# FALCK RENEWABLES Group

# Interim financial report 31 March 2013

Board of directors' meeting

Milan, 21 May 2013

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 2013

# Contents

# 1. Company officers

# 1. Company officers

## ***Board of directors***

| | |
|---|---|
| Federico Falck (*) | Chairman |
| Guido Rosa (*) | Deputy Chairman |
| Piero Manzoni (*) | Chief Executive Officer |
| Marco Agostini | Director |
| Guido Corbetta | Director |
| Enrico Falck (*) | Director |
| Elisabetta Falck | Director |
| Giovanni Maria Garegnani (**) | Director |
| William Jacob Heller | Director |
| Andrea Merloni (**) | Director |
| Libero Milone (**) | Director |
| Barbara Poggiali (**) | Director |
| Bernardo Rucellai (**) | Director |
| Claudio Tatozzi (**) | Director |
| Sergio Ungaro | Director |

(*) Members of the Executive Committee

(**) Non-executive directors

## ***Board of statutory auditors***

| | |
|---|---|
| Massimo Scarpelli | Chairman |
| Aldo Bisioli | Statutory auditor |
| Alberto Giussani | Statutory auditor |
| Massimo Foschi | Substitute statutory auditor |
| Gianluca Pezzati | Substitute statutory auditor |

## ***Independent auditors***

Reconta Ernst & Young SpA

# 2. Financial information

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## 2.1 *Income statement*

(Euro thousands)

| | 31.3.2013 | 31.3.2012 | 31.12.2012 |
|---|---|---|---|
| Revenue | 82,476 | 78,380 | 274,603 |
| Direct labour costs | (1,973) | (1,981) | (8,171) |
| Direct costs | (37,371) | (32,452) | (175,837) |
| Cost of sales | (39,344) | (34,433) | (184,008) |
| **Gross profit** | **43,132** | **43,947** | **90,595** |
| Other income | 240 | 391 | 2,516 |
| Other employee costs | (3,322) | (3,076) | (12,726) |
| Administrative expenses | (4,056) | (4,477) | (30,846) |
| Write-down of non-current assets | | | (70,946) |
| **Operating profit/(loss)** | **35,994** | **36,785** | **(21,407)** |
| Finance costs - net | (13,800) | (11,582) | (47,139) |
| Investment income | | 1,487 | 686 |
| **Profit/(loss) before income tax** | **22,194** | **26,690** | **(67,860)** |
| Income tax expense | | | (17,607) |
| **Loss for the year** | | | **(85,467)** |
| Loss attributable to non-controlling interests | | | (6,260) |
| **Loss attributable to owners of the parent** | | | **(79,207)** |
| **Ebitda** | **51,576** | **51,420** | **157,952** |

## 2.2 *Net financial position*

(Euro thousands)

| | 31.3.2013 | 31.12.2012 | 31.3.2012 |
|---|---|---|---|
| Short-term third party financial liabilities | (73,086) | (74,367) | (43,434) |
| Short-term Group financial liabilities | | | |
| Short-term third party financial receivables | 292 | 303 | |
| Short-term Group financial receivables | | | 14 |
| Other securities | | | |
| Cash and cash equivalents | 133,549 | 139,178 | 139,268 |
| **Short-term net financial position** | **60,755** | **65,114** | **95,848** |
| Medium/long-term third party financial liabilities | (886,264) | (907,928) | (893,549) |
| Medium/long-term Group financial liabilities | | | |
| Other securities | | | |
| **Medium/long-term financial position** | **(886,264)** | **(907,928)** | **(893,549)** |
| **Net financial position pursuant to Consob circular DEM/6064293/2006** | **(825,509)** | **(842,814)** | **(797,701)** |
| Medium/long-term third party financial receivables | | | |
| Medium/long-term Group financial receivables | | | 642 |
| **Total net financial position** | **(825,509)** | **(842,814)** | **(797,059)** |
| - of which non-recourse financing | (776,392) | **(775,426)** | (748,630) |
| - of which fair value of derivatives | (83,410) | (85,753) | (65,470) |
| **Net financial position net of fair value of derivatives** | **(742,099)** | **(757,061)** | **(731,589)** |

# 3. Notes to the interim financial report

# 3. Notes to the interim financial report

## 3.1 *Accounting policies*

At 31 March 2013 the Falck Renewables group (hereinafter "the Falck Renewables Group" or "the Group") consisted of 58 companies, of which 52 are consolidated on a line-by-line basis, 4 are consolidated applying the proportional method and 2 are valued at cost.

The scope of consolidation did not change in the 2013 first quarter.

The interim financial report at 31 March 2013 has been prepared in accordance with International Financial Reporting Standards (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 - third paragraph, section 5 of Legislative Decree 58/1998.

The accounting policies and measurement criteria applied in the preparation of the interim financial report at 31 March 2013 are consistent with those adopted for the previous year-end financial statements.

## 3.2 *Performance for the period and principal changes*

**Revenue** of the Falck Renewables Group in the 2013 first quarter amounted to Euro 82,476 thousand, an increase of Euro 4,096 thousand (+5.2%) on the 2012 first quarter.
The increase in revenue is principally attributable to the increase in installed capacity from 684.3 MW in the 2012 first quarter to 716.4 MW at 31 March 2013 due to new wind farms coming on stream. A fall in revenue was recorded particularly in relation to the Trezzo sull'Adda and Granarolo dell'Emilia WtE plants due to the measurement of the avoided cost component of fuel (CEC) as 2013 revenue arising on sales made under the CIP6 regime reflects the Italian Ministry of Economic Development's adoption of the Italian Regulatory Authority for Electricity and Gas (AEEG) opinion 535/2012 issued under Law 99/09. The Group companies affected by this are currently awaiting outcome of the appeals filed with the Lazio Regional Administrative Court.

**Gross profit** amounted to Euro 43,132 thousand, a fall of Euro 815 thousand, corresponding to 52.3% when expressed as a percentage of revenue (2012 first quarter – 56.1%).

Despite the difficult economic climate, **Ebitda**[1] for the 2013 first quarter amounted to Euro 51,576 thousand (2012 first quarter – Euro 51,420 thousand), equal to 62.5% of revenue (2012 first quarter – 65.6%). Ebitda is in line with the 2012 first quarter (+ Euro 156 thousand).

**Operating profit** totalled Euro 35,994 thousand, a fall of Euro 791 thousand and 43.6% when expressed as a percentage of revenue (2012 first quarter – 46.9%).

**Net finance costs** increased by Euro 2,218 thousand compared to the 2012 first quarter due to the increase in net indebtedness arising from capital expenditure of approximately Euro 60 million incurred in the period April 2012 – March 2013 and lower interest costs capitalised on the Buddusò-Alà dei Sardi, Petralia Sottana and Ty-Ru wind farms compared to the first quarter of 2012.

As a result of the above, the Falck Renewables Group recorded a **profit before tax and non-controlling interests** of Euro 22,194 thousand, a fall of Euro 4,496 thousand compared to the same period last year.

The **net financial position**, net of the fair value of derivatives, is a net indebtedness of Euro 742,099 thousand that is down on the balance of Euro 757,061 thousand at 31 December 2012. The drop is

[1] Ebitda is measured by the Falck Renewables Group as profit for the period before income and costs from investments, net finance income/costs, amortisation and depreciation, impairment losses, charges to risk provisions and the income tax expense.

principally due to cash generated by operating plants that enabled partial repayment of approximately Euro 19 million of the corporate loan.

The net financial position:

- Comprised non-recourse financing of Euro 776,392 thousand, an increase of Euro 966 thousand on the balance at 31 December 2012;
- Included net financial liabilities of Euro 43,879 thousand relating to projects under construction that were not yet revenue generating at 31 March 2013; the net financial position net of this amount and the fair value of derivatives would have amounted to Euro 698,220 thousand;
- Was hedged by *interest rate swaps*, covering approximately 88% of the risk presented by interest rate fluctuations.

The net financial position including the fair value of derivatives amounted to Euro 825,509 thousand at 31 March 2013 (31 December 2012 – Euro 842,814 thousand).

Revenue by business segment may be analysed as follows.

(Euro thousands)

| | 1° Quarter 2013 | 1° Quarter 2012 |
|---|---:|---:|
| Sale of electricity | 73,702 | 68,585 |
| Waste treatment and disposal | 7,959 | 8,272 |
| Operation of WtE plants and landfills | 766 | 747 |
| Other services | 49 | 776 |
| **Total** | **82,476** | **78,380** |

Profit before income tax and non-controlling interests of the business sectors, compared to the 2012 first quarter are summarised below:

(Euro thousands)

| | 31.3.2013 | 31.3.2012 | Change |
|---|---:|---:|---:|
| WtE, biomass and photovoltaic sector | 3,276 | 5,308 | (2,032) |
| Wind sector | 21,714 | 22,088 | (374) |
| Falck Renewables SpA | (2,901) | (706) | (2,195) |
| Consolidation adjustments | 105 | | 105 |
| **Total** | **22,194** | **26,690** | **(4,496)** |

## 3.3 *Performance of business sectors*

This note provides a brief summary of the key financial highlights of the two sectors (“WtE, biomass and photovoltaic” and “Wind”) and the information relating to Falck Renewables SpA (“the Company”), which together constitute the Group.

### ❖ WtE, biomass and photovoltaic

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

| | | | (Euro thousands) |
|---|---|---|---|
| | | 31.3.2013 | 31.3.2012 |
| Revenue | | 21,572 | 24,424 |
| Cost of sales | | (15,539) | (15,489) |
| **Gross profit** | | **6,033** | **8,935** |
| **Operating profit** | | **4,640** | **7,359** |
| **Ebitda** | | **8,480** | **11,208** |
| **Profit for the period** | | **3,276** | **5,308** |
| **Net financial position - indebtedness** | | **207,275** | **209,657** |
| of which non-recourse financing | | 68,998 | 77,885 |
| **Capital expenditure** | | **120** | **93** |
| Employees at period-end | (no.) | 124 | 126 |

This sector focuses on electricity production from renewable sources in particular through the conversion of urban waste to energy (WtE), biomass and photovoltaic plants.
The strategy is developed through the management of operating power plants and the development of new projects, either directly or through joint ventures with leading industrial enterprises.

Revenue in the WtE, biomass and photovoltaic sector decreased compared to the 2012 first quarter, due to lower revenue generated by the Trezzo sull’Adda and Granarolo dell’Emilia plants, which despite performing well were affected by the measurement of the avoided cost component of fuel (CEC) as 2013 revenue arising on sales made under the CIP6 regime reflects the Italian Ministry of Economic Development’s adoption of the Italian Regulatory Authority for Electricity and Gas’s (AEEG) opinion 535/2012 issued under Law 99/09. The Group companies affected by this are currently awaiting outcome of the appeals filed with the Lazio Regional Administrative Court.

The impact of the above-mentioned reduced incentives, while partially offset by the WtE plants performance, has resulted in a fall in Ebitda (- Euro 2,728 thousand) to Euro 8,480 thousand: Ebitda equalled 39.3% when expressed as a percentage of revenue (2012 – 45.9%).

Operating profit fell by Euro 2,719 thousand to Euro 4,640 thousand, corresponding to 21.5% of revenue (2012 – 30.1%).

The net financial position was a net indebtedness of Euro 207,275 thousand, representing a decrease on the balance at 31 March 2012 (- Euro 2,382 thousand), which is largely attributable to cash generated by operating plants.
The net financial position comprises non-recourse financing of Euro 68,998 thousand (31 March 2012 – Euro 77,885 thousand) and the fair value of derivatives entered into to hedge interest rate risk amounting to Euro 5,344 thousand (31 March 2012 – Euro 3,743 thousand).

### ❖ Wind sector

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

| | | (Euro thousands) 31.3.2013 | 31.3.2012 |
|---|---|---|---|
| Revenue | | 60,891 | 53,942 |
| Cost of sales | | (23,836) | (19,015) |
| **Gross profit** | | **37,055** | **34,927** |
| **Operating profit** | | **34,169** | **32,143** |
| **Ebitda** | | **46,459** | **42,758** |
| **Profit for the period** | | **21,714** | **22,088** |
| **Net financial position - indebtedness** | | **919,735** | **880,907** |
| of which non-recourse financing | | 707,394 | 670,745 |
| **Capital expenditure** | | **11,651** | **9,522** |
| Employees at period-end | (no.) | 44 | 41 |

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

Revenue increased by 12.9% (+ Euro 6,949 thousand), which is mainly due to the higher installed capacity associated with the Petralia and Ty Ru wind farms. Moreover, the performance of the Italian wind farms improved significantly compared to the 2012 first quarter. The increase in cost of sales is also attributable to the higher installed capacity compared to the 2012 first quarter.

Gross profit increased by Euro 2,128 thousand, corresponding to 60.9% of revenue (2012 – 64.7%).

Ebitda totalled Euro 46,459 thousand, an increase of Euro 3,701 thousand and equal to 76.3% when expressed as a percentage of revenue (2012 – 79.3%).

Operating profit also recorded growth with a Euro 2,026 thousand increase on the 2012 first quarter and amounted to 56.1% of revenue (2012 – 59.6%).

The net financial position was a net indebtedness of Euro 919,735 thousand, corresponding to an increase of Euro 38,828 thousand compared to the total at 31 March 2012, which reflects the commitment to expanding installed capacity that increased from 623.2 MW at 31 March 2012 to 655.3 MW at 31 March 2013. The total comprises net financial liabilities of Euro 43,879 thousand relating to projects under construction that were not yet revenue generating at 31 March 2013; the net financial position net of this balance and the fair value of derivatives would have amounted to Euro 799,923 thousand.
The net financial position includes non-recourse financing of Euro 707,394 thousand (Euro 670,745 thousand at 31 March 2012) and the fair value of derivatives to hedge interest rate exposure of Euro 75,933 thousand (31 March 2012 - Euro 60,063 thousand).

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

The income statement of Falck Renewables SpA for the three months ended 31 March 2013 recorded a loss before income tax of Euro 2,901 thousand (Euro 706 thousand in the first quarter of 2012). This comprises increased employee costs (+ Euro 122 thousand) and administrative expenses (+ Euro 41 thousand). Net finance income also fell (- Euro 2,018 thousand) compared to Euro 2,012 thousand of income in the 2012 first quarter, resulting in net finance costs of Euro 6 thousand. This fall is principally due to an increase in net foreign exchange losses of Euro 979 thousand, the write-down of financial receivables due from Palermo Energia Ambiente ScpA (Pea) and Elettroambiente SpA amounting to Euro 716 thousand, a fall of Euro 543 thousand in interest income on correspondence accounts with

subsidiaries linked to lower credit balances and increased bank commission of Euro 168 thousand on the undrawn portion of the corporate loan, which was partially offset by a Euro 320 thousand fall in finance costs on this loan.
The financial receivables due from Palermo Energia Ambiente ScpA and Elettroambiente SpA and subsequently written down, arose in the first quarter in respect of third party payments made by Pea that were financed by Falck Renewables SpA and interest on loans granted to both companies.

The parent company's income statement does not yet include dividends distributed by its investments, which will be included commencing the next quarter following shareholder approval in April this year.

The net financial position, a net asset of Euro 221,945 thousand, compared to an asset of Euro 226,114 thousand at 31 December 2012. The outstanding balance of the Euro 165 million secured in 2011 amounted to approximately Euro 67 million at 31 March 2013.
The net financial position also includes the fair value of derivatives to hedge interest rate exposure amounting to Euro 2,133 thousand (31 March 2012 – Euro 1,664 thousand).

## 3.5 *Management outlook for the coming year*

The Group's results will be affected by the following factors:

- The particularly weak economic conditions will negatively impact electricity prices across Europe although renewable energy will benefit from incentive mechanisms that will take this into account (e.g. Italian green certificates system);
- The review of the rules governing the process of imbalance settlement, which envisages that from 2013 imbalance costs will be recharged to energy producers, including non-programmable sources, may have a negative impact on the revenue of the Italian Wind sector;
- The Italian Ministry for Economic Development Decree of 20.11.2012 relating to "the adjustment of the price of electricity sold to the GSE in 2010, 2011 and 2012 applying tariffs pursuant to CIP 6/92", as illustrated above, will result in a fall in revenue for the companies in the Prima Srl group and Frullo Energia Ambiente Srl that operate under the CIP6 incentive regime as the CEC element of this incentive will be reduced unless the decree is annulled following the appeal filed by the companies involved.

These negative factors will only be partially offset by the fact that 2013 revenue will benefit from the full year's production of the Petralia (22.1 MW) and Ty Ru (10 MW) wind farms; with regard to plants under construction, it is expected that the 15 MW Nutberry wind farm will be completed and come on stream in the first half of 2013.

The UK authorised plants of West Browncastle (30 MW), Spaldington Airfield (up to 15 MW) and Kingsburn (up to 22.5 MW), are expected to come on stream in the second half of 2014, the first half of 2015 and the first half of 2016 respectively.

The Group's capital expenditure policy will be influenced by the financial covenants on the corporate loan entered into on 14 January 2011, particularly in relation to the debt/equity ratio.

The energy market and regulatory framework in which the Falck Renewables Group operates is undergoing drastic changes due to a general overhaul of the incentive systems and the introduction of rules aimed at increasing competition in the renewable energy segment of the energy market. These market changes, accompanied with, and often accentuated, by the negative impact of the economic crisis on electricity consumption, necessitated an essential review of the Group's business model in order to guarantee medium-long/term stability.

In light of the above, a medium-term business plan was approved that balances the Group's plant portfolio favouring programmable renewable energy sources that are less incentive dependent and envisages improved performance in the business of the construction and management of proprietary plants. The key elements of the new business plan comprise performance planning, management and improvement that will be achieved, among other things, through the development and implementation of innovative solutions that could also be offered to third parties in future.

### 3.6 *Employees*

The total number of employees at 31 March 2013 comprised:

| | 31.3.2013 | 31.12.2012 | 31.3.2012 |
|---|---|---|---|
| Managers | 27 | 26 | 25 |
| White-collar staff and special categories | 145 | 144 | 143 |
| Blue-collar workers | 74 | 74 | 76 |
| **Total** | **246** | **244** | **244** |

As Frullo Energia Ambiente Srl is consolidated applying the proportional method, the numbers above include the 49% share of the employees of this company corresponding to 19 white-collar staff and 27 blue-collar workers.

Employees analysed by business sector are as follows:

(MW)

| | 31.3.2013 | 31.12.2012 | 31.3.2012 |
|---|---|---|---|
| WtE, biomass and photovoltaic sector | 124 | 124 | 126 |
| Wind sector | 44 | 44 | 41 |
| Falck Renewables SpA | 78 | 76 | 77 |
| **Total** | **246** | **244** | **244** |

### 3.7 *Installed capacity*

(MW)

| Technology | 31.3.2013 | 31.12.2012 | 31.3.2012 |
|---|---|---|---|
| Wind | 655.3 | 655.3 | 623.2 |
| WtE | 31.0 | 31.0 | 31.0 |
| Biomass | 14.0 | 14.0 | 14.0 |
| Photovoltaic | 16.1 | 16.1 | 16.1 |
| **Total** | **716.4** | **716.4** | **684.3** |

# 4. Directors’ report

## 4.1 *Review of significant business developments*

The Company purchased 80,000 own shares with a nominal value of Euro 80,000 for Euro 66,892 in April 2013.
Subsequent to this transaction the number of own shares held is 260,000, corresponding to a carrying value of Euro 238,843.60 and an average share price of Euro 0.92. These shares represent 0.089% of the Company's share capital.

The dispute regarding the Sicily Projects is described in full in the 2012 Annual Report that was approved today by the board of directors.

The dispute with the Sicily Region will continue in order to safeguard the Group's motives and rights (with the purpose of securing both pecuniary loss and loss of profit) and in order to defend itself against the damages claims raised by the Department[2].

There have been no other changes regarding the status of the litigation disclosed in the 2012 Annual Report approved today by the board of directors and which should be referred to for further details.

## 4.2 *Significant capital expenditure and disposals*

Capital expenditure on property, plant and equipment in the 2013 first quarter amounted to Euro 11,957 thousand and principally related to construction work on the Spaldington and West Browncastle (Euro 10,721 thousand), Nutberry (Euro 571 thousand) and Kingsburn (Euro 345 thousand) wind farms, while investments in intangible assets amounted to Euro 145 million and comprised operating software costs.

No significant disposals, either in terms of size or amount, were made during the period.

[2] The Sicily Project companies have made the following claims in relation to the above dispute: in respect of pecuniary losses Tifeo, Euro 55.7 million; Platani, Euro 37.7 million; Pea, Euro 49.6 million – Company share Euro 11.5 million; for loss of profit Tifeo, Euro 94.1 million; Platani, Euro 47.8 million; Pea, Euro 88.8 million – Company share Euro 20.7 million.
The Sicily Region's Department for Energy and Public Utilities has requested compensation for damages suffered by the Sicily Regional Administration due to breach of the Conventions as follows: Tifeo, Euro 36.7 million; Platani, Euro 12.9 million; Pea, Euro 60.9 million – Company share Euro 14.2 million.
Further details are provided in the Directors' Report and the notes accompanying the 2012 Annual Report also approved today, which disclose all of the risks and uncertainties surrounding this dispute.

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

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As required by Article 154-bis, paragraph 2, of the Uniform Finance Law (Legislative Decree No. 58/1998), Paolo Rundeddu, in his capacity as Corporate Accounting Document Officer, declares that the accounting information contained in this interim financial report at 31 March 2013 is consistent with the data in the documents, accounting records and other records.

I draw attention to the fact that the consolidated financial statements contain assets arising on the Sicily Projects, more specifically assets under construction, goodwill and guarantee deposits that were written off in full in the consolidated financial statements for the year ended 31 December 2012, which should be referred to for further details, resulting in a nil net book value, while land was partially written-off and has a net book value of Euro 1,772 thousand representing the net realisable value.

The directors' report on the interim financial report at 31 March 2013 confirms the intention of the directors to pursue litigation in order to safeguard the Group's motives and rights (with the purpose of securing both pecuniary loss and loss of profit) and to defend itself against the damages claims raised by the Sicily Regions' Department for Energy and Public Utilities.

The Sicily Project companies have made the following claims in relation to the above dispute: in respect of pecuniary losses Tifeo, Euro 55.7 million; Platani, Euro 37.7 million; Pea, Euro 49.6 million – Company share Euro 11.5 million; for loss of profit Tifeo, Euro 94.1 million; Platani, Euro 47.8 million; Pea, Euro 88.8 million – Company share Euro 20.7 million.

The Department has requested compensation for damages suffered by the Sicily Regional Administration due to breach of the Conventions as follows: Tifeo, Euro 36.7 million; Platani, Euro 12.9 million; Pea, Euro 60.9 million – Company share Euro 14.2 million.

Further details are provided in the Directors' Report and the notes accompanying the 2012 Annual Report also approved today, which disclose all of the risks and uncertainties surrounding this dispute.

Paolo Rundeddu

(Corporate Accounting Document Officer)

Milan, 21 May 2013