FALCK RENEWABLES Group

Interim financial report 31 March 2014

Board of directors' meeting

Milan, 14 May 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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Milan Companies Register 03457730962
VAT and tax code 03457730962

Interim financial report 31 March 2014

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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
Federico Falck (*)	Director
Elisabetta 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. Financial information

2. Financial information

2.1 *Income statement*

(Euro thousands)

	31.3.2014	31.3.2013	31.12.2013
Revenue	76,129	75,667	253,796
Direct labour costs	(1,719)	(1,613)	(6,800)
Direct costs	(33,841)	(33,663)	(144,023)
Cost of sales	(35,560)	(35,276)	(150,823)
Gross profit	**40,569**	**40,391**	**102,973**
Other income	324	239	2,232
Other employee costs	(4,251)	(3,322)	(13,623)
Administrative expenses	(4,089)	(4,030)	(18,136)
Operating profit	**32,553**	**33,278**	**73,446**
Finance costs - net	(15,545)	(13,603)	(47,446)
Investment income	1,365	2,519	2,492
Profit before income tax	**18,373**	**22,194**	**28,492**
Income tax expense			(13,538)
Profit for the year			**14,954**
Loss attributable to non-controlling interests			(135)
Profit attributable to owners of the parent			**15,089**
EBITDA	**46,184**	**47,466**	**145,184**

2.2 *Net financial position*

(Euro thousands)

	31.3.2014	31.12.2013	31.3.2013
Short-term third party financial liabilities	(63,991)	(59,098)	(67,568)
Short-term Group financial liabilities			
Short-term third party financial receivables	977	779	292
Short-term Group financial receivables			
Other securities			
Cash and cash equivalents	286,631	120,819	125,503
Short-term net financial position	**223,617**	**62,500**	**58,227**
Medium/long-term third party financial liabilities	(796,399)	(790,480)	(851,854)
Medium/long-term Group financial liabilities			
Other securities			
Medium/long-term financial position	**(796,399)**	**(790,480)**	**(851,854)**
Net financial position pursuant to Consob circular DEM/6064293/2006	**(572,782)**	**(727,980)**	**(793,627)**
Medium/long-term third party financial receivables			
Medium/long-term Group financial receivables			
Total net financial position	**(572,782)**	**(727,980)**	**(793,627)**
- of which non-recourse financing	(690,989)	(690,751)	(739,379)
- of which fair value of derivatives	(64,461)	(54,273)	(81,174)
Net financial position net of fair value of derivatives	**(508,321)**	**(673,707)**	**(712,453)**

3. Notes to the interim financial report

3. Notes to the interim financial report

3.1 *Accounting policies*

At 31 March 2014 the Falck Renewables group (hereinafter “the Falck Renewables Group” or “the Group”) consisted of 62 companies, of which 56 are consolidated on a line-by-line basis, 5 are consolidated applying the proportional method and 1 is valued at cost.

The scope of consolidation did not change in the 2014 first quarter.
Falck Renewables UK Holdings no.1 Ltd changed its name to FRUK Holdings no.1 Ltd.

The interim financial report at 31 March 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 31 March 2014 are consistent with those adopted for the previous year-end financial statements, with the exception of IFRS 11 that came into effect on 1 January 2014, which 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 affected by this change in accounting treatment are Frullo Energia Ambiente Srl (49% interest), Nuevos Parque Eolicos La Muela, Parque Eolico La Carracha, Parque Eolico Plana de Jarreta (26% interests) and Palermo Energia Ambiente (23.27% interest).
These entities, proportionately consolidated in previous years, have been accounted for using the equity method for the purpose of preparing the interim financial report, consequently the information relating to 31 March 2013 and 31 December 2013 has been adjusted as the new standard has been applied retrospectively to 2013. As a result all information disclosed is consistent and comparable.

The tables below illustrate the 2013 results prior to the adoption of IFRS 11, adjustments arising from application of the new standard and the adjusted financial information:

Income statement

(Euro thousands)

	31.3.2013 pre-IFRS 11	IFRS11	31.3.2013 post-IFRS 11	31.12.2013 pre-IFRS 11	IFRS 11	31.12.2013 post-IFRS 11
Revenue	82.476	(6.809)	75.667	275.861	(22.065)	253.796
Direct labour costs	(1.973)	360	(1.613)	(8.178)	1.378	(6.800)
Direct costs	(37.371)	3.708	(33.663)	(158.280)	14.257	(144.023)
Cost of sales	(39.344)	4.068	(35.276)	(166.458)	15.635	(150.823)
Gross profit	**43.132**	**(2.741)**	**40.391**	**109.403**	**(6.430)**	**102.973**
Other income	240	(1)	239	2.261	(29)	2.232
Other employee costs	(3.322)		(3.322)	(13.623)		(13.623)
Administrative expenses	(4.056)	26	(4.030)	(18.736)	600	(18.136)
Operating profit	**35.994**	**(2.716)**	**33.278**	**79.305**	**(5.859)**	**73.446**
Finance costs - net	(13.800)	197	(13.603)	(48.459)	1.013	(47.446)
Investment income		2.519	2.519		2.492	2.492
Profit before income tax	**22.194**		**22.194**	**30.846**	**(2.354)**	**28.492**
Income tax expense				(15.892)	2.354	(13.538)
Profit for the year				**14.954**		**14.954**
Loss attributable to non-controlling interests				(135)		(135)
Profit attributable to owners of the parent				**15.089**		**15.089**
Ebitda	**51.576**	**(4.110)**	**47.466**	**156.848**	**(11.664)**	**145.184**

Net financial position

(Euro thousands)

	31.3.2013 pre-IFRS 11	IFRS 11	31.3.2013 post-IFRS 11	31.12.2013 pre-IFRS 11	IFRS 11	31.12.2013 post-IFRS 11
Short-term third party financial liabilities	(73,086)	5,518	(67,568)	(64,382)	5,284	(59,098)
Short-term Group financial liabilities						
Short-term third party financial receivables	292		292	779		779
Short-term Group financial receivables						
Other securities						
Cash and cash equivalents	133,549	(8,046)	125,503	126,982	(6,163)	120,819
Short-term net financial position	**60,755**	**(2,528)**	**58,227**	**63,379**	**(879)**	**62,500**
M/L-T third party financial liabilities	(886,264)	34,410	(851,854)	(820,209)	29,729	(790,480)
M/L-T Group financial liabilities						
Other securities						
M/L-T net financial position	**(886,264)**	**34,410**	**(851,854)**	**(820,209)**	**29,729**	**(790,480)**
NFP pursuant to Consob Circular DEM/6064293/2006	**(825,509)**	**31,882**	**(793,627)**	**(756,830)**	**28,850**	**(727,980)**
M/L-T third party financial receivables						
M/L-T Group financial receivables						
Total net financial position	**(825,509)**	**31,882**	**(793,627)**	**(756,830)**	**28,850**	**(727,980)**
- of which non-recourse financing	(776,392)	37,013	(739,379)	(723,446)	32,695	(690,751)
- of which fair value of derivatives	(83,410)	2,236	(81,174)	(55,924)	1,651	(54,273)
NFP net of fair value of derivatives	**(742,099)**	**29,646**	**(712,453)**	**(700,906)**	**27,199**	**(673,707)**

3.2 *Performance for the period and principal changes*

Revenue of the Falck Renewables Group in the 2014 first quarter amounted to Euro 76,129 thousand, an increase of Euro 462 thousand (+0.6%) on the 2013 first quarter.
The increase in revenue is principally attributable to the new Nutberry (UK) wind farm that came on stream late September 2013. The increased revenue was reduced in part by (i) lower electricity prices across Europe for both wind farms and biomass plants that affected Spain in particular, (ii) a fall in waste transfer prices attributable to the persisting economic crisis and (iii) the lower CEC element applicable to the Trezzo sull'Adda WtE plant, which in determining 2014 revenue from electricity sold under the CIP6 regime, reflects the amendment made by the Ministry of Economic Development to incorporate the Italian Authority for Electricity and Gas (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 (TAR).
Pending the scheduling of hearings and in light of sentences pronounced by the Lazio TAR in similar cases, an adverse outcome is considered possible.

Gross profit amounted to Euro 40,569 thousand, an increase of Euro 178 thousand, corresponding to 53.3% when expressed as a percentage of revenue (2013 first quarter – 53.4%).

Despite the difficult economic climate, **EBITDA**[1] for the 2014 first quarter amounted to Euro 46,184 thousand (2013 first quarter – Euro 47,466 thousand), equal to 60.7% of revenue (2013 first quarter – 62.7%). EBITDA fell compared to the 2013 first quarter (-Euro 1,282 thousand) largely as a result of some of the objectives of the LTIP being met in the 2014 first quarter with a corresponding cost recorded in the quarter following finalisation of the Borea transaction[2] illustrated below.

Operating profit totalled Euro 32,553 thousand, a fall of Euro 725 thousand and 42.8% when expressed as a percentage of revenue (2013 first quarter – 44.0%).

Net finance costs increased by Euro 1,942 thousand compared to the 2013 first quarter. This is largely due to an increase of Euro 810 thousand in the write-off of financial receivables due from Pea, the change in fair value of derivatives of Euro 792 thousand recorded in profit and loss and an increase of Euro 692 thousand in bank charges that was partially offset by a Euro 422 thousand increase in finance income.

As a result of the above, the Falck Renewables Group recorded a **profit before tax and non-controlling interests** of Euro 18,373 thousand in the 2014 first quarter, a fall of Euro 3,821 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 508,321 thousand, down approximately Euro 165.4 million on the balance of Euro 673,707 thousand at 31 December 2013. This fall is principally due to the Borea transaction which generated Euro 185.8 million of income net of subordinated shareholders' loans of Euro 46.7 million underwritten by CII Holdco, which led to a decrease of Euro 139.1 million in the net financial position. Cash generated by operating plants of approximately Euro 33 million also contributed to improving the net financial position.

The net financial position:
- Comprised non-recourse financing of Euro 690,989 thousand, an increase of Euro 238 thousand on the balance at 31 December 2013;

[1] EBITDA is measured by the Falck Renewables Group as profit for the period before investment income and costs, net finance income/costs, amortisation and depreciation, impairment losses, charges to risk provisions and the income tax expense. This indicator was calculated applying best market practice taking into consideration the new Group financing contracts.

[2] Detailed in the Directors' report below.

- Included net financial liabilities of Euro 52,473 thousand relating to projects under construction that were not yet revenue generating at 31 March 2014; the net financial position net of this amount and the fair value of derivatives would have amounted to Euro 455,848 thousand.

Total gross debt net of the fair value of derivatives was hedged by interest rate swaps, covering approximately 76% of the risk presented by interest rate fluctuations.

The net financial position including the fair value of derivatives amounted to Euro 572,782 thousand at 31 March 2014 (31 December 2013 – Euro 727,980 thousand).

Revenue by business segment may be analysed as follows.

(Euro thousands)

	1° Quarter 2014	1° Quarter 2013
Sale of electricity	69,943	69,662
Waste treatment and disposal	4,924	5,205
Operation of WtE plants and landfills	678	766
Other services	584	34
Total	**76,129**	**75,667**

Profit before income tax and non-controlling interests of the business sectors, compared to the 2013 first quarter are summarised below:

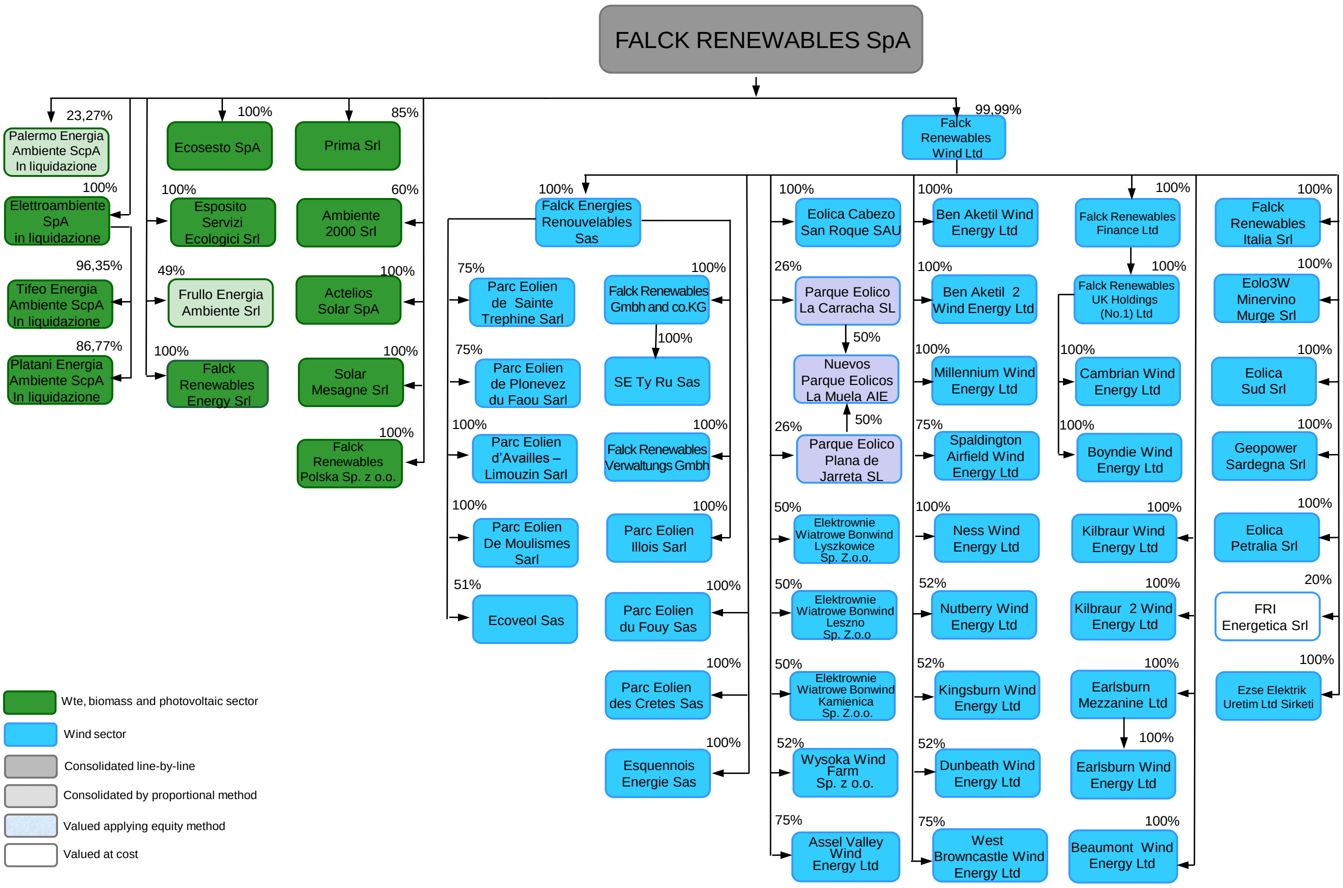
(Euro thousands)

	31.3.2014	31.3.2013	Change
WtE, biomass and photovoltaic sector	1,801	3,276	(1,475)
Wind sector	21,060	21,714	(654)
Falck Renewables SpA	(4,617)	(2,901)	(1,716)
Consolidation adjustments	129	105	24
Total	**18,373**	**22,194**	**(3,821)**

3.3 *Performance of the 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.

❖ Group structure by sector



WtE, biomass and photovoltaic

The key financial highlights of this sector, comprising the companies highlighted in green in the organisation chart above, may be summarised as follows:

(Euro thousands)

		31.3.2014	31.3.2013
Revenue		15,649	16,574
Cost of sales		(12,999)	(12,540)
Gross profit		**2,650**	**4,034**
Operating profit		**1,169**	**2,667**
EBITDA		**3,682**	**5,552**
Profit for the period		**1,801**	**3,276**
Net financial position - indebtedness		**175,546**	**184,743**
of which non-recourse financing		37,344	43,989
Capital expenditure		**926**	**93**
Employees at period-end	(no.)	102	102

The information relating to the 2013 first quarter has been adjusted following application of IFRS 11 that came into effect on 1 January 2014 and removes the option to account for jointly controlled entities using proportionate consolidation. Frullo Energia Ambiente Srl (49% interest) and Palermo Energia Ambiente ScpA (23.27% interest) have been consolidated applying the equity method and the corresponding results reflected in this sector below the EBITDA line.

This sector focuses on electricity production from renewable sources in particular through the conversion of urban waste to energy (WtE) and from 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 2013 first quarter, due to lower revenue generated by the Trezzo sull'Adda WtE plant, which was affected by the measurement of the avoided cost component of fuel (CEC) as 2014 revenue arising on sales made under the CIP6 regime reflects the Italian Ministry of Economic Development's adoption of AEEG opinion 535/2012 in accordance with the provisions of Law 99/09. The Group companies affected by this are currently awaiting outcome of the appeals filed with the Lazio TAR. Pending the scheduling of hearings and in light of sentences pronounced by the Lazio TAR in similar cases, an adverse outcome is considered possible.
Moreover waste transfer prices also fell compared to the 2013 first quarter due to the persisting economic crisis.

The impact of the above-mentioned fall in incentives and other factors contributed to a fall in EBITDA (-Euro 1,870 thousand) to Euro 3,682 thousand: EBITDA equalled 23.5% when expressed as a percentage of revenue (2013 – 33.5%).

Operating profit fell by Euro 1,498 thousand to Euro 1,169 thousand, corresponding to 7.5% of revenue (2013 – 16.1%).

The net financial position was a net indebtedness of Euro 175,546 thousand, representing a decrease on the balance at 31 March 2013 (- Euro 9,197 thousand), which is largely attributable to cash generated by operating plants.

The net financial position comprises non-recourse financing of Euro 37,344 thousand (31 March 2013 – Euro 43,989 thousand) and the fair value of derivatives entered into to hedge interest rate risk amounting to Euro 3,250 thousand (31 March 2013 – Euro 3,791 thousand).

❖ Wind sector

The key financial highlights of this sector, comprising the companies highlighted in blue in the organisation chart above, may be summarised as follows:

(Euro thousands)

		31.3.2014	31.3.2013
Revenue		60,464	59,080
Cost of sales		(22,587)	(22,767)
Gross profit		**37,877**	**36,313**
Operating profit		**34,605**	**33,426**
EBITDA		**47,033**	**45,277**
Profit for the period		**21,060**	**21,714**
Net financial position - indebtedness		**713,890**	**911,828**
of which non-recourse financing		653,645	695,390
Capital expenditure		**6,928**	**11,651**
Employees at period-end	(no.)	43	44

The information relating to the 2013 first quarter has been adjusted following application of IFRS 11 that came into effect on 1 January 2014 and removes the option to account for jointly controlled entities using proportionate consolidation. Nuevos Parque Eolicos La Muela, Parque Eolico La Carracha and Parque Eolico Plana de Jarreta (26% interests) have been consolidated applying the equity method and the corresponding results reflected in this sector below the EBITDA line.

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

Revenue increased by 2.3% (+ Euro 1,384 thousand), which is mainly due to the higher installed capacity associated with the Nutberry wind farm. Moreover, the performance of the UK wind farms improved significantly compared to the 2013 first quarter, which compensated the fall in revenue of the Eolica Cabezo San Roque Spanish wind farm due to a marked decrease in electricity tariffs. Cost of sales is in line with the 2013 first quarter, recording a slight fall of Euro 180 thousand.

Gross profit increased by Euro 1,564 thousand, corresponding to 62.6% of revenue (2013 – 61.5%).

EBITDA totalled Euro 47,033 thousand, an increase of Euro 1,756 thousand and equal to 77.8% when expressed as a percentage of revenue (2013 – 76.6%).

Operating profit also recorded growth with a Euro 1,179 thousand increase on the 2013 first quarter and amounted to 57.2% of revenue (2013 – 56.6%).

The net financial position was a net indebtedness of Euro 713,890 thousand, corresponding to a decrease of Euro 197,938 thousand compared to the total at 31 March 2013. This fall is principally due to the Borea transaction which generated Euro 185.8 million of income net of subordinated shareholders' loans of Euro 46.7 million underwritten by CII Holdco, which led to a decrease of Euro 139.1 million in the net financial position. Cash generated by operating plants also contributed to improving the net financial position.

The total comprises net financial liabilities of Euro 52,473 thousand relating to projects under construction that were not yet revenue generating at 31 March 2014; the net financial position net of this balance and the fair value of derivatives would have amounted to Euro 601,552 thousand.

The net financial position includes non-recourse financing of Euro 653,645 thousand (Euro 695,390 thousand at 31 March 2013) and the fair value of derivatives to hedge interest rate exposure of Euro 59,865 thousand (31 March 2013 - Euro 75,250 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 2014 recorded a loss before income tax of Euro 4,617 thousand (loss of Euro 2,901 thousand in the first quarter of 2013). This comprises increased employee costs (+ Euro 959 thousand) largely as a result of certain objectives of the LTIP being met in the 2014 first quarter with a corresponding cost recorded in the quarter following finalisation of the Borea transaction illustrated below, while administrative expenses were down Euro 170 thousand. Net finance costs increased by Euro 1,392 thousand principally due to an increase of approximately Euro 0.9 million in the write-off of financial receivables due from Palermo Energia Ambiente ScpA and Elettroambiente SpA. The financial receivables due from Palermo Energia Ambiente ScpA (Pea) and Elettroambiente SpA, both in liquidation, consist of those that arose in the first quarter following payments made by Pea to third parties that were financed by Falck Renewables SpA and interest matured on loans in respect of both companies.

Profit before income tax comprises the partial use of the provision for sundry risks, amounting to Euro 1,688 thousand, which was charged in previous reporting periods to cover the above write-offs.

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.

Capital expenditure in the period amounted to Euro 138 thousand, comprising Euro 94 thousand in respect of software. The net financial position was a net asset of Euro 236,915 thousand compared to an asset of Euro 242,201 thousand at 31 December 2013. The outstanding balance of the Euro 165 million loan secured in 2011 amounted to approximately Euro 22 million at 31 March 2014 subsequent to an advance repayment made following the settlement received in respect of the Borea transaction[3].
The net financial position also includes the negative fair value of derivatives to hedge interest rate exposure amounting to Euro 1,245 thousand (31 March 2013 – Euro 2,133 thousand) and the foreign exchange hedge of Euro 101 thousand (not included in the 2013 first quarter).

3.5 *Management outlook for the current year*

2014 revenue will benefit from the full year production of the Nutberry 15MW wind farm.

The authorised UK wind farms of West Browncastle (30 MW), Spaldington Airfield (up to 15 MW) and Kingsburn (up to 22.5 MW) are expected to enter into service in the first quarter of 2015, second half of 2015 and first half of 2016 respectively.
Moreover, the Borea transaction[3] 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 further investment.
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 (e.g. Italian Green Certificates system), with the exception of Spain where the incentive has prudently been removed pending further developments regarding implementing decrees. The Group is taking all actions possible to safeguard its position;
- 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», as noted above the renewable energy sector companies Prima Srl and Frullo Energia Ambiente Srl (the latter is consolidated applying the equity method), which operate under the CIP6 regime, will continue to suffer a fall in revenue due

[3] Detailed in the Directors' report below.

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 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, will suffer a fall in revenue;
- 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 drop of approximately 15% compared to the minimum guaranteed prices;
- 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;
- finally, the Italian Tax Authorities published in Circular 36/E of 19 December 2013, an unexpected amendment to depreciation rates applicable to photovoltaic plants establishing also that the conditions apply to wind farm investments where compatible. In particular the Authorities, rightly or wrongly, make reference to the rate of 4% applied to industrial buildings rather than the current rate of 5% that represents the useful life of photovoltaic plants and wind farms.

Despite these market changes, the Company managed to maintain profitability levels in line with its best performing years, thanks to the construction of plants in areas enjoying high numbers of wind hours and its capacity to reduce costs and perform more efficiently and effectively than previous years.

In light of the above, the renewable energy sector some months ago implemented a medium/long-term business plan 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.

3.6 *Employees*

The total number of employees at 31 March 2014 comprised:

(Number)

	31.3.2014	31.12.2013	31.3.2013
Managers	28	27	27
White-collar staff and special categories	141	138	136
Blue-collar workers	59	59	61
Total	**228**	**224**	**224**

Following implementation 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 retrospectively to the information relating to 31 March 2013 and 31 December 2013 resulting in a fall in white-collar staff numbers of 9 and 10 respectively, while blue-collar workers decreased by 13 in respect of both periods.

Employees analysed by business sector are as follows:

(Number)

	31.3.2014	31.12.2013	31.3.2013
WtE, biomass and photovoltaic sector	102	102	102
Wind sector	43	41	44
Falck Renewables SpA	83	81	78
Total	**228**	**224**	**224**

3.7 *Installed capacity*

(MW)

Technology	31.3.2014	31.12.2013	31.3.2013
Wind	644.6	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	**695.7**	**694.7**	**679.7**

Following implementation 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 retrospectively to the information relating to 31 March 2013 and 31 December 2013 resulting in a decrease in installed capacity in respect of both periods amounting to 11MW for the WtE, biomass and photovoltaic sector and 25.74MW for the wind sector.

4. Directors’ report

4.1 *Review of significant business developments*

In addition to the Borea transaction detailed below, the alternator at the Trezzo sull'Adda plant broke down on 24 April 2014. It is expected that the plant will be shut down for between two and four months during which time electricity will not be generated but waste treatment, which accounts for 50% of total plant revenue, will continue. It is not possible to estimate the related financial loss, which will be partially covered by insurance.
The outcome of the checks carried out with the GSE relating to the expiry date of the avoided cost element of the CIP6 incentive in respect of the Trezzo sull'Adda plant was successful.
The expiry date of the avoided cost element in respect of a significant part of the plant's capacity (15MW) was prudently estimated at 10 April 2014.
Formal confirmation has now been received from the GSE that the avoided cost element will apply up to expiry of the CIP6 convention on 25 August 2014.

Authorisations to construct a wind farm with a maximum installed capacity of 36MW in Auchrobert, Scotland, and a wind farm with a maximum installed capacity of 12MW in Illois, upper Normandy, were received in April 2014.

A project financing contract for approximately GBP 23 million was signed with Unicredit Bank AG London Branch on 30 April 2014 in respect of the 15MW Nutberry wind farm in the UK.

Borea transaction

On 17 March 2014 Falck Renewables SpA, Falck Renewables Wind Ltd and some of their UK subsidiaries finalised the transfer ("Agreement") of 49% of both the share capital and the subordinated shareholders' loans in the UK project companies operating in the wind energy sector that own six operating wind farms in the UK with a total installed capacity of 272.8 MW (based on 100%), to the Danish infrastructure fund Copenhagen Infrastructure I K/S ("CII"), managed by Copenhagen Infrastructure Partners K/S ("CIP").

The transaction was announced to the market on 3 December 2013.

The Agreement envisages the sale by Falck Renewables Wind Ltd, Earlsburn Mezzanine Ltd and Falck Renewables Finance Ltd of a 49% minority interest in the share capital and 49% of the subordinated shareholders' loans in the companies that own the wind farms operating in the UK, namely Ben Aketil Wind Energy Ltd (27.6 MW), Boyndie Wind Energy Ltd (16.65 MW), Cambrian Wind Energy Ltd (58.5 MW), Earlsburn Wind Energy Ltd (37.5 MW), Kilbraur Wind Energy Ltd (67.5 MW) and Millennium Wind Energy Ltd (65.0 MW) (the "Target Companies") to CII HoldCo Ltd (a UK subsidiary of CII).

Following the sale, Falck Renewables SpA will retain control of the Target Companies and will continue to consolidate them on a line-by-line basis.

The Enterprise Value at 31 December 2013 of 100% of the Target Companies amounted to approximately GBP 451.2 million (applying the spot rate of GBP/Euro 0.8312 this equals approximately Euro 542.9 million): giving an implicit value of each installed MW of approximately Euro 2 million.

The consideration for the sale of 49% of both the investments and the subordinated shareholders' loans of the Target Companies of GBP 154.4 million (equal to approximately Euro 185.8 million at the spot rate at 17 March 2014) is in line with the amount communicated to the market on 3 December 2013, which takes into account the increased value for the period since 31 December 2013.
The above consideration was paid in cash on 17 March 2014. The amount is subject to amendment, which is currently being determined, based on the difference between the actual net financial position and actual net working capital of the Target Companies at 31 December 2013, as disclosed in the approved, audited financial statements, and the values set out in the contractual documentation, which based on current figures is not considered significant.

Earn-out in favour of the Falck Renewables group and potential price reduction in favour of CII HoldCo

In addition to the above consideration, the Agreement also envisages a further deferred payment determined comparing actual performance of the wind farms of the Target Companies (in terms of GWh generated) compared to a pre-determined target for the period 2014–2018, to be settled in cash at the end of this period applying an earn-out mechanism capped at GBP 10 million. In the event that the wind farm performance is below the pre-determined target, the Falck Renewables Group is under no obligation to compensate CII HoldCo.

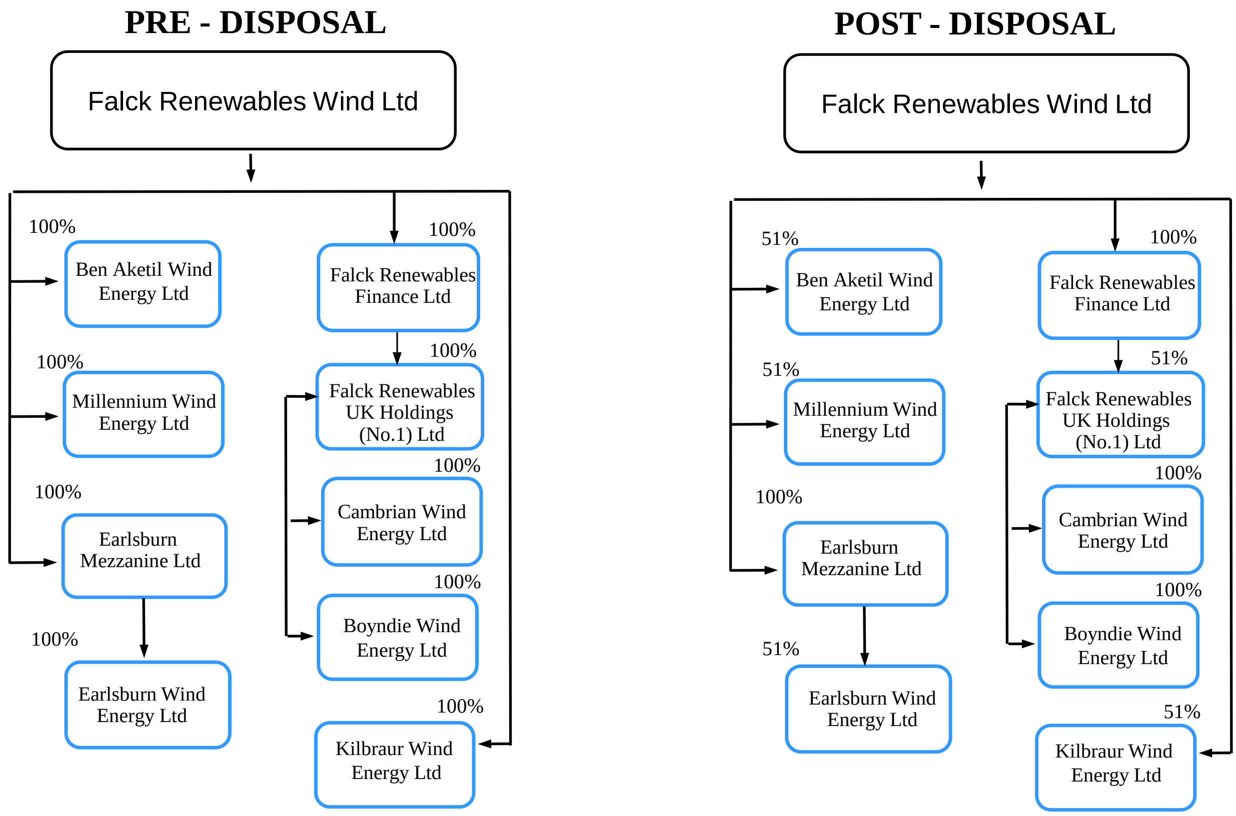
The Agreement also envisages that CII HoldCo Ltd has the right to a reduction in the transfer price payable in 2021 based on the difference, where negative, between the average annual electricity price in the UK for the period 2014-2020 and GBP 25 per MWh (nominal not adjusted for inflation), multiplied by actual annual production in MWh in the same period for each wind farm involved in the transfer, multiplied by CII Holdco's interest in each target company for each year of the period under review (capped at 49%, representing the current percentage ownership in each target company). Any amount due will be paid by the Falck Renewables group to CII HoldCo after payment of the dividends, interest and loan repayments due by the Target Companies to the Group. The potential price reduction for the Group will therefore be limited to the cash distributable by the Target Companies from 2021.

This price reduction clause will be cancelled with immediate effect in the event that in any year of the period under review CII HoldCo sells its entire stake in the Target Companies to third parties. In the event that the resulting difference is positive, CII HoldCo will not be required to compensate the Falck Renewables Group.

Partnership

The transaction also resulted in a Partnership agreement whereby the parties intend to invest in other European energy projects that will be developed by the Falck Renewables Group capitalising on its extensive multi-technology pipeline. The Partnership includes short-term investments of Euro 100 million by CIP in previously authorised, or under construction, onshore wind projects in the Falck portfolio and a further Euro 125 million on other plants in the energy sector as a whole.

The diagram below illustrates the structure pre and post Agreement.



Litigation

With regard to litigation involving the Sicily Projects reference should be made to detailed disclosures in the 2013 Annual Report, approved by the AGM on 29 April 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 hearing of 11 March 2014, the meetings were postponed following admission of the statements filed by the Group companies, in order to allow notification of the preliminary application of these jurisdiction claims to the trustee of the insolvency procedures of Amia SpA. The court will schedule a new hearing at a later date.

On 4-8 April 2014, the Department served Falck Renewables SpA, a former member of the ATI and subsequently replaced by Pea, Elettroambiente SpA (in liquidation), also a former member of the ATI and subsequently replaced by Platani and Tifeo, and the other members of the ATI, with a default notice contesting presumed extra-contractual obligations (presented for the first time) regarding the non-fulfilment of the construction of the integrated systems. The Group companies replied to the notices denying any responsibility, also in respect of the damages claim made by the Department (Euro 500 million for each ATI), which are considered manifestly groundless. The companies will persist with the claims in the relevant jurisdictions to obtain a ruling of non-performance by the Regional Administration of its obligations towards the former and award compensation for the considerable damages suffered.

With regard to the Civil Proceedings, in the ruling dated 7 January 2014 (amended on 8 January 2014), the Milan Court, having acknowledged the reinstatement of proceedings, declared that it was ready to rule on the dispute based on documents filed by the parties and scheduled the hearing for 22 April 2014 to commence the exchange of statements. At the hearing of 22 April 2014, the Milan Court adjourned the proceedings to 27 June 2014 and granted the parties (other than the Department) time until 3 June 2014 to present responses and any related documentation.

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.

Legal proceedings against the Sicily Region will also continue in order to uphold the rights and motives of the Group (to secure settlement of both pecuniary damages and loss of profit) and provide defence against the claims made by the Department.

There have been no other changes regarding the status of the litigation disclosed in the 2013 Annual Report approved by the AGM on 29 April 2014 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 2014 first quarter amounted to Euro 7,897 thousand and principally related to construction work on the Nutberry (Euro 5,644 thousand), Spaldington (Euro 446 thousand), West Browncastle (Euro 515 thousand) and Kingsburn (Euro 317 thousand) wind farms. Expenditure also included Euro 901 thousand on the hybridisation of the Rende biomass plant.
Investments in intangible assets amounted to Euro 94 thousand and comprised operating software costs.

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

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 2014 is consistent with the data in the documents, accounting records and other records.

Milan, 14 May 2014

Paolo Rundeddu

(Corporate Accounting Document Officer)