

FALCK RENEWABLES
Group

**Interim financial report as of
30 September 2017**

Board of directors' meeting
Milan, 9 November 2017

FALCK RENEWABLES SpA
Share capital € 291,413,891 fully paid
Direction and coordination by Falck SpA
Registered and fiscal address
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Milan Companies Register
03457730962
VAT and tax code 03457730962

Interim financial report as of 30 September 2017

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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
Falck Elisabetta	Director
Falck Federico	Director
Marchi Filippo	Director
Caldera Elisabetta (*)	Director
Dassù Marta (*)	Director
Milone Libero (*)	Director
Poggiali Barbara (*)	Director
Pietrogrande Paolo (*)	Director
Grenon Georgina (*)	Director

(*) Independent members for Consolidated Finance Act and self-discipline purposes

The Board of Directors was nominated by the Shareholders' Meeting on 27 April 2017.

Board of statutory auditors

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

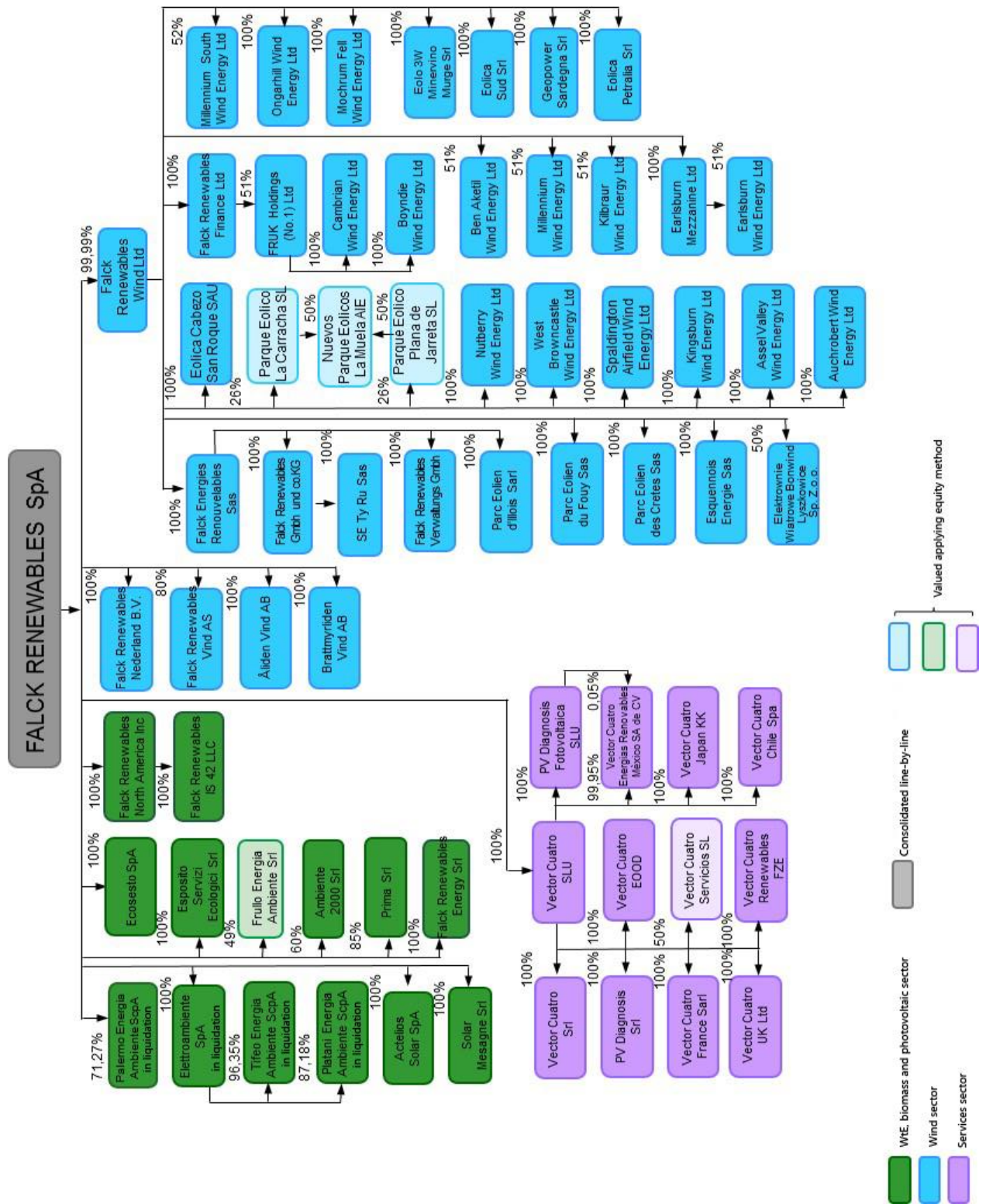
The Board of Statutory Auditors was nominated by the Shareholders' Meeting on 27 April 2017.

Independent auditors

EY SpA

2. Group structure

2. Group structure



3. Financial information

3. Financial information

3.1 *Income statement*

	(EUR thousands)				
	3rd quarter 2017	3rd quarter 2016	At 30.9.2017	At 30.9.2016	At 31.12.2016
Revenue	57,860	51,229	198,869	179,853	249,622
Direct labour costs	(3,164)	(2,819)	(9,500)	(8,512)	(11,423)
Direct costs	(34,116)	(31,967)	(108,649)	(102,016)	(139,623)
Cost of sales	(37,280)	(34,786)	(118,149)	(110,528)	(151,046)
Gross profit	20,580	16,443	80,720	69,325	98,576
Other income	413	251	4,030	2,890	7,107
Other employee costs	(3,944)	(3,613)	(12,116)	(11,438)	(15,537)
Administrative expenses	(7,424)	(4,421)	(19,126)	(16,414)	(30,502)
Operating profit	9,625	8,660	53,508	44,363	59,644
Finance costs - net	(8,834)	(9,415)	(28,425)	(29,434)	(41,374)
Investment income/(expenses)		(11)	46	(11)	(79)
Share of profit of investments accounted for using the equity method	962	1,140	2,023	2,047	1,160
Profit before income tax	1,753	374	27,152	16,965	19,351
Income tax expense					(17,486)
Profit for the year					1,865
Profit attributable to non-controlling interests					5,800
Profit attributable to owners of the parent					(3,935)
EBITDA (*)	25,373	24,520	103,587	95,866	136,292

(*) EBITDA = EBITDA is measured by the Falck Renewables Group as profit for the period before investment income and costs, net finance income/costs, 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*

	(EUR thousands)				
	30.9.2017	30.6.2017	31.12.2016	Changes	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Short-term third party financial liabilities	(68,178)	(64,050)	(66,776)	(4,128)	(1,402)
Short-term Group financial liabilities					
Short-term third party financial receivables	473	249	189	224	284
Short-term Group financial receivables					
Other securities					
Cash and cash equivalents	261,249	246,169	256,611	15,080	4,638
Short-term net financial position	193,544	182,368	190,024	11,176	3,520
Medium/long-term third party financial liabilities	(721,540)	(725,861)	(753,169)	4,321	31,629
Medium/long-term Group financial liabilities					
Other securities					
Medium/long-term financial position	(721,540)	(725,861)	(753,169)	4,321	31,629
Net financial position pursuant to Consob circular					
DEM/6064293/2006	(527,996)	(543,493)	(563,145)	15,497	35,149
Medium/long-term third party financial receivables	3,557	2,298	1,189	1,259	2,368
Medium/long-term Group financial receivables					
Total net financial position	(524,439)	(541,195)	(561,956)	16,756	37,517
- of which non-recourse financing	(714,956)	(717,493)	(734,875)	2,537	19,919

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 reports as of 30 September 2017 include the financial results of the parent company Falck Renewables SpA and its subsidiaries. Falck Renewables SpA controls an entity when it has the power to influence significant decisions, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity: in this case the entity is consolidated on a line-by-line basis.

The companies in which the parent company exercises joint control with other shareholders (joint-ventures) and those in which it exercises a significant influence are consolidated using the equity method.

The Falck Renewables Group consists of 67 companies, of which 62 are consolidated on a line-by-line basis, and 5 are consolidated applying the equity method.

During the first nine months, the following companies were consolidated line-by-line:

- Falck Renewables North America Inc., 100% held by Falck Renewables SpA;
- Vector Cuatro Chile SpA, 100% held by Vector Cuatro SLU;
- Vector Cuatro Renewables FZE, 100% held by Vector Cuatro SLU;
- Falck Renewables Nederland B.V., 100% held by Falck Renewables SpA;
- Falck Renewables IS 42 LLC, 100% held by Falck Renewables North America Inc.

During the first nine months, the following companies were acquired and consolidated line-by-line:

- Falck Renewables Vind AS, 80% held by Falck Renewables SpA;
- Aliden Vind AB, 100% held by Falck Renewables SpA;
- Brattmyrliden Vind AB, 100% held by Falck Renewables SpA;

This interim financial report as of 30 September 2017 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.

We note that, also following the simplifications introduced by Legislative Decree 25 of 15 February 2016 (which has assimilated Directive 2013/50/EU, so-called Transparency II) on periodic financial information to the public and in accordance with Article 2.2.3, paragraph 3, of the Rules of Markets organised and managed by Borsa Italiana SpA, Falck Renewables SpA, as a company belonging to the STAR segment, will continue to draw up and publish the interim financial reports in the forms adopted so far.

The accounting policies and measurement criteria used in the preparation of the Interim financial report at 30 September 2017 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 2017, which do not have a significant impact on the consolidated financial statements.

Changes to the evaluation criteria

In comparison to the 2016 financial statements, the paragraph on tangible fixed assets has been changed due to the new depreciation rates following the review of the useful life of the Group's photovoltaic and wind plants.

4. Notes to the interim financial report

The following annual depreciation rates were applied in the first nine months of 2017:

	%
Buildings	4-10
Plants and machinery	3.33-10
Equipment	7-15
Other assets	6-20
Revertible assets	5-10

Incentive plan

Furthermore, during 2017 the Falck Renewables SpA Shareholders' Meeting approved a share incentive plan.

In April 2017, the incentive plan for the CEO of Falck Renewables SpA was put into effect with 591,000 shares. In August 2017, some Group managers were also assigned 449,318 shares.

The cost of the share transactions was recorded at fair value on the date the shares were assigned, using an appropriate evaluation method, as described in detail in the notes to the 2017 Interim financial statements to which we refer, and is not subject to any subsequent adjustment.

The fair value of the services received by the owners of the plan in exchange for the shares received was calculated indirectly with reference to the fair value of the shares. This cost was recorded throughout the vesting period under employee expenses, or service costs if the beneficiary was not an employee, balanced by a specific reserve in equity. The accumulated costs were recorded according to the best estimate of the number of shares that will effectively reach maturity. The cost recorded under the results for the period represents the variation in the accumulated cost recorded at the beginning and end of the period.

No costs were recorded for rights that did not reach maturity due to failure to achieve performance or service targets.

4.2 Principle changes

The Group uses the following alternative performance indicators:

- a) EBITDA is measured by the Group as profit for the period before investment income and costs, net finance income/costs, 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 2017 results

During the third quarter of 2017, the Falck Renewables Group recorded a profit before income tax and non-controlling interests of € 1,753 thousand, showing strong growth on the same period in the prior year, which was of € 374 thousand.

We note that, in general, the third quarter tends to record very low profits or even losses, due to seasonal factors in the wind power sector: however, thanks to the strong growth in revenues, the third quarter of 2017 showed a very positive result for profit before income tax.

Revenues increased by € 6,631 thousand in comparison to the corresponding period in 2016, due to the increase in energy revenues caused mainly by (i) the significant rise in the average sale price of electricity in Italy, Spain and the United Kingdom; (ii) increased production in the period (+29 GWh) due to the increase in installed capacity. Revenues were partially reduced due to the devaluation of the GBP against the EUR (-5.4% in comparison with the third quarter of 2016), with reference to production in the UK.

4. Notes to the interim financial report

Gross profit amounted to € 20,580 thousand, an increase of € 4,137 thousand; gross operating margin totalled € 9,625 thousand (€ 8,660 thousand in the third quarter of 2016). When expressed as a percentage of revenues, gross profit was of 35.6%, compared to 32.1% in the third quarter of 2016. Gross operating margin, when expressed as a percentage of revenues, was of 16.6% (16.9% in the third quarter of 2016).

Cumulative results as of 30 September 2017

The cumulative income statement as of 30 September 2017 showed a profit before income tax and non-controlling interests of € 27,152 thousand, a strong improvement on the corresponding period in the prior year, which recorded € 16,965 thousand.

Revenues for the Falck Renewables Group in the first nine months of 2017 amounted to € 198,869 thousand, an increase of € 19,016 thousand (10.6%) on the same period in 2016.

In the first nine months of 2017, the GWh generated in the wind sector amounted to 1,220 compared to 1,179 recorded in the same period of 2016 (+3.5% compared to the same 2016 period). The total GWh produced by all the Group's technologies were 1,401 compared with 1,356 in the first nine months of 2016 (+3.3% over the same period of 2016) due to increased installed capacity in the UK in comparison with the prior year (+61 MW). In general, although production increased on the first nine months of 2016, it remained 8% less than forecast due to low winds in all the countries where the Group operates.

The increase in **revenues** is therefore mainly due to the significant rise in average energy prices in Italy, Spain and the UK, although in the UK it was partly reduced by the 8% devaluation of the GBP against the EUR in comparison to the first nine months of 2016.

The following EUR-GBP exchange rates were used in conversions:

	EUR/GBP
End of period exchange rate 30 September 2017	0.88178
End of period exchange rate 30 September 2016	0.86103
End of period exchange rate 31 December 2016	0.85618
Average exchange rate 30 September 2017	0.87320
Average exchange rate 30 September 2016	0.80300
Average exchange rate 31 December 2016	0.81950

The first nine months of 2017 were characterised by electricity sale prices, inclusive of the incentive component, up from the same period of 2016, in Italy, for wind power plants by 13%, for WtE plants by 19% and for Solar plants by 2%.

We remind you that, with reference to the Ecosesto SpA biomass plant, starting 1 January 2016 and up until 30 June 2016, a fixed value was used resulting in a value for a green certificate of € 80.3; however, the decree published by the Italian Ministry of Economic Development on 23 June 2016 permitted operators to opt for the general regime, thereby restoring, as of 1 July 2016, the value of the incentive tariff according to the formula used for wind farms with significant advantages for the Group given that the incentive increased in the second half of 2016 from € 80.3 to € 100.1 per MWh. In the first nine months of 2017, the incentive amounted to € 107.3 per MWh, which, together with the rising energy price, contributed to a 20% increase in the produced energy sales price for the biomass plant in comparison to the same period in 2016. In Spain and the United Kingdom, prices for the sale of electricity from wind power rose by 74% (the incentive component is no longer present in Spain) and 13% respectively, while in France, the feed-in tariff mechanism neutralised these increments.

As a result, EBITDA for the first nine months of 2017 amounted to € 103,587 thousand (€ 95,866 thousand in the same period of 2016), corresponding to 52.1% of revenue (53.3% at 30 September 2016). EBITDA increased compared to the first nine months of 2016 (€ 7,721 thousand), mainly due to the higher sale prices

4. Notes to the interim financial report

achieved during the period in question and an increase in energy produced thanks to the rise in installed capacity, despite the marked devaluation of the GBP.

Operating profit, totalling € 53,508 thousand, up by € 9,145 thousand on the first nine months of 2016, equalled 26.9% of sales revenues (24.7% at 30 September 2016).

This result was affected by € 5.1 million in allocations to the risk fund and bad debt provision, mainly with reference to the allocation of € 3.8 million for future extraordinary maintenance expenses relating to Ecosesto SpA, and a € 0.3 million allocation to the bad debt provision in relation to some projects under development in the UK.

We remind you that the 2016 results were affected by allocations to the risk fund and bad debt provision for a total of € 3.5 million, mainly in relation to € 2.2 thousand in allocations to the bad debt provision by Tifeo Energia Ambiente ScpA in liquidation, and the € 0.4 million allocation to risk provisions in relation to some projects currently under development in the United Kingdom.

In addition to these factors, operating income was also affected, in comparison to the same period of 2016, by higher income (€ 1,140 thousand), mainly due to higher compensation for damages and contractual penalties, and to capital contributions as per Law 488 (€ 1,880 thousand at 30 September 2017). The certificate for the third and last tranche was obtained by Eolo 3W Minervino Murge in June 2017.

As of 1 January 2017, following an analysis by independent technical consultants, taking account of current contractual limitations (mainly leaseings/rights to use land and authorisations/grants) and in line with market practice, the Group companies updated the estimated useful life of wind and photovoltaic plants. This update led to the average useful life for wind and photovoltaic plants being increased from 20 to 22.5 years, leading to € 6.5 million in lower depreciation/amortization rates in the first nine months of 2017. This effect was partly offset by the increase in depreciation/amortization due to the increase in installed capacity.

Net financial charges rose by € 1,009 thousand compared to the first half of 2016 due to (i) management actions aimed at reducing the cost of debt by renegotiating some project financings, (ii) lower indebtedness, which was also positively impacted by the depreciation of the GBP against the EUR, (iii) lower exchange rate differences. These effects more than offset the fall in interest income from the Group's cash holdings caused by the increase in the project financings and fair value debt of the royalty instruments, which were affected by forecast future rises in energy prices in the UK.

Net financial position including the fair value of derivatives totalled € 524,439 thousand at 30 September 2017 (€ 561,956 thousand at 31 December 2016). 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 (€ 48,744 thousand), is a net indebtedness of € 475,695 thousand, down from € 503,325 thousand at 31 December 2016.

Operating cash flow amounted to approximately € 54.3 million.

Net investment at 30 September 2017 was of € 21.5 million, and € 15.7 million were distributed in dividends, while € 1 million was spent in purchasing treasury shares. The devaluation of the GBP against the EUR had a positive effect worth € 8.9 million on net financial debt in GBP, while the variation in fair value for the derivatives negatively affected the net financial position by € 12.5 million.

Lastly, we note that the financial position includes non-recourse loans (“Project Gross Debt”) for a total of € 714,956 thousand at 30 September 2017 (€ 734,875 thousand at 31 December 2016).

The net financial position of the project companies (Project NFP) including Project Gross 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 € 636,293 thousand.

Moreover, Project Gross Debt is hedged, using interest rate swaps, against interest rate variations for a total of € 543,473 thousand, equal to 76% of the debt.

4. Notes to the interim financial report

As a result, the net financial position of € 475,695 thousand (excluding the fair value derivatives) is also hedged against interest rate variations using interest rate swaps for a total of 114% 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:

	(EUR thousands)
	30.9.2017
Total NFP net of Fair Value of Derivatives	475,695
Total hedged against interest rate fluctuations	543,473
% Hedged/NFP net of derivatives	114%
Total Gross Debt including Fair Value of Derivatives (GD+FVD)	789,718
of which Project Gross Debt + Fair Value of Project Derivatives	763,767
% Project GD including FV Derivatives/(GD+FVD)	97%
Total Gross Debt without Fair Value of Derivatives (GD)	739,464
of which Project Gross Debt (Project GD)	714,956
% Project GD/GD	97%
Project Gross Debt	714,956
Total hedged against interest rate fluctuations	543,473
% Hedged/Project GD	76%
Total Gross Debt (GD)	739,464
Total hedged against interest rate fluctuations	543,473
% Hedged/GD	73%
Total net financial position including Fair Value of Derivatives (NFP)	524,439
of which Project Financing Net Debt (Project NFP) (*)	636,293
% Project NFP/NFP	121%

(*) Project NFP = Project Gross Debt + Fair Value of Project Derivatives - Project Liquidity

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

	(MW)		
Technology	30.9.2017	31.12.2016	30.9.2016
Wind	769.9	733.9	708.9
WtE	20.0	20.0	20.0
Biomass	15.0	15.0	15.0
Photovoltaic	16.1	16.1	16.1
Total	821.0	785.0	760.0

The Assel Valley wind farm in the UK, which has 10 turbines and installed capacity of 25 MW, began operations in October 2016.

Moreover, during 2017 the Auchrobert wind farm in the UK, which has 12 turbines for an installed capacity of 36 MW, was also powered up.

Non-financial performance indicators

	Unit of measurement	30.9.2017	30.9.2016
Gross electricity generated	GWh	1,401	1,356
Total waste treated	Ton	188,670	193,396

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

4. Notes to the interim financial report

In the first nine months of 2017, the Group produced 1,401 GWh of energy, up by 3.3% on the same period in 2016, and handled 188,670 tonnes of waste in comparison to 193,396 tonnes in the same period in 2016, down by 2.4% on the first nine months of the prior year.

The increase in electricity produced has been illustrated above.

Regarding waste handled, the quantities managed by the Trezzo site decreased due to down time, which was partly offset by the increase in the quantities handled by Esposito Servizi Ecologici Srl thanks to growth in the reference market.

Revenue by business category may be analysed as follows:

	(EUR thousands)			
	3rd quarter 2017	3rd quarter 2016	30.9.2017	30.9.2016
Sale of electricity	50,378	42,386	173,714	154,683
Waste treatment and disposal	4,180	5,132	14,154	14,830
Services and management of renewable energy plants	2,634	2,735	8,458	7,315
Other services	668	976	2,543	3,025
Total	57,860	51,229	198,869	179,853

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

Profit before tax and non-controlling interests are shown in the following table, compared to figures as of 30 September 2016:

	(EUR thousands)			
	3rd quarter 2017	3rd quarter 2016	30.9.2017	30.9.2016
WtE, biomass and photovoltaic	230	3,225	1,569	(1,013)
Wind	5,767	(481)	37,626	24,233
Services	(37)	413	217	586
Falck Renewables SpA	(4,896)	(2,814)	(12,676)	(3,721)
Consolidation adjustments	689	31	416	(3,120)
Total	1,753	374	27,152	16,965

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:

	(EUR thousands)		
	30.9.2017	30.9.2016	31.12.2016
Revenue	44,340	39,159	53,689
Cost of sales	(37,516)	(33,031)	(43,842)
Gross profit	6,824	6,128	9,847
Operating profit/(loss)	2,126	(81)	(3,857)
EBITDA	12,707	9,004	13,674
Profit/(loss) before tax	1,569	(1,013)	(6,337)
Intangible assets	1,225	2,267	1,292
Property, plant and equipment	85,161	87,592	89,925
Net financial position - indebtedness/(asset)	129,996	149,622	137,073
of which non-recourse financing	26,022	30,895	28,338
Capital expenditure	1,473	1,166	1,287
Employees at the period-end	(no.) 88	83	82

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.

The WtE, biomass and solar sector showed a € 5,181 thousand increase in revenues compared to the first nine months of 2016, mainly due to the sale price of electricity, including the incentive component, up from the first nine months of 2016 by 19% for WtE plants and 2% for solar plants. Revenues were also affected by the increase in waste treated in the Gorle plant, along with the improved performance of the Ecosesto SpA biomass plant, which saw production rise by approximately 11% also thanks to the planned downtime in the first half of 2016 and the improved performance of the solar plants. Moreover, we remind you that with reference to the biomass plant, starting 1 January 2016 and up until 30 June 2016, a fixed value was used resulting in a value for a green certificate of € 80.3; however, the decree published by the Italian Ministry of Economic Development on 23 June 2016 permitted operators to opt for the general regime, thereby restoring, as of 1 July 2016, the value of the incentive tariff according to the formula used for wind farms with significant advantages for the Group given that the incentive increased in the second half of 2016 from € 80.3 to € 100.1 per MWh. In the first nine months of 2017, the incentive amounted to € 107.3 per MWh, which, together with the rising energy price, contributed to a 20% increase in the produced energy sales price for the biomass plant in the first nine months of 2017 in comparison to the same period the previous year.

The above factors contributed to a € 3,703 thousand rise in EBITDA on the same period the previous year, totalling € 12,707 thousand; this represented 28.7% of revenue (23.0% at 30 September 2016).

Operating profit improved by € 2,207 thousand and now totals € 2,126 thousand.

As of 1 January 2017, following an analysis by independent technical consultants, taking account of current contractual limitations (mainly leaseings/rights to use land and authorisations/grants) and in line with market practice, the Group companies updated the estimated useful life of wind and photovoltaic plants. This update led to the average useful life for photovoltaic plants being increased from 20 to 22.7 years, leading to € 0.4 million in lower depreciation/amortization rates in the first nine months of 2017.

4. Notes to the interim financial report

This result was mainly affected by the allocation of € 3,800 thousand to reserves for future extraordinary maintenance costs for Ecosesto SpA.

We remind you that the 2016 result was mainly affected by € 2,206 thousand in allocations to the bad debt provision by Tifeo Energia Ambiente ScpA in liquidation.

The net financial position, a net indebtedness of € 129,996 thousand, fell compared to the balance at 31 December 2016 (€ 137,073 thousand), principally due to cash generated by operating plants. Net of fair value derivatives worth € 3,414 thousand, the net financial position would be € 126,582 thousand (€ 132,751 thousand at 31 December 2016).

The net financial position comprises non-recourse financing of € 26,022 thousand (31 December 2016 – € 28,338 thousand).

Investment in the period amounted to € 1,473 thousand, mainly for improvements to the thermovalorisation plant in Trezzo sull'Adda and the biomass plant in Rende.

❖ Wind

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

	(EUR thousands)		
	30.9.2017	30.9.2016	31.12.2016
Revenue	146,160	133,323	186,206
Cost of sales	(73,620)	(71,261)	(98,568)
Gross profit	72,540	62,062	87,638
Operating profit/(loss)	66,062	54,451	78,550
EBITDA	103,555	96,566	135,781
Profit/(loss) before tax	37,626	24,233	34,863
Intangible assets	96,556	81,752	82,156
Property, plant and equipment	828,476	838,321	868,097
Net financial position - indebtedness/(asset)	690,280	741,607	755,881
of which non-recourse financing	688,934	681,156	706,537
Capital expenditure	19,686	61,768	90,083
Employees at the period-end	(no.) 39	38	38

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.

The increase in revenues (€ 12,837 thousand in comparison to the same period in 2016) is mainly due to the significant increase in electricity prices in Italy, Spain and the United Kingdom, as well as the 3.5% growth in production on the same period in 2016.

The increase in revenues was partially offset by the depreciation of the GBP on the EUR by 8% with reference to production in the United Kingdom.

The first nine months of 2017 were characterised by electricity sale prices, including the incentive component, up from the first half of 2016, by 13% in Italy, 74% in Spain (where the incentive component is no longer present) and 13% in the United Kingdom, while in France the feed-in tariff mechanism balanced out these increases.

Gross profit rose by € 10,478 thousand, 49.6% of revenues (46.6% at 30 September 2016), due to both the strong industrial results in the period and the lower depreciation and amortisation costs in comparison to the first nine months of 2016 following the revision of the useful of the Group's plants.

4. Notes to the interim financial report

As of 1 January 2017, following an analysis by independent technical consultants, taking account of current contractual limitations (mainly leasings/rights to use land and authorisations/grants) and in line with market practice, the Group companies updated the estimated useful life of wind and photovoltaic plants. This update led to the average useful life for wind plants being increased from 20 to 22.5 years, leading to € 6.1 million in lower depreciation/amortization rates in the first nine months of 2017.

EBITDA amounted to € 103,555 thousand, up by € 6,989 thousand and equal to 70.9% of revenues (72.4% at 30 September 2016).

Operating profit also recorded growth, increasing by € 11,611 thousand compared to the first nine months of 2016 and amounted to 45.2% of revenue (40.8% at 30 September 2016).

We remind you that the provision for risk funds of € 1,169 thousand in the first nine months of 2016 was for the provision of the French group companies against the decision of the State Council regarding the incentive tariff for the wind farms (€ 789 thousand) and the provision made in relation to some projects under development in the UK (€ 380 thousand).

The net financial position € 690,280 thousand, including non-recourse project financing for an amount of € 688,934 thousand and the fair value of derivatives to hedge interest rate exposure for € 45,410 thousand, showing an increase compared to 31 December 2016 (€ 755,881). The cash generated by operating plants contributed to fund investment in the period.

Net of fair value derivatives worth € 45,410 thousand, the net financial position would be € 644,870.

Investments in the period amounted to € 19,686 thousand, with reference to:

	(EUR thousands)
Auchrobert wind farm	7,883
Okla and Hennøy wind farm	6,226
Brattmyrliden wind farm	3,076
Eolo 3W Minervino Murge wind farm	1,683
Aliden wind farm	286
Assel Valley wind farm	194
Eolica Sud wind farm	155
Other minor amounts	183
Total	19,686

Investments relating to Okla (Norway), Hennøy (Norway), Brattmyrliden (Sweden) and Åliden (Sweden), for the purchase of the relative companies. Please see the paragraphs entitled “Entering the Norwegian market” and “Entering the Swedish market” on p.28 for further information.

4. Notes to the interim financial report

❖ **Services**

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

	(EUR thousands)		
	30.9.2017	30.9.2016	31.12.2016
Revenue	8,907	7,351	10,000
Cost of sales	(7,433)	(6,620)	(9,221)
Gross profit	1,474	731	779
Operating profit/(loss)	293	675	1,470
EBITDA	1,495	1,287	2,309
Profit/(loss) before tax	217	586	1,366
Intangible assets	10,863	11,598	11,517
Property, plant and equipment	682	757	743
Net financial position - indebtedness/(asset)	(1,634)	(229)	(1,586)
of which non-recourse financing			
Capital expenditure	165	175	271
Employees at the period-end	(no.) 129	119	119

This sector comprises the Spanish group Vector Cuatro. This sector is active in the services and management of renewable energy production facilities, with a strong and extensive international presence with offices in Spain, Italy, France, Chile, Japan, Mexico, the United Kingdom and Bulgaria.

Vector Cuatro also offers engineering and consulting services in the development of projects to generate electricity principally using solar and wind energy.

Revenues increased by € 1,556 thousand, mainly due to higher revenues from transactions, engineering and asset management services in Spain, the United Kingdom, Japan and Italy.

EBITDA amounted to € 1,495 thousand, up by € 208 thousand and equal to 16.8% of revenues (17.5% at 30 September 2016).

The € 382 thousand fall in operating profit in comparison to the same period of 2016 was due to € 379 thousand in write-downs of the Vector Cuatro contract portfolio, following the termination of a multi-year contract. On the other hand, the client was asked to pay a penalty of € 135 thousand, which was recorded in the first nine months of 2017.

The net financial position was a net asset of € 1,634 thousand, up by € 48 thousand in comparison to 31 December 2016.

Investments in the sector for € 165 thousand primarily refer to the new management system and investment in hardware.

4.4 Performance of the parent company Falck Renewables SpA

The income statement of Falck Renewables SpA for the third quarter of 2017 closed with a loss before income tax of € 4,896 thousand (loss of € 2,814 thousand at 30 September 2016). This result was mainly affected by increased operating costs relating to the new-market development initiatives, write-downs in holdings and higher costs/lower income from financial activities.

The cumulative income statement at 30 September 2017 showed a loss before tax of € 12,676 thousand, down on the same period of 2016, which recorded a loss of € 3,721 thousand. The result was influenced by higher staff costs (+ € 435 thousand), a rise in service costs of € 3,174 thousand mainly for supporting new-market development initiatives, lower allocations to risk funds, net of releases, mainly in relation to the Sicilian Projects (€ 2,258 thousand), dividends (€ 980 thousand) which were € 490 thousand lower than at

4. Notes to the interim financial report

30 September 2016, € 1,143 thousand in write-downs on holdings and higher costs/lower income from financial activities (€ 1,128 thousand).

The financial position showed a balance of € 211,955 thousand, in comparison to € 247,162 thousand at 31 December 2016, down mainly due to the € 14.2 million in dividends distributed to their shareholders, investment in our Norwegian and Swedish holdings, purchase of treasury shares and operating costs.

It should be noted that on 28 May 2015 Falck Renewables SpA repaid a loan early for an original amount of € 165 million (Corporate Loan) and on 12 June 2015 signed a new loan agreement for € 150 million expiring on 30 June 2020. At 30 September 2017, 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 € 80 thousand.

Capital expenditure for the period totalled € 193 thousand, of which € 180 thousand related to software licences.

4.5 *Employees*

At 30 September 2017, the Group had increased its workforce by 22 units in comparison to 31 December 2016, composed as follows:

	30.9.2017	31.12.2016	(number) 30.9.2016
Managers	37	36	36
White-collar workers and special categories	263	244	246
Blue-collar workers	51	49	50
Total	351	329	332

The increase is due to the expansion of activities in all sectors.

The number of employees by sector is composed as follows:

	30.9.2017	31.12.2016	(units) Delta
WtE, biomass and photovoltaic sectors	88	82	6
Wind	39	38	1
Services	129	119	10
Falck Renewables SpA	95	90	5
Total	351	329	22

4.6 *Management outlook*

The Group's results in the year 2017 will benefit from Spaldington, Assel Valley and Kingsburn wind farm production for the entire year in the United Kingdom, for a total of 59.25 MW and Auchrobert plant production for nine months (36 MW) which became operational in the beginning of the second quarter of 2017.

The Business Plan, presented to the market 29 November 2016 to which reference is made for further information, provides a strong boost in development and investments in new wind and solar plants also in new markets (the Nordic countries, Northern Europe, USA) from 2017, whose effects in terms of additional installed capacity will be apparent in 2018 and 2019 results, while constantly monitoring financial parameters.

4. Notes to the interim financial report

Falck Renewables North America Inc. was incorporated in the state of Delaware in February 2017 as a business start-up in the United States.

In July 2017, Falck Renewables Nederland BV was founded as a start-up for activities in the Netherlands.

In July, with closing in September, an agreement was signed involving the purchase of a majority holding in Vestavind Kraft AS (now Falck Renewables Vind AS), which owns two authorised wind power projects in Norway (Hennøy and Okla), with a total capacity of around 70 MW. The operation will include an option for Falck Renewables SpA on a further 125 MW in wind projects developed by Svelgen Kraft Holding in Norway.

In August, with closing in September, an agreement was signed for the purchase of 100% of two companies (Åliden Vind AB and Brattmyrliden Vind AB) which own two wind farm projects ready for construction in Sweden, for a total capacity of approximately 115 MW (of which 43.2 MW for Åliden and 72 MW for Brattmyrliden).

At the end of September, Falck Renewables IS42 LLC (a 100% subsidiary incorporated in September 2017) signed an agreement with Canadian Solar Inc. for the purchase of a 99% share in the Canadian Solar IS-42 photovoltaic project, with a total capacity of 92 MW, located in North Carolina. The closing is planned for the end of November 2017 and is subject to a series of suspensive conditions, including approval by the regulator and the consent of third parties.

Some investment dossiers in Italy, Northern Europe and the US are currently being evaluated.

The updated Business Plan will be presented on 12 December 2017.

Thanks to the Group's excellent position, both in terms of skills and in terms of economic and financial resources, and its ability to react, all internal conditions are in place to meet the challenges ahead.

5. Directors' report

5. Directors' report

5.1 *Review of significant business developments*

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

At 30 September 2017, the Falck Renewables Group had twelve operating plants in the United Kingdom (of which one in England for 11.75 MW, ten in Scotland for a total 342.75 MW, and one in Wales for 58.5 MW) for a total installed capacity, calculated at 100%, of approximately 413 MW (approximately half of the Group's total productive installed capacity of 821 MW). The remaining installed capacity is situated in Italy (343 MW), France (42 MW) and Spain (23 MW). Please also remember that of the twelve plants in operation in the UK, six plants, with a total of 273 MW, were subject to 49% transfer in March 2014 to CII Holdco (share 134 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”).

After the initial impact of the referendum resulted in a sharp volatility and reduction in European share prices, especially Italian (including Falck Renewables SpA), European stock market prices recovered in 2017 (including Falck Renewables SpA) with a partial revaluation of the GBP, which however, lost ground against the EUR in the third quarter, mainly due to increasing uncertainty caused by the recent elections held in the UK on 8 June and the resulting difficulty in Brexit negotiations with the European Union.

Doubts over the result of the UK elections and the potential impact on negotiations with the EU effectively prevented operators from forecasting 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.

The UK government, after formally invoking Article 50 of the Lisbon Treaty and requesting to leave the European Union, began discussing some of the issues with its EU partners including an estimate of the financial cost of leaving the EU for the UK (the calculation of which will certainly be an important test of whether the parties are effectively able to find common ground for future discussions), the rights of EU citizens and the relationship between Northern Ireland and Eire. The British Prime Minister proposed holding early elections on 8 June, with the intention of strengthening the current majority before beginning Brexit negotiations; in reality, the result diminished the government's strength, forcing the current premier to seek difficult alliances in order to ensure that the country remains governable and negotiations with the EU are legitimate.

While in view of the mutual interest of the parties and considering the high volume of activities, the exit process, which will presumably begin in 2018, will be long and perhaps not painless and it will be in conjunction with the elections in some EU countries which may affect that process.

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 £, 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 openness towards 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 or parliamentary or presidential elections in the last quarter of 2017 (in a climate not particularly favourable to the European monetary union) and could lead to an economic downturn that, in addition to affecting the UK, could affect other countries with effects on exchange rates, interest rates but also prices and electricity tariffs.

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More specifically in relation to the Falck Renewables Group:

- with reference to operating plants, the flows generated in GBP contribute to the portion of debt posted in the same currency;
- with reference to the Auchrobert plant in Scotland, a GBP non-recourse project financing is currently under negotiation with leading international institutions.

The Company will continue to monitor medium and long-term indicators and any decisions that could affect the UK electricity market as well as the evolution of the GBP exchange rate which, in the event of devaluation, could have a positive impact on the Group's debt in GBP while also negatively affecting the financial indicators, net equity and future cash flow from UK assets that are converted, even in translation, into EUR.

Authorisation by the Shareholders' Meeting to purchase and distribute treasury shares and start the treasury share buyback program

The Shareholders' Meeting of Falck Renewables SpA on 16 January 2017 authorised the purchase and distribution of treasury shares and start of the share buyback program.

The company may purchase a maximum of 5,828,277 ordinary shares in Falck Renewables, corresponding to 2% of the share capital, taking into account the treasury shares held by the company on 16 January 2017 (460,000, corresponding to 0.1579% of the share capital) in compliance with legal and regulatory requirements as well as market practices currently in force, as applicable.

The purchases of treasury shares will aim: i) to establish of a supply of stocks that can be employed in any extraordinary/strategic share/financing operation, ii) to complete activities in support of liquidity and share stabilisation, facilitating trade and encouraging the standard negotiations iii) to future incentive plans.

The Company may purchase treasury shares, in one or more times, until 16 July 2018 (i.e. eighteen months from the authorisation resolution).

During 2017, a total of 1,050,000 shares were purchased, corresponding to 0.3603% of the share capital. In total, 1,510,000 shares are held, corresponding to 0.5182% of the share capital, for an average cost of € 0.9524 per share.

2017-2019 stock grant plan

The Shareholders' Meeting of Falck Renewables SpA on 27 April 2017 approved, at the end of a process that also involved its human resources committee, the "2017-2019 stock grant plan" addressed to the Chief Executive Officer and to managers and employees with key roles within the Company and its subsidiaries as per art. 114-bis of Leg. Dec. of 24 February 1998, no. 58 ("Consolidated Finance Act").

The incentive plan, with a duration of three years, is intended for the free assignment of a maximum no. 1,500,000 ordinary company shares to beneficiaries, equal to a maximum of about 0.515% of the Company's share capital, subject to the acceptance of two conditions (i) performance related to the sustainability of the Group's balance sheet expressed by the relationship between Net Financial Position and EBITDA (ii) the existence of the relationship between the beneficiary and the company.

The "2017-2019 stock grant plan" is in line with that announced during the Capital Markets Day on 29 November 2016 and aims to encourage beneficiaries to pursue medium-long term earnings and align the interests of beneficiaries with those of the Company and other shareholders.

The plan will be implemented with company treasury shares already in the portfolio or purchased under art. 2357 of the Italian Civil Code.

In April 2017, the incentive plan for the CEO of Falck Renewables SpA was put into effect with 591,000 shares. In the following months, some Group managers were also granted a total of 449,318 shares.

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Increase in installed capacity

The Auchrobert wind farm in the United Kingdom began operation in April 2017. It is composed of 12 turbines for a total installed power of 36 MW.

Renegotiation of the Geopower Sardegna project financing

Geopower Sardegna Srl renegotiated their € 168.1 million project financing, adding a further € 26.9 million, bringing the total to € 195 million. The renegotiation of the project financing contract (the “refinancing”) involved a pool of twelve banks: Banca Popolare di Sondrio ScpA, Banco BPM SpA, BNP Paribas (Italian branch), Crédit Agricole Corporate and Investment Bank (Milan Branch), Crédit Agricole Cariparma SpA, Credito Valtellinese SpA, ING Bank N.V. (Milan branch), MPS Capital Services Banca per le Imprese SpA, Société Générale (Milan branch), The Bank of Tokyo-Mitsubishi UFJ Ltd, UBI Banca SpA and UniCredit SpA.

The refinancing is due to expire in June 2027, and has better conditions: the interest rate margin was reduced by 40% and will create savings of around € 5.6 million for the entire duration of the loan, even taking the higher amount into account.

Eolica Sud Waiver

With reference to the project financing for the Eolica Sud Srl plant, the company agreed certain technical modifications to the financing contract with the banks involved. Among other things, this included the acknowledgement of the settlement reached with the Italian Tax Office in relation to the tax litigation in 2009 and 2010.

Eolica Petralia Waiver

With reference to the project financing for the Eolica Petralia Srl plant, the company obtained the consent of the banks to reduce the margin on the loan from 2.75% to 1.85%, effective from 1 January 2017. As part of the same waiver, the banks also agreed to replace the DSRA reserve account with a credit note at the care and expense of Falck Renewables SpA, on payment of the periodic commission sustained by them and the fee margin.

Eolo 3W Minervino Murge Waiver

With reference to the project financing for the Eolo 3W Minervino Murge plant, the company has agreed with the banks to change the repayment schedule (without affecting the expiry on 31 December 2023) in order to tailor it to the cash flow generated by the project, also in consideration of the change in the incentive payment schedule from that originally forecast in the financial plan when the financing was arranged, as well as the impact of the issue of definitive terms for paying the contributions as per Law 488. The revision of the repayment plan was also backed by a payment from Falck Renewables SpA of approximately € 1.34 million on a reserve account covering the company's debt, increasing the subordinated loan, on 29 June 2017.

Co-development agreement in the Netherlands

Falck Renewables SpA has entered the Dutch market through an agreement with Kemperman & Partners Projecten B.V. (K&P), a consolidated local developer based in Dronten that has been operating in the wind sector since 2002.

The agreement, which involves the co-development of an initial pipeline for approximately 150 MW, as well as the identification of new long-term opportunities in the onshore wind and solar sectors in the

5. Directors' report

Netherlands, represents an additional contribution to achieving the long-term goals of the Falck Renewables SpA Business Plan presented in November 2016.

K&P and Falck Renewables SpA will concentrate on sustainable projects with a strong focus on local communities, continuing the approach that Falck Renewables SpA began with its activities in Scotland. The Netherlands, which has not yet achieved its EU 2020 renewable energy development targets, has a stable and well-functioning regulatory framework, in which support for renewable energy is regulated by the SDE+ system (*Stimulerend Duurzame Energieproductie*¹).

Entering the Norwegian market

On 1 September 2017, Falck Renewables SpA purchased a majority holding in Vestavind Kraft AS (now Falck Renewables Vind AS), which owns two authorised wind power projects in Norway (Hennøy and Okla), with a total capacity of around 70 MW. The purchase was agreed with Svelgen Kraft Holding AS, a Norwegian energy company with a considerable track record in the renewable energy sector.

By purchasing an 80% share in Vestavind Kraft AS, Falck Renewables SpA has acquired the control of the Hennøy and Okla projects from Svelgen Kraft Holding. Svelgen Kraft Holding will stay on as a minority shareholder, sharing its knowledge of the local market and energy production know-how. The projects will not be energised before 2019.

The price was established as approximately € 2.2 million, to be paid with the available financial resources, plus a potential earn-out worth approximately € 4 million after the final investment decision.

The operation will include an option for Falck Renewables SpA on a further 125 MW in wind projects developed by Svelgen Kraft Holding in Norway.

Entering the Swedish market

On 22 September 2017, Falck Renewables SpA purchased from E.ON Wind Sweden AB (E.ON Group) 100% of two companies (Åliden Vind AB and Brattmyrliden Vind AB) which own two wind farm projects ready for construction in Sweden, for a total capacity of approximately 115 MW (of which 43.2 MW for Åliden and 72 MW for Brattmyrliden).

The two wind farms are located in the municipality of Örnköldsvik, on the eastern coast of Sweden, around 500 km north of Stockholm. The projects were developed by E.ON Sweden AB, which will continue to support Falck Renewables SpA in development activities and will provide O&M services once the farms have come into operation.

The purchase price was of € 7 million, in addition to a potential earn-out for the seller, in exchange for additional benefits for Falck Renewables SpA.

Entering the US market

On 25 September 2017, Falck Renewables IS42 LLC (a 100% subsidiary) signed an agreement with Canadian Solar Inc. for the purchase of a 99% share in the Canadian Solar IS-42 photovoltaic project, with a total capacity of 92 MW, located in North Carolina. A price of approximately USD 42.8 million was set, subject to adjustment on closing. The closing is planned for the end of November 2017 and is subject to a series of suspensive conditions, including approval by the regulator and the consent of third parties.

Construction is completed on the plant, which will benefit from a long-term PPA with Duke Energy Progress. The plant came into operation in September 2017. In April this year, the project negotiated financing and tax equity agreements with Prudential Capital Group and US Bancorp.

¹ Sustainable energy incentive

5. Directors' report

No other significant changes took place regarding the status of litigation disclosed in the interim financial reports at 30 June 2017, which may be referred to for full details.

5.2 *Main investments and divestments*

Capital expenditure in the period, which amounted to € 21,512 thousand, represents the Group's financial commitment in relation to wind farms, the purchase of authorisations/grants in the wind sector, and improvements to operating plants. In the period in question, investment in tangible assets mainly involved the construction of wind farms in Auchrobert (€ 7,878 thousand) and Assel Valley (€ 194 thousand), the price adjustment of the Eolo 3W Minervino Murge wind farm (€ 1,524 thousand), the improvements to the Eolica Sud (€ 155 thousand) and Eolo 3W Minervino Murge Srl (€ 159 thousand) wind farms, improvements to the Ecosto (€ 142 thousand) and Prima plants (€ 1,206 thousand), the IT investments for the Vector Cuatro group (€ 82 thousand) and other minor investments (€ 320 thousand).

Capital expenditure on property, plant and equipment amounted to € 9,852 thousand, mainly relating to the purchase of grants/authorisations for the construction of wind farms in Sweden (€ 3,362 thousand) and Norway (€ 6,226 thousand) and other minor investments in operating software.

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

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

As required by Article 154-bis, paragraph 2 of the Consolidated 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 2017 is consistent with the data in the documents, accounting records and other records.

Paolo Rundeddu
(Corporate accounting
documents officer)

Milan, 9 November 2017