

**FALCK RENEWABLES**  
**Group**

**Interim financial report at  
30 September 2018**

**Board of Directors' meeting**  
**Milan, 6 November 2018**

FALCK RENEWABLES SpA  
Share capital € 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 2018

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## 1. Company officers

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## 1. Company officers

### ***Board of Directors***

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Falck Enrico	Executive Chairman
Corbetta Guido	Deputy Chairman
Volpe Toni	Chief Executive Officer
Caldera Elisabetta (*)	Director
Dassù Marta (*)	Director
Falck Elisabetta	Director
Falck Federico	Director
Marchi Filippo	Director
Grenon Georgina (*)	Director
Milone Libero (*)	Director
Pietrogrande Paolo (*)	Director
Poggiali Barbara (*)	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***

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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***

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EY SpA

## 2. Group structure

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### 3. Financial information

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3. Financial information

3.1 *Income statement*

	(€ thousands)				
	3rd quarter 2018	3rd quarter 2017	At 30.9.2018	At 30.9.2017	At 31.12.2017**
Revenue	66,600	57,860	231,574	198,869	288,619
Direct costs	(42,478)	(34,116)	(122,124)	(108,649)	(148,328)
Employee costs	(7,866)	(7,108)	(24,207)	(21,616)	(28,973)
Other income	1,912	413	12,260	4,030	4,524
Administrative expenses	(4,286)	(7,424)	(20,827)	(19,126)	(40,470)
<b>Operating profit/(loss)</b>	<b>13,882</b>	<b>9,625</b>	<b>76,676</b>	<b>53,508</b>	<b>75,372</b>
Financial income/(expenses)	(10,039)	(8,834)	(29,602)	(28,425)	(35,260)
Investment income/(expenses)				46	45
Share of profit of investments accounted for using the equity method	(229)	962	728	2,023	2,284
<b>Profit/(loss) before income tax</b>	<b>3,614</b>	<b>1,753</b>	<b>47,802</b>	<b>27,152</b>	<b>42,441</b>
Income tax expense					(10,983)
<b>Profit/(loss) for the year</b>					<b>31,458</b>
Profit attributable to non-controlling interests					11,670
<b>Profit attributable to owners of the parent</b>					<b>19,788</b>
<b>EBITDA (*)</b>	<b>31,223</b>	<b>25,373</b>	<b>130,612</b>	<b>103,587</b>	<b>149,366</b>

(\*) 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.

(\*\*) The figures at 31 December 2017 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of the NC 42 LLC group, Falck Renewables Vind AS, Åliden Vind AB and Brattmyrliden Vind AB. For further details, please see the interim financial statements at 30 June 2018.

3. Financial information

3.2 *Net financial position*

	(€ thousands)				
	30.9.2018	30.6.2018	31.12.2017**	Variations	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Short-term third party financial liabilities	(84,443)	(80,865)	(89,259)	(3,578)	4,816
Short-term third party financial receivables	2,215	1,748	1,720	467	495
Cash and cash equivalents	242,726	220,505	261,517	22,221	(18,791)
<b>Short-term net financial position</b>	<b>160,498</b>	<b>141,388</b>	<b>173,978</b>	<b>19,110</b>	<b>(13,480)</b>
Medium/long-term third party financial liabilities	(724,997)	(733,951)	(770,776)	8,954	45,779
<b>Medium/long-term financial position</b>	<b>(724,997)</b>	<b>(733,951)</b>	<b>(770,776)</b>	<b>8,954</b>	<b>45,779</b>
<b>Net financial position pursuant to Consob circular</b>					
<b>Consob circular DEM/6064293/2006</b>	<b>(564,499)</b>	<b>(592,563)</b>	<b>(596,798)</b>	<b>28,064</b>	<b>32,299</b>
Medium/long-term third party financial receivables	13,415	12,568	12,251	847	1,164
<b>Total net financial position</b>	<b>(551,084)</b>	<b>(579,995)</b>	<b>(584,547)</b>	<b>28,911</b>	<b>33,463</b>
<b>- of which “non-recourse” financing</b>	<b>(740,810)</b>	<b>(746,034)</b>	<b>(793,138)</b>	<b>5,224</b>	<b>52,328</b>

(\*\*) The figures at 31 December 2017 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of the NC 42 LLC group, Falck Renewables Vind AS, Åliden Vind AB and Brattmyrliden Vind AB. For further details, please see the interim financial statements at 30 June 2018.

## 4. Notes to the interim financial report

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## 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 2018 includes 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 83 companies, of which 78 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 Middleton LLC, 100% held by Falck Renewables North America Inc.;
- Falck Middleton Generation LLC, of which Falck Middleton LLC owns 100% of the Class B shares;
- Falck Renewables DLP MA LLC, 100% held by Falck Renewables North America Inc.;
- Falck Next Srl, 100% held by Falck Renewables SpA;
- Vector Cuatro Australia Pty Ltd., 100% held by Vector Cuatro SLU;
- Vector Cuatro USA LLC, 100% held by Vector Cuatro SLU;

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

- HG Solar Development LLC, 100% owned by Falck Middleton Generation LLC;
- SPME Dartmouth Holdings LLC, of which Falck Renewables DLP MA LLC owns 100% of the Class B shares;
- SPME Holdings 2015 LLC, of which Falck Renewables DLP MA LLC owns 100% of the Class B shares;
- Fisher Road Solar I LLC, 100% owned by SPME Dartmouth Holdings LLC;
- Syncarpha Palmer LLC, 100% owned by SPME Holdings 2015 LLC;
- Syncarpha Massachusetts LLC, 100% owned by SPME Holdings 2015 LLC;
- Windfor Srl, 100% owned by Vector Cuatro Srl.

In July 2018, Falck Renewables Verwaltungs GMBH was put into liquidation.

#### **Internal group restructuring not affecting the consolidation perimeter**

In July 2018, Falck Renewables SpA and Falck Renewables Wind Ltd sold the company *staff* branches to Vector Cuatro Srl and to Vector Cuatro UK Ltd respectively. A total of 37 people were transferred. The operation was carried out in order to provide the aforementioned companies with qualified staff, with considerable experience in the renewable energy sector and already operating, in order to support the *business* service both for the Group and for third parties, as well as take advantage of the related synergies.

In the first half of the year, the Group completed the *Purchase Price Allocation* for the acquisitions in the US, Sweden and Norway (NC 42 LLC, Falck Renewables Vind AS, Åliden Vind AB and Brattmyrliden Vind AB) carried out in 2017 and provisionally filed on 31 December 2017. For further details, please see the interim financial statements at 30 June 2018.

#### 4. Notes to the interim financial report

This interim financial report at 30 September 2018 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 to draft the Interim financial report at 30 September 2018 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 2018, which do not have a significant impact on the consolidated financial statements.

The only significant effect of the introduction of the new principles is in relation to IFRS 9, "Financial instruments".

In fact, for outstanding loans that were renegotiated before 1 January 2018, the new IFRS 9 standard requires the effect of this operations to be calculated at the renegotiation date and thus the amortisation plan recalculated, starting from the renegotiation date, adjust the carrying value at that date to the net present value of the new conditions, balanced by a net equity reserve. For renegotiations after 1 January 2018, the effect of the renegotiation has been posted in the income statement.

The Group thus recalculated the retrospective effects of all loans subject to renegotiation. Since the Group benefited from renegotiations, the effect posted on 1 January 2018 concerned financial liabilities taking into account the original IRR (Internal rate of return), with a positive impact, net of taxes, for approximately €13.3 million, increasing net equity reserves as of 1 January 2018, without restating the comparative data. The Group will not therefore be able to benefit from the lesser interest payable in the future due to renegotiations.

The application of this standard led, *ceteris paribus*, to an increase in financial charges in the first quarter 2018 for €3 million, while boosting net financial position by €17.4 million.

The comparative figures at 31 December 2017 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of the NC 42 LLC group, Falck Renewables Vind AS, Åliden Vind AB and Brattmyrliden Vind AB. These acquisitions took place in the third quarter of 2017, and did not therefore affect the income statement at 30 September 2017. For further details, please see the interim financial statements at 30 June 2018.

## 4. Notes to the interim financial report

### 4.2 *Main 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 expenses, net financial income/expenses, amortisation and depreciation, impairment losses, allocations 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 2018 results**

During the third quarter of 2018, the Falck Renewables Group recorded a profit before income tax and non-controlling interests of €3,614 thousand, showing strong growth on the same period in the prior year, which was of €1,753 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 2018 showed a very positive result for profit before income tax.

Revenues grew by €8,740 thousand compared to the corresponding quarter of 2017, due to higher energy revenues mainly due to (i) the increase in average prices for the sale of electricity in the United Kingdom; (ii) to higher production for the period (+19 GWh) due to the increased installed capacity, partially offset by the lower electricity production in Italy; (iii) to the resale of energy purchased from the market by Falck Renewables Energy Srl, in order to mitigate the cost of imbalance and optimization of the sale, for €4.4 million.

EBITDA rose from €25,373 thousand to €31,223 thousand (+23.1%); operating profit was of €13,882 thousand (€9,625 thousand in the third quarter of 2017) with an increase of 44.2%.

### **Cumulative results at 30 September 2018**

The cumulative income statement at 30 September 2018 showed a profit before income tax and non-controlling interests of €47,802 thousand, a strong improvement on the corresponding period in the prior year, which recorded €27,152 thousand (+76.1%).

Revenues for the Falck Renewables Group in the first nine months of 2018 amounted to €231,574 thousand, an increase of €32,705 thousand (+16.4%) on the same period in 2017.

In the first nine months of 2018, the GWh generated in the wind sector amounted to 1,257 compared to 1,220 recorded in the same period of 2017 (+3% compared to the same 2017 period). The total GWh produced by all the Group's technologies were 1,548 compared with 1,401 in the first nine months of 2017 (11% over the same period of 2017), mainly due to solar production in the United States (+126 GWh) and the Auchrobert production, which was brought into operation in April 2017 (+28 GWh). In general, although production increased on the first nine months of 2017, it remained 7% lower than forecast due to low winds in the UK and partly in Italy.

This significant increase in revenues is due to: (i) the increase in electricity produced thanks to stronger winds mainly in Italy, and to a lesser extent in Spain and France, (ii) the increase in production due to the increase in installed capacity (933.5 MW in 2018, against 821 MW in 2017), following, in the first nine months of 2017, the acquisition of the Innovative Solar 42 solar plant (92 MW) in North Carolina in December 2017, the energisation of the HG Solar Development LLC solar plant in Massachusetts in the United States (6 MW) and the acquisition of three already operating solar plants in Massachusetts in June 2018 (14.5 MW), (iii) the resale of electricity purchased on the market by Falck Renewables Energy Srl in order to mitigate the balancing costs and optimise sales, worth €10.3 million.

#### 4. Notes to the interim financial report

Faced with an increase in production, electricity prices in Italy fell during the first nine months of 2018, including the incentive component, compared to the first nine months of 2017, for wind farms by 4%, for WtE plants by 11%, for biomass plants by 5% and growth by 3% for solar systems in Italy; in Spain there was a 2% rise in prices for wind plants. However, although lower than the first nine months of 2017, prices in the various countries where the group operates were higher than 2018 forecasts, which indicated a fall in prices.

In the United Kingdom, the rise in prices for the sale of electricity from wind power was 13%, while in France, the feed in tariff mechanism substantially neutralised these increments (+1%). It should be noted that in the USA, the Innovative Solar 42 photovoltaic plant has entered into a contract for the sale of electricity at a fixed reference price per MWh without any obligation to deliver the physical quantity not produced.

The waste transfer prices, on the other hand, rose by 20%.

Furthermore, with reference to production in the United Kingdom, the pound fell by an average of 1.2% against the euro in the first nine months of 2018 compared to the same period of the previous year.

The efficiency improvement and repositioning of costs continues, aiming on one hand to reduce their incidence per MW installed, and on the other to increase Business Development activities.

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

	Euro/GBP
End of period exchange rate 30 September 2018	0.8873
End of period exchange rate 30 September 2017	0.8818
End of period exchange rate 31 December 2017	0.8872
Average exchange rate 30 September 2018	0.8841
Average exchange rate 30 September 2017	0.8732
Average exchange rate 31 December 2017	0.8767

As a result, EBITDA for the first nine months of 2018 amounted to €130,612 thousand (€103,587 thousand in the same period of 2017), corresponding to 56.4% of revenue (52.1% at 30 September 2017). EBITDA increased compared to the first nine months of 2017 (+26.1% and + €27,025 thousand) due to higher production during the period under review, despite a devaluation of the pound sterling and lower prices for the sale of energy in some countries.

Excluding from 2018 revenues the resale of energy purchased from the market by Falck Renewables Energy Srl in order to mitigate the cost of imbalancing and optimise sales, for €10.3 million, EBITDA/revenues was of 59.0% (52.1% at 30 September 2017).

EBITDA was also affected by the non-recurring cost (€7.1 million) of the release of certain provisions and allocations, net of transaction costs, for the closure of litigation relating to land in the Sicilian projects in liquidation. For further details, please see the interim financial statements at 30 June 2018.

Operating profit, totalling €76,676 thousand, up by €23,168 thousand on the first nine months of 2017 (+43.3%), equalled 33.1% of sales revenues (26.9% at 30 September 2017).

This result was mainly affected by the allocation of approximately €4.4 million to reserves for the ongoing litigation regarding the Sicilian companies and for future extraordinary maintenance costs for Ecosesto SpA.

#### 4. Notes to the interim financial report

The 2017 result was affected by the allocation of €3.8 million to reserves for future extraordinary maintenance costs for Ecosesto SpA.

Net financial expenses increased by €1,177 thousand compared to the first nine months of 2017. Financial charges were negatively affected by the entry into force, starting on 1 January 2018, of accounting standard IFRS 9 which entailed higher financial expenses for the Group.

In fact, for outstanding loans that were renegotiated before 1 January 2018, the new IFRS 9 standard requires the effect of this operations to be calculated at the renegotiation date and thus the amortisation plan recalculated, starting from the renegotiation date, adjust the carrying value at that date to the net present value of the new conditions, balanced by a net equity reserve. For renegotiations after 1 January 2018, the effect of the renegotiation has been posted in the income statement.

The Group thus recalculated the retrospective effects of all loans subject to renegotiation. Since the Group benefited from renegotiations, the effect posted on 1 January 2018 concerned financial liabilities taking into account the original IRR (Internal rate of return), with a positive impact, net of taxes, for approximately €13.3 million, increasing net equity reserves as of 1 January 2018, without restating the comparative data. The Group will not therefore be able to benefit from the lesser interest payable in the future due to renegotiations.

The application of this standard led, *ceteris paribus*, to an increase in financial charges in the first quarter 2018 for €3 million, while boosting net financial position by €17.4 million.

This effect was partly offset (i) by management's actions to manage debt more efficiently, (ii) positive net exchange differences and (iii) lower interest on the fair value debt of royalty instruments.

Income from equity investments decreased by €1,295 thousand compared to the first nine months of 2017 due to a lower result by Frullo Energia Ambiente Srl, consolidated according to the equity method, following the decision of the investee to carry out a transaction with reference to the ICI/IMU dispute for the years up to and including 2015; for more information, please refer to the interim financial report at 30 June 2018.

The net financial position (NFP) net of the fair value of derivatives showed net debt of €511,769 thousand, down from €538,068 thousand at 31 December 2017.

The net financial position including the fair value of derivatives totalled €551,084 thousand at 30 September 2018 (€584,547 thousand at 31 December 2017).

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 following components affected the variation in NFP: cash generated from operating activities, amounting to approx. €94.3 million, offset by net investment, including the change in the consolidation perimeter, worth €80.9 million in 2018, from the purchase of treasury shares and €22.5 million in dividends distributed. The devaluation of the EUR against the GBP had a negative effect worth €1.0 million on net financial debt in GBP, while the variation in fair value of derivatives positively affected the net financial position by €9.3 million. The application of the new IFRS 9 standard reduced our NFP by around €17.4 million. Moreover, the investment by minorities in the acquisitions in Norway and the US boosted our NFP by €16.8 million.

Lastly, we note that the financial position includes non-recourse project financings ("Gross Project Debt") for a total of €740,810 thousand at 30 September 2018 (€793,138 thousand at 31 December 2017).

The net financial position of the project companies (Project NFP) including Project Gross Debt, the fair value of derivatives used to hedge interest rate variations for the debt and the liquidity of the financing projects themselves is €654,342 thousand.



4. Notes to the interim financial report

Moreover, Gross Project Debt is hedged, using interest rate swaps, against interest rate variations for a total of €622,099 thousand, equal to 84% of the debt.

As a result of these factors, even the net financial position of €511,769 thousand (excluding the fair value of derivatives) is also hedged against interest rate variations using interest rate swaps or fixed rate loans for a total of more than 122% of the financial debt.

The NFP comprises net financial liabilities of €33,302 thousand relating to projects under construction and development that were not yet fully revenue generating at 30 September 2018; the net financial position net of this amount and the fair value of derivatives would have amounted to €478,467 thousand.

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

	(€ thousands)
	30.9.2018
Total NFP net of Fair Value of Derivatives	511,769
Total hedged against interest rate fluctuations	622,099
% Hedged/NFP net of derivatives	122%
Total Gross Debt including Fair Value of Derivatives (GD+FVD)	809,441
of which Project Gross Debt + Fair Value of Project Derivatives	775,970
% Project GD including FV of Derivatives/(GD+FVD)	96%
Total Gross Debt net of Fair Value of Derivatives (GD)	766,783
of which Project Gross Debt (Project GD)	740,810
% Project GD/GD	97%
Project Gross Debt	740,810
Total hedged against interest rate fluctuations	622,099
% Hedged/Project GD	84%
Total Gross Debt (GD)	766,783
Total hedged against interest rate fluctuations	622,099
% Hedged/GD	81%
Total net financial position including Fair Value of Derivatives (NFP)	551,084
of which Project Financing Net Debt (Project NFP) (*)	654,342
% Project NFP/NFP	119%

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

**Installed capacity**, compared to the previous periods, is illustrated in the table below:

	(MW)		
Technology	30.9.2018	30.9.2017	31.12.2017
Wind	769.9	769.9	769.9
WtE	20.0	20.0	20.0
Biomass	15.0	15.0	15.0
Photovoltaic	128.6	16.1	108.1
<b>Total</b>	<b>933.5</b>	<b>821.0</b>	<b>913.0</b>

The installed capacity increased by 112.5 MW compared to 30 September 2017.

4. Notes to the interim financial report

During the month of December 2017, Innovative Solar 42 LLC, which owns the 92 MW photovoltaic project in North Carolina in the United States, became part of the Group.

In June 2018, the HG Solar Development LLC plant in Massachusetts, US, was powered up. The plant was acquired and constructed during the first half of 2018, and has an installed power of 6 MW.

In the same month of June, Falck Renewables DLP MA LLC also acquired three operating solar plants in Massachusetts, US, for a total of 14.5 MW.

**Non-financial performance indicators**

	Unit of measurement	30.9.2018	30.9.2017
Gross electricity generated	GWh	1,548	1,401
Total waste treated	Ton	185,087	188,670

The "Total waste treated" figure also includes intermediate waste.

The increase in electricity produced has been illustrated above.

With reference to the waste managed, the quantity managed by Prima Srl decreased due to accidental down time.

Revenue by business category may be analysed as follows:

	(€ thousands)			
	3rd quarter 2018	3rd quarter 2017	30.9.2018	30.9.2017
Sale of electricity	59,217	50,378	205,209	173,714
Waste treatment and disposal	5,128	4,180	16,243	14,154
Operation and management of renewable power plants	2,157	2,634	6,814	8,458
Other services	98	668	3,308	2,543
<b>Total</b>	<b>66,600</b>	<b>57,860</b>	<b>231,574</b>	<b>198,869</b>

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

Profit before tax and non-controlling interests are shown in the following table, compared to figures at 30 September 2017:

	(€ thousands)			
	3rd quarter 2018	3rd quarter 2017	30.9.2018	30.9.2017
WtE, biomass and photovoltaic sector	2,493	250	7,746	1,638
Wind sector	6,921	5,767	55,236	37,626
Services sector	(852)	(37)	(786)	217
Other Businesses	(5,020)	(4,916)	4,848	(12,745)
Consolidation adjustments	72	689	(19,242)	416
<b>Total</b>	<b>3,614</b>	<b>1,753</b>	<b>47,802</b>	<b>27,152</b>

In 2018 the "Other businesses" sector was introduced, made up of Falck Renewables SpA and Falck Renewables Energy Srl. Falck Renewables Energy Srl ("FRE"), until 31 December 2017, was part of the "WtE, biomass and photovoltaic" sector. This change was made since FRE began operating in the Energy Management field on 1 January 2018 (based on Group policies), including dispatching, management of imbalances, sale and commodity risk hedging, potentially for all Group sectors.

Although this new risk did not significantly impact the figures in the first nine months of 2017, we restated sector data at 30 September 2017 to make them comparable to those from the first nine months of 2018.

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 sector**

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

	(€ thousands)		
	30.9.2018	30.9.2017	31.12.2017
Revenue	51,157	44,286	60,360
Cost of sales	(39,445)	(37,456)	(48,651)
<b>EBITDA</b>	<b>24,696</b>	<b>12,776</b>	<b>18,104</b>
<b>Operating profit/(loss)</b>	<b>10,734</b>	<b>2,194</b>	<b>152</b>
<b>Profit/(loss) before income tax</b>	<b>7,746</b>	<b>1,638</b>	<b>(1,064)</b>
<b>Intangible assets</b>	<b>1,398</b>	<b>1,225</b>	<b>0</b>
<b>Property, plant and equipment</b>	<b>244,716</b>	<b>85,161</b>	<b>202,506</b>
<b>Net financial position - indebtedness/(asset)</b>	<b>153,197</b>	<b>130,145</b>	<b>153,035</b>
of which non-recourse financing	56,214	26,022	59,865
<b>Capital expenditure</b>	<b>14,185</b>	<b>1,473</b>	<b>1,702</b>
Employees at the period-end	(no.)	86	88
		88	85

\* The figures at 31 December 2017 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of the NC 42 LLC group, Falck Renewables Vind AS, Åliden Vind AB and Brattmyrliden Vind AB.

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.

In 2018 the "Other businesses" sector was introduced, made up of Falck Renewables SpA and Falck Renewables Energy Srl. Falck Renewables Energy Srl, until 31 December 2017, was part of the "WtE, biomass and photovoltaic" sector.

The figures shown at 30 September 2017 and 31 December 2017 have been restated to reflect the composition of the new sectors.

The sector shows revenues up by €6,871 thousand compared to the first nine months of 2017 due to (i) the increase in production deriving from the increased solar production capacity (equal to €7.8 million), partly offset by the scheduled stop (biennial) of the Rende hybrid plant and the decrease in the quantity of treated waste due to an accidental stop of the waste-to-energy plant in Trezzo sull'Adda; (ii) the increase in waste disposal prices (+ 20%) partly offset by lower electricity sales prices, compared to the first nine months of 2017.

The first nine months of 2018 were characterised by electricity sales prices, inclusive of the incentive component, down from the first nine months of 2017, for Italian WtE plants by 11%, biomass plants by 5% and up for Italian solar plants by 3%.

It should be noted that in the USA, the Innovative Solar 42 photovoltaic plant has entered into a contract for the sale of electricity at a fixed reference price per MWh without any obligation to deliver the physical quantity not produced.

The above factors contributed to a rise in EBITDA on the same period the previous year (+€+11,920 thousand, +93.3%), totalling €24,696 thousand; this represented 48.3% of revenue (28.8% at 30 September 2017).

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EBITDA was also affected by the non-recurring cost (€7,098 thousand) of the release of certain provisions and allocations, net of transaction costs, for the closure of litigation relating to land in the Sicilian projects in liquidation.

Operating profit improved by €8,540 thousand and now totals €10,734 thousand.

This result was affected by the allocation of approximately €3,884 thousand to reserves mainly for the ongoing litigation regarding the Sicilian companies in liquidation, and €497 thousand for future extraordinary maintenance costs for Ecosesto SpA.

The 2017 result was affected by the allocation of €3,800 thousand to reserves for future extraordinary maintenance costs for Ecosesto SpA.

The net financial position is a net indebtedness of €153,197 thousand, in line with the balance as of 31 December 2017. In contrast, it rose by €23,052 thousand compared to 30 September 2017, mainly due to the investments made by the sector in photovoltaic plants in the US.

The net financial position includes non-recourse project financing for €56,214 thousand (31 December 2017: €59,865 thousand) and the fair value of derivatives to hedge interest and exchange rate exposure for €2,724 thousand (€3,447 thousand at 31 December 2017).

During the first nine months of 2018, investment in tangible and intangible assets amounted to €14,185 thousand mainly in relation to the construction and acquisition of the HG Solar Development LLC plant in the US (€9,608 thousand) and the acquisition of the Fisher Road Solar I LLC, Syncarpha Palmer LLC, and Syncarpha Massachusetts LLC solar plants in the US (€4,155 thousand).

❖ **Wind sector**

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

	(€ thousands)		
	30.9.2018	30.9.2017	31.12.2017
Revenue	163,199	146,160	216,759
Cost of sales	(74,517)	(73,620)	(101,357)
<b>EBITDA</b>	<b>120,473</b>	<b>103,555</b>	<b>149,987</b>
<b>Operating profit/(loss)</b>	<b>81,985</b>	<b>66,062</b>	<b>99,103</b>
<b>Profit/(loss) before income tax</b>	<b>55,236</b>	<b>37,626</b>	<b>64,025</b>
<b>Intangible assets</b>	<b>98,799</b>	<b>96,556</b>	<b>96,281</b>
<b>Property, plant and equipment</b>	<b>811,155</b>	<b>828,476</b>	<b>819,565</b>
<b>Net financial position - indebtedness/(asset)</b>	<b>458,721</b>	<b>690,280</b>	<b>570,956</b>
of which non-recourse financing	684,596	688,934	733,273
<b>Capital expenditure</b>	<b>32,752</b>	<b>19,686</b>	<b>25,830</b>
Employees at the period-end	(no.)	26	39
		39	41

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.

In July 2018, Falck Renewables SpA and Falck Renewables Wind Ltd sold the company *staff* branches to Vector Cuatro Srl and to Vector Cuatro UK Ltd respectively. The total number of people transferred to the Services sector was 37, of which 20 from the Other Activities sector and 17 from the Wind sector.

The increase in **revenues** (+€17,039 thousand, +11.7%) is mainly due to the increase in production due to the increased windiness in Italy, and to a lesser extent in France and Spain. Compared to the first nine months of 2017, the full operations of the 36 MW Auchrobert (UK) wind power plant contributed to higher production: in the first nine months of 2018, the GWh produced by the wind sector amounted to

#### 4. Notes to the interim financial report

1,257 compared to the 1,220 of the first nine months of 2017 (+3% compared to the same period of 2017).

Revenues benefited from the increase in energy prices in the United Kingdom (+13%), which however were partially offset by the devaluation of the pound against the euro, which was 1.2%, the 4% decrease in energy sales prices in Italy, inclusive of the incentive component and the 2% increase in prices in Spain; in France, the feed-in tariff mechanism has neutralised the price fluctuation (+1%).

EBITDA amounted to €120,473 thousand, up by €16,918 thousand (+16.3%) and equal to 73.8% of revenues (70.9% at 30 September 2017).

Operating profit also recorded growth, increasing by €15,923 thousand (+24.1%) compared to the first nine months of 2017 and amounted to 50.2% of revenue (45.2% at 30 September 2017).

The net financial position totals €458,721 thousand, including non-recourse project financing for an amount of €684,596 thousand and the fair value of derivatives to hedge interest rate exposure for €33,278 thousand, showing a significant improvement of €690,280 thousand compared to 30 September 2017, thanks to the cashflow generated during the period and the €147,797 thousand gained from the sale of the Italian wind farms to Falck Renewables SpA.

Net of the fair value of the derivatives, the net financial position would be €425,443 thousand.

Investments in the period amounted to €32,752 thousand, with reference to:

(€ thousands)	Property, plant and equipment	Intangible assets	Total
Okla and Hennøy wind farm	14,643	2,667	<b>17,310</b>
Aliden wind farm	11,860		<b>11,860</b>
Brattmyrliiden wind farm	3,054		<b>3,054</b>
Auchrobert wind farm	447		<b>447</b>
Other minor amounts	81		<b>81</b>
<b>Total</b>	<b>30,085</b>	<b>2,667</b>	<b>32,752</b>

#### ❖ Services sector

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

	(€ thousands)		
	30.9.2018	30.9.2017	31.12.2017
Revenue	9,688	8,907	12,103
Cost of sales	(10,534)	(7,433)	(11,347)
<b>EBITDA</b>	<b>41</b>	<b>1,495</b>	<b>1,968</b>
<b>Operating profit/(loss)</b>	<b>(783)</b>	<b>293</b>	<b>(843)</b>
<b>Profit/(loss) before income tax</b>	<b>(786)</b>	<b>217</b>	<b>(956)</b>
<b>Intangible assets</b>	<b>9,418</b>	<b>10,863</b>	<b>9,411</b>
<b>Property, plant and equipment</b>	<b>623</b>	<b>682</b>	<b>633</b>
<b>Net financial position - indebtedness/(asset)</b>	<b>(227)</b>	<b>(1,634)</b>	<b>(2,109)</b>
of which <i>non-recourse</i> financing			
<b>Capital expenditure</b>	<b>613</b>	<b>165</b>	<b>217</b>
Employees at the period-end	(no.) 189	129	131

This sector is made of 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, United Arab Emirates and Bulgaria.

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

On 2 August 2018, the Vector Cuatro Srl subsidiary concluded an agreement to acquire 100% of Windfor Srl, a leading and well-known technical advisory firm in the Italian wind power sector.

In July 2018, Falck Renewables SpA and Falck Renewables Wind Ltd sold the company *staff* branches to Vector Cuatro Srl and to Vector Cuatro UK Ltd respectively. The total number of people transferred to the Services sector was 37, of which 20 from the Other Activities sector and 17 from the Wind sector.

Revenues rose by €781 thousand, mainly due to higher revenues in Italy and the UK.

EBITDA amounted to €41 thousand, down by €1,454 thousand over the same period last year due to lower revenues from transactions and higher staff costs, equal to 0.4% of revenue (2017: 16.8%).

Following the impairment tests run in 2018, we wrote down the Vector Cuatro contract portfolio by €225 thousand due to the termination of some multi-year contracts.

On the other hand, the clients were asked to pay a penalty of €588 thousand, which was recorded in the first half of 2018.

The net financial position was a net asset of €227 thousand, down by €1,407 thousand in comparison to 30 September 2017, also due to the acquisition of the business branches from Falck Renewables SpA.

Investments in the sector of €613 thousand refer mainly to (i) the development and purchase of the management system; ii) the provisional allocation of the purchase of the Windfor Srl goodwill; iii) investments in furniture and hardware.

#### ❖ Other Businesses

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

	(€ thousands)		
	30.9.2018	30.9.2017	31.12.2017
Revenue	23,618	222	2,650
Cost of sales	(23,393)	(127)	(2,493)
<b>EBITDA</b>	<b>(10,102)</b>	<b>(14,062)</b>	<b>(20,387)</b>
<b>Operating profit/(loss)</b>	<b>(11,884)</b>	<b>(15,283)</b>	<b>(25,991)</b>
<b>Profit/(loss) before income tax</b>	<b>4,848</b>	<b>(12,745)</b>	<b>22,253</b>
<b>Intangible assets</b>	<b>1,467</b>	<b>1,491</b>	<b>1,443</b>
<b>Property, plant and equipment</b>	<b>173</b>	<b>275</b>	<b>282</b>
<b>Net financial position - indebtedness/(asset)</b>	<b>20,594</b>	<b>(212,104)</b>	<b>(56,187)</b>
of which non-recourse project financing			
<b>Capital expenditure</b>	<b>497</b>	<b>193</b>	<b>294</b>
Employees at the period-end	(no.)	76	95
		95	94

In 2018 the "Other businesses" sector was introduced, made up of Falck Renewables SpA ("FKR") and Falck Renewables Energy Srl. FRE, until 2017, was part of the "WtE, biomass and photovoltaic" sector. FRE operates within the scope of Energy Management (based on the policies defined at Group level), which includes, among other things, dispatching, management of imbalances, sale and commodity risk hedging, potentially for all Group sectors.

Figures shown at 30 September 2017 and 31 December 2017 have been restated to reflect the composition of the new sectors.

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In July 2018, Falck Renewables SpA and Falck Renewables Wind Ltd sold the company *staff* branches to Vector Cuatro Srl and to Vector Cuatro UK Ltd respectively. The total number of people transferred to the Services sector was 37, of which 20 from the Other Activities sector and 17 from the Wind sector.

Revenues increased by €23,396 thousand, due to the sale of energy by Falck Renewables Energy Srl which mainly began in 2018.

The financial position (mainly from Falck Renewables SpA) posted a debit balance of €20,594 thousand, compared to a credit balance of €56,187 thousand at 31 December 2017. This reduction in the credit balance was mainly due to investments and capital injections for companies in the US, Norway, and Sweden, and to dividends distributed.

The net financial position also includes the negative fair value of the derivatives to hedge foreign exchange and commodity risks for €3,313 thousand (€90 thousand at 31 December 2017).

Net of the fair value of the derivatives, the net financial position would be €17,281 thousand.

Capital expenditure for the period totalled €497 thousand, of which €476 thousand related to software licences and the development of management systems.

This table sets out the data for the sector:

	(€ thousands)			
	FKR	FRE	Eliminations	<b>Sector</b>
Revenue	114	23,504		<b>23,618</b>
<b>EBITDA</b>	<b>(10,128)</b>	<b>26</b>		<b>(10,102)</b>
<b>Operating profit/(loss)</b>	<b>(11,910)</b>	<b>26</b>		<b>(11,884)</b>
<b>Profit/(loss) before income tax</b>	<b>5,836</b>	<b>(97)</b>	<b>(891)</b>	<b>4,848</b>
<b>Intangible assets</b>	<b>1,467</b>			<b>1,467</b>
<b>Property, plant and equipment</b>	<b>173</b>			<b>173</b>
<b>Net financial position - indebtedness/(asset)</b>	<b>21,448</b>	<b>(854)</b>		<b>20,594</b>
of which non-recourse project financing				
<b>Capital expenditure</b>	<b>497</b>			<b>497</b>

Note: FKR is Falck Renewables Spa; FRE is Falck Renewables Energy Srl

## 4. Notes to the interim financial report

### 4.4 *Performance of the parent company Falck Renewables SpA*

In July 2018, Falck Renewables SpA sold the company staff branches to Vector Cuatro Srl. A total of 20 people was transferred.

The income statement of Falck Renewables SpA for the third quarter of 2018 closed with a loss before income tax of €4,282 thousand (loss of €4,896 thousand at 30 September 2017). This result was mainly affected by increased operating costs relating to the new-market development initiatives, fewer write-downs in holdings and higher costs/lower income from financial activities.

The cumulative income statement at 30 September 2018 showed a gain before tax of €5,836 thousand, up on the same period of 2017, which recorded a loss of €12,676 thousand.

The result was affected by: (i) higher risk fund payments, net of provisions, mainly relating to the Sicilian projects (€4,236 thousand); (ii) higher dividends (€14,415 thousand); (iii) lower impairment losses on equity investments for €1,143 thousand, offset by lower Other income for €984 thousand.

The net financial position was a net liability of €21,448 thousand, compared to an asset of €54,904 thousand at 31 December 2017. The reduction in the credit balance was due to investments/capital injections in companies acquired in Norway, Sweden and the US, and the distribution of dividends to shareholders net of dividends received.

The financial position fell by €233,403 thousand from an initial position of €211,955 thousand on 30 September 2017, to a negative balance of €21,448 thousand. The variation in the aforementioned credit balance is mainly due to the acquisition of the investments in Eolo 3W Minervino Murge Srl, Eolica Sud Srl, Geopower Sardegna Srl and Eolica Petralia Srl by Falck Renewables Wind Ltd following a corporate reorganisation within the Falck Renewables Group which involved, at the end of 2017, a financial outlay of €147.8 million and investments/capital increases in companies in Norway, Sweden and the US subject to acquisition and the distribution of dividends to shareholders net of the dividends received.

It should be noted that on 30 July 2018, Falck Renewables SpA signed an amendment to the “*Corporate Loan*” agreement stipulated on 12 June 2015. The change led to an increase from €150 million to €325 million and an extension of the maturity from 30 June 2020 to 31 December 2023, while the other very favourable conditions remain unchanged: as at 30 September 2018, the new financing has not yet been used.

The net financial position also includes the negative fair value of the derivatives to hedge interest rate and foreign exchange risks for €20 thousand.

Capital expenditure for the period totalled €497 thousand, of which €476 thousand related to software licences and the development of management systems.

### 4.5 *Employees*

At 30 September 2018, the Group had increased its workforce by 26 units in comparison to 31 December 2017, composed as follows:

	30.9.2018	31.12.2017	(number) 30.9.2017
Managers	40	38	37
White-collar staff and special categories	289	264	263
Blue-collar staff	48	49	51
<b>Total</b>	<b>377</b>	<b>351</b>	<b>351</b>



4. Notes to the interim financial report

The number of employees by sector is composed as follows:

	30.9.2018	31.12.2017	(Units) Delta
WtE, biomass and photovoltaic sector	86	85	1
Wind sector	26	41	(15)
Services sector	189	131	58
Other Businesses	76	94	(18)
<b>Total</b>	<b>377</b>	<b>351</b>	<b>26</b>

The increase is attributable to the expansion of activities in all sectors, net of transfers between Group companies. In July 2018, Falck Renewables SpA and Falck Renewables Wind Ltd sold the company *staff* branches to Vector Cuatro Srl and to Vector Cuatro UK Ltd respectively. The total number of people transferred to the Services sector was 37, of which 20 from the Other Activities sector and 17 from the Wind sector.

4.6 *Management outlook*

The results of the Group in the 2018 financial year will benefit throughout the year from the Innovative Solar photovoltaic plant production (92 MW) in North Carolina and for the second half of the year from the recently acquired photovoltaic plants (20.5 MW) in Massachusetts.

The Business Plan, presented to the market on 14 November 2016 and updated on 12 December 2017, to which reference should be made for further information, provides (i) an important growth in assets combined with the policy focused on financial solidity, (ii) a renewed focus on Southern Europe and North America markets, and (iii) an increase in the volumes and objectives of the service business with focus on asset management of renewable energy plants, on energy management and on energy efficiency, enhancing the internal digital platform.

Some dossier investments in the geographical areas of interest included in the Business Plan are currently under evaluation.

The updated Business Plan will be presented on 12 December 2018.

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

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## 5. Directors' report

### 5.1 *Review of significant business developments*

#### **Risks relating to the British referendum on remaining in the European Union (“Brexit”)**

At 30 September 2018, 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 44% of the Group's total productive installed capacity of 933 MW). The remaining installed capacity is situated in Italy (343 MW), the US (113 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 result in June 2016, which resulted in a strong volatility and a reduction in the prices of European and above all Italian stocks (including Falck Renewables SpA stocks), prices in the European stock markets (including Falck Renewables SpA stock) recovered. There is still considerable uncertainty about the outcome of the negotiations with the European Union on Brexit, also influenced by the consequences of the negative outcome for the Prime Minister of the elections held on 8 June 2017, culminating in a government reshuffle carried out in first months of 2018 and with constant tensions within the government.

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 for the UK of leaving the EU. A substantial agreement was reached to begin the so-called phase "two" of negotiations, covering the trade deals between the EU and the UK after the latter has left the single European market. The goal of the negotiations currently underway is to reach an agreement in time to allow the European and UK parliaments to ratify the agreements before the date set for the closure of negotiations in March 2019. At the last European Council meeting in October 2018, EU leaders examined the state of negotiations with the United Kingdom, noting that, despite intense negotiations, no progress was made to reach an agreement. The European Council asked the Union negotiator to continue efforts towards an agreement, in accordance with the previously agreed guidelines. If an agreement is reached, a transitory period has been set up until the end of 2020, during which the current regulations will continue to apply (the "status quo"), to allow the UK time to transpose European regulations within their own national context.

Doubts over the result of the negotiations with the EU are effectively preventing 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 after Brexit. 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 sterling, with knock-on effects on the demand for electricity and a tightening of the credit market; 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 elections in 2019 (including those for the European parliament) 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, with reference to the Falck Renewables Group's operating plants, the cash flows generated in British pounds are at the service of the portion of debt in the same currency and that the Group continued to have access in the last two years to project financing at decidedly favourable conditions for the plants that entered into operation after the Brexit referendum.

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.

### Review of significant business developments

Falck Renewables, through its Swedish subsidiaries, signed two contracts with the Nordex group for a total value of approximately € 121.7 million for the supply of 31 N131/3900 wind turbines and related infrastructural, civil and electrical works, based on EPC, for the construction of the two recently acquired projects of Åliden and Brattmyrliden in Sweden. Preliminary work has begun and activities will intensify during 2018 and 2019.

Åliden is due to be commissioned in the fourth quarter of 2019 while that of Brattmyrliden is expected in the fourth quarter of 2020.

Through its Norwegian subsidiary Falck Renewables Vind AS, Falck Renewables signed a supply contract with Vestas worth approximately €36 million for 12 V136 wind turbines (4.2 MW) at the Hennøy wind farm in Norway. The plant is already under construction, and work will be stepped up during 2018; the turbines will be delivered in 2019, and the plant will become operational in the last quarter of 2019.

On 14 February 2018, Falck Middleton LLC, a 100% subsidiary of Falck Renewables North America Inc set up in 2018, purchased a solar project of approximately 6 MW in Middleton (Massachusetts, USA) from the developer HG Solar, and signed an EPC agreement (Engineering, Procurement and Construction) with Conti Solar. The fully operational plant supplies electricity to the Middleton Electric Light Department based on a long-term PPA agreement (Power Purchase Agreement) and can also sell Renewable Energy Credits in Massachusetts and receive the Federal Investment Tax Credit Incentive (ITC).

On 5 June, Falck Renewables DLP MA LLC acquired three already operational solar plants for a total of 14.5 MW, in addition to investment rights in future projects, from Syncarpha Capital LLC (Syncarpha), valued at a total of \$27.44 million. Falck Renewables acquired 100% ownership of the solar projects through Falck Renewables North America Inc., a fully-owned subsidiary.

The three projects became operational in 2014-2015, and sell electricity under long-term PPA agreements according to the Massachusetts Net Metering Credit program. The projects will also sell Renewable Energy Credits in Massachusetts.

In July 2018, a tax equity partnership agreement was signed for a total of \$4.5 million with one of our main US investors, who indirectly contributes to the capital of the 6 MW HG Solar Development LLC plant in Massachusetts, US.

On 25 July 2018, Falck Renewables SpA signed a preliminary contract with Ascia Renovables SL for the acquisition of a wind farm project in the Spanish region of Castilla y Leon, composed of 4 turbines, for a total capacity of 10 MW. The acquisition is divided into several phases (with an initial acquisition of 49%) and is subject to suspensive conditions. Construction is scheduled to begin by the end of the year.

## 5. Directors' report

The project has an acquisition price of €1.2 million, to be paid in instalments. The plant will become operational in the last quarter of 2019.

On 30 July 2018, Falck Renewables SpA signed a modification to the Corporate Loan contract worth €150 million, which is not currently used, extending the repayment date from 30 June 2020 to 31 December 2023, and increasing the amount available to €325 million with a pool of primary credit institutions composed of Banco BPM SpA, also as Agent Bank, Banca Popolare di Milano SpA, Banca Popolare di Sondrio SpA, Crédit Agricole Cariparma SpA, Credito Valtellinese SpA, Intesa Sanpaolo SpA, Mediobanca SpA, Monte dei Paschi di Siena SpA, UBI BANCA SpA and UniCredit SpA.

The modifications to the Corporate Loan conditions, a "revolving" credit line, were made in order to cover the financial requirements of the 2017-2021 business plan and to guarantee additional flexibility in terms of amount and expiry.

The Corporate Loan has the same favourable conditions as the existing contract: the Euribor margin (linked to the ratio between the net financial position and consolidated EBITDA) did not change, and the covenant levels remain in line with the best market standards.

On 2 August 2018, the Vector Cuatro Srl subsidiary concluded an agreement to acquire 100% of Windfor Srl, a leading and well-known technical advisory firm in the Italian wind power sector.

The purchase will cost €0.625 million.

With reference to the project financing of the Se Ty-Ru plant, on 4 July 2018 the company agreed with the creditor banks some amendments to the loan agreement, including a reduction in the fixed rate relative to a tranche of the loan, and the use of part of the project cash to repay part of the loan in advance, along with the simultaneous restructuring of the repayment plan. As a result of these changes to the loan contract, the project will benefit from better ratios for future distributions.

### **Important events occurring after the closure of the quarter**

On 2 October 2018, Falck Renewables SpA finalised the agreement for the acquisition of 51% of Energy Team SpA, *leader* in the energy consumption monitoring and flexibility management services in the electricity markets in Italy.

The provisional acquisition price, of approximately €18.3 million, financed entirely with the Company's own financial resources, will be subject to possible adjustments typical of this type of transaction primarily based on results and financial position. The payment was equal to 40% of the agreed price and the balance will be adjusted for 30% as a result of the price adjustment. The remaining 30% will be deposited in escrow and issued upon expiry of the compensation obligations to be paid by the sellers. Also on 2 October, a shareholders' agreement was signed introducing a lock-up period for minority shareholders, as well as purchase and sale options that can be exercised three years after closing and whose valuation will be based, among other things, on future EBITDA and NFP. With this operation, Falck Renewables aims to strengthen the Energy Team's offer in a sector with high growth potential such as consumption monitoring, energy efficiency and flexibility for consumers and energy producers. The Development Plan for the two companies also provides for the continuity of Energy Team activities with the participation of the current management.

On 12 October 2018, Falck Renewables SpA signed with IMG 2 Srl, a company operating in the waste disposal sector in Lombardy for a number of years, a preliminary purchase contract covering 100% of the shares held in Esposito Servizi Ecologici Srl, for a total of €1,070 thousand.

The final contract is expected to be completed by the end of January 2019. At the signing of the preliminary agreement, the buyer paid an advance of €150 thousand, and the remaining amount will be paid on the closing date. There is also a price adjustment mechanism.

## 5. Directors' report

On 24 October 2018, Falck Renewables SpA renewed the contracts for the O&M service with the Nordex group for 14 of its wind farms in Europe, concluding a 5-year framework agreement covering the entire Falck Renewables portfolio with Nordex wind technology. The maintenance contract will cover 159 turbines from 2 to 2.5 MW installed between 2007 and 2016 in Great Britain, France and Italy.

The agreement redefines the structure of the service contract, bringing innovative conditions and standards that meet the needs of both parties. The cost of the service is linked to the results in terms of the actual production of the plants. This approach guarantees additional production planning for wind farms and allows Nordex Group to plan more efficient plant maintenance.

With reference to the non-recurring transactions that took place, please see the interim financial report at 30 June 2018.

### **Increase in installed capacity**

In June 2018, the HG Solar Development LLC plant in Massachusetts, US, was powered up. The plant was acquired and constructed in 2018, and has an installed power of 6 MW.

In the same month of June, Falck Renewables DLP MA LLC also acquired three operating solar plants in Massachusetts, US, for a total of 14.5 MW.

### **5.2 Main investments and divestments**

**Capital expenditure** in the period, which amounted to €46,380 thousand, represents the Group's investment and improvements to operating plants.

Investments in tangible assets amounted to €42,938 thousand and mainly concerned the construction of the Auchrobert wind farms in the UK (€447 thousand), the Brattmyrliden (€2,234 thousand) and Åliden (€11,386 thousand) wind parks in Sweden, Falck Renewables Vind (€14,510 thousand) in Norway, the HG Solar photovoltaic plant in the US (€9,608 thousand) and the Fisher Road Solar I, LLC Syncarpha Palmer LLC and Syncarpha Massachusetts LLC solar plants in the US (€4,155 thousand), and other minor investments (€598 thousand).

Investment in intangible assets totalled €3,442 thousand and related primarily to operating software, technical consultancies and internal costs.

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

### **Other investments (variation in the consolidation perimeter)**

#### Investments already made in the first half of 2018

The following companies were acquired during 2018, and consolidated line-by-line from the date we acquired control of them:

- HG Solar Development LLC, 100% owned by Falck Middleton Generation LLC;
- SPME Dartmouth Holdings LLC, of which Falck Renewables DLP MA LLC owns 100% of the Class B shares;
- SPME Holdings 2015 LLC, of which Falck Renewables DLP MA LLC owns 100% of the Class B shares;
- Fisher Road Solar I LLC, 100% owned by SPME Dartmouth Holdings LLC;
- Syncarpha Palmer LLC, 100% owned by SPME Holdings 2015 LLC;
- Syncarpha Massachusetts LLC, 100% owned by SPME Holdings 2015 LLC

## 5. Directors' report

Investment in the acquisitions, recorded as a variation in the consolidation perimeter, amounted to €34,634 thousand (including third party and acquired net financial position), in addition to investment in tangible and intangible assets described above.

For more details, please see the Consolidated Explanatory Notes to the Half-yearly Financial Report at 30 June 2018.

### Further investments in the third quarter 2018

The following companies were acquired during the third quarter of 2018, and consolidated line-by-line from the date we acquired control of them:

- Windfor Srl, 100% owned by Vector Cuatro Srl.

Investment in the acquisitions, recorded as a variation in the consolidation area, amounted to €34 thousand (including third party and acquired net financial position).

Therefore, at 30 September 2018 the total recorded in the consolidation area amounted to €34,668 thousand (including the net financial position acquired and third parties).

6. Certification of the corporate  
accounting documents officer pursuant  
to article 154-bis, paragraph 2 of  
Legislative Decree 58/1998

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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 2018 is consistent with the data in the documents, accounting records and other records.

Paolo Rundeddu  
(Corporate accounting  
documents officer)

Milan, 6 November 2018