

FALCK RENEWABLES
Group

Interim financial report
30.9.2013

Board of directors' meeting

Milan, 12 November 2013

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

Interim financial report 30 September 2013

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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

2. Financial information

2.1 *Income statement*

	(Euro thousands)				
	3rd quarter 2013	3rd quarter 2012	30.9.2013	30.9.2012	31.12.2012
Revenue	48,816	57,326	202,698	199,269	274,603
Direct labour costs	(1,854)	(1,889)	(6,233)	(6,270)	(8,171)
Direct costs	(35,625)	(34,362)	(110,467)	(115,465)	(175,837)
Cost of sales	(37,479)	(36,251)	(116,700)	(121,735)	(184,008)
Gross profit	11,337	21,075	85,998	77,534	90,595
Other income	716	533	1,470	1,424	2,516
Other employee costs	(3,350)	(3,119)	(10,073)	(9,615)	(12,726)
Administrative expenses	(7,428)	(6,062)	(16,817)	(16,359)	(30,846)
Write-down of non-current assets					(70,946)
Operating profit/(loss)	1,275	12,427	60,578	52,984	(21,407)
Finance costs - net	(12,286)	(12,027)	(37,860)	(35,301)	(47,139)
Investment income				676	686
(Loss)/profit before income tax	(11,011)	400	22,718	18,359	(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 (*)	18,166	29,611	113,293	115,268	157,952

(*) 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, charges to risk provisions and income tax expense. This indicator was calculated applying best market practice taking into consideration the new Group financing contracts.

2. Financial information

2.2 *Net financial position*

	(Euro thousands)				
	30.9.2013	30.6.2013	31.12.2012	Change	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Short-term third party financial liabilities	(63,927)	(57,852)	(74,367)	(6,075)	10,440
Short-term Group financial liabilities					
Short-term third party financial receivables	349	241	303	108	46
Short-term Group financial receivables					
Other securities					
Cash and cash equivalents	161,780	141,713	139,178	20,067	22,602
Short-term net financial position	98,202	84,102	65,114	14,100	33,088
Medium/long-term third party financial liabilities	(850,871)	(838,212)	(907,928)	(12,659)	57,057
Medium/long-term Group financial liabilities					
Other securities					
Medium/long-term financial position	(850,871)	(838,212)	(907,928)	(12,659)	57,057
Net financial position pursuant to Consob circular					
DEM/6064293/2006	(752,669)	(754,110)	(842,814)	1,441	90,145
Medium/long-term third party financial receivables					
Medium/long-term Group financial receivables					
Total net financial position	(752,669)	(754,110)	(842,814)	1,441	90,145
- of which non-recourse financing	(745,725)	(734,127)	(775,426)	(11,598)	29,701

3. Notes to the interim financial report

3. Notes to the interim financial report

3.1 *Accounting policies*

At 30 September 2013 the Falck Renewables group (hereinafter “the Falck Renewables Group” or “the Group”) consisted of 61 companies, of which 55 are consolidated on a line-by-line basis, 5 are consolidated applying the proportional method and 1 is valued at cost.

In the course of the first 9 months the scope of consolidation increased to include the following newly formed companies that have been consolidated on a line-by-line basis:

- West Browncastle Wind Energy Ltd - 75% owned by Falck Renewables Wind Ltd;
- Spaldington Airfield Wind Energy Ltd - 75% owned by Falck Renewables Wind Ltd.
- Falck Renewables Polska Sp. Z.o.o. - 100% owned by Falck Renewables SpA.

Spaldington Airfield Wind Energy Ltd, 100% owned by Falck Renewables Wind Ltd, was renamed Beaumont Wind Energy Ltd.

The subsidiaries Tifeo Energia Ambiente ScpA and Platani Energia Ambiente ScpA, which are consolidated on a line-by-line basis, are in liquidation and the liquidators have not yet submitted the 2012 interim liquidation accounts. Consequently, the 2012 draft interim liquidation accounts and correspondence with the liquidators of Tifeo and Platani provided to support the request for financial support of the shareholders, modified to reflect changes in the period, were used for the purpose of preparing the interim financial report at 30 September 2013.

Elettroambiente SpA was placed into voluntary liquidation at the time of approval of the 2012 financial statements.

Palermo Energia Ambiente ScpA (Pea), currently in liquidation and in which Falck Renewables SpA holds a 23.27% interest, was valued at cost in the 2012 consolidated financial statements. Commencing 30 June 2013, the investment has been consolidated applying the proportional method following approval by the liquidators in June 2013 of the 2010, 2011 and 2012 financial statements and the subsequent approval by Pea’s shareholders on 28 June 2013, which allowed the company to avoid dissolution. These events put an end to the dispute between Pea’s shareholders with joint control being reinstated that enabled the investment to be included applying proportional consolidation commencing 30 June 2013: this was already reflected in the balance sheet of the half-year financial report that was approved on 7 August 2013, while the proportionate share of results has been included from 1 July 2013 and is reflected for the first time in the income statement of the interim financial report at 30 September 2013. The proportionate consolidation was carried out taking into consideration the agreements undertaken by Pea’s shareholders to guarantee the former’s third party creditors excluding shareholders (further details are provided in the note “Events that took place in 2013 relating to the Sicily Projects” on page 23 of the Half-year Financial Report at 30 June 2013.

The interim financial report at 30 September 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 30 September 2013 are consistent with those adopted for the previous half-year/year-end financial statements.

3. Notes to the interim financial report

3.2 *Performance for the period and principal changes*

In the course of the 2013 third quarter the Falck Renewables Group recorded a loss before income tax and non-controlling interests of Euro 11,011 thousand, a fall on the profit of the same period last year that amounted to Euro 400 thousand. This is principally due to a fall in revenue in the quarter resulting from: low wind levels recorded in all of the Group's wind farms in the 2013 summer months; new regulations introduced that reduced the incentives associated with the avoided cost of fuel component (CEC) for plants operating under the CIP6 tariff regime and a fall in electricity prices in both Italy and Spain. Finally, borrowing costs not capitalised on assets under construction had a negative impact on the result for the period as Euro 2,658 thousand had been capitalised in the same period in 2012. With the exception of the drop in wind levels, the Group has implemented effective measures to mitigate the above negative impacts.

Gross profit amounted to Euro 11,337 thousand, representing a decrease of Euro 9,738 thousand, while *Operating profit* totalled Euro 1,275 thousand (2012 third quarter - Euro 12,427 thousand). The *gross profit/revenue* ratio amounted to 23.2%, against 36.8% in the 2012 third quarter. *Operating profit* expressed as a percentage of revenue equalled 2.6% (2012 third quarter - 21.7%).

The cumulative income statement at 30 September 2013 shows a profit before income tax and non-controlling interests of Euro 22,718 thousand, a rise on the profit of Euro 18,359 thousand recorded in the same period last year. The result for the first nine months of 2012 reflected an impairment loss of Euro 14,675 thousand recognised against the goodwill of the Sicily Projects of Casteltermini (Platani) and Augusta (Tifeo), while the first nine months of 2013 comprise an impairment loss of Euro 4,112 thousand against the Trezzo plant as detailed in the Half-year Financial Report at 30 June 2013.

The operating results have been affected by a fall in revenue, in particular the Trezzo sull'Adda and Granarolo dell'Emilia WtE plants, due to the CEC calculation that, in determining revenue arising in 2013 on the sale of electricity under the CIP 6 tariff regime, reflects the amendment made by the Ministry of Economic Development to adopt the Italian Regulatory Authority for Electricity and Gas (AEEG) resolution 535/2012 pursuant to the provisions of Law 99/09. The Group companies affected by this amendment are awaiting the outcome of the appeal filed with the Lazio Regional Administrative Court (TAR). Subsequent to the above change in legislation, Legislative Decree 69 was published on 21 June 2013 (urgent measures for economic growth), which envisages a further revision of the method of calculating the CEC commencing 1 January 2013.

The increase in average installed capacity arising from new wind farms coming on stream and improved production efficiency at 30 September 2013, in particular in the Italian plants, resulted in an increase in total revenue of Euro 3,429 thousand compared to the first nine months of 2012.

Although the resolution relating to imbalance costs, which introduced for non-programmable sources the transfer of imbalance costs to energy producers, was overturned in the ruling of the Lazio Regional Administrative Court (TAR) of 27 June 2013, the provisions could still be applied under different regulations that would have a negative impact on the 2013 revenue of companies in the wind and photovoltaic sectors that operate in Italy. The impact of these costs has been reflected in the interim report at 30 September resulting in a reduction of approximately Euro 2 million in revenue.

Ebitda, calculated by the Falck Renewables Group as profit for the period before investment income and costs, finance income and costs, depreciation, amortisation, impairment losses, charges to risk provisions and income tax, amounted to Euro 113,293 thousand at 30 September 2013 (30 September 2012 – Euro 115,268 thousand) and 55.9% when expressed as a percentage of revenue (2012 – 57.8%).

Gross profit amounted to Euro 85,998 thousand, corresponding to an increase of Euro 8,464 thousand.

Operating profit totalled Euro 60,578 thousand compared to Euro 52,984 thousand for the nine months to 30 September 2012. The 2012 result was impacted by the impairment loss of Euro 14,675 thousand recognised against the goodwill of the Tifeo and Platani Sicily Projects, while the first nine months of 2013 comprises the impairment of Euro 4,112 thousand relating to the Trezzo plant as detailed in the half-year financial report at 30 June 2013.

3. Notes to the interim financial report

The *Gross profit/revenue* ratio amounted to 42.4% (30 September 2012 – 38.9%), while *Operating profit* expressed as a percentage of revenue equalled 29.9% (30 September 2012 – 26.6%).

Net finance costs increased by Euro 2,559 thousand compared to 30 September 2012 as borrowing costs have no longer been capitalised on assets under construction and amounted to Euro 2,658 thousand for the same period last year.

The net financial position, net of the fair value of derivatives¹ of Euro 65,640 thousand, corresponded to a net indebtedness of Euro 687,029 thousand, representing a significant fall on the balance of Euro 757,061 thousand at 31 December 2012.

The lower net indebtedness is principally due to cash flows of approximately Euro 94 million generated by operating plants, of which Euro 35,046 million was used for capital expenditure in the nine month period.

The net financial position comprises non-recourse loans (Gross Project Debt) that amounted to Euro 745,725 thousand at 30 September 2013 (31 December 2012 – Euro 775,426 thousand).

The net financial position includes net borrowings of Euro 55,507 thousand relating to construction projects that were not revenue generating at 30 September 2013. The net indebtedness, net of these borrowings and the fair value of derivatives would have amounted to Euro 631,522 thousand.

The net financial position of the project companies (NFP Project) comprising Gross Project Debt, the fair value of derivatives to hedge interest rate exposure on this debt and the liquidity of the financed projects amounted to Euro 650,749 thousand, representing approximately 86% of the Group's net indebtedness at 30 September 2013.

Interest rate swaps to a total of Euro 565,177 thousand have been entered into to hedge interest rate fluctuations on the Gross Project Debt, equal to 76% of the total debt.

Consequently, approximately 92% of the total net indebtedness of Euro 687,029 thousand, net of the fair value of derivatives, is hedged from interest rate fluctuations through the same interest rate swaps.

The ratios illustrated in the table below summarise the breakdown and hedging of the Falck Renewables Group's interest rate risk:

¹ The net financial position including the fair value of derivatives amounted to Euro 752,669 thousand at 30 September 2013 (31 December 2012 - Euro 842,814 thousand). The overall net indebtedness represents the sum of cash and cash equivalents, current financial assets including available for sale securities, financial liabilities, the fair value of financial hedging instruments and other non-current financial assets.

3. Notes to the interim financial report

	(Euro thousands)
	30.9.2013
Total NFP net of Fair Value of Derivatives	687,029
Total hedged against interest rate fluctuations	635,177
% Hedged/NFP net of derivatives	92%
Total Gross Debt including Fair Value of Derivatives (GD+FVD)	914,798
of which Project Gross Debt + Fair Value of Project Derivatives	808,618
% Project GD including FV Derivatives/(GD+FVD)	88%
Total Gross Debt (GD)	849,157
of which Project Gross Debt (Project GD)	745,725
% Project GD/GD	88%
Project Gross Debt	745,725
Total hedged against interest rate fluctuations	565,177
% Project NFP/NFP	76%
Total Gross Debt (GD)	849,157
Total hedged against interest rate fluctuations	635,177
% Hedged/GD	75%
Total net financial position including Fair Value of Derivatives (NFP)	752,669
of which Project Financing Net Debt (Project NFP) (*)	650,749
% Project NFP/NFP	86%

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

Installed capacity by technology is illustrated in the table below.

	(MW)		
Technology	30.9.2012	31.12.2012	30.9.2012
Wind	670.3	655.3	655.3
WtE	31.0	31.0	31.0
Biomass	14.0	14.0	14.0
Photovoltaic	16.1	16.1	16.1
Total	731.4	716.4	716.4

The Nutberry wind farm in Scotland, which has an installed capacity of 15 MW, commenced feeding in electricity to the grid at the end of the current quarter.

The Group generated 1,366 GWh of electricity in the first nine months of 2013, an increase of 7% on the same period in 2012, and treated approximately 240,000 tons of waste, again an increase this time of 2% on the same period last year.

Revenue by activity may be analysed as follows:

	(Euro thousands)			
	3rd quarter 2013	3rd quarter 2012	30.9.2013	30.9.2012
Sale of electrical energy	41,641	48,215	177,793	171,497
Waste treatment and disposal	6,130	7,108	21,167	23,016
Operation of WtE and other activities	1,045	2,003	3,738	4,756
Total	48,816	57,326	202,698	199,269

3. Notes to the interim financial report

The results before income tax and non-controlling interests of the sectors, compared to 30 September 2012, are summarised below:

	(Euro thousands)			
	3rd quarter 2013	3rd quarter 2012	30.9.2013	30.9.2012
WtE, biomass and photovoltaic sector	1,097	4,652	5,409	(1,112)
Wind sector	(9,466)	(2,269)	24,300	25,086
Falck Renewables SpA	(4,348)	(2,012)	(6,484)	(28,610)
Consolidation adjustments	1,706	29	(507)	22,995
Total	(11,011)	400	22,718	18,359

3.3 *Performance of the business sectors*

This paragraph 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 that together constitute the Group.

❖ **WtE, biomass and photovoltaic sector**

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

	(Euro thousands)		
	30.9.2013	30.9.2012	31.12.2012
Revenue	66,280	71,318	93,661
Cost of sales	(50,669)	(61,987)	(100,167)
Gross profit/(loss)	15,611	9,331	(6,506)
Operating profit/(loss)	9,615	4,627	(90,645)
Ebitda	25,657	31,524	37,049
Profit/(loss) for the period	5,409	(1,112)	(97,732)
Net financial position - indebtedness	201,715	214,365	206,062
of which non-recourse financing	64,099	73,882	68,931
Capital expenditure	4,215	1,174	3,059
Employees at period-end	(no.) 124	126	124

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

The strategy is developed through the management of operating power plants, putting plants that are in the start-up phase into operation and the development of new projects, either directly or through joint ventures with leading industrial enterprises.

Revenue of the WtE, biomass and photovoltaic sector fell by Euro 5,038 thousand compared to 31 September 2012, due to decreased revenue from the Trezzo sull’Adda and Granarolo WtE plants that despite strong performances were impacted by the CEC calculation as revenue in 2013 from electricity sold under the CIP6 regime reflects the amendment made by the Ministry of Economic Development in order to incorporate AEEG resolution 535/2012 in accordance with the provisions of Law 99/09. The Group companies affected by this amendment are awaiting the outcome of the appeal filed with the Lazio Regional Administrative Court. Subsequent to the above change in legislation, Legislative Decree 69 was published on 21 June 2013 (urgent measures for economic growth), which envisages a further revision of the method of calculating the avoided cost of fuel component (CEC) commencing 1 January 2013.

The fall in CIP6 revenue was partially offset by the improved performance of the Rende biomass plant and the Sicily photovoltaic plants.

3. Notes to the interim financial report

The fall in incentives, partially compensated by the strong performance of the other plants, also contributed to a fall in Ebitda to Euro 25,657 thousand (Euro -5,867 thousand): 38.7% when expressed as a percentage of revenue (first nine months of 2012 – 44.2%).

Operating profit amounted to Euro 9,615 thousand, an increase of Euro 4,988 thousand compared to 30 September 2012. The operating result at 30 September 2012 comprised the impairment loss (Euro 14,675 thousand) on the goodwill of the Sicily Projects (WtE plants of Casteltermini and Augusta) following the impairment test carried out for the purpose of preparing the 2012 Half-year Financial Report, while the first nine months of 2013 reflect the impairment loss of Euro 4,112 thousand recognised against the Trezzo plant as detailed in the Half-year Financial Report at 30 June 2013.

The sector recorded a profit for the period before income tax of Euro 5,409 thousand compared to a loss of Euro 1,112 thousand at 30 September 2012.

The net indebtedness of Euro 201,715 thousand decreased (Euro 4,347 thousand) compared to the balance at 31 December 2012 due to cash generated by operating plants. The balance comprised borrowings of Euro 3,332 thousand relating to projects under construction that were not yet revenue generating at 30 September 2013. The net financial position net of these borrowings and the fair value of derivatives would have amounted to Euro 194,700 thousand.

The net financial position comprises non-recourse borrowings that amounted to Euro 64,099 thousand, a fall of Euro 4,832 thousand compared to 31 December 2012, and the fair value of derivatives to hedge interest rate exposure of Euro 3,683 thousand (31 December 2012 – Euro 5,522 thousand).

❖ Wind sector

The key financial information for this sector may be summarised as follows:

	(Euro thousands)		
	30.9.2013	30.9.2012	31.12.2012
Revenue	136,376	127,910	180,887
Cost of sales	(66,121)	(60,102)	(84,101)
Gross profit	70,255	67,808	96,786
Operating profit	60,606	58,051	83,776
Ebitda	97,573	91,945	131,726
Profit for the period	24,300	25,086	38,958
Net financial position - indebtedness	856,305	942,935	942,399
of which non-recourse financing	681,626	676,488	706,495
Capital expenditure	30,282	42,345	55,023
Employees at period-end	(no.) 43	46	44

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

Revenue increased (+Euro 8,466 thousand) by 6.6% on the same period in 2012, which is largely attributable to the higher volume of electricity generated as a result of the increase in average installed capacity associated with the Petralia and Ty Ru wind farms despite low wind levels over the summer period. The increase in cost of sales is in line with the rise in installed production capacity compared to the first nine months of 2012.

Ebitda increased by Euro 5,628 thousand to Euro 97,573 thousand and amounted to 71.5% when expressed as a percentage of revenue (30 September 2012 – 71.9%).

Operating profit also increased by Euro 2,555 thousand compared to 30 September 2012 and corresponded to 44.4% of revenue (30 September 2012 – 45.4%).

Profit before income tax totalled Euro 24,300 thousand, a slight fall on the result to 30 September 2012 (-Euro 786 thousand).

3. Notes to the interim financial report

The net indebtedness amounted to Euro 856,305 thousand, representing a significant decrease of Euro 86,094 thousand compared to the balance at 31 December 2012. The total comprises net financial liabilities of Euro 52,175 thousand relating to projects under construction that were not yet revenue generating at 30 September 2013. The net financial position net of this amount and the fair value of derivatives would have amounted to Euro 744,921 thousand.

The net financial position includes non-recourse financing of Euro 681,626 thousand (31 December 2012 – Euro 706,495 thousand) and the fair value of derivatives to hedge interest rate exposure of Euro 59,209 thousand (31 December 2012 – Euro 77,697 thousand).

3.4 *Performance of the parent company Falck Renewables SpA*

The income statement of Falck Renewables SpA for the 2013 third quarter closed with a loss before income tax of Euro 4,348 thousand (30 September 2012 – loss of Euro 2,012 thousand).

The cumulative income statement at 30 September 2013 closed with a loss before income tax of Euro 6,484 thousand, a significant improvement on the loss of Euro 28,610 thousand recorded in the same period last year. This result had been significantly affected by the write-down of Euro 33,370 thousand against the entire shareholding in Elettroambiente, the holding company of Tifeo and Platani and the partial write-down of financial receivables due from Elettroambiente totalling Euro 1,834 thousand: the total impact was Euro 35,204 thousand.

The results for the first nine months also include investment income of Euro 3,264 thousand relating to dividends from Actelios Solar SpA (Euro 1,700 thousand), Frullo Energia Ambiente Srl (Euro 980 thousand), Solar Mesagne Srl (Euro 100 thousand), Ecosesto SpA (Euro 400 thousand) and Ambiente 2000 Srl (Euro 84 thousand).

With regard to Elettroambiente and the Sicily Projects, the impact on the Falck Renewables SpA's income statement for the nine-months to 30 September 2013 comprises the write-down of trade and financial receivables totalling Euro 1,335 thousand and a net charge of Euro 1,142 thousand to the sundry risks provision.

The net financial position was an asset of Euro 224,177 thousand, representing a decrease of Euro 1,937 thousand on the balance at 31 December 2012. The net financial position also includes the negative fair value of derivatives to hedge interest and foreign exchange rate exposure amounting to Euro 2,748 thousand (31 December 2012 – Euro 2,534 thousand).

The Company incurred expenditure of Euro 328 thousand on intangible assets and Euro 220 thousand on property, plant and equipment in the period.

3.5 *Employees*

At 30 September 2013 the total number of employees increased by 4 compared to 31 December 2012 and comprised:

	30.9.2013	31.12.2012	(Number) 30.9.2012
Managers	28	26	26
White-collar staff and special categories	148	144	148
Blue-collar workers	72	74	75
Total	248	244	249

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.

3. Notes to the interim financial report

3.6 *Management outlook for the current year*

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

- the particularly weak economic situation will have a negative impact on European electricity prices although renewable energy will benefit from incentive mechanisms that will offset this effect;
- following the Ministry of Economic Development's Decree of 20 November 2012 regarding the above-mentioned «Adjustment of prices applicable to electricity sold to GSE in 2010, 2011 and 2012 under sales agreements governed pursuant to CIP 6/92» the Group companies Prima Srl and Frullo Energia Ambiente Srl, which operate under the CIP6 regime, will continue to suffer a fall in revenue due to the decrease in the CEC component of this incentive unless the decree is repealed following the action filed by these companies as discussed above;
- subsequent to the publication on 21 June 2013 of Legislative Decree 69 (urgent measures for economic growth), which envisages commencing 1 January 2013 a further significant amendment to the method of calculating CEC, the Group companies that operate under the CIP6 incentive regime, Prima Srl and Frullo Energia Ambiente Srl, will suffer a fall in revenue;
- although legislation governing imbalance costs, which commencing 2013 introduced a charge for imbalance costs on energy producers, also for non-programmable sources, was cancelled following the ruling issued by the Lombardy TAR on 27 June 2013, these costs may be applied under different legislation and consequently have a negative impact on the revenue of companies operating in the wind and photovoltaic sectors in Italy that would amount to approximately Euro 3 million per annum, Euro 2 million of which has already been accounted for in the interim financial report at 30 September 2013.

Revenue in 2013 will reflect the full year's production of the Petralia (22.1 MW) and Ty Ru (10 MW) wind farms; with regard to plants under construction the Nutberry wind farm, with an installed capacity of 15MW, came on-line in October 2013.

The extremely positive result recorded in the first nine months of 2013, which benefited from increased production volumes, an improved energy mix as more energy was generated in Italy and the implementation of effective cost reduction and financial monitoring measures, almost fully compensated the negative impact of the above-mentioned external factors although these will continue to impact the final quarter.

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, first half of 2015 and first half of 2016 respectively.

The Group's capital expenditure policy will be affected by the financial covenants imposed by the corporate loan that was taken out on 14 January 2011, in particular the debt/equity ratio.

The market and regulatory framework in which the Falck Renewables Group operates is undergoing drastic changes due to an overall reform of the incentives regime and the introduction of rules aimed at fostering competition in the renewables market and energy industry in general. These market developments, aggravated by the impact of the current economic crisis on electricity consumption, resulted in the review of the Group's business model in order to guarantee medium/long-term stability.

In light of the above a medium/long-term business plan was approved that envisages a review of the Group's power plant portfolio favouring programmable renewable sources that are less dependent on incentives, and improvements in the Operation and Maintenance performance of plants in service. The core elements of the new business plan are performance planning, management and improvement, also to be attained through the development of innovative solutions that could also be offered to third parties in future.

Despite the current difficult financial and economic climate there is no doubt regarding the ability of the business to continue as a going concern.

4. Directors' report

4. Directors' report

4.1 *Review of significant business developments*

The Nutberry wind farm in Scotland, which has an installed capacity of 15 MW, commenced feeding in electricity to the grid at the end of the current quarter. This brings the Group's total installed capacity to 731.4 MW.

Also in October, authorisation was received to commence construction of the Assel Valley wind farm in Scotland, which will have an installed capacity of up to a maximum 30 MW.

With regard to the Sicily Projects and pending litigation, having acknowledged the rulings of the Joint Divisions of the Italian Supreme Court published on 28 May 2013 that admitted the claims brought by the Group companies (the First Recourse) against the rulings in which the Court in Milan had suspended proceedings pending the outcome of the cases before the Sicily TAR, on 27 September 2013 the same Group companies resumed the proceedings before the Court in Milan. The hearing is scheduled to take place on 22 April 2014.

With regard to the administrative appeal proceedings before the Administrative Justice Council of the Sicily Region, the hearing has been scheduled for 11 December 2013.

There are no significant developments that require disclose in respect of the status of litigation detailed in the Half-year Financial Report at 30 June 2013, which should be referred to for further details.

4.2 *Significant capital expenditure and disposals*

Capital expenditure on property, plant and equipment in the first nine months of the year, which amounted to Euro 34,717 thousand, represents the Group's financial commitment in relation to wind farms and improvements to operating plants. Capital expenditure in the period principally comprised Euro 17,800 thousand on the construction of the Spaldington and West Browncastle wind farms, Euro 6,445 thousand on the Nutberry wind farm, Euro 2,006 thousand on the Kingsburn wind farm and value adjustments on the Millennium, Ben Aketil, Kilbraur and Boyndie wind farms totalling Euro 3,947 thousand. A particularly significant investment in the period (Euro 3,106 thousand) relates to Ecosto SpA's Helios project to develop a thermodynamic system together with a thermal plant in order to improve the thermodynamic efficiency of the thermal plant.

Expenditure on improvements to operating plants in the WtE, biomass and photovoltaic sector amounted to Euro 1,108 thousand. The parent company incurred Euro 220 thousand on property, plant and equipment consisting principally of Euro 149 thousand on the disaster recovery project.

Expenditure on intangible assets totalled Euro 328 thousand that largely related to new software licences for Euro 145 thousand, new operating software for Euro 117 thousand and improvements to third party assets (Corso Venezia offices) for Euro 67 thousand.

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

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 30 September 2013 is consistent with the data in the documents, accounting records and other records.

I draw attention to the disclosures made in paragraph 2.3 of the “Audit report on the condensed consolidated financial statements at 30 June 2013” dated 7 August 2013 regarding the waste to energy construction projects (the “Sicily Projects”).

Paolo Rundeddu
(Corporate Accounting Document Officer)

Milan, 12 November 2013