.

Revenues fell by 10.4% (Euro -15,410 thousand), mainly due to (i) the significant reduction in the average selling price of electricity in Italy, Spain and the United Kingdom; (ii) the devaluation of the Pound against the Euro, totalling 9.5%, with reference to production in the United Kingdom.

The first nine months of 2016 were characterised by electricity selling prices, including the incentive component, down compared to the same period of 2015, in Italy 8%, in Spain 34% and in the United Kingdom 11%, even though in the latter country this was partly mitigated by previously stipulated electricity sales agreements, while in France the feed in tariff mechanism acted as a safeguard against these changes.

4. Notes to the interim financial report

The above is the consequence of low oil and gas prices in a market with a stagnant demand for electricity plus certain specific events in the renewable sector (some of which already forecast by the Group) which negatively affected prices. They are listed below:

- LECs (Levy Exemption Certificates) were abolished in the UK starting in August 2015, which represented an additional source of revenue for renewable plants;
- in Italy, with its Resolution 29/2016/R/EFR, the Authority for Electricity, Gas and Water unexpectedly announced that the annual average electricity selling price reported in 2015 is valid for the purposes of defining the green certificates market price for the year 2016 and for the purposes of defining the value of the incentives which replace the green certificates (“GC”). The 2016 incentive tariff is therefore very likely to maintain the same GC values as in 2015, even if not in line with previous years, thereby creating an unexpected discontinuity. While waiting for further information from GSE, the Group has measured green certificates for the year 2016 based on the aforesaid resolution, at Euro 100.1 per MWh.

Gross profit decreased by Euro 10,923 thousand, corresponding to 46.6% of revenue (2015 – 49.1% at 30 September 2015).

EBITDA amounted to Euro 96,566 thousand, a decrease of Euro 7,886 thousand and equal to 72.4% of revenues (70.2% at 30 September 2015), also thanks to cost-cutting policies.

Operating results fell by Euro 7,941 thousand compared to the first nine months of 2015, and equalled 40.8% of revenues (41.9% at 30 September 2015) and included the contributions on capital accounts as per Law 488, for which Eolo 3W Minervino Murge was certified in 2016 for a total of Euro 1,887 thousand. In comparison with the same period of 2015, operating results were boosted by the reduction in local property tax (IMU) for the Italian plants, resulting in savings of approximately Euro 1.2 million.

The net financial position totals Euro 741,607 thousand, including non-recourse project financing for an amount of Euro 681,156 thousand and the fair value of derivatives to hedge interest rate exposure for Euro 67,806 thousand, showing an improvement of Euro 768,338 thousand compared to 31 December 2015. The cash generated by operating plants contributed to finance investments for the period. This refers mainly to the wind farms of Assel Valley, Spaldington, Auchrobert and Kingsburn in the United Kingdom.

The net financial position comprises net financial liabilities of Euro 55,998 thousand relating to projects under construction that were not yet revenue generating at 30 September 2016; the net financial position net of this amount and the fair value of derivatives would have amounted to Euro 617,803 thousand.

Investments in the period amounted to Euro 61,768 thousand, with reference to:

	(Euro thousands)
Auchrobert wind farm	21,452
Assel Valley wind farm	15,853
Kingsburn wind farm	13,121
Spaldington wind farm	7,951
West Browncastle wind farm	1,487
Eolo 3W Minervino Murge wind farm	1,443
Other smaller wind farms	461
Total	61,768

❖ Services

The key financial highlights of this sector may be summarised as follows:

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		30.9.2016	30.9.2015	(Euro thousands) 31.12.2015
Revenue		7,351	6,342	8,750
Cost of sales		(6,620)	(6,295)	(8,331)
Gross profit		731	47	419
Operating profit		675	595	584
Ebitda		1,287	1,115	1,294
Profit before income tax		586	540	512
Intangible assets		11,598	11,906	11,830
Property, plant and equipment		757	927	885
Net financial position - indebtedness/(asset)		(229)	(137)	(326)
of which non-recourse financing				
Capital expenditure		175	446	497
Employees at the period-end	(no.)	119	99	100

This sector comprises the Spanish group Vector Cuatro. This sector provides services and manages renewable energy power plants on a strong and extended international scale. It also offers engineering and consulting services in the development of projects to generate electricity principally using solar and wind energy.

Falck Renewables SpA acquired a 100% interest in Vector Cuatro SLU, a Spanish incorporated holding company with subsidiaries in Spain, Italy, France, Japan, Mexico, United Kingdom and Bulgaria, on 15 September 2014.

Following acquisition, Falck Renewables SpA control over the Vector Cuatro group.

Revenues increased by 15.9% (Euro 1,009 thousand), mainly due to higher revenues from engineering services in Mexico, Japan, Chile and France.

EBITDA amounted to Euro 1,287 thousand, up by Euro 172 thousand and equal to 17.5% of revenues (17.6% at 30 September 2015).

The net financial position was a net asset of Euro 229 thousand, representing a slight fall compared to the total at 31 December 2015 (Euro 326 thousand).

Investments in the sector for Euro 175 thousand primarily refer to the new management system and IT materials.

4.4 *Performance of the parent company Falck Renewables SpA*

The income statement of Falck Renewables SpA for the third quarter of 2016 closed with a loss before income tax of Euro 2,814 thousand (loss of Euro 748 thousand at 30 September 2015). The result was mainly influenced by lower revenues and fewer *una tantum* payments from risk provisions to the Sicilian projects in comparison to the same period in 2015.

The cumulative income statement at 30 September 2016 showed a loss before tax of Euro 3,721 thousand, up on the same period of 2015, which recorded a loss of Euro 3,946 thousand. The result was influenced by lower earnings of Euro 833 thousand, dividends (Euro 1,470 thousand) down by Euro 370 thousand compared to 30 September 2015, fewer allocations to risk provisions, net of payments, mainly in relation to the Sicilian projects (Euro 1,954 thousand) and an increase in financial costs/lower earnings worth Euro 659 thousand.

The financial position showed a balance of Euro 218,668 thousand, in comparison to Euro 217,830 thousand at 31 December 2015, mainly due to the dividends received by subsidiaries/associated companies

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for Euro 19 million, net of the Euro 13 million in dividends distributed to their own shareholders and operating costs.

It should be noted that on 28 May 2015 Falck Renewables SpA repaid a loan early for an original amount of Euro 165 million (Corporate Loan) and on 12 June 2015 signed a new loan agreement for Euro 150 million expiring on 30 June 2020. At 30 June 2016, the new Corporate Loan had not been used and therefore no interest rate hedging operation has been arranged.

The net financial position also includes the positive fair value of the derivatives to hedge interest rate and foreign exchange risks for Euro 196 thousand.

During the period, the Company invested Euro 566 thousand in intangible assets, for the purchase of software licences, and Euro 14 thousand in tangible assets.

4.5 *Employees*

At 30 September 2016, the Group had increased its workforce by 27 units in comparison to 31 December 2015, composed as follows:

	30.9.2016	31.12.2015	(number) 30.9.2015
Managers	36	34	34
White-collar staff and special categories	246	222	220
Blue-collar workers	50	49	47
Total	332	305	301

The increase is mainly due to the Services sector, the Wind sector and Falck Renewables SpA, which is expanding its activities.

4.6 *Management outlook for the current year*

2016 Group revenue will also benefit in the last quarter of 2016 from the production of the Spaldington and Kingsburn wind farms in the United Kingdom, for a total of 34.25 MW.

Moreover, starting in November, the revenues will benefit from the newly initiated operations at the Assel Valley wind plant in the UK, for a total of 25 MW, launched two months earlier than forecast.

With reference to the Ecosesto SpA biomass plant, on the other hand, from 01 July 2016 the Group opted for the incentive tariff in line with that offered for wind plants, a possibility recently introduced by Ministerial decree. This decision, using forecast prices in the next few years as estimated by energy curves, is based on the belief that the incentive will be more favourable than the current mechanism that will bring estimated benefits of approximately Euro 0.9 million in the last quarter.

Despite the difficult general macro-economic situation, the last quarter of 2016 will see some signs of growth in prices in comparison with those recorded in the first nine months of the year.

During the last quarter, the Pound may continue to fall against the Euro as in the first nine months of 2016, with a negative impact on revenues and EBITDA but a positive effect on financial charges, amortisation and depreciation and the net financial position in Pounds.

The Group will continue, as it did in the first nine months of 2016, to undertake all initiatives aimed at optimising performance and cutting operating costs in order to prepare for when the economic cycle recovers.

Considering the figures from the first nine months, which are affected by the strong performance in the third quarter as described above, the Group confirms EBITDA 2016 guidance at Euro 130 million (with a

4. Notes to the interim financial report

tolerance interval of -3% to +2%), based on the hypothesis that production continues as forecast in the last quarter of the year.

Construction will continue and be completed for the Auchrobert plant (36 MW) in the United Kingdom, which is forecast to be fully operational from the first quarter of 2017, following an acceleration plan implemented during 2016, the effects of which will be monitored over the coming months.

A further boost will be given to industrial development activity, thanks to the excellent ranking of the Group, both in terms of expertise and in terms of economic and financial resources, which will allow the Group to face these new challenges.

The regulatory and market context in which Falck Renewables Group works is witnessing great changes due to a general overhaul of the incentive mechanisms as well as the introduction of regulations aimed at fostering increased competitiveness for renewable energy in the greater context of energy systems. These market changes, accompanied and often emphasised by the negative effects of the economic crisis on electricity consumption, will be dealt with in the new business plan to be presented to the market on 29 November 2016.

5. Directors' report

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5.1 *Review of significant business developments*

Risk relating to the British referendum on remaining in the European Union ("Brexit")

At 30 September 2016, the Falck Renewables Group had ten operating plants in the United Kingdom (of which one in England for 11.75 MW, eight in Scotland for a total 281.75 MW, and one in Wales for 58.5 MW) for a total installed capacity, calculated at 100%, of approximately 352 MW (46% of a total of approximately 760 MW - excluding minority holdings) and two plants under construction in Scotland. The remaining installed capacity is situated in Italy (343 MW), France (42 MW) and Spain (23 MW).

Given the importance of the Falck Renewables Group presence in the UK, we note the potential risks relating to the result of the referendum held on 23 June 2016, in which the majority of voters were in favour of the UK leaving the European Union ("Brexit").

We also emphasise that all operators agree that, at the moment, it is impossible to hypothesise the future geopolitical, economic, financial, tax and industrial scenarios, including in relation to the British electricity market and renewable energy development and incentive strategies in the UK after Brexit.

It is not yet clear when the formal process of leaving the EU will begin, as certain formal steps must be followed, and what agreements will be reached between the EU, or its individual members, and the UK (and within the UK, specifically regarding Scotland) and their effects; some leading members of the British establishment and at the head of the EU are tending to indicate that it is in the interests of all parties to reach balanced agreements even if the process is likely to be long and possibly difficult.

It is therefore impossible to exclude the risk of volatility on the financial markets in the near future, including interest rates and the exchange rate for the Pound, which may lead to policies that are less favourable to the renewable energy sector and a tightening of credit conditions; for the moment, however, there is no sign of any of the above, given the statements in favour of clean energy by some members of the British government and the liquidity of the credit market.

The financial effects could possibly spread to EU member states, especially those with high levels of government debt, high exposure in the banking sector or weaker economies, leading to an economic downturn that could affect other countries as well as the UK, with a knock-on effect on prices and electricity tariffs.

However, for the moment, the initial effects have been: (i) considerable volatility and a fall in prices of European and particularly Italian shares (including Falck Renewables SpA shares); (ii) a slight increase in spread between the BTP and the BUND; (iii) tension relating to the position of certain banks with high exposure to bad debt risks; (iv) a downgrading of the UK by international ratings agencies; (v) significant volatility accompanied by a sharp devaluation of the Pound against the main world currencies; along with (vi) a fall in medium to long-term interest rates on the Pound.

More specifically in relation to the Falck Renewables Group:

- with reference to operating plants, cash flow generated in GBP is used to serve the portion of debt held in the same currency; moreover, a 49% share of six plants for a total of 273 MW out of the ten plants operating in the UK, (134 MW), was sold to CII Holdco in March 2014;
- with reference to the two plants under construction (Assel Valley and Auchrobert), the Euro/Pound exchange rate risk in relation to the portion of investment in Euros (mainly turbines) was already neutralised, at particularly advantageous conditions, months ago; current investments for the construction work, financed by the parent company, have already been protected from exchange rate risk; planned investments required to complete construction will be hedged at the time when the funds become necessary for the projects;

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- with reference Assel Valley and Auchrobert, yet to be financed under a project financing scheme, for which do not presently have any difficulty in sourcing financing, the fall of medium to long-term interest rates of the Pound, if durable, and the spread with the Libor remains stable, will benefit the Group's future income statements thanks to the fall in financial charges in relation to these two plants;
- with reference to financial capacity, the Group has enough immediately accessible liquidity and committed bank credit lines (Corporate Loan), if necessary, to complete construction of the plants and guarantee their operability.
- with reference to the net financial position (NFP) of the Group's plants in the UK, at 30 September 2016 it was of approximately GBP 215 million, equal to Euro 250 million at the exchange rate on that date (Euro/GBP exchange rate = 0.86103). In comparison with the exchange rate on 31 December 2015 (Euro/GBP = 0.73395), the NFP has improved by Euro 35.6 million, also considering the variation in the amount during the period. We note that the NFP for the Group's presence in the UK amounts to 42% of the Group's consolidated NFP at 30 September 2016;
- with reference to the income statement, the devaluation of the Pound has led to a fall in EBITDA in comparison to the first nine months of 2015 for a total of Euro 3.6 million. This impact was limited due to the fact that the average exchange rate in the first nine months of 2016 was of 0.8030, against 0.7271 in the same period of 2015. Nonetheless, the continuing fall of the Pound will accentuate this effect in the last quarter, as the average Euro/GBP exchange rate in 2015 was of 0.72585.

The Company will continue to monitor medium and long-term indicators and any decisions following the referendum on 23 June that could affect the UK electricity market, along with a potential structural devaluation of the Pound which could, as demonstrated during the first nine months of 2016, have a positive impact on the Group's debt in Pounds while also negatively affecting the financial indicators, net equity and future cash flow from UK assets that are converted, even in translation, into Euros.

Appointment of the Chief Executive Officer and General Manager

The Board of Directors of Falck Renewables SpA, in its meeting held on 4 February chaired by Mr. Enrico Falck, co-opted Mr. Toni Volpe as Company director (until the first Shareholders' Meeting) and also passed a resolution to grant him the office of Chief Executive Officer and General Manager of the company starting on 22 February 2016. The candidacy was studied by the Human Resources Committee, which expressed a unanimous favourable opinion.

The Shareholders' Meeting of 28 April 2016 appointed Mr. Toni Volpe as the new Director until the end of the term of office of the current directors, i.e. until the date of the shareholders' meeting to approve the financial statements for the year closing on 31 December 2016. The Company Board of Directors later met and appointed Mr. Toni Volpe Chief Executive Officer of Falck Renewables SpA.

French wind farm incentive tariff

On 15 April 2016, the French Council of State required the French State to ask owners of onshore wind farms who benefitted from the FiT based on the 2008 Arrêté, in the period when said Arrêté was held to be illegitimate following the notification received from the European Commission under the regulations on state aid (and therefore the period from the implementation/receipt of the FiT and April 2014) to repay the interest on the aid received.

Given that the Group's 4 wind farms in France began to be included in FiT contracts based on the 2008 Arrêté, they will be required to pay the interest on state aid received from the implementation of the FiT up to April 2014, for a total of approximately Euro 540 thousand.

Increase in installed capacity

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The Spaldington Airfield and Kingsburn wind farms in the United Kingdom began operation in May 2016. They are composed of 5 turbines (for a total installed power of 11.75 MW) and 9 turbines (for a total installed power of 22.5 MW) respectively.

New financings

FRUK Holdings (No. 1) Ltd Loan

On 26 January 2016 an agreement was signed between the company FRUK Holdings (No. 1) Ltd, parent company of Cambrian Wind Energy Ltd and Boyndie Wind Energy Ltd, on one side in the capacity of borrower, and The Bank of Tokyo Mitsubishi, on the other in the capacity of lender, to change the existing loan agreement, drawn up in 2004, with which the Bank of Tokyo Mitsubishi took over as the sole lending bank in place of the other syndicate of banks, granting an additional credit facility to FRUK Holdings (No. 1) Ltd, totalling Pounds 36,685 thousand. The two credit facilities for Cambrian Wind Energy Ltd and Boyndie Wind Energy Ltd remained unchanged.

The new credit facility granted to FRUK Holdings (No. 1) Ltd, with final expiry date on 31 December 2025, made it possible to partly pay off the larger subordinated loan of CII Holdco Ltd and allowed FRUK Holdings (No. 1) Ltd to optimise its financing activities and those of the Group.

West Browncastle Wind Energy Ltd loan

On 15 June 2016, a project financing agreement without recourse to the shareholder was signed between West Browncastle Wind Energy Ltd, as borrower, and The Bank of Tokyo Mitsubishi, as lender, for a long-term loan of GBP 40,322 thousand.

This new credit facility granted to West Browncastle Wind Energy Ltd, with final expiry on 31 December 2033, allowed the Group to optimise its financial management.

Spaldington Wind Energy Ltd and Kingsburn Wind Energy Ltd loan

On 22 September 2016, two project financing agreements without recourse to the shareholder were signed between Spaldington Airfield Wind Energy Ltd and Kingsburn Wind Energy Ltd, as borrowers, and The Bank of Tokyo Mitsubishi, as lender, for two long-term loans of GBP 14,300 thousand and GBP 31,272 thousand respectively.

These two new credit facilities granted to the companies, with final expiry in June 2034, allowed the Group to further optimise its financial management and benefitted from the fall in medium to long-term interest rates following the referendum on 23 June 2016.

No other significant changes took place regarding the status of litigation disclosed in the interim financial reports at 30 June 2016, which may be referred to for full details.

5.2 Main investments and divestments

During the first nine months of the year, the investments in question amounted to a total of Euro 63,491 thousand.

The investments represent the Group's financial commitment for the wind farms, as well as improvements on the plants currently in operation. In the period in question, investments in tangible assets mainly covered the construction of the wind farms in Auchrobert for Euro 21,452 thousand, Kingsburn for Euro 13,121 thousand, Assel Valley for Euro 15,655 thousand, Spaldington for Euro 7,951 thousand, West Browncastle for Euro 1,487 thousand, Eolo 3W Minervino Murge for Euro 1,443 thousand and the WtE plant in Trezzo for Euro 1,119 thousand. Minor investments for a total of Euro 572 thousand were also made. Lastly, intangible assets were also purchased by the parent company for software licences (Euro 566 thousand), by the Vector Cuatro group for Euro 124 thousand and by other Group companies for Euro 1 thousand.

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No noteworthy divestments, in terms of either size or amount, were made.

6. Certification of the Corporate Accounting
Documents Officer pursuant to Article
154-bis paragraph 2 of Legislative Decree 58/1998

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As required by Article 154-bis, paragraph 2 of the Uniform Finance Act (Legislative Decree No. 58/1998), Paolo Rundeddu, in his capacity as corporate accounting documents officer, declares that the accounting information contained in this interim financial report at 30 September 2016 is consistent with the data in the documents, accounting records and other records.

Paolo Rundeddu
(Director responsible for drafting
corporate accounting documents)

Milan, 10 November 2016