

FALCK RENEWABLES
Group

Interim financial report
31 March 2017

Board of directors' meeting

Milan, 11 May 2017

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

Interim financial report 31 March 2017

Contents

1	COMPANY OFFICERS	5
<hr/>		
2	FINANCIAL INFORMATION	
2.1	Income statement	7
2.2	Net financial position	8
<hr/>		
3	NOTES TO THE INTERIM FINANCIAL REPORT	
3.1	Accounting policies	10
3.2	Performance for the period and principal changes	10
3.3	Performance of the business sectors	13
3.4	Performance of the parent company Falck Renewables SpA	17
3.5	Employees	17
3.6	Installed capacity	18
3.7	Investments	18
3.8	Non-financial performance indicators	18
<hr/>		
4.	DIRECTORS' REPORT	
4.1	Review of significant business developments	20
4.2	Risk relating to the outcome of the British referendum on remaining in the European Union ("Brexit")	21
4.3	Management outlook	22
<hr/>		
5	CERTIFICATION OF THE CORPORATE ACCOUNTING DOCUMENTS OFFICER PURSUANT TO ARTICLE 154-BIS PARAGRAPH 2 OF ITALIAN LEGISLATIVE 154-BIS PARAGRAPH 2 OF LEGISLATIVE DECREE 58/1998	23

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' Assembly 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' Assembly on 27 April 2017.

Independent auditors

EY SpA

2. Financial information

2. Financial information

2.1 *Income statement*

	(Euro thousands)		
	31.3.2017	31.3.2016	31.12.2016
Revenue	77,452	73,159	249,622
Direct labour costs	(3,002)	(2,706)	(11,423)
Direct costs	(37,842)	(36,193)	(139,623)
Cost of sales	(40,844)	(38,899)	(151,046)
Gross profit	36,608	34,260	98,576
Other income	1,050	255	7,107
Other employee costs	(4,004)	(3,964)	(15,537)
Administrative expenses	(5,483)	(4,882)	(30,502)
Operating profit	28,171	25,669	59,644
Finance costs - net	(9,755)	(11,089)	(41,374)
Investment income			(79)
Share of profit of investments accounted for using the equity method	1,101	1,053	1,160
Profit before income tax	19,517	15,633	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 (1)	45,303	42,568	136,292

¹ 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 financing contracts.

2. Financial information

2.2 *Net financial position*

	(Euro thousands)		
	31.3.2017	31.12.2016	31.3.2016
Short-term third party financial liabilities	(68,909)	(66,776)	(76,683)
Short-term Group financial liabilities			
Short-term third party financial receivables	22	189	1,726
Short-term Group financial receivables			1
Other securities			
Cash and cash equivalents	252,087	256,611	180,103
Short-term net financial position	183,200	190,024	105,147
Medium/long-term third party financial liabilities	(750,179)	(753,169)	(694,922)
Medium/long-term Group financial liabilities			
Other securities			
Medium/long-term financial position	(750,179)	(753,169)	(694,922)
Net financial position pursuant to Consob circular DEM/6064293/2006	(566,979)	(563,145)	(589,775)
Medium/long-term third party financial receivables	1,946	1,189	739
Medium/long-term Group financial receivables			
Total net financial position	(565,033)	(561,956)	(589,036)
- of which non-recourse Project financing	(731,642)	(734,875)	(662,661)
- of which fair value of derivatives	(59,043)	(58,631)	(70,213)
Net financial position net of fair value of derivatives	(505,990)	(503,325)	(518,823)

3. Notes to the interim financial report

3. Notes to the interim financial report

3.1 *Accounting policies*

At 31 March 2017, the Falck Renewables Group consisted of 61 companies, of which 56 are consolidated on a line-by-line basis and 5 are consolidated applying the equity method.

During the first three 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.

The interim financial report at 31 March 2017 has been prepared 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.

It should be noted 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 management reports in the forms adopted so far.

The accounting policies and measurement criteria used in the preparation of the Interim financial report at 31 March 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.

3.2 *Performance of the period and principle changes*

The Group uses the following alternative performance indicators:

- 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;
- 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.

Revenue of the Falck Renewables Group in the 2017 first quarter amounted to Euro 77,452 thousand, an increase of Euro 4,293 thousand (+5.9%) on the 2016 first quarter.

The GWh generated in the wind sector in the first quarter of 2017 amounted to 497 compared to 512 recorded in the 2016 first quarter (-3% compared to the same 2016 period). GWh globally produced by all the Group's technologies were 557 compared with 570 in the first quarter of 2016 (-2% over the same period of 2016) due to the low winds in Spain but to a greater degree in Italy and France. Compared to production expectations, the UK also experienced a decline that did not allow installed capacity, albeit on the rise (785 MW in the first quarter of 2017 versus 725.7 MW in the first quarter of 2016), to express its full potential in terms of production.

The increase in **revenues** is mainly due to the significant increase in electricity prices in Italy, Spain and the United Kingdom.

The increase of **revenues** was partially offset by the decline in production in the sector and the depreciation of the Pound sterling on the Euro by 10.4% with reference to production in the United Kingdom.

3. Notes to the interim financial report

The following Euro-British pound exchange rates were used in conversions:

	Euro/GBP
End of period exchange rate 31 March 2017	0.85553
End of period exchange rate 31 March 2016	0.79155
End of period exchange rate 31 December 2016	0.85618
Average exchange rate 31 March 2017	0.8601
Average exchange rate 31 March 2016	0.7704
Average exchange rate 31 December 2016	0.8195

The first quarter of 2017 was characterised by electricity sales prices, inclusive of the incentive component, up from the first quarter of 2016, in Italy, for wind power plants by 16%, for WtE plants by 4% and for Solar plants by 2%. We remind you that, with reference to the Ecosto 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 Euro 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 01 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 Euro 80.3 to Euro 100.1 per MWh. In the first quarter of 2017, the incentive amounted to 107.3 Euro per MWh, which, together with the rising energy price, contributed to a 27% increase in the produced energy sales price for the biomass plant.

In Spain and the United Kingdom, the rise in prices for the sale of electricity from wind power was 144% and 15% respectively, while in France, the feed in tariff mechanism neutralised these increments.

The above is the consequence of the increase in oil products and especially of gas in a market with slightly improved electricity demand.

Gross profit amounted to Euro 36,608 thousand, an increase of Euro 2,348 thousand (+6.9%) and 47.3% when expressed as a percentage of **revenue** that compares to 46.8% in the 2016 first quarter.

Operating profit amounted to Euro 28,171 thousand, an increase of Euro 2,502 thousand (+9.7%) and 36.4% when expressed as a percentage of revenue (2016 first quarter: 35.1%).

In addition to the factors outlined above, operating income, in comparison with the same period of 2016, was also influenced by higher income (Euro + 795 thousand) largely due to higher claim compensation compensated by the increase (Euro 601 thousand) of overhead and administrative expenses mainly due to (i) increased development support services (ii) lower provisions, net of utilisations, compared to the first quarter of 2016 when the provisions for risk funds were Euro 815 thousand due to the allocation of French group companies, against the State Council's decision regarding the incentive tariff for wind farms which had required the State to request payment of interest to beneficiaries of the aid for the period from 2009 to 2014.

As a result of the above, **EBITDA** for the 2017 first quarter amounted to Euro 45,303 thousand (2016 first quarter – Euro 42,568 thousand), corresponding to 58.5% of revenue (2016 first quarter: 58.2%). EBITDA is up compared to the first quarter of 2016 (Euro + 2,735 thousand), mainly due to the higher sales prices achieved during the period in question even though there was a significant devaluation of Pound and lower electricity production.

Net financial charges decreased by Euro 1,334 thousand compared to the first quarter of 2016 due to (i) management actions aimed at reducing the cost of debt through the renegotiation of some project financing (ii) lower indebtedness, which also had a positive impact on the depreciation of the Pound against the Euro (iii) lower exchange rate differences. These effects more than offset the reduction in interest accrued on Group liquidity assets.

3. Notes to the interim financial report

The above factors led to the Falck Renewables Group recording a **profit before income tax and non-controlling interests** of Euro 19,517 thousand in the 2017 first quarter, with an increase of 24.8% over the first quarter 2016 (Euro +3,884 thousand).

The **net financial position**, net of the fair value of derivatives, is a net indebtedness of Euro 505,990 thousand and essentially in line with the balance of Euro 503,325 thousand at 31 December 2016, showing an increase of approximately Euro 2.7 million. This increase is mainly attributable to the net investments of the period for approximately Euro 5.4 million and the purchase of treasury shares for approximately Euro 1 million offset by the cash generated from operating facilities amounting to approximately Euro 4 million (Euro 43.6 million in the first quarter 2016) while the revaluation of the Euro against the Pound resulted in a worsening of about Euro 0.3 million.

The decrease in cash generated by the plants, compared with 2016, was mainly due to (i) the change in the working capital for investments made in 2016 and paid in the first quarter of 2017 for approximately Euro 27 million (ii) the dynamics of the collection of receivables from customers for about Euro 12 million.

The net financial position including the fair value of derivatives totalled Euro 565,033 thousand compared to Euro 561,956 thousand at 31 December 2016 and comprised:

- non-recourse financing of Euro 731,642 thousand, down Euro 3,233 thousand on the balance at 31 December 2016;
- net financial liabilities of Euro 55,986 thousand relating to projects under construction and development that were not yet fully revenue generating at 31 March 2017; the net financial position net of this amount and the fair value of derivatives (equal to Euro 59,043 thousand at 31 March 2017 against Euro 58,631 thousand at 31 December 2016) would have amounted to Euro 450,004 thousand.

Total gross debt net of the fair value of derivatives was hedged by interest rate swaps, covering approximately 70% of the risk presented by interest rate fluctuations. The percentage of the total net financial position, excluding the fair value of derivatives, covered by hedges is 105%.

Revenue by business category may be analysed as follows:

	(Euro thousands)	
	1 Quarter 2017	1 Quarter 2016
Sale of electricity	69,699	64,783
Waste treatment and disposal	4,882	5,296
Operation and management of renewable power plants	2,546	2,050
Other operating income	325	1,030
Total	77,452	73,159

Revenue by business sector, compared to the 2016 first quarter, is illustrated in the table below:

	(Euro thousands)		
	31.3.2017	31.3.2016	Change
WtE, biomass and photovoltaic	14,614	11,885	2,729
Wind	60,304	59,232	1,072
Services	2,681	2,070	611
Falck Renewables SpA	64	78	(14)
Consolidation adjustments	(211)	(106)	(105)
Total	77,452	73,159	4,293

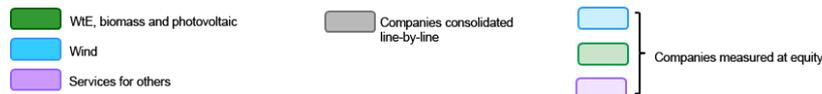
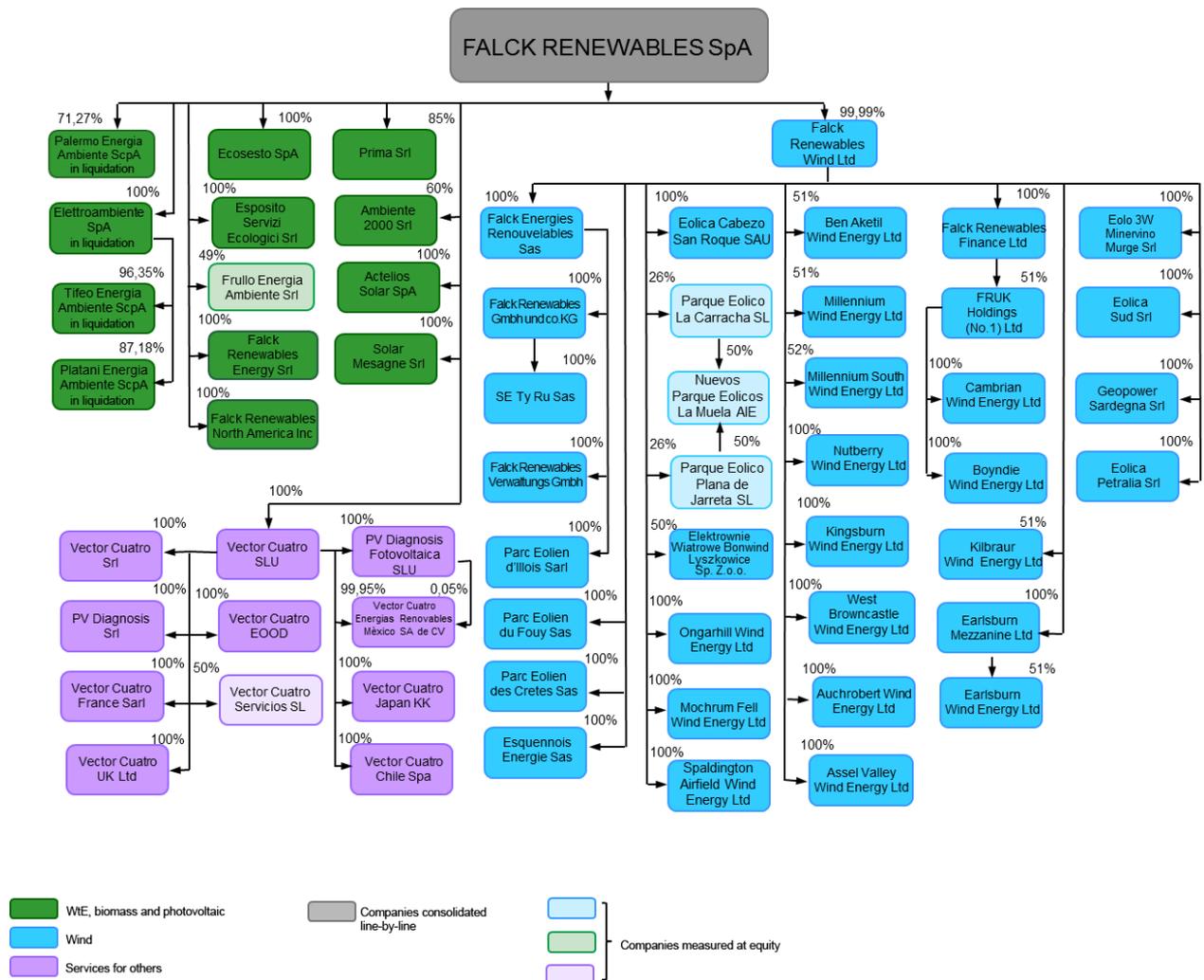
3. Notes to the interim financial report

3.3 Performance of the business sectors

This paragraph provides the key financial highlights and a brief commentary on the three sectors (“WtE, biomass and photovoltaic”, “Wind” and “Services”) and the information relating to Falck Renewables SpA, which together represent the Group.

❖ Group structure by sector

STRUCTURE OF THE FALCK RENEWABLES GROUP AT 31 MARCH 2017



3. Notes to the interim financial report

❖ **WtE, biomass and photovoltaic**

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

	(Euro thousands)	
	31.3.2017	31.3.2016
Revenue	14,614	11,885
Cost of sales	(11,202)	(11,312)
Gross profit	3,412	573
EBITDA	5,141	1,292
Operating profit/(loss)	2,807	(968)
Intangible assets	1,270	2,423
Property, plant and equipment	87,781	90,686
Net financial position - indebtedness/(asset)	133,319	161,013
of which non-recourse project financing	27,261	32,125
Capital expenditure	94	11
Employees at the period-end	(no.) 86	84

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

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

The WtE and biomass sector has increased revenues compared to the first quarter of 2016, mainly due to the sale price of electricity, including the incentive component, up from the first quarter of 2016, for WtE plants by 4% 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 Euro 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 01 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 Euro 80.3 to Euro 100.1 per MWh. In the first quarter of 2017, the incentive amounted to Euro 107.3 per MWh, which, together with the rising energy price, contributed to a 27% increase in the produced energy sales price for the biomass plant in the first quarter 2017 over the same period last year.

The increase in revenues was partially offset by the smaller quantities of waste treated in the Trezzo plant while the quantities treated by the Gorle plant increased.

The above factors contributed to an increase in EBITDA (Euro +3,849 thousand) to Euro 5,141 thousand corresponding to 35.2% of revenue (10.9% in 2016).

Operating profit improved by Euro 3,775 thousand and now totals Euro 2,807 thousand.

The net financial position, a net indebtedness of Euro 133,319 thousand, improved compared to the balance at 31 March 2016 for Euro 27,694 thousand, mainly due to cash generated by operating plants and profits collected from tax consolidation of the Sicilian companies.

The net financial position includes non-recourse project financing of Euro 27,261 thousand (31 March 2016 – Euro 32,125 thousand) and the fair value of derivatives to hedge interest rate exposure of Euro 3,825 thousand (Euro 4,709 thousand as at 31 March 2016).

3. Notes to the interim financial report

❖ **Wind**

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

	(Euro thousands)	
	31.3.2017	31.3.2016
Revenue	60,304	59,232
Cost of sales	(27,206)	(25,663)
Gross profit	33,098	33,569
EBITDA	45,314	44,354
Operating profit	31,100	30,088
Intangible assets	82,210	88,042
Property, plant and equipment	859,302	849,864
Net financial position - indebtedness/(asset)	755,146	740,516
of which non-recourse project financing	704,381	630,536
Capital expenditure	5,243	14,254
Employees at the period-end	(no.) 40	35

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** (Euro 1,072 thousand) is mainly due to the significant increase in electricity prices in Italy, Spain and the United Kingdom.

The increase of revenues was partially offset by the decline in production in the sector and the depreciation of the Pound sterling on the Euro by 10.4% with reference to production in the United Kingdom.

The first quarter of 2017 was characterised by electricity selling prices, including the incentive component, up from the first quarter of 2016, in Italy 16%, in Spain 144% and in the United Kingdom 15%, while in France the feed in tariff mechanism balanced out these increases.

The above is the consequence of the increase in oil products and especially of gas in a market with slightly improved electricity demand.

In the first quarter of 2017, the GWh produced by the wind sector was 497 compared with 512 in the first quarter of 2016 (-3% over the same period of 2016) due to the low winds in Spain but to a greater degree in Italy and France. Compared to production expectations, the UK also experienced a decline that did not allow installed capacity, albeit on the rise (785 MW in the first quarter of 2017 versus 725.7 MW in the first quarter of 2016), to express its full potential in terms of production.

Gross operating profit decreased by Euro 471 thousand and corresponded to 54.9% of revenue (56.7% in 2016) as a result of higher amortisation compared to the first quarter of 2016 due to the increased installed capacity.

EBITDA amounted to Euro 45,314 thousand, an increase of Euro 960 thousand over the same period last year and equal to 75.1% of revenue (2016: 74.9%).

Operating profit also recorded growth, increasing by Euro 1,012 thousand compared to the first quarter of 2016 and amounted to 51.6% of revenue (2016: 50.8%).

We remind you that the provision for risk funds for the first quarter of 2016 was Euro 815 thousand for the provision of the French group companies against the decision of the State Council regarding the incentive tariff for the wind farms requiring the State to demand payment of interest to beneficiaries of the aid for the period from 2009 to 2014.

The net financial position totals Euro 755,146 thousand, including non-recourse project financing for an amount of Euro 704,381 thousand and the fair value of derivatives to hedge interest rate exposure for

3. Notes to the interim financial report

Euro 54,703 thousand, showing a fall of Euro 14,630 thousand compared to 31 March 2016. The cash generated from operating facilities contributed only partially to finance (i) investments in the period referring mainly to the Auchrobert wind farm (ii) the disbursement for investments made in 2016 mainly relating to Auchrobert, Assel Valley, Kingsburn, Eolo 3W Minervino Murge and Spaldington Airfield wind farms.

The net financial position comprises net financial liabilities of Euro 55,986 thousand relating to projects under construction and development that were not yet fully revenue generating at 31 March 2017; the net financial position net of this amount and the fair value of derivatives would have amounted to Euro 644,457 thousand.

❖ **Services**

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

	(Euro thousands)	
	31.3.2017	31.3.2016
Revenue	2,681	2,070
Cost of sales	(2,670)	(2,069)
Gross profit	11	1
EBITDA	171	167
Operating profit / (loss)	(5)	(20)
Intangible assets	11,418	11,759
Property, plant and equipment	744	826
Net financial position - indebtedness/(asset)	(1,043)	(253)
of which non-recourse project financing		
Capital expenditure	60	53
Employees at the period-end	(no.) 125	103

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.

The Service sector is strongly affected by the seasonal impact of the winter months as a significant portion of the Vector Cuatro group's revenue is indexed on the revenue of the managed photovoltaic plants based on Asset Management contracts that are more contained over the winter period.

Revenues increased by Euro 611 thousand, mainly due to higher revenues from transactions and asset management services in Spain, the United Kingdom, Japan, Italy and France offset by higher costs.

EBITDA amounted to Euro 171 thousand, an increase of Euro 4 thousand over the same period last year and equal to 6.4% of revenue (2016: 8.1%).

The net financial position was a net asset of Euro 1,043 thousand, representing an improvement of Euro 790 thousand compared to the total at 31 March 2016.

Investments in the sector for Euro 60 thousand primarily refer to the new management system and Personal Computers.

3. Notes to the interim financial report

3.4 *Performance of the parent company Falck Renewables SpA*

The income statement of Falck Renewables SpA for the three months ended 31 March 2017 recorded a loss before income tax of Euro 4,730 thousand (loss of Euro 1,965 thousand in the first quarter of 2016). Higher overhead and administrative expenses (Euro + 3,242 thousand) were recorded, mainly due to higher performance (Euro + 1,606 thousand), of which Euro 1,479 thousand for services supporting development in new markets and for lower release of risk funds for Euro 1,378 thousand. We remind you that in 2016 funds had been allocated in the previous years mainly to cover debts and costs related to the liquidation of Elettroambiente SpA in liquidation and of Palermo Energia Ambiente ScpA in liquidation.

Net financial income improved by Euro 589 thousand mainly due to lower exchange rate differences. The Parent Company's income statement does not yet include the dividends from investments, which will contribute to the result only during the second part of the year.

The total number of employees was 93 at 31 March 2017, comprising 30 managers and 63 white-collar workers with an increase of 3 employees compared to 31 December 2016 and in line with the 2016 first quarter.

Capital expenditure for the period totalled Euro 71 thousand, of which Euro 68 thousand related to software.

The net financial position was a net asset of Euro 240,023 thousand, compared to an asset balance of Euro 231,463 thousand at 31 March 2016 due to dividends collected in 2016.

We remind you that on 12 June 2015 Falck Renewables SpA entered into a new loan contract ("**Corporate Loan**") for Euro 150 million maturing on 30 June 2020; as of 31 March 2017, the new loan was not used.

The net financial position also includes the negative fair value of the derivatives to hedge foreign exchange risks for Euro 515 thousand (positive for Euro 631 thousand at 31 March 2016).

3.5 *Employees*

The total number of employees at 31 March 2017 comprised:

	(Number)		
	31.3.2017	31.12.2016	31.3.2016
Managers	36	36	37
White-collar workers	257	244	228
Blue-collar workers	51	49	50
Total	344	329	315

The increase, as compared to 31 March 2016, is due to recruitment in the Services (22), Wind (5) and WtE, Biomass and Photovoltaic (2) sectors.

The number of employees by sector is composed as follows:

	(Number)		
	31.3.2017	31.12.2016	31.3.2016
WtE, biomass and photovoltaic sectors	86	82	84
Wind	40	38	35
Services	125	119	103
Falck Renewables SpA	93	90	93
Total	344	329	315

3. Notes to the interim financial report

3.6 *Installed capacity*

	(MW)		
Technology	31.3.2017	31.12.2016	31.3.2016
Wind	733.9	733.9	674.6
WtE	20.0	20.0	20.0
Biomass	15.0	15.0	15.0
Photovoltaic	16.1	16.1	16.1
Total	785.0	785.0	725.7

The installed capacity increased by 59.3 MW compared to 31 March 2016.

The Spaldington Airfield and Kingsburn wind farms in the United Kingdom began operation in May 2016, with a total installed power of 11.75 MW and 22.5 MW respectively. The Assel Valley wind farm began operations in October 2016, also in the UK, with an installed capacity of 25 MW.

It is also noted that shortly after the end of the quarter, following the energisation in March, the Auchrobert wind farm in the United Kingdom, which was made up of 12 turbines for an installed power of 36 MW, came into full operation bringing total installed capacity at the end of April to 821 MW.

3.7 *Investments*

In the course of the 2017 first quarter capital expenditure on property, plant and equipment amounted to Euro 5,376 thousand and principally related to the Auchrobert wind farm (Euro 5,140 thousand), improvements on the Ecosesto (Euro 68 thousand) and Eolica Sud plants (Euro 65 thousand), investments in Vector Cuatro group personal computers (Euro 37 thousand) and other minor investments (Euro 66 thousand).

Expenditure on intangible assets totalled Euro 90 thousand and related primarily to operating software.

3.8 *Non-financial performance indicators*

The key non-financial indicators are as follows:

	Unit of measurement	31.3.2017	31.3.2016
Gross electricity generated	GWh	557	570
Total waste treated	Ton	65,823	66,335

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

4. Directors' report

4. Directors' report

4.1 *Review of significant business developments in 2017*

Authorisation by the shareholders' assembly to purchase and distribute treasury shares and start the treasury share buyback program

The Shareholders' Meeting of 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 (no. 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).

On 11 May 2017, 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 Euro 0.9524 per share.

2017-2019 stock grant plan

The Shareholders' Assembly 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 ("TUF").

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 value creation goals and align the interests of the Beneficiaries with those of the Company and its shareholders.

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

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.

No other significant changes took place regarding the status of litigation disclosed in the financial reports at 31 December 2016, which may be referred to for full details.

4. Directors' report

4.2 *Risk relating to the outcome of the British referendum on remaining in the European Union ("Brexit")*

At 31 March 2017, the Falck Renewables Group had eleven operating plants in the United Kingdom (of which one in England for 11.75 MW, nine in Scotland for a total 306.75 MW, and one in Wales for 58.5 MW) for a total installed capacity, calculated at 100%, of approximately 377 MW (48% of a total of approximately 785 MW) and a plant under construction in Scotland (in operations as of April 2017) for 36 MW. The remaining installed capacity is situated in Italy (343 MW), France (42 MW) and Spain (23 MW). Please also remember that of the eleven 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").

The initial impact of the referendum resulted in a sharp volatility and reduction in European share prices, especially Italian (also including Falck Renewables SpA), and a significant depreciation of the Pound against the major currencies: European stock market prices recovered in the last part of 2016 (including Falck Renewables SpA) with a partial revaluation of the Pound thanks to some better macroeconomic indicators than initially forecast by economists and the Bank of England.

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

The British government formally invoked Article 50 of the Lisbon Treaty and asked to leave the European Union: to start negotiations, the government has also had to ask permission from the British Parliament. The British Prime Minister has proposed the date of June 8th for early elections with the intent of strengthening the current majority in view of the negotiations for Brexit.

While in view of the mutual interest of the parties and considering the high volume of activities, the exit process 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 Pound, which may lead to policies that are less favourable to the renewable energy sector and a tightening of credit conditions; for the moment, however, there is no sign of any of the above, given the statements in favour of clean energy by some members of the British government and the liquidity of the credit market.

The financial effects could possibly spread to EU member states, especially those with high levels of government debt, high exposure in the banking sector or weaker economies or parliamentary or presidential elections in 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.

More specifically in relation to the Falck Renewables Group:

- with reference to operating plants, the flows generated in British Pounds contribute to the portion of debt posted in the same currency;
- with reference to the Auchrobert plant in Scotland, non-recourse project financing is currently under negotiation; we remind you that the group has signed a project financing for the Assel Valley plant in December 2016 under favourable conditions.

4. Directors' report

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 Pound exchange rate which, in the event of devaluation, could have a positive impact on the Group's debt in Pounds while also negatively affecting the financial indicators, net equity and future cash flow from UK assets that are converted, even in translation, into Euro.

4.3 *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 fully 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.

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

Some investment dossier in new markets (Nordic countries, Northern Europe, USA) are being assessed.

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

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

5. 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 Uniform Finance Act (Legislative Decree No. 58/1998), Paolo Rundeddu, in his capacity as corporate accounting documents officer, declares that the accounting information contained in this interim financial report at 31 March 2017 is consistent with the data in the documents, accounting records and other records.

Milan, 11 May 2017

Paolo Rundeddu
(Corporate accounting
documents officer)