

FALCK RENEWABLES
Group

Interim financial report
30 September 2014

Board of directors' meeting
Milan, 12 November 2014

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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VAT and tax code 03457730962

Interim financial report 30 September 2014

Contents

1	COMPANY OFFICERS	5
<hr/>		
2	GROUP STRUCTURE	7
<hr/>		
3	FINANCIAL INFORMATION	
3.1	Income statement	9
3.2	Net financial position	10
<hr/>		
4	NOTES TO THE INTERIM FINANCIAL REPORT	
4.1	Accounting policies	12
4.2	Performance for the period and principal changes	14
4.3	Performance of the business sectors	18
4.4	Performance of the parent company Falck Renewables SpA	21
4.5	Employees	21
4.6	Management outlook for the current year	22
<hr/>		
5	DIRECTORS' REPORT	
5.1	Review of significant business developments	25
5.2	Significant capital expenditure and disposals	26
<hr/>		
6	CERTIFICATION OF THE CORPORATE ACCOUNTING DOCUMENTS OFFICER PURSUANT TO ARTICLE 154-BIS PARAGRAPH 2 OF LEGISLATIVE DECREE 58/1998	29

1. Company officers

1. Company officers

Board of directors

Enrico Falck (*)	Chairman
Guido Corbetta (*)	Deputy chairman
Piero Manzoni (*)	Chief Executive Officer
Elisabetta Caldera (**)	Director
Emilio Cremona (**)	Director
Elisabetta Falck	Director
Federico Falck (*)	Director
Filippo Marchi	Director
Libero Milone (**)	Director
Barbara Poggiali (**)	Director
Bernardo Rucellai (**)	Director

(*) Members of the Executive Committee

(**) Independent members

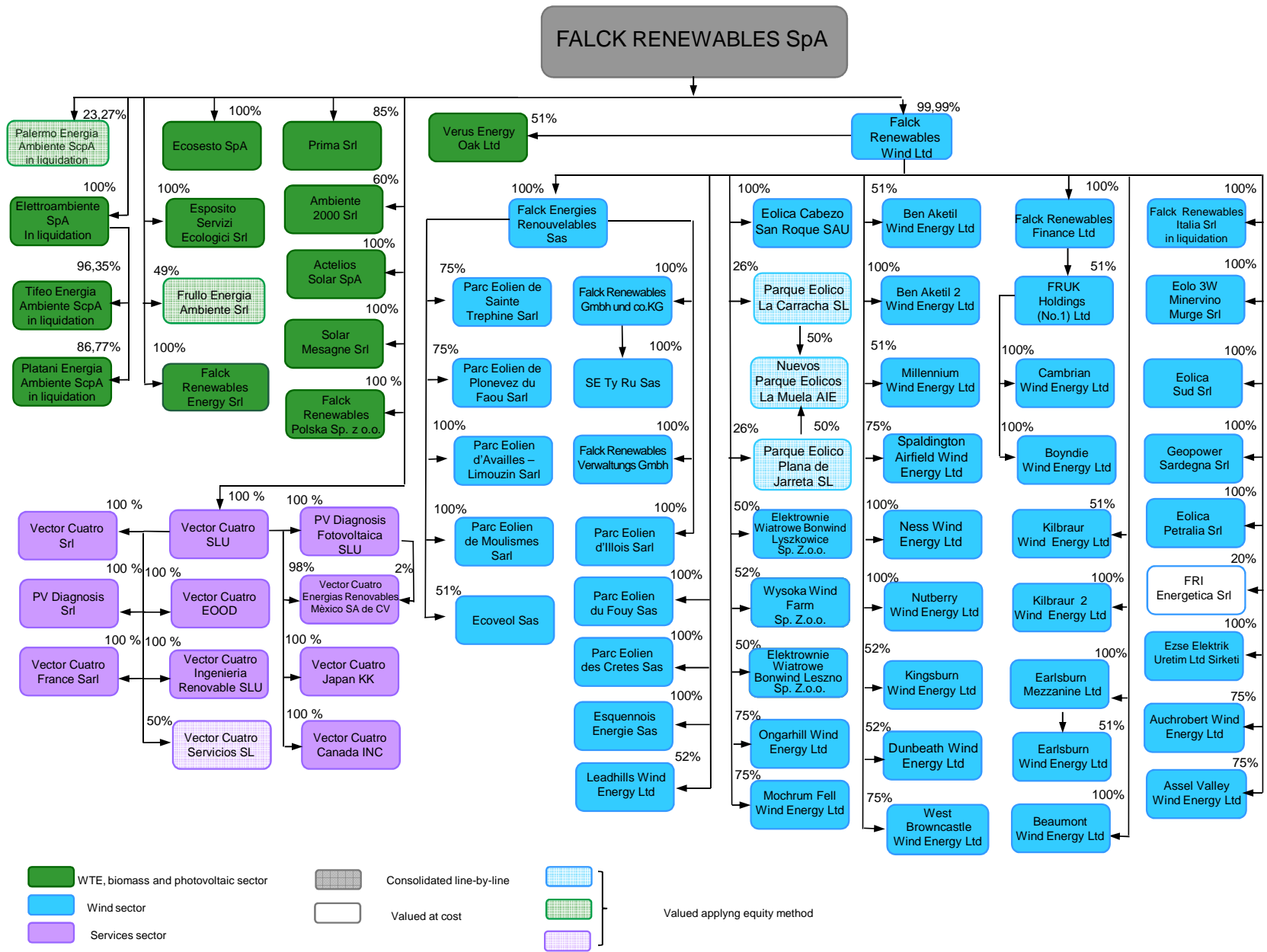
Board of statutory auditors

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

Independent auditors

Reconta Ernst & Young SpA

2. Group structure



WTE, biomass and photovoltaic sector
 Wind sector
 Services sector
 Consolidated line-by-line
 Valued at cost
 Valued applying equity method

3. Financial information

3. Financial information

3.1 *Income statement*

	(Euro thousands)				
	3rd quarter 2014	3rd quarter 2013	30.9.2014	30.9.2013 (*)	31.12.2013 (*)
Revenue	46,957	43,642	174,140	185,623	253,796
Direct labour costs	(1,312)	(1,542)	(4,707)	(5,207)	(6,800)
Direct costs	(35,500)	(32,493)	(104,558)	(100,033)	(143,542)
Costs of sales	(36,812)	(34,035)	(109,265)	(105,240)	(150,342)
Gross profit	10,145	9,607	64,875	80,383	103,454
Other income	523	736	4,847	1,507	2,322
Other employee costs	(3,583)	(3,350)	(11,849)	(10,073)	(13,623)
Administrative expenses	(5,986)	(6,959)	(17,112)	(16,286)	(18,192)
Operating profit	1,099	34	40,761	55,531	73,961
Finance costs - net	(12,788)	(11,918)	(38,083)	(37,139)	(47,408)
Investment costs			(1)		
Share of profit accounted for using the equity method	804	2,172	1,565	4,326	2,088
(Loss)/profit before income tax	(10,885)	(9,712)	4,242	22,718	28,641
Income tax expense					(13,687)
Profit for the period					14,954
(Loss) attributable to non-controlling interests					(135)
Profit attributable to owners of the parent					15,089
Ebitda (**)	17,583	15,320	89,646	103,797	145,275

(*) Restated following application of IFRS 11

(**) Ebitda = Ebitda is measured by the Falck Renewables group as profit for the period before net investment income/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.

3. Financial information

3.2 *Net financial position*

	(Euro thousands)				
	30.9.2014	30.6.2014	31.12.2013 (*)	Change	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Short-term third party financial liabilities	(79,563)	(84,905)	(59,258)	5,342	(20,305)
Short-term Group financial liabilities					
Short-term third party financial receivables	1,599	2,627	779	(1,028)	820
Short-term Group financial receivables			25		(25)
Other securities					
Cash and cash equivalents	248,075	264,109	120,819	(16,034)	127,256
Short-term net financial position	170,111	181,831	62,365	(11,720)	107,746
Medium/long-term third party financial liabilities	(799,175)	(779,765)	(790,818)	(19,410)	(8,357)
Medium/long-term Group financial liabilities					
Other securities					
Medium/long-term financial position	(799,175)	(779,765)	(790,818)	(19,410)	(8,357)
Net financial position pursuant to Consob circular DEM/6064293/2006	(629,064)	(597,934)	(728,453)	(31,130)	99,389
Medium/long-term third party financial receivables					
Medium/long-term Group financial receivables	29		367	29	(338)
Total net financial position	(629,035)	(597,934)	(728,086)	(31,101)	99,051
- of which non-recourse financing	(698,499)	(692,576)	(690,751)	(5,923)	(7,748)

(*) Restated following application of IFRS 11

4. Notes to the interim financial report

4. Notes to the interim financial report

4.1 *Accounting policies*

At 30 September 2014 the Falck Renewables group (hereinafter “the Falck Renewables Group” or “the Group”) consisted of 77 companies, of which 70 are consolidated on a line-by-line basis, 6 are consolidated applying the equity method and 1 is valued at cost.

In the course of the first 9 months the scope of consolidation increased following acquisition of the Vector Cuatro group as further detailed in the directors’ report, which comprises the following companies that have been consolidated on a line-by-line basis:

- Vector Cuatro SLU (Spanish company) 100% owned by Falck Renewables SpA;
- Vector Cuatro Srl (Italian company) 100% owned by Vector Cuatro SLU;
- PV Diagnosis Fotovoltaica SLU (Spanish company) 100% owned by Vector Cuatro SLU;
- PV Diagnosis Srl (Italian company) 100% owned by Vector Cuatro SLU;
- Vector Cuatro France Sarl (French company) 100% owned by Vector Cuatro SLU;
- Vector Cuatro EOOD (Bulgarian company) 100% owned by Vector Cuatro SLU;
- Vector Cuatro Ingenieria Renovable SLU (Spanish company) 100% owned by Vector Cuatro SLU;
- Vector Cuatro Energias Renovables Mexico Sa de CV (Mexican company) 98% owned by Vector Cuatro SLU and 2% by PV Diagnosis Fotovoltaica SLU;
- Vector Cuatro Japan KK (Japanese company) 100% owned by Vector Cuatro SLU;
- Vector Cuatro Canada Inc (Canadian company) 100% owned by Vector Cuatro SLU.

Vector Cuatro Servicios SL (Spanish company), 50% owned by Vector Cuatro SLU, was also acquired and has been consolidated using the equity method.

Falck Renewables Wind Ltd acquired a 51% stake in Verus Energy Oak Ltd during the nine-month period and the following companies were incorporated in the UK:

- Ongarhill Wind Energy Ltd 75% owned by Falck Renewables Wind Ltd;
- Mochrum Fell Wind Energy Ltd 75% owned by Falck Renewables Wind Ltd;
- Leadhills Wind Energy Ltd 52% owned by Falck Renewables Wind Ltd;
- Auchrobert Wind Energy Ltd 75% owned by Falck Renewables Wind Ltd.

The Polish subsidiary, Elektrownie Wiatrowe Bonwind Kamienica, in which Falck Renewables Wind Ltd held a 50% interest, has no longer been consolidated on a line-by-line basis as it was sold during the period.

Falck Renewables Wind Ltd held 100% of Nutberry Wind Energy Ltd at 30 September 2014, while at 31 December 2013 it held 52%. Falck Renewables Uk Holdings no.1 Ltd changed its name to FRUK Holdings no.1 Ltd.

The interim financial report at 30 September 2014 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 2014 are consistent with those adopted for the previous half-year/year-end financial statements, with the exception of new accounting policies, amendments and interpretations that came into force from 1 January 2014.

The financial report reflects the impact of applying IFRS 11 from 1 January 2014 that removes the option to account for jointly controlled entities using proportionate consolidation. Jointly controlled entities must be accounted for using the equity method.

The Group companies that have been impacted by this change in accounting practice are Frullo Energia Ambiente Srl (49% interest), Nuevos Parque Eolico La Muela AIE, Parque Eolico La Carracha S1 and Parque Eolico Plana de Jarreta S1 (26% interests) and Palermo Energia Ambiente ScpA, currently in liquidation (23.27% interest).

4. Notes to the interim financial report

These companies were consolidated in prior financial statements applying proportionate consolidation however have been included using the equity method therefore the information at 30 September 2013 and 31 December 2013 has been restated as the new standard has been applied retroactively as though it had been adopted in 2013. This allows comparison of the information for the periods disclosed.

The tables below set out the information for 2013, prior to application of IFRS 11, the adjustments relating to adoption of the new standard and the restated amounts:

Income statement

	(Euro thousands)					
	30.9.2013 pre-IFRS 11	IFRS 11	30.9.2013 post-IFRS 11	31.12.2013 pre-IFRS 11	IFRS 11	31.12.2013 post-IFRS 11
Revenue	202,698	(17,075)	185,623	275,861	(22,065)	253,796
Direct labour costs	(6,233)	1,026	(5,207)	(8,178)	1,378	(6,800)
Direct costs	(110,467)	10,434	(100,033)	(158,280)	14,738	(143,542)
Cost of sales	(116,700)	11,460	(105,240)	(166,458)	16,116	(150,342)
Gross profit	85,998	(5,615)	80,383	109,403	(5,949)	103,454
Other income	1,470	37	1,507	2,261	61	2,322
Other employee costs	(10,073)		(10,073)	(13,623)		(13,623)
Administrative expenses	(16,817)	531	(16,286)	(18,736)	544	(18,192)
Operating profit	60,578	(5,047)	55,531	79,305	(5,344)	73,961
Finance income/(costs)	(37,860)	721	(37,139)	(48,459)	1,051	(47,408)
Investment income		4,326	4,326		2,088	2,088
Profit before income tax	22,718		22,718	30,846	(2,205)	28,641
Income tax expense				(15,892)	2,205	(13,687)
Profit for the period				14,954		14,954
(Loss) attributable to non-controlling interests				(135)		(135)
Profit attributable to owners of the parent				15,089		15,089
Ebitda (1)	113,293	(9,496)	103,797	156,848	(11,573)	145,275

¹ Ebitda is defined by the Falck Renewables Group as profit for the period before net investment income/(costs), net finance income/(costs), amortisation and depreciation, impairment, charges to risk provisions and income tax expense.

4. Notes to the interim financial report

Net financial position

	(Euro thousands)					
	30.9.2013	IFRS 11	30.9.2013	31.12.2013	IFRS 11	31.12.2013
	pre-IFRS 11		post-IFRS 11	pre-IFRS 11		post-IFRS 11
S-term third party financial liabilities	(63,927)	4,491	(59,436)	(64,382)	5,124	(59,258)
S-term Group financial liabilities						
S-term third party financial receivables	349		349	779		779
S-term Group financial receivables		658	658		25	25
Other securities						
Cash and cash equivalents	161,780	(7,508)	154,272	126,982	(6,163)	120,819
S-term net financial position	98,202	(2,359)	95,843	63,379	(1,014)	62,365
M/L-term third party financial liabilities	(850,871)	31,704	(819,167)	(820,209)	29,391	(790,818)
M/L-term Group financial liabilities						
Other securities						
M/L-term net financial position	(850,871)	31,704	(819,167)	(820,209)	29,391	(790,818)
NFP pursuant to Consob circular DEM/6064293/2006	(752,669)	29,345	(723,324)	(756,830)	28,377	(728,453)
M/L-term third party financial receivables						
M/L-term Group financial receivables					367	367
Total net financial position	(752,669)	29,345	(723,324)	(756,830)	28,744	(728,086)
- of which non-recourse financing	(745,725)	34,195	(711,530)	(723,446)	32,695	(690,751)

4.2 *Performance for the period and principal changes*

Performance of the 2014 third quarter

In the course of the 2014 third quarter the Falck Renewables Group recorded a loss before income tax and non-controlling interests of Euro 10,885 thousand, an increase on the loss for the same period last year that amounted to Euro 9,712 thousand. Despite particularly low wind levels in the third quarter experienced by all of the Group's operating wind farms, revenue increased by Euro 3,315 thousand compared to the same quarter last year. This is principally due to the new Nutberry and West Browncastle wind farms that came on stream this year and were not in service in 2013.

The Trezzo sull'Adda WtE plant recommenced electricity generation on 16 October 2014 therefore this quarter only includes revenue from waste disposal. No imbalance costs were recorded this quarter while these were reflected in revenue in the 2013 third quarter.

4. Notes to the interim financial report

Gross profit amounted to Euro 10,145 thousand, representing an increase of Euro 538 thousand, while *Operating profit* totalled Euro 1,099 thousand (2013 third quarter – Euro 34 thousand). The *gross profit/revenue* ratio amounted to 21.6%, compared to 22.0% in the 2013 third quarter. *Operating profit* expressed as a percentage of revenue equalled 2.3% (2013 third quarter - 0.1%).

Cumulative results for nine months ended 30 September 2014

The cumulative income statement at 30 September 2014 shows a profit before income tax and non-controlling interests of Euro 4,242 thousand, a fall on the profit of Euro 22,718 thousand recorded in the same period last year. The results for the first nine months of 2014 comprise impairment losses of Euro 439 thousand recognised in relation to the Trezzo sull'Adda plant, Euro 1,311 thousand in relation to the Rende biomass plant and Euro 121 thousand on the Mesagne photovoltaic plant as disclosed in the half-year financial report at 30 June 2014. Further impairment losses were recorded in the 2014 third quarter against the Rende and Mesagne photovoltaic plants for Euro 415 thousand and Euro 546 thousand respectively, as a result of the Incentives Spreading Decree that was converted to Law 116 on 11 August 2014 and the related implementation decrees published in mid-October. The total impairment losses amounted to Euro 2,832 thousand, while losses in the first nine months of 2013 totalled Euro 4,112 thousand in relation to the Trezzo sull'Adda plant.

The Group operating results at 30 September 2014, as detailed below, have fallen compared to 30 September 2013 due to a significant fall in revenue, despite the increase in installed capacity due to the Nutberry wind farm operating in the first nine months and the West Browncastle that entered into service in the last quarter, which was due to:

- (i) low wind levels in the second and more notably third quarters of 2014 in all of the locations in which the Group wind farms operate;
- (ii) the fall, as anticipated by the Group, of average electricity sales prices in Italy (in particular in relation to the avoided cost of fossil fuel component of CIP 6/92) and Spain, which in the first nine months of 2014 decreased compared to 2013 prices;
- (iii) the stoppage at the end of April due to the breakdown at the Trezzo sull'Adda WtE plant that did not generate electricity but only disposed of waste and resulted in a loss of production income in respect of which an insurance claim of approximately Euro 3.7 million has been made (this has not been accounted for as the amount has not been officially recognised by the insurer), comprising the loss of income of approximately Euro 5 million net of the relevant excess. The plant recommenced operations on 16 October 2014.

The interim financial report has not been impacted by the negative adjustments to revenue made to reflect imbalance costs which at 30 September 2013 amounted to approximately Euro 2 million.

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 89,646 thousand at 30 September 2014 (30 September 2013 – Euro 103,797 thousand) and 51.5% when expressed as a percentage of revenue (2013 – 55.9%). This decrease had been partially anticipated by the Group in respect of the forecasted drop in electricity prices and the lower unit value of incentives, however did not reflect the stoppage at the Trezzo sull'Adda plant and the lower wind levels.

Gross profit amounted to Euro 64,875 thousand, a fall of Euro 15,508 thousand. *Operating profit* totalled Euro 40,761 thousand compared to Euro 55,531 thousand at 30 September 2013. The *gross profit/revenue* ratio amounted to 37.3% (30 September 2013 – 43.3%), while *Operating profit* expressed as a percentage of revenue equalled 23.4% (30 September 2013 – 29.9%).

Net finance costs increased by Euro 944 thousand compared to 30 September 2013, which is largely due to late payment fees incurred by Tifeo Energia Ambiente ScpA (in liquidation) following the ruling by the Enna Court in respect of the Gulino Group litigation as further detailed in the Directors' report below.

4. Notes to the interim financial report

The net financial position, net of the fair value of derivatives¹ (amounting to Euro 76,058 thousand), amounted to Euro 552,977 thousand, a marked decrease on the indebtedness of Euro 673,813 thousand at 31 December 2013.

This fall is principally attributable to the Borea transaction that resulted in a cash increase of Euro 186.5 million that, net of the subordinated shareholders' loans of Euro 46.7 million underwritten by CII Holdco, contributed to reducing net indebtedness by Euro 139.8 million.

Cash generated by operating activities amounted to approximately Euro 62.1 million, more specifically approximately Euro 78.5 million derived from the Group's operating plants.

Capital expenditure at 30 September 2014 amounted to Euro 35.2 million and dividends of Euro 16 million were paid.

The net financial position comprises non-recourse loans (Gross Project Debt) that amounted to Euro 698,499 thousand at 30 September 2014 (31 December 2013 – Euro 690,751 thousand).

The net financial position comprises net financial liabilities of Euro 15,423 thousand relating to projects under construction that were not yet revenue generating at 30 September 2014. The net financial position net of this amount and the fair value of derivatives would have amounted to Euro 537,554 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 637,774 thousand.

Interest rate swaps to a total of Euro 546,743 thousand have been entered into to hedge interest rate fluctuations on the Gross Project Debt, equal to 78% of the total debt.

Consequently, approximately 100% of the total net indebtedness of Euro 552,977 thousand, net of the fair value of derivatives, is hedged from interest rate fluctuations through the same interest rate swaps: this is due to the significant liquidity arising from the Borea Transaction.

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 629,035 thousand at 30 September 2014 (31 December 2013 - Euro 728,086 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.

4. Notes to the interim financial report

	(Euro thousands)
	30.9.2014
Total NFP net of Fair Value of Derivatives	552,977
Total hedged against interest rate fluctuations	570,493
% Hedged/NFP net of derivatives	103%
Total Gross Debt including Fair Value of Derivatives (GD+FVD)	878,739
of which Project Gross Debt + Fair Value of Project Derivatives	773,864
% Project GD including FV Derivatives/(GD+FVD)	88%
Total Gross Debt (GD)	802,507
of which Project Gross Debt (Project GD)	698,499
% Project GD/GD	87%
Project Gross Debt	698,499
Total hedged against interest rate fluctuations	546,743
% Project NFP/NFP	78%
Total Gross Debt (GD)	802,507
Total hedged against interest rate fluctuations	570,493
% Hedged/GD	71%
Total net financial position including Fair Value of Derivatives (NFP)	629,035
of which Project Financing Net Debt (Project NFP) (*)	637,774
% Project NFP/NFP	101%
(*) Project NFP = Project Gross Debt + Fair Value of Project Derivatives - Project Liquidity	

Installed capacity by technology is illustrated in the table below:

	(MW)		
Technology	30.9.2014	31.12.2013	30.9.2013
Wind	674.6	644.6	629.6
WtE	20.0	20.0	20.0
Biomass	15.0	14.0	14.0
Photovoltaic	16.1	16.1	16.1
Total	725.7	694.7	679.7

Following adoption of IFRS 11 from 1 January 2014, which removes the option to account for jointly controlled entities using proportionate consolidation, the new standard was applied retroactively to information relating to gross electricity generated and total waste treated at both 30 September 2013 and 31 December 2013, as though it had been applied in 2013: consequently the installed capacity of the WtE, biomass and photovoltaic sector fell by 11 MW in respect of both periods while that of the wind sector fell by 25.74 MW for both periods.

Non-financial performance indicators

	Unit of measurement	30.9.2014	30.9.2013
Gross electricity generated	MWh	1,212,000	1,275,000
Total waste treated	tonn.	167,066	167,792

The Group generated 1,212,000 MWh of electricity in the first nine months of 2014, a 5% drop on the same period in 2013 (1,275,000 MWh) and treated 167,066 tons of waste compared to the same period in 2013 representing a 0.4% decrease.

4. Notes to the interim financial report

The first nine months of 2014 show an overall drop in electricity production principally due to two macro factors: the above-mentioned stoppage from April to October 2014 at the Trezzo sull'Adda WtE plant and poor wind levels during this period in the UK and Italy. The first nine months of 2013 had, on the other hand, recorded wind levels in line with forecast and up 7% on the previous year.

Approximately 44,000 MWh of the fall in production in the wind sector was due to network disconnections for which the Group has received compensation.

The above factors together with the planned maintenance work at the Rende hybrid plant during the period (which did not take place last year), outweighed the increased production capacity due to the Nutberry wind farm coming on stream and the West Browncastle wind farm commencing operations in June.

Waste treated fell, although this was contained, due to the difficult market conditions in the treatment/recovery business and the lower volume of waste treated at the Trezzo sull'Adda plant that did not operate at full regime due to the above-mentioned stoppage.

Following adoption of IFRS 11 from 1 January 2014, which removes the option to account for jointly controlled entities using proportionate consolidation, the new standard was applied retroactively to information relating to gross electricity generated and total waste treated at both 30 September 2013 and 31 December 2013.

Revenue by activity may be analysed as follows:

	(Euro thousands)			
	3rd quarter 2014	3rd quarter 2013	30.9.2014	30.9.2013
Sale of electrical energy	41,786	38,793	157,591	168,398
Waste treatment and disposal	4,690	3,976	14,372	14,417
Operation of WtE and other activities	481	873	2,177	2,808
Total	46,957	43,642	174,140	185,623

The results before income tax and non-controlling interests of the sectors, compared to 30 September 2013, are summarised below:

	(Euro thousands)			
	3rd quarter 2014	3rd quarter 2013	30.9.2014	30.9.2013
WtE, biomass and photovoltaic sectors	(1,650)	2,139	(2,699)	5,434
Wind sector	(6,060)	(9,192)	15,784	24,300
Falck Renewables SpA	(4,399)	(4,348)	(9,139)	(6,484)
Consolidation adjustments	1,224	1,689	296	(532)
Total	(10,885)	(9,712)	4,242	22,718

4.3 *Performance of the business sectors*

This paragraph provides a brief summary of the key financial highlights of the sectors that together constitute the Group. A new “Services” sector was established following acquisition of the Spanish group Vector Cuatro that was acquired on 15 September 2014. For the purpose of preparing the interim financial report the results of this sector only disclose financial information and employee numbers as the operating results will be consolidated commencing 1 October 2014.

❖ **WtE, biomass and photovoltaic sector**

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

4. Notes to the interim financial report

		(Euro thousands)		
		30.9.2014	30.9.2013	31.12.2013
Revenue		44,019	53,050	70,399
Cost of sales		(40,376)	(41,728)	(62,010)
Gross profit		3,643	11,322	8,389
Operating (loss)/profit		(578)	5,764	1,585
Ebitda		9,698	18,793	24,284
(Loss)/profit for the period		(2,699)	5,434	(1,363)
Net financial position - indebtedness		177,576	179,052	178,002
of which non-recourse financing		36,052	40,442	37,324
Capital expenditure		2,632	3,505	6,641
Employees at period-end	(n.)	83	102	102

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

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 in the WtE, biomass and photovoltaic sector fell by Euro 9,031 thousand compared to the nine months to 30 September 2013 due to:

- The stoppage at the Trezzo sull'Adda WtE plant following the breakdown of the alternator with no electricity being generated from the end of April and revenue arising only on the waste treatment that also experienced a slight fall in transfer prices compared to the previous period;
- The fall, as anticipated by the Group, in average electricity sales prices particularly in relation to the avoided cost of fuel component under CIP 6/92;
- Expiry of the Fusina plant O&M contract that was managed by Ecosesto SpA;
- Unfavourable weather conditions in respect of photovoltaic plants for the nine-month period;
- The programmed maintenance work at the Rende biomass plant.

The above factors also contributed to a fall in Ebitda (-Euro 9,095 thousand) to Euro 9,698 thousand: 22.0% when expressed as a percentage of revenue (30 September 2013 – 35.4%). The event that occurred at Trezzo sull'Adda contributed to a drop of approximately Euro 5 million in Ebitda.

The operating result was a loss of Euro 578 thousand, a fall of Euro 6,342 thousand on the profit recorded at 30 September 2013. The operating result for the first nine months of 2014 comprises the impairment losses recognised against the Trezzo sull'Adda plant amounting to Euro 439 thousand, the Rende biomass plant for Euro 1,311 thousand and the Mesagne photovoltaic plant for Euro 121 thousand. It also includes the impairment losses recognised on the Rende and Mesagne photovoltaic plants amounting to Euro 415 thousand and Euro 546 thousand respectively following the impairment tests carried out arising due to the introduction of the Incentives Spreading Decree that was converted to Law 116 on 11 August 2014 and the implementing decrees published in mid-October. The above losses total Euro 2,832 thousand; the corresponding amount in 2013 equalled Euro 4,112 thousand in relation to the Trezzo sull'Adda plant.

The net indebtedness of Euro 177,576 thousand decreased compared to the balance of Euro 178,002 thousand at 31 December 2013. The net financial position, net of the fair value of derivatives of Euro 4,466 thousand, would have amounted to Euro 173,110 thousand (31 December 2013 – Euro 175,716 thousand).

The net financial position comprises non-recourse borrowings that amounted to Euro 36,052 thousand (31 December 2013 – Euro 37,324 thousand) and the fair value of derivatives to hedge interest rate exposure of Euro 4,466 thousand (31 December 2013 – Euro 2,286 thousand).

Cash generated by operating plants amounted to approximately Euro 5.5 million.

The net financial position comprised borrowings of Euro 840 thousand relating to projects under construction that were not yet revenue generating at 30 September 2014; the net financial position net of these borrowings and the fair value of derivatives would have amounted to Euro 172,270 thousand.

4. Notes to the interim financial report

Capital expenditure in the period amounted to Euro 2,632 thousand relating to the Verus Energy Oak plant (Euro 232 thousand), improvements to operating plants (Euro 1,552 thousand) and goodwill arising on the acquisition of the UK company Verus Energy Oak (Euro 848 thousand).

❖ **Wind sector**

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

		(Euro thousands)		
		30.9.2014	30.9.2013	31.12.2013
Revenue		130,058	132,531	183,342
Cost of sales		(68,968)	(63,591)	(88,438)
Gross profit		61,090	68,940	94,904
Operating profit		53,483	59,425	82,524
Ebitda		91,615	94,942	132,635
Profit for the period		15,784	24,300	36,658
Net financial position - indebtedness		740,245	848,006	871,894
of which non-recourse financing		662,447	671,088	653,427
Capital expenditure		23,921	30,282	49,245
Employees at period-end	(n.)	37	43	41

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

Revenue fell by Euro 2,473 thousand compared to the same period in 2013, which is largely attributable to the low wind levels particularly in the second and third quarters of 2014 and lower electricity prices in the Italy and Spain that had been anticipated by the Group.

The higher cost of sales is in line with the increased installed production capacity compared to the first nine months of 2013: the Nutberry wind farm commenced operations at the end of 2013 while the West Browncastle wind farm entered into service in mid-June 2014.

Ebitda fell by Euro 3,327 thousand to Euro 91,615 thousand and amounted to 70.4% when expressed as a percentage of revenue (30 September 2013 – 71.6%).

Operating profit also fell by Euro 5,942 thousand compared to the first nine months of 2013 corresponding to 41.1% of revenue (30 September 2013 – 44.8%).

The net indebtedness amounted to Euro 740,245 thousand, representing a significant decrease of Euro 131,649 thousand compared to the balance at December 2013. This fall is principally attributable to the Borea transaction that resulted in a cash increase of Euro 186.5 million that, net of the subordinated shareholders' loans of Euro 46.7 million underwritten by CII Holdco, contributed to reducing net indebtedness by Euro 139.8 million. Cash generated by operating plants helped finance capital expenditure in the period that amounted to Euro 23,921 thousand and largely related to the Nutberry, Spaldington, West Browncastle and Kingsburn UK wind farms.

The net financial position comprises net financial liabilities of Euro 14,583 thousand relating to projects under construction that were not yet revenue generating at 30 September 2014; the net financial position net of this amount and the fair value of derivatives would have amounted to Euro 654,763 thousand.

The net financial position includes non-recourse financing of Euro 662,447 thousand (31 December 2013 – Euro 653,427 thousand) and the fair value of derivatives to hedge interest rate exposure of Euro 70,899 thousand (31 December 2013 – Euro 49,783 thousand).

Cash generated by operating plants amounted to approximately Euro 73 million.

❖ **Services sector**

This sector comprises the recently acquired Vector Cuatro group of companies with headquarters in Madrid. The group operates in providing services to and managing renewable power plants and has a

4. Notes to the interim financial report

well-established international presence. It also provides engineering and consultancy services in developing projects to generate electricity principally employing solar and wind energy.

The net financial position is a net indebtedness of Euro 284 thousand and it has 89 employees.

Capital expenditure of the sector amounted to Euro 8,413 thousand in intangible assets relating to the higher price paid compared to book value arising on acquisition of the Vector Cuatro group as the amounts attributable to the business combination are still being determined in accordance with adopted accounting standards.

4.4 *Performance of the parent company Falck Renewables SpA*

The income statement of Falck Renewables SpA for the 2014 third quarter closed with a loss before income tax of Euro 4,399 thousand (30 September 2013 – loss of Euro 4,348 thousand).

The cumulative income statement at 30 September 2014 closed with a loss before income tax of Euro 9,139 thousand, an increase on the loss of Euro 6,484 thousand recorded in the same period in 2013. This result has been impacted by a fall of Euro 2,104 thousand in dividends received compared to 30 September 2013 and the charge of Euro 1,034 thousand to the provision for sundry risks in respect of liabilities of Tifeo Energia Ambiente ScpA (in liquidation), which increased subsequent to the Enna Court ruling on the Gulino Group proceedings that is detailed further in the Directors' report.

The result for the first nine months also includes investment income of Euro 1,134 thousand relating to dividends from Frullo Energia Ambiente Srl (Euro 980 thousand) and Ambiente 2000 Srl (Euro 180 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 2014 comprises the write-down of trade and financial receivables and the reversal of the sundry risks provision totalling a net charge of Euro 1,083 thousand.

The net financial position was an asset of Euro 209,210 thousand, representing a decrease of Euro 32,991 thousand on the balance at 31 December 2013. This is principally due to the payment of dividends and the acquisition of the Vector Cuatro group.

The Euro 165 million loan taken out in 2011 has now been reduced to a facility of Euro 82.5 million, due to the positive contribution of the Borea transaction, and the book borrowing was approximately Euro 22.8 million at 30 September 2014.

The net financial position also includes the negative fair value of derivatives to hedge interest rate and exchange rate exposure amounting to Euro 693 thousand (31 December 2013 – Euro 2,204 thousand).

The Company incurred expenditure of Euro 116 thousand on intangible assets and Euro 132 thousand on property, plant and equipment in the period.

4.5 *Employees*

At 30 September 2014 the total number of Group employees increased by 69 compared to 31 December 2013 and comprised:

	30.9.2014	31.12.2013	(Number) 30.9.2013
Managers	34	27	28
White-collar workers	213	138	139
Blue-collar workers	46	59	59
Total	293	224	226

The increase in numbers compared to 31 December 2013 is due to the 89 employees of the Spanish group Vector Cuatro now included in the scope of consolidation. This has been offset by a fall of 20 in

4. Notes to the interim financial report

employee numbers that is largely attributable to the employees responsible for managing the Fusina (VE) plant, who, following the cessation of the O&M contract, were transferred to the plant owner.

Following adoption of IFRS 11 from 1 January 2014, which removes the option to account for jointly controlled entities using proportionate consolidation, the new standard was applied retroactively to employee disclosures at 30 September 2013 and 31 December 2013: consequently white-collar workers fell by 9 and 10 respectively while blue-collar workers fell by 13 in both periods.

4.6 *Management outlook for the current year*

2014 revenue will benefit from the full year production of the Nutberry wind farm, six months operation of the West Browncastle wind farm and the consolidation of three months' results of the Vector Cuatro group. The Trezzo sull'Adda plant is also now operating at full capacity.

The information required by the insurers is being prepared in order to accelerate the compensation claim in respect of the Trezzo sull'Adda plant, which is estimated by the Group at Euro 3.7 million, in order to allow its inclusion in the 2014 financial statements.

The authorised UK wind farms of Spaldington Airfield (12.5 MW) and Kingsburn (up to 22.5 MW) are expected to enter into service in the first quarter of 2016, while the Assel Valley (up to 30 MW) and Auchrobert (up to 36 MW) wind farms are forecast to come on stream in the first quarter of 2017.

The Borea transaction resulted in an improvement in the net financial position and a significant improvement in the debt/equity ratio and provides access to greater financial resources to aid future investment.

Moreover, the acquisition of the Vector Cuatro group is part of the strategy underlying the Business Plan that envisages the development of the new Services Sector aimed at supporting the Group's operating companies and third party customers in providing innovative services to the market.

However, the Group's results will be affected by the following factors involving the renewable energy market:

- the particularly weak economic situation will have a negative impact on European electricity prices although renewable energy will benefit in part from incentive mechanisms that will offset this effect, with the exception of Spain where the incentive has been removed;
- following the Ministry of Economic Development's Decree of 20 November 2012 regarding the «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 (the latter is consolidated using the equity method), which operate under the CIP6 regime, have experienced or will continue to experience (Frullo Energia Ambiente Srl) a fall in results due to the decrease in the CEC (avoided cost of fuel) component of this incentive unless the decree is repealed following the action filed by these companies;
- subsequent to the publication of Legislative Decree 69 on 21 June 2013 (urgent measures for economic growth), which envisages 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, have experienced or will continue to experience (Frullo Energia Ambiente Srl) a fall in results;
- Legislative Decree "Destinazione Italia" introduced in late 2013 new regulations for renewable sources whereby plants awarded incentives for electricity production can no longer access the "minimum guaranteed prices" established by the AEEG. Up until then, revenue arising on energy sales had been based on these prices. Consequently commencing 1 January 2014, for energy injected to the network Solar Mesagne will be attributed an hourly market zone price that based on forecasting curves will result in a fall of approximately 15% compared to the minimum guaranteed prices.

Despite these market changes, the Group managed to maintain profitability, thanks to the construction of plants in areas enjoying high numbers of wind hours and its ability to reduce costs with continuous improvement in efficiency and effectiveness.

4. Notes to the interim financial report

The Group is focusing on performance planning, management and improvement, also to be attained through the development and implementation of innovative solutions that could also be offered to third parties in future.

5. Directors' report

5. Directors' report

5.1 *Review of significant business developments*

Verus Energy Oak Ltd

Falck Renewables Wind Ltd acquired a 51% interest in the UK company Verus Energy Oak Ltd for Euro 821 thousand on 30 July 2014. This company holds the authorisation to build and manage a 16.2 MW WtE plant in West Bromwich (UK).

Vector Cuatro SLU (Aurora transaction)

Falck Renewables signed an agreement on 31 July 2014 to acquire the entire share capital of Vector Cuatro SLU and its subsidiaries (the “Vector Cuatro Group” or the “Group”). The Group, which was founded in 2007 by Borja Escalada (manager and 51% shareholder) with headquarters in Madrid, operates in providing services and managing renewable power plants. It also provides engineering and consultancy services in developing projects to generate electricity principally employing solar and wind energy.

This acquisition is part of the new strategy underlying the Business Plan communicated by the Falck Renewables Group that envisages the development of a new Services sector to support the Group's operating companies and offer third party services. Integration of the two businesses that have specialised renewables' know-how will enable the Falck Renewables Group to accelerate growth of the Services sector by acquiring from the outset a management structure strongly focused on growth and development, with a wide portfolio of blue chip clients in the renewables sector, operating in both photovoltaic and wind production, and the skills required to improve the profitability of the Group's plants.

The Vector Cuatro Group provides Asset Management, Engineering, Transaction & Legal Services through a team of around 90 highly qualified technicians and professionals with extensive experience in the renewables' sector (photovoltaic and wind in particular), and currently manages 830 MW of third party clients.

The Group mainly operates in Spain, Italy, France and Bulgaria and is already present in, and is continuously developing new markets including, among others, North America, Mexico, Japan and South Africa.

The Vector Cuatro Group recorded revenue of approximately Euro 7.4 million and profit for the year of approximately Euro 1 million in 2013. Total equity amounted to approximately Euro 2.3 million. Revenue is expected to increase to approximately Euro 9 million with Ebitda of Euro 1.8 million in 2014.

The enterprise value of the Vector Cuatro Group was determined as Euro 12 million at 31 July 2014.

The purchase price of 100% of the share capital of the Vector Cuatro Group (Equity Value) will be paid in cash and calculated based on the net financial position at 31 July 2014 and the change in net working capital at the same date compared to a pre-determined target level.

The first 75% of the consideration was paid at the share transfer date (Closing) on 15 September 2014, while the remaining 25%, amounting to Euro 2,805 thousand, will be settled on 30 June 2015. The transaction will be financed entirely using company funds.

The former shareholders of the Vector Cuatro Group will still be involved in key management roles comprising the management of the Vector Cuatro Group's operations, which will continue to carry out business under the same brand, and in the area of customer relations. The former Vector Cuatro Group shareholders may also hold key roles in the Falck Renewables Group in defining, developing and providing innovative services to the market.

The managers of Vector Cuatro Group will participate in the 2015 – 2018 Long Term Incentive Plan.

5. Directors' report

Sicily projects

With regard to the disputes surrounding the Sicily Projects reference should be made to the extensive disclosures in the 2013 Annual Report and the half-year financial report at 30 June 2014 that was approved by the board of directors on 7 August 2014.

With regard to the separate jurisdiction claim pursuant to article 41 (the Second Recourse) brought before the Supreme Court in order to clarify conclusively the court of jurisdiction, in the new hearings of 16 September 2014, the Joint Divisions acknowledged the joint request of the parties to postpone the proceedings to 13 January 2015.

With regard to the Civil Proceedings, in the hearing of 28 October 2014, the Court postponed the hearing to 19 December 2014. With regard to the Civil Proceedings against the Department, the President's office of the Sicily Region filed a request to be admitted to the case.

With regard to the administrative proceedings before the Sicily Region's Administrative Council (CGARS), the CGARS suspended the proceedings in its ruling of 6 February 2014 pending the decision of the Supreme Court on the Second Recourse.

With regard to litigation between Tifeo and the Gulino Group, full details of which are disclosed in the half-year financial report at 30 June 2014, in its ruling of 11 September 2014 the Court of Enna closed the case sentencing Tifeo to respect the conditions of the purchase and sale agreements involving the land in Enna and Assoro that was entered into on 1 December 2005, relating to the obligation to settle 95% of the sales price of the land and pay Euro 2,931,700.00 plus interest pursuant to Legislative Decree 231/2002 from 8 April 2010 to the settlement date (approximately Euro 1 million) and to reimburse legal expenses of approximately Euro 15 thousand. The ruling was challenged by Tifeo in a writ of summons filed with the Caltanissetta Court of Appeal on 25 September 2014, in which it requested the full revision of the ruling based on the five motives outlined in the challenge. The first hearing of the appeal proceedings will be held on 21 January 2015. At the same time as the entry of the appeal case, a claim was filed by Tifeo pursuant to article 351 of the Italian code of civil procedure (cpc) in order to obtain suspension of the temporary enforcement of the ruling pending outcome of the appeal. The President of the Caltanissetta Court of Appeal in the order issued on 7 October 2014 declared that "no urgent reasons exist to take immediate action" on the above-mentioned claim pursuant to article 351 of the cpc and scheduled the hearing for 19 November 2014 to pass sentencing on the suspension of the temporary enforcement of the initial ruling.

There are no further significant developments that require disclosure in respect of the status of litigation detailed in the Half-year Financial Report at 30 June 2014, which should be referred to for further details.

5.2 Significant capital expenditure and disposals

Total capital expenditure in the first nine months of the year amounted to Euro 35,214 thousand.

Expenditure on property, plant and equipment, which amounted to Euro 25,836 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 14,349 thousand on the construction of the West Browncastle wind farm, Euro 1,629 thousand on the Spaldington wind farm, Euro 6,023 thousand on the Nutberry wind farm, Euro 961 thousand on the Kingsburn wind farm, Euro 611 thousand on the Assel Valley wind farm and Euro 231 thousand on the Auchrobert wind farm. Expenditure on improvements to operating plants in the WtE, biomass and photovoltaic sector amounted to Euro 1,552 thousand and Euro 232 thousand on the Verus Energy Oak WtE plant.

Capital expenditure on intangible assets totalled Euro 9,378 thousand, comprising Euro 8,413 thousand relating to the price paid above book value arising from the acquisition of the Vector Cuatro Group as the

5. Directors' report

details of the business combination are still being determined, Euro 848 thousand on the goodwill of Verus Energy Oak and Euro 117 thousand on new software licences.

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

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

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

As required by Article 154-bis, paragraph 2, of the 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 2014 is consistent with the data in the documents, accounting records and other records.

Paolo Rundeddu
(Corporate Accounting Document Officer)

Milan, 12 November 2014