

FALCK RENEWABLES Group

Interim financial report
at 30 September 2019

Board of Directors

Milan, 7 November 2019

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

Interim financial report at 30 September 2019

Contents

Contents

INTERIM FINANCIAL REPORT AT 30 SEPTEMBER 2019	2
CONTENTS.....	3
1. COMPANY OFFICERS.....	4
2. GROUP STRUCTURE	6
3. FINANCIAL INFORMATION.....	9
3.1 INCOME STATEMENT	10
3.2 NET FINANCIAL POSITION	11
4. NOTES TO THE INTERIM FINANCIAL REPORT	12
4.1 ACCOUNTING STANDARDS, CONTENTS AND FORM OF THE CONSOLIDATED FINANCIAL STATEMENTS	13
4.2 MAIN CHANGES	21
4.3 PERFORMANCE OF THE BUSINESS SECTORS	27
4.6 MANAGEMENT OUTLOOK	33
5. DIRECTORS' REPORT.....	35
5.1 REVIEW OF SIGNIFICANT BUSINESS DEVELOPMENTS	36
5.2 MAIN INVESTMENTS AND DIVESTMENTS.....	38
6. CERTIFICATION OF THE CORPORATE ACCOUNTING DOCUMENTS OFFICER PURSUANT TO ARTICLE 154-BIS PARAGRAPH 2 OF LEGISLATIVE DECREE 58/1998	40

1. Company officers

1. Company officers

Board of Directors

Falck Enrico	Executive Chairman
Corbetta Guido	Deputy Chairman
Volpe Toni	Chief Executive Officer
Caldera Elisabetta (*)	Director
Dassù Marta (*)	Director
Falck Elisabetta	Director
Falck Federico	Director
Marchi Filippo	Director
Grenon Georgina (*)	Director
Milone Libero (*)	Director
Pietrogrande Paolo (*)	Director
Poggiali Barbara (*)	Director

(*) Independent members for Consolidated Finance Act and self-discipline purposes

The Board of Directors was nominated by the Shareholders' Meeting on 27 April 2017.

Board of statutory auditors

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

The Board of Statutory Auditors was nominated by the Shareholders' Meeting on 27 April 2017.

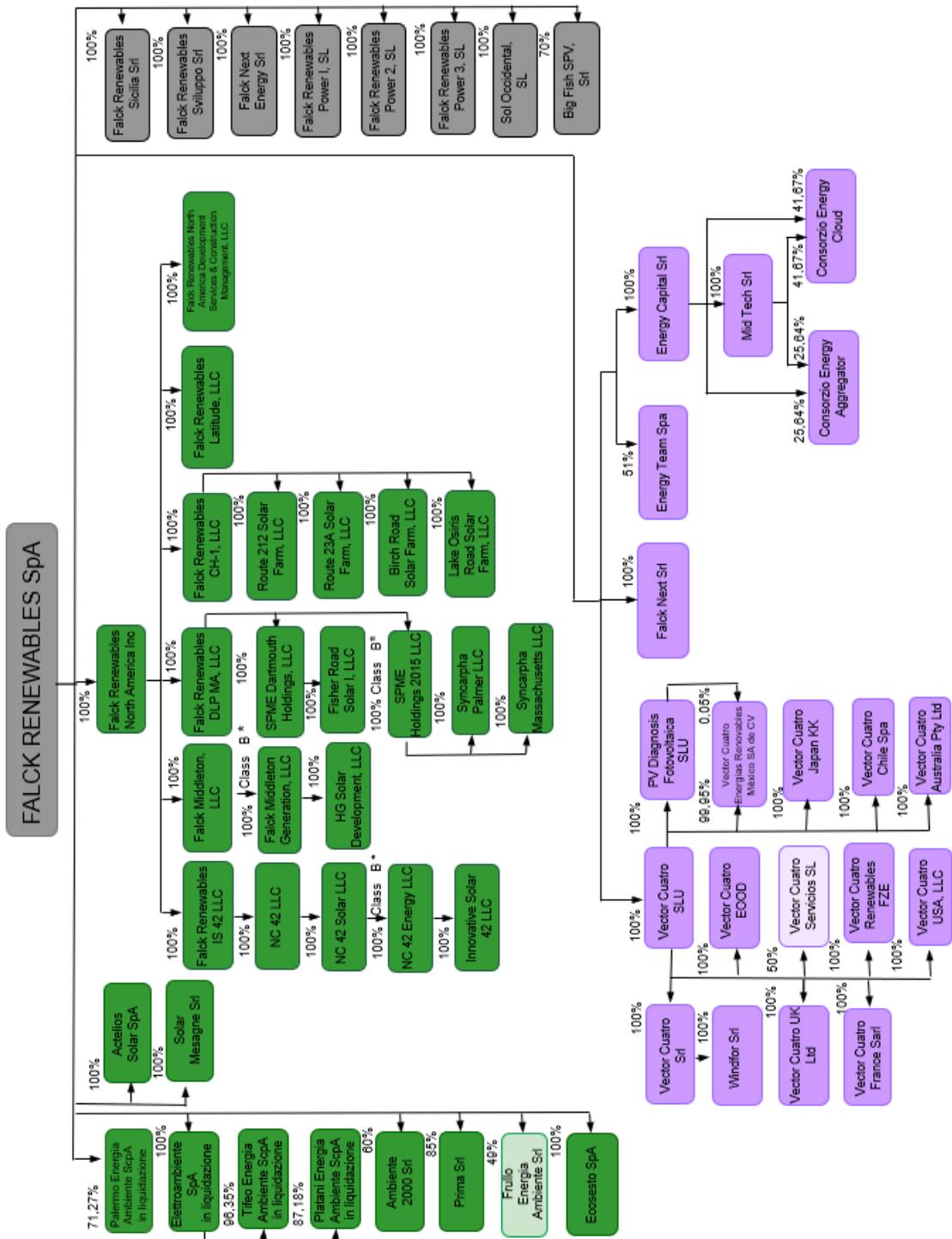
Independent auditors

EY SpA

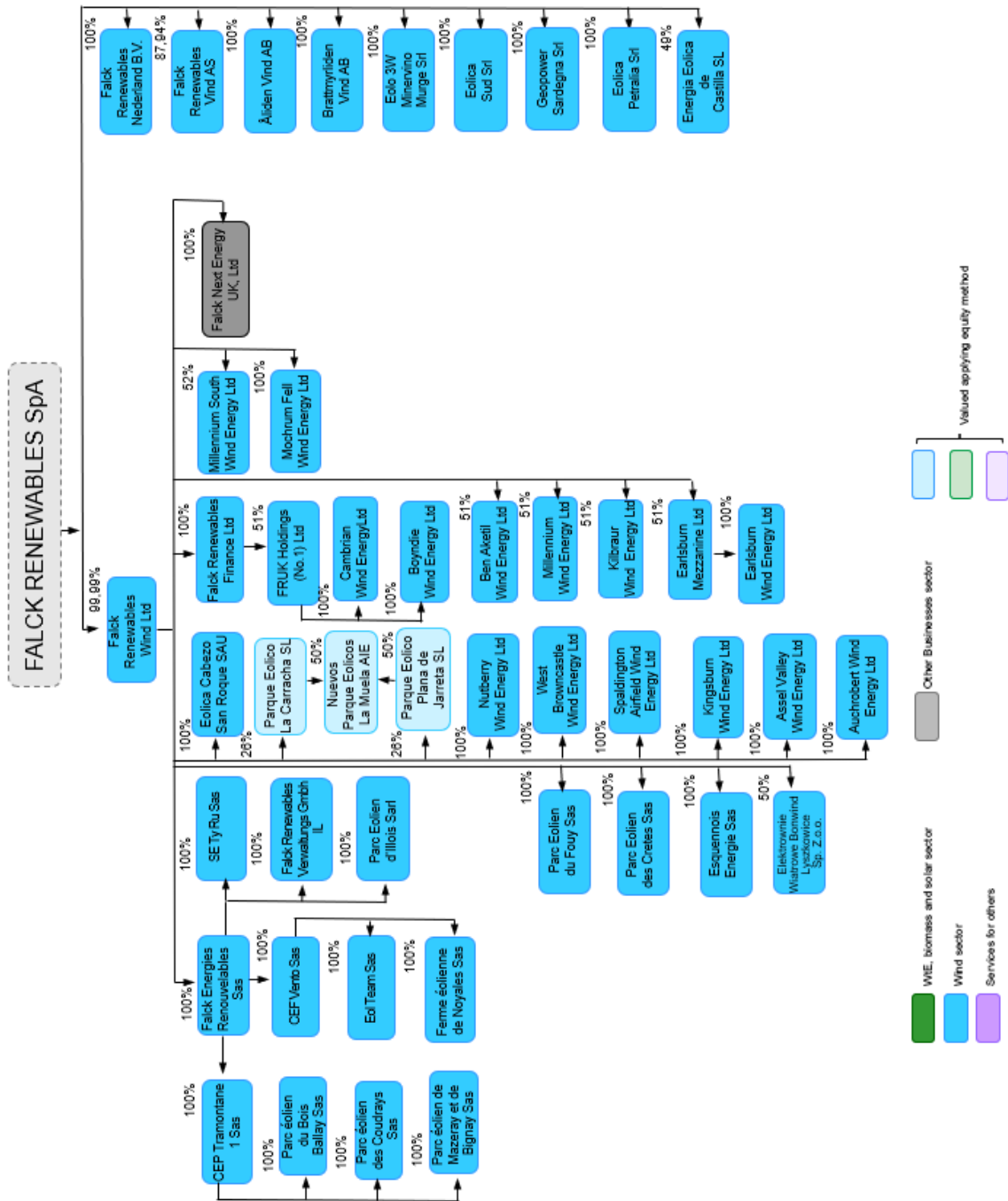
2. Group structure

2. Group structure

STRUCTURE OF THE FALCK RENEWABLES GROUP AT 30 SEPTEMBER



2. Group structure



* The class B quotas guarantee the control of the company, while class A quotas belonging to Finstar Development LLC attribute protective rights.

3. Financial information

3. Financial information

3.1 Income statement

	(EUR thousands)				
	3rd quarter 2019 ***	3rd quarter 2018	At 30.9.2019	At 30.9.2018	At 31.12.2018**
Revenue	83,012	66,600	268,429	231,574	335,889
Direct costs	(54,135)	(42,478)	(148,828)	(122,124)	(169,784)
Employee costs	(9,918)	(7,866)	(29,615)	(24,207)	(34,504)
Other income	3,006	1,912	8,184	12,260	13,258
Administrative expenses	(6,709)	(4,286)	(19,300)	(20,827)	(30,088)
Net margin from trading activities	(4)		(51)		
Operating profit/(loss)	15,252	13,882	78,819	76,676	114,771
Financial income/(expenses)	(10,005)	(10,039)	(29,468)	(29,602)	(40,899)
Investment income/(expenses)	38		38		(3)
Income and expenses from equity investme	1,028	(229)	1,915	728	2,745
Profit/(loss) before tax	6,313	3,614	51,304	47,802	76,614
Income tax expense					(16,693)
Profit/(loss) for the year					59,921
Profit attributable to non-controlling interests					16,263
Profit attributable to owners of the parent					43,658
EBITDA (*)	42,727	31,223	147,662	130,612	191,478

(*) EBITDA = EBITDA is measured by the Falck Renewables Group as profit for the period before investment income and costs, net finance income/costs, amortisation and depreciation, impairment losses, charges to risk provisions and the income tax expense. This indicator was calculated applying best market practice taking into consideration the Group's most recent financing contracts.

(**) The figures at 31 December 2018 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of Energy Team SpA and Energia Eolica de Castilla SI.

(***) The figures for the third quarter 2019 reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of Energy Team SpA and Energia Eolica de Castilla SI.

3. Financial information

3.2 Net financial position

	30.9.2019	30.6.2019 **	31.12.2018**	Change	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Short-term third party financial liabilities	(87,934)	(84,999)	(78,226)	(2,935)	(9,708)
Short-term third party financial liabilities for operating leases	(3,950)	(3,758)		(192)	(3,950)
Short-term third party financial receivables	9,514	4,294	2,615	5,220	6,899
Cash and cash equivalents	171,137	154,496	218,188	16,641	(47,051)
Short-term net financial position	88,767	70,033	142,577	18,734	(53,810)
Medium/long-term third party financial liabilities	(728,638)	(690,897)	(700,693)	(37,741)	(27,945)
Medium/long-term third party financial liabilities for operating leases	(70,458)	(68,443)		(2,015)	(70,458)
Medium/long-term financial position	(799,096)	(759,340)	(700,693)	(39,756)	(98,403)
Net financial position pursuant to					
Consob circular DEM/6064293/2006	(710,329)	(689,307)	(558,116)	(21,022)	(152,213)
Medium/long-term third party financial receivables	8,859	9,161	11,103	(302)	(2,244)
Total net financial position	(701,470)	(680,146)	(547,013)	(21,324)	(154,457)
- of which “non-recourse” financing	(687,526)	(687,184)	(700,365)	(342)	12,839
- of which financial liabilities for operating leases	(74,408)	(72,201)		(2,207)	(74,408)
Net financial position net of operating leases	(627,062)	(607,945)	(547,013)	(19,117)	(80,049)

(**) The figures at 31 December 2018 and 30 June 2019 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of Energy Team SpA and Energia Eolica de Castilla SI.

4. Notes to the interim financial report

4.1 Accounting standards, contents and form of the consolidated financial statements

The interim financial report at 30 September 2019 includes the financial results of the parent company Falck Renewables SpA and its subsidiaries.

Falck Renewables SpA controls an entity when it has the power to influence significant decisions, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity: in this case the entity is consolidated on a line-by-line basis.

The companies in which the parent company exercises joint control with other shareholders (joint-ventures) and those in which it exercises a significant influence are consolidated using the equity method.

The Falck Renewables Group consists of 108 companies, of which 103 are consolidated on a line-by-line basis, and 5 are consolidated applying the equity method.

During the first nine months, the following companies were incorporated:

- Falck Renewables North America Development Services & Construction Management, LLC, wholly owned by Falck Renewables North America, Inc. and fully consolidated;
- Falck Renewables Power 1 SL, 100% owned by Falck Renewables SpA and fully consolidated;
- Falck Renewables Power 2 SL, 100% owned by Falck Renewables SpA and fully consolidated;
- Falck Renewables Power 3 SL, 100% owned by Falck Renewables SpA and fully consolidated;
- Falck Next Energy UK Ltd, 100% owned by Falck Renewables Wind Ltd and fully consolidated.

During the first nine months of 2019, the following companies were acquired and consolidated line-by-line:

- CEF Vento SAS, 100% owned by Falck Energies Renouvelables SAS;
- CEP Tramontane 1 SAS, 100% owned by Falck Energies Renouvelables SAS;
- Eol Team SAS, 100% owned by CEF Vento SAS;
- Ferme Eolienne de Noyales SAS, 100% owned by CEF Vento SAS;
- Parc Eolien du Bois Ballay SAS, 100% owned by CEP Tramontane 1 SAS;
- Parc Eolien de Mazeray et de Bignay SAS, 100% owned by CEP Tramontane 1 SAS;
- Parc Eolien des Coudrays SAS, 100% owned by CEP Tramontane 1 SAS;
- Sol Occidental SL, 100% owned by Falck Renewables SpA;
- Big Fish Srl, 70% owned by Falck Renewables SpA.

In January 2019 Falck Renewables SpA completed the sale of 100% of its shares in Esposito Servizi Ecologici Srl.

During the first nine months of 2019, the following holdings were increased:

- Falck Renewables IS 42 LLC in NC 42 LL (from 99 to 100% of class B shares);
- Falck Renewables DLP MA LLC in SPME Dartmouth Holdings LLC (from 0 to 100% of class A shares);
- Falck Renewables SpA in Falck Renewables Vind AS (from 80% to 87.94%).

In addition, Ongarhill Wind Energy Limited and PV Diagnosis Srl were liquidated.

Vector Cuatro Renewables FZE was placed in liquidation.

Lastly, Falck Renewables NC Dominion-1 LLC changed its name to Falck Renewables Latitude LLC, and Falck Renewables Energy Srl changed to Falck Next Energy Srl.

4. Notes to the interim financial report

Internal group restructuring not affecting the consolidation perimeter

In July 2019, a business unit transfer from Vector Cuatro Srl to Falck Renewables Sviluppo Srl was completed.

The unit was comprised of 3 Business Development staff and goodwill from intellectual property.

The transfer provided the company with qualified staff, with considerable experience in the renewable energy sector, in order to support business development both for the Group and for third parties.

Definitive Purchase Price Allocation for Windfor Srl

In the first half of the year, the Group completed the Purchase Price Allocation for the acquisition of Windfor Srl. For further details, please see the interim financial statements at 30 June 2019.

Definitive Purchase Price Allocation for Energy Team SpA and Energia Eolica de Castilla SI

In the first nine months of 2019, the Group completed the following PPAs, which were shown as provisional at 31 December 2018, 31 March 2019 and 30 June 2019:

Energy Team SpA

On 2 October 2018, Falck Renewables SpA finalised the acquisition of 51% of Energy Team SpA, an Italian leading company in consumption control and flexibility management services in the electricity markets. On the same date, a shareholders' agreement was signed under which the parties exchanged an option right for the purchase or sale of the remaining shares (49%), available for exercise three years after the closing.

The company's financial position was entirely consolidated on 2 October 2018, and recorded on the income statement from 3 October 2018. In accordance with IFRS 3, the Falck Renewables Group consolidated Energy Team SpA at 100%, taking into account that Falck Renewables SpA has full control of the relevant activities.

The cost of acquiring 100% of Energy Team's shares was definitively recorded as €36,516 thousand including the valuation of options to buy and sell shares currently held by minority shareholders, and subject to a price adjustment mechanism based on results and net financial position, which was finalised in the first nine months of 2019.

The amount paid in 2019 for the purchase of 51% was €11,627 thousand, while €6,242 thousand had already been paid in 2018.

The total net equity on the date of acquisition was of €4,696 thousand.

4. Notes to the interim financial report

The difference between the net equity acquired and the price paid, including the valuation of the purchase and sale options of the shares currently held by minority shareholders, was allocated as shown below:

(EUR/000)	Carrying value of the acquired company at the acquisition date (provisional allocation)	Adjustment at the time of final allocation	Carrying value of the acquired company at the acquisition date (final allocation)
Intangible assets	20		20
Property, plant and equipment	592		592
Trade receivables/(payables)	2,749		2,749
Other assets/(liabilities)	37	(491)	(454)
Net financial position	1,789		1,789
Total net assets acquired	5,187	(491)	4,696
Know-how		7,088	7,088
Trade relations		8,255	8,255
Interruptibility contracts		16,142	16,142
Deferred liabilities		(8,784)	(8,784)
Goodwill	32,019	(22,900)	9,119
Total acquisition cost	37,206	(690)	36,516

The following table shows the amount of Energy Team SpA's revenues and net result for 2018, starting from the date of first consolidation on 3 October 2018, and for the first nine months of 2019:

(EUR/000)	2018	2019
Revenue	3,452	9,491
Profit/(loss) from the period	271	268

The cumulative effect on shareholders' equity from the date of acquisition to the date of this interim report amounts to €539 thousand, including both the results of Energy Team SpA and the depreciation and amortisation recorded on the assets subject to allocation, net of the related tax effects.

Energia Eolica de Castilla SL

On 27 November 2018 Falck Renewables SpA acquired 49% of the shares of Energia Eolica de Castilla SL, the owner of a 10 MW ready-to-build wind power project in the Castilla y León region of Spain. The value of the holdings will automatically rise to 93% on receipt of the authorisations provided for in the contract. On the same date, a shareholders' agreement was signed under which the parties exchanged an option right for the purchase or sale of the remaining shares (7%), available for exercise three years after the closing. In accordance with IFRS 10, Falck Renewables has de facto control of the company in respect of the shareholders' agreement, in particular by appointing the key figures of the company and controlling the main corporate bodies.

The acquisition of 100% of the shares of Energia Eolica de Castilla SL, including the valorisation of the purchase options, cost €1,357 thousand, €465 thousand of which paid in the first half of 2018 and €892 thousand to be paid at a later date, when certain conditions occur.

The total net equity on the date of acquisition was of €42 thousand.

The difference between the net assets acquired and the price paid was allocated to the wind plant for €1,825 thousand and under deferred tax liabilities for €510 thousand and will be amortised based on the residual useful life of the plant acquired.

4. Notes to the interim financial report

The audits performed for the final PPA did not change the conclusion found during the provisional PPA:

(EUR/000)	Carrying value of the acquired company at the acquisition date (provisional allocation)	Adjustment at the time of final allocation	Carrying value of the acquired company at the acquisition date (final allocation)
Intangible assets			
Property, plant and equipment	317		317
Trade receivables/(payables)			
Other assets/(liabilities)	43		43
Net financial position	(318)		(318)
Third party net worth			
Total net assets acquired	42		42
Property, plant and equipment (allocation at lowest price paid)	1,825		1,825
Deferred tax liabilities	(510)		(510)
Total acquisition cost	1,357		1,357

The following table shows the amount of revenues and net income of Energia Eolica de Castilla SI from the date of first consolidation:

(EUR/000)	2018	2019
Revenue		
Profit/(loss) from the period		(95)

The cumulative effect on shareholders' equity from the date of acquisition to the date of this interim report is -€95 thousand; this loss is due to the fact that the company is not yet operational, therefore the assets allocated to the capital gain resulting from the acquisition are not yet subject to amortisation.

4. Notes to the interim financial report

The following table shows the Balance Sheet as at 31 December 2018 and the Income Statement with the definitive allocations for the year 2018.

		31.12.2018	IFRS 3	31.12.2018
		Provisional allocation		Final allocation
(€ thousands)				
<i>Assets</i>				
A	Non-current assets			
	1 Intangible assets	140,580	7,871	148,451
	2 Property, plant and equipment	1,043,025		1,043,025
	3 Investments and securities	1,214		1,214
	4 Investments accounted for using the equity method	22,804		22,804
	5 Medium/long-term financial receivables	11,103		11,103
	6 Trade receivables			
	7 Deferred income tax assets	19,892		19,892
	8 Other receivables	3,479		3,479
	Total	1,242,097	7,871	1,249,968
B	Current assets			
	1 Inventories	5,828		5,828
	2 Trade receivables	98,678		98,678
	3 Other receivables	37,730		37,730
	4 Short-term financial receivables	2,615		2,615
	5 Securities	1,787		1,787
	6 Cash and cash equivalents	218,188		218,188
	Total	364,826		364,826
C	Non-current assets held for sale	3,701		3,701
	Total assets	1,610,624	7,871	1,618,495
<i>Liabilities</i>				
D	Net equity			
	1 Share capital	291,414		291,414
	2 Reserves	165,851		165,851
	3 Retained earnings			
	4 Profit for the period	44,159	(501)	43,658
	Total Group equity	501,424	(501)	500,923
	5 Third party equity	54,696		54,696
	Total equity	556,120	(501)	555,619
E	Non-current liabilities			
	1 Medium/long-term financial liabilities	700,847	(154)	700,693
	2 Trade payables	3,585		3,585
	3 Other payables	57,565		57,565
	4 Deferred income tax liabilities	26,755	8,618	35,373
	5 Provisions for other liabilities and charges	79,867		79,867
	6 Staff leaving indemnity (TFR)	4,316		4,316
	Total	872,935	8,464	881,399
F	Current liabilities			
	1 Short-term trade payables	48,287		48,287
	2 Other payables	52,425	(92)	52,333
	3 Short-term financial liabilities	78,226		78,226
	4 Provisions for other liabilities and charges			
	Total	178,938	(92)	178,846
G	Liabilities associate with non-current assets intended for sale	2,631		2,631
	Total liabilities	1,610,624	7,871	1,618,495

4. Notes to the interim financial report

		2018	IFRS 3	2018
		Provisional allocation		Final allocation
A	Revenue	335,889		335,889
	Direct costs	(169,070)	(714)	(169,784)
	Employee costs	(34,504)		(34,504)
	Other income	13,236	22	13,258
	Administrative expenses	(30,088)		(30,088)
	Net margin from trading activities			
B	Operating profit/(loss)	115,463	(692)	114,771
	Financial income/(expenses)	(40,899)		(40,899)
	Investment income/(expenses)	(3)		(3)
	Share of profit of investments accounted for using the equity method	2,745		2,745
C	Profit/(loss) before tax	77,306	(692)	76,614
	Total income tax	(16,884)	191	(16,693)
D	Profit/(loss) for the year	60,422	(501)	59,921
E	Profit attributable to non-controlling interests	16,263		16,263
F	Profit/(Loss) attributable to owners of the parent	44,159	(501)	43,658
	<i>Earnings per share attributable to owners of the parent</i>	<i>0.153</i>		<i>0.151</i>
	<i>Diluted earnings per share attributable to owners of the parent</i>	<i>0.152</i>		<i>0.150</i>

4. Notes to the interim financial report

The following table shows the Balance Sheet as at 30 June 2019 and the Income Statement with the definitive allocations for the first six months of 2019.

		30.06.2019	IFRS 3	30.06.2019
		Provisional allocation		Final allocation
(€ thousands)				
Assets				
A	Non-current assets			
	1 Intangible assets	142,220	6,453	148,673
	2 Property, plant and equipment	1,190,028		1,190,028
	3 Investments and securities	2,054		2,054
	4 Investments accounted for using the equity method	21,237		21,237
	5 Medium/long-term financial receivables	9,161		9,161
	6 Trade receivables			
	7 Deferred income tax assets	17,534		17,534
	8 Other receivables	3,072		3,072
	Total	1,385,306	6,453	1,391,759
B	Current assets			
	1 Inventories	7,725		7,725
	2 Trade receivables	102,084		102,084
	3 Other receivables	40,875		40,875
	4 Short-term financial receivables	4,294		4,294
	5 Securities	936		936
	6 Cash and cash equivalents	154,496		154,496
	Total	310,410		310,410
C	Non-current assets held for sale			
	Total assets	1,695,716	6,453	1,702,169
Liabilities				
D	Net equity			
	1 Share capital	291,414		291,414
	2 Reserves	189,701	(501)	189,200
	3 Retained earnings			
	4 Profit for the period	27,323	(979)	26,344
	Total Group equity	508,438	(1,480)	506,958
	5 Third party equity	54,469		54,469
	Total equity	562,907	(1,480)	561,427
E	Non-current liabilities			
	1 Medium/long-term financial liabilities	759,494	(154)	759,340
	2 Trade payables	2,464		2,464
	3 Other payables	56,432		56,432
	4 Deferred income tax liabilities	35,730	8,245	43,975
	5 Provisions for other liabilities and charges	81,902		81,902
	6 Staff leaving indemnity (TFR)	4,512		4,512
	Total	940,534	8,091	948,625
F	Current liabilities			
	1 Short-term trade payables	48,011		48,011
	2 Other payables	55,507	(158)	55,349
	3 Short-term financial liabilities	88,757		88,757
	4 Provisions for other liabilities and charges			
	Total	192,275	(158)	192,117
G	Liabilities associable with non-current assets intended for sale			
	Total liabilities	1,695,716	6,453	1,702,169

4. Notes to the interim financial report

		June 2019	IFRS 3	June 2019
		Provisional allocation		Final allocation
A	Revenue	185,417		185,417
	Direct costs	(93,275)	(1,418)	(94,693)
	Employee costs	(19,697)		(19,697)
	Other income	5,112	66	5,178
	Administrative expenses	(12,591)		(12,591)
	Net margin from trading activities	(47)		(47)
B	Operating profit/(loss)	64,919	(1,352)	63,567
	Financial income/(expenses)	(19,463)		(19,463)
	Investment income/(expenses)			
	Share of profit of investments accounted for using the equity method	887		887
C	Profit/(loss) before tax	46,343	(1,352)	44,991
	Total income tax	(11,548)	373	(11,175)
D	Profit/(loss) for the year	34,795	(979)	33,816
E	Profit attributable to non-controlling interests	7,472		7,472
F	Profit/(Loss) attributable to owners of the parent	27,323	(979)	26,344
	<i>Earnings per share attributable to owners of the parent</i>	<i>0.094</i>		<i>0.091</i>
	<i>Diluted earnings per share attributable to owners of the parent</i>	<i>0.094</i>		<i>0.091</i>

Temporary Purchase Price Allocation of the acquisitions of CEP Tramontane 1 Sas and CEF Vento SAS

In March 2019, Falck Energies Renouvelables SAS acquired 100% of the shares in the French companies CEP Tramontane 1 SAS and CEF Vento SAS. CEP Tramontane 1 SAS is, in turn, the owner of 100% of the shares of the following three wind companies: Parc éolien du Bois Ballay SAS, Parc éolien de Mazeray et de Bignay SAS and Parc éolien des Coudrays SAS, while CEF Vento SAS holds 100% of the shares of the following two wind companies: Eol Team SAS and Ferme éolienne de Noyales SAS. With this operation, the Group has acquired a total of five wind farms in operation in France for a total of 56 MW of network capacity.

The companies' financial positions were entirely consolidated, and recorded on the income statement from 1 March 2019.

The precise calculation and identification of the effects of the current assets and liabilities of the companies acquired is still ongoing, with particular reference to the value of the grants and plants, in application of IFRS 3. For further details, please see the interim financial statements at 30 June 2019.

This interim financial report at 30 September 2019 was drafted in accordance with International Financial Reporting Standards (IAS/IFRS). The income statement presents costs by function, which with regard to measurement of the headings, corresponds to IFRS requirements.

The interim financial report has also been prepared in conformance with article 154-ter, paragraph 5 of Legislative Decree 58/1998.

We note that, also following the simplifications introduced by Legislative Decree 25 of 15 February 2016 (which has assimilated Directive 2013/50/EU, so-called Transparency II) on periodic financial information to the public and in accordance with Article 2.2.3, paragraph 3, of the Rules of Markets organised and managed by Borsa Italiana SpA, Falck Renewables SpA, as a company belonging to the

4. Notes to the interim financial report

STAR segment, will continue to draw up and publish the interim financial reports in the forms adopted so far.

The accounting policies and measurement criteria used to draft the Interim financial report at 30 September 2019 are consistent with those adopted for the previous year-end financial statements, with the exception of the adoption of new policies, amendments and interpretations effective as of 1 January 2019.

With reference to the accounting policies in force as of 1 January 2019 compared to those applicable to the 2018 financial year, the only significant effect concerns the adoption of IFRS 16 "Leases".

For further details, please see the interim financial statements at 30 June 2019.

The effects of adopting the new standard on operating leases are shown below:

- an increase of €70.5 million in Assets for rights of use and €71.6 million in Financial liabilities for operating leases at 1 January 2019. At 30 September 2019, Assets for rights of use amounted to €72.3 million and Financial liabilities for operating leases amounted to €74.4 million;
- a €4.4 million reduction in operating lease instalments at 30 September 2019, with an improvement in EBITDA of the same amount;
- a €4 million increase in amortisation and depreciation at 30 September 2019 for the aforementioned rights of use, with an improvement in operating income of approximately €0.4 million;
- a €2.2 million increase in financial expenses at 30 September 2019;
- a €1.8 million negative impact on the pre-tax result.

4.2 Main changes

The Group uses the following alternative performance indicators:

- a) EBITDA is measured by the Group as profit for the period before investment income and expenses, net financial income/expenses, amortisation and depreciation, impairment losses, allocations to risk provisions and the income tax expense;
- b) Net financial position is defined by the Group as total cash and cash equivalents, current financial assets including shares available for sale, financial liabilities, fair value of financial hedging instruments and other non-current financial assets;
- c) Net financial position without operating leases: for the purposes of calculating the Financial Ratio, the financial payables for operating leases recorded in accordance with IFRS 16 are not included in the calculation of the Consolidated Net Financial Debt as defined above in the Corporate Loan Agreement.

Third quarter 2019 results

During the third quarter of 2019, the Falck Renewables Group recorded a profit before income tax and non-controlling interests of €6,313 thousand, showing strong growth on the same period in the prior year, which was of €3,614 thousand.

Although the third quarter generally shows very low profitability due to the seasonal nature of the wind power sector, thanks to the increase in revenues and higher installed capacity, the third quarter of 2019, by contrast, shows a strong increase in pre-tax profit compared to the same period of 2018.

4. Notes to the interim financial report

Revenues increased by €16,412 against the same quarter of 2018, due to (i) the change in the scope of consolidation resulting from the acquisitions of Energy Team SpA and the consortia for the management of interruptibility services in the Italian energy market in 2018, partially offset by the sale of Esposito Servizi Ecologici Srl, the acquisition, in March 2019, of five French wind farms with a grid capacity of 56 MW and the full operation of photovoltaic plants in the USA, (ii) higher revenues from ROC Recycle compared to the same period in 2018, (iii) the increase in prices for the waste disposal and treatment service for the WtE plant in Trezzo sull'Adda, (vi) the increase in electricity production resulting from the higher windiness in all countries where the Group operates, particularly in the United Kingdom.

As a result of the higher revenues described above, EBITDA increased from €31,223 thousand to €42,727 thousand (+37%). Operating profit was of €15,252 thousand (€13,882 thousand in the third quarter of 2018) with an increase of 10%.

During the third quarter of 2019, the photovoltaic plants of Actelios Solar SpA were written down by €6.2 million in anticipation of the replacement of solar modules, for a total of 6MW, with higher-performance models to improve the profitability of the plants.

Cumulative results at 30 September 2019

The cumulative income statement at 30 September 2019 showed a profit before income tax and non-controlling interests of €51,304 thousand, a strong improvement on the corresponding period in the prior year, which recorded €47,802 thousand (+7%).

Revenues for the Falck Renewables Group in the first nine months of 2019 amounted to €268,429 thousand, an increase of €36,855 thousand (+16%) on the same period in 2018.

The increase in **revenues** is due mainly to: (i) approximately €18.6 million for the change in the scope of consolidation as a result of the 2018 acquisitions of Energy Team SpA and the consortia for the management of interruptibility services in the Italian energy market, partially offset by the sale of Esposito Servizi Ecologici Srl, the acquisition, in March 2019, of five French wind farms with a grid capacity of 56 MW and the full operation of solar power plants in the USA; ii) approximately €5 million for the increased volume of energy sold by Falck Next Energy Srl, in order to mitigate the imbalance cost, iii) for approximately €1.9 million, to the increase in prices for the sale of electricity from wind sources in the United Kingdom, net of the ROC Recycle component, iv) for approximately €2.9 million, to the higher revenues from ROC Recycle compared to the first nine months of 2018, (v) about €2 million for the increase in prices for the waste disposal and treatment service (+14%) for the WtE plant in Trezzo sull'Adda, (vi) about €4.5 million for the increase in electricity production resulting from the greater windiness in Italy and the United Kingdom.

In the first nine months of 2019, the GWh generated in the wind sector amounted to 1,350 compared to 1,257 recorded in the same period of 2018 (+7% compared to the same 2018 period). The overall GWh generated globally by all of the Group's technologies totalled 1,656 compared to 1,548 in the same period of 2018 (+7% compared to the same 2018 period).

As mentioned above, during the first nine months of 2019, electricity sale prices increased by 14% in Italy for WtE plants and by 4% in the United Kingdom, including the incentive component for wind farms, compared to the same period in 2018.

In Italy, prices for wind farms, including price risk hedging, were substantially stable.

Electricity sale prices for biomass plants fell by 1%, and by 2% for solar plants, due to the lower value of the green certificate; in Spain prices for wind farms fell by 3%, while in France the feed-in tariff mechanism neutralised price fluctuations (+1%).

4. Notes to the interim financial report

With reference to production in the UK, there was also an average revaluation of the pound sterling against the euro of 0.1% in the first nine months of 2019 compared to the same period of the previous year.

The following EUR-GBP exchange rates were used in conversions:

	EUR/GBP
End of period exchange rate 30 September 2019	0.88573
End of period exchange rate 30 September 2018	0.8873
End of period exchange rate 31 December 2018	0.8945
Average exchange rate 30 September 2019	0.8835
Average exchange rate 30 September 2018	0.8841
Average exchange rate 31 December 2018	0.8847

Revenue by business category may be analysed as follows:

	(EUR thousands)			
	3rd quarter 2019	3rd quarter 2018	30.9.2019	30.9.2018
Sale of electricity	71,628	59,217	232,139	205,209
Waste treatment and disposal	3,933	5,128	13,617	16,243
Services and management of renewable energy plants	7,410	2,157	21,467	6,814
Other services	41	98	1,206	3,308
Total	83,012	66,600	268,429	231,574

Against growth in revenues of approximately €36.9 million, costs were up by approximately €30.7 million and other income fell by €4.1 million, resulting in an increase in operating income of €2.1 million, due to the following trends:

- **Other income** declined by €4,076 thousand compared with the first nine months of 2018. In fact, 2018 was affected by the non-recurring positive effect, amounting to €7.6 million, resulting from the release of certain provisions and reserves for the closure of a dispute relating to some land of the Sicilian projects in liquidation. The effect was partly offset by higher insurance indemnities and capital gains in 2019 compared to the same period in 2018;
- **Direct costs and expenses** increased by €26,704 thousand mainly for (i) the purchase of energy from the market by Falck Next Energy Srl in order to mitigate imbalance costs, (ii) the aforementioned expansion in the Group's scope of consolidation, (iii) higher amortisation due to higher installed capacity, (iv) higher amortisation of rights of use pursuant to IFRS 16, partially offset by lower rental and leasing costs, (v) higher amortisation of the customer list, interruptibility contracts and know-how of Energy Team SpA as a result of Price Purchase Allocation activities. In 2019, this item includes the write-down of €1 million relating to the Vector Cuatro group's contract portfolio and the write-down of €6.2 million of Actelios Solar SpA's photovoltaic plants in anticipation of replacing 6 MW of existing solar modules with higher performing models to improve plant profitability;
- **Employee costs** increased by €5,408 thousand compared to the first nine months of 2018; the increase is mainly due to the acquisition of Energy Team SpA, partially offset by the decrease in employees due to the sale of Esposito Servizi Ecologici Srl. There was also internal staff growth

4. Notes to the interim financial report

as the main departments were expanded during the last quarter of 2018 and 2019 to deal with the development of the new initiatives envisaged in the business plan;

- **General and administrative expenses** decreased by €1,527 thousand compared to the first nine months of 2018, mainly due to lower provisions and write-downs of receivables for approximately €1.5 million. 2018 was affected by the non-recurring impact of €0.5 million of transaction costs, offset by the release of funds, for the closure of a dispute relating to some land of the Sicilian projects in liquidation.

As a result of the above, in the first nine months of 2019 **EBITDA** reached €147,662 thousand (€130,612 thousand in 2018) and **Operating income** amounted to €78,819 thousand (€76,676 thousand in 2018).

EBITDA and Operating income for the first nine months of 2018 were affected by the non-recurring event, amounting to €7.1 million, resulting from the release of certain provisions and allocations, net of transaction costs, for the settlement of a dispute relating to certain sites belonging to the Sicilian projects in liquidation ("**2018 Non-recurring Event**").

The application of IFRS 16 had a positive impact on EBITDA in the first nine months of 2019 of €4.4 million and a positive impact of €0.4 million on Operating income.

Therefore:

- (i) after deducting the effects of the application of IFRS 16, **EBITDA** for the first nine months of 2019 would have been €143.2 million, an increase of 16% (+€19.7 million) compared to EBITDA for the first nine months of 2018, which, after deducting the effects of the 2018 non-recurring event, would have been €123.5 million;
- (ii) net of the effects of the application of IFRS 16, the **operating result** for the first nine months of 2019 would have been €78.4 million and would have increased by 12.7% (+€8.9 million), if compared with the operating result for 2018, equal to €69.6 million, after deducting the non-recurring Event 2018.

EBITDA for the first nine months of 2019, net of the non-recurring events described above, increased compared to 2018: (i) for the consolidation of Energy Team Srl, the US solar power plants, included in the scope for the whole period, and from March 2019 of the five French wind farms with a grid capacity of 56 MW, (ii) for higher revenues from ROC Recycle, (iii) from higher volumes of electricity in Italy and the United Kingdom, (iv) lower operating costs of the plants in operation, (v) higher selling prices of wind energy in the UK net of the ROC Recycle component and higher prices for the waste disposal and treatment service for the WtE plant in Trezzo sull'Adda, and (vi) higher insurance indemnities.

Excluding the resale of energy purchased from the market by Falck Next Energy Srl, in order to mitigate the cost of imbalances, from 2018 and 2019 revenues for €15 million and €10.3 million respectively, EBITDA as a proportion of revenues was 58.3% (59% in 2018).

Net financial expenses fell by €134 thousand compared to the first nine months of 2018. Financial expenses were also affected by the introduction of IFRS 16 as from 1 January 2019, which resulted in a €2.2 million increase in interest expenses for the Group.

This effect was totally offset by lower financial charges relating to a lower average non-recourse loan debt than in the previous period, by management actions aimed at increasing financial cost efficiency and by higher positive exchange rate differences.

In the first nine months of 2019, the Falck Renewables Group reported a **pre-tax and before-third party profit** of €51,304 thousand, an increase of 7% over 2018 (+€3,502 thousand). The application of IFRS 16 had the effect of reducing the pre-tax result by €1.8 million.

4. Notes to the interim financial report

Net of the effects of the application of IFRS 16, the **profit before taxes and third party interests** for the first nine months of 2019 would have been €53.1 million and would have increased by 30.5% (+€12.4 million), if compared with the profit before taxes and before the minority interests in 2018, equal to €40.7 million, after having deducted the Non-recurring Event 2018.

The **net financial position, including the fair value of derivatives**, amounts to €701,470 thousand compared with €547,013 thousand at 31 December 2018. This includes:

- non-recourse financing of €687,526 thousand, down €12,839 thousand on the balance at 31 December 2018;
- €74,408 million due under operating leases, which in accordance with IFRS 16 is classified as financial debt. Net of this amount, NFP would have been €627,062 thousand, an improvement on 31 December 2018 due to the investments made during the period, net of cash generated by the group's operations;
- net financial debt of €158,209 thousand relating to projects under construction and development which, at 30 September 2019, had not yet generated full year revenue; net of this amount, the fair value of derivatives (€44,483 thousand at 30 September 2019 compared with €37,973 thousand at 31 December 2018) and financial debt under operating leases, the net financial position would have been €424,370 thousand.

The increase in the net financial position of approximately €154 million is mainly attributable to the acquisitions and investments in plants under construction made during the period, net of some disposals, of approximately €156 million. The cash flow generated of €109 million more than offset the distribution of dividends of about €29 million, the negative change in the fair value of derivatives of about €6 million and a negative exchange rate effect of about €3 million. There was also a positive contribution of approximately €3 million from minority interests, as well as the application of the new IFRS 16 standard, which resulted in approximately €72 million in increased exposure.

The **net financial position**, without the fair value of derivatives, shows a debit balance of €656,987 thousand (€509,040 thousand at 31 December 2018): the balance at 30 September 2019 was affected by the application of IFRS 16 for €74,408 million.

Moreover, 77% of Gross debt, amounting to €764,274 thousand excluding the fair value of derivatives and the debt under operating leases, is hedged against interest rate fluctuations using interest rate swaps and by fixed-rate loans for a total amount of €585,600 thousand.

The net financial position (excluding the fair value of derivatives and the debt under operating leases, amounting to €582,579 thousand) is also hedged against interest rate fluctuations by fixed-rate loans and interest rate swaps for an amount equal to 101% of financial debt.

The following table shows a series of information designed to illustrate the composition and policy of the Falck Renewables Group interest rate hedges:

Total Gross Debt without Fair Value of Derivatives and operating leases	764,274
of which Project Gross Debt (Project GD)	687,526
% GD Project/GD	90%

Total Gross Debt without Fair Value of Derivatives and operating leases	764,274
Total hedged against interest rate fluctuations	585,600
% Hedged/GD	77%

Total NFP without Fair Value of Derivatives and operating leases	582,579
--	---------

4. Notes to the interim financial report

Total hedged against interest rate fluctuations	585,600
% Hedged	101%

Installed capacity, compared to the previous periods, is illustrated in the table below:

Technology	30.9.2019	30.9.2018	31.12.2018
Wind	825.9	769.9	769.9
WtE	20.0	20.0	20.0
Biomass	15.0	15.0	15.0
Solar	128.6	128.6	128.6
Total	989.5	933.5	933.5

Installed capacity increased by 56 MW compared to 30 September 2018 and 31 December 2018 following an agreement signed on 15 March 2019 by Falck Energies Renouvelables SAS for the acquisition of 100% of companies with a portfolio of five wind farms in operation in France.

Non-financial performance indicators

	Unit of measurement	30.9.2019	30.9.2018
Gross electricity generated	GWh	1,656	1,548
Total waste handled	Ton	103,489	185,087

The “Total waste treated” figure also includes intermediate waste.

The increase in electricity produced has been illustrated above.

The decrease in total waste managed is mainly due to the sale of Esposito Servizi Ecologici Srl (81,083 tons compared to 30 September 2018).

Profit before tax and non-controlling interests are shown in the following table, compared to figures at 30 September 2018:

	3rd quarter 2019	3rd quarter 2018	30.9.2019	30.9.2018
WtE, biomass and solar sector	(46)	2,493	7,270	7,746
Wind sector	13,115	6,921	62,797	55,236
Services sector	(183)	(852)	(1,171)	(786)
Other Businesses	(5,055)	(5,020)	(7,424)	4,848
Consolidation adjustments	(1,518)	72	(10,168)	(19,242)
Total	6,313	3,614	51,304	47,802

4. Notes to the interim financial report

4.3 Performance of the business sectors

This paragraph shows the key financial highlights and a brief commentary on the sectors that represent the Group.

❖ **WtE, biomass and solar sector**

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

	(EUR thousands)		
	30.9.2019	30.9.2018	31.12.2018
Revenue	51,253	51,157	67,801
EBITDA	26,341	24,696	30,794
Operating profit/(loss)	8,726	10,734	11,572
Profit/(loss) before tax	7,270	7,746	9,118
Intangible assets	389	1,398	473
Property, plant and equipment	246,743	244,716	240,138
Net financial position - indebtedness/(asset)	145,906	153,197	141,286
of which <i>non-recourse</i> financing	53,595	56,214	55,296
Capital expenditure	3,520	14,185	11,275
Employees at the period-end	(no.)	68	86
		86	84

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

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

In June 2018, the HG Solar Development LLC plant in Massachusetts, US, was powered up. The plant was acquired and constructed during the first half of 2018, and has an installed power of 6 MW.

In the same month of June, Falck Renewables DLP MA LLC also acquired three operating solar plants in Massachusetts, US, for a total of 14.5 MW.

On 15 January 2019, Esposito Servizi Ecologici Srl was sold.

The sector recorded a slight increase in revenues (+0.2%) compared to the first nine months of 2018. The greater installed capacity in the USA (+20.5MW), the greater production of electricity by the Waste to Energy plants in Trezzo sull'Adda and the biomass in Rende and the higher prices for the delivery of waste (+14% compared to the same period of the previous year) by the WtE plant in Trezzo more than offset the reduction resulting from the sale of Esposito Servizi Ecologici Srl.

As a result of the production deriving from the greater installed capacity, the collection of an insurance indemnity, the lower maintenance costs of the biomass plant in Rende, the higher prices for waste disposal, the greater production of electricity by the plants and the effects of the entry into force of IFRS 16 (effect equal to €758 thousand), EBITDA amounted to €26,341 thousand, up compared to the first nine months of 2018 (+€1,645 thousand): compared to revenues, it stood at 51.4% (48.3% in 2018). In 2018 EBITDA was affected by the non-recurring effect, amounting to €7,098 thousand, resulting from the release of certain provisions and allocations, net of transaction costs, for the closure of disputes relating to certain land of Sicilian projects in liquidation. Net of this non-recurring effect, EBITDA for the first nine months of 2019 would have increased by 50% (+ €8,743 thousand).

Operating profit dropped by €2,008 thousand and now totals €8,726 thousand. Net of the non-recurring effect of 2018, operating income for the first nine months of 2019 would have increased by €5,090 thousand.

4. Notes to the interim financial report

During the third quarter of 2019, the photovoltaic plants of Actelios Solar SpA were written down by €6.2 million in anticipation of the replacement of solar modules, for a total of 6MW, with higher-performance models to improve the profitability of the plants.

In the first nine months of 2019, investments in tangible and intangible fixed assets amounted to €3,520 thousand and mainly concerned maintenance work on the Trezzo plant (€1,030 thousand) and the hybrid Rende plant (€393 thousand) and the construction of a battery dedicated to energy storage at the Falck Middleton photovoltaic plant in the USA (€1,708 thousand).

The net financial position, which shows a net debt of €145,906 thousand, improved compared to 30 September 2018 by €7,291 thousand, mainly due to the cash flow generated by plants in operation, partially offset by investments made in the fourth quarter of 2018 and in 2019 and by the coming into force of IFRS 16, which resulted in an increase in financial payables for operating leases of €13,063 thousand at 30 September 2019.

The net financial position includes non-recourse project financing of €53,595 thousand (€56,214 thousand at 30 September 2018) and the negative fair value of interest rate risk hedging derivatives of €2,879 thousand (€2,724 thousand at 30 September 2018).

❖ Wind sector

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

	(EUR thousands)		
	30.9.2019	30.9.2018	31.12.2018*
Revenue	174,621	163,199	238,948
EBITDA	132,891	120,473	181,177
Operating profit/(loss)	89,536	81,985	128,158
Profit/(loss) before tax	62,797	55,236	90,895
Intangible assets	99,179	98,799	96,952
Property, plant and equipment	974,843	811,155	804,531
Net financial position - indebtedness/(asset)	504,088	458,721	473,264
of which <i>non-recourse</i> financing	633,931	684,596	645,069
Capital expenditure	110,400	32,752	43,763
Employees at the period-end	(no.)	25	26
		26	27

(*) The figures at 31 December 2018 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - in relation to the acquisition of Energia Eolica de Castilla SI.

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

In March 2019 Falck Energies Renouvelables SAS completed the acquisition of 100% of the companies with a portfolio of 5 wind farms in operation in France. The portfolio includes 25 turbines with a total grid capacity of 56 MW.

In the third quarter of 2019, the Group completed the purchase price allocation, in accordance with IFRS 3, of the acquisition of Energia Eolica de Castilla SI, which was presented as provisional at 31 December 2018 and 30 June 2019.

The increase in **revenue** (€11,422 thousand) is mainly due to: (i) the increase in electricity sale prices in the United Kingdom net of the ROC Recycle component, (ii) the €2.9 million increase in revenues from ROC Recycle compared to the first nine months of 2018, (iii) the change in the consolidation scope of

4. Notes to the interim financial report

five French wind farms with a grid capacity of 56 MW, and (iv) the increase in electricity production resulting from the higher windiness in Italy and the United Kingdom.

In the first nine months of 2019, the GWh generated in the wind sector amounted to 1,350 compared to 1,257 recorded in the same period of 2018 (+7% compared to the same 2018 period).

As mentioned above, during the first nine months of 2019 there was a 4% increase in electricity sale prices in the United Kingdom.

In contrast, electricity sale prices in Spain fell by 3% and in Italy by 2%, while in France the feed-in tariff mechanism neutralised price fluctuations (+1%).

With reference to production in the UK, there was also an average revaluation of the pound sterling against the euro of 0.1% in the first nine months of 2019 compared to the same period of the previous year.

EBITDA amounted to €132,891 thousand, an increase of €12,418 thousand over the same period last year and equal to 76.1% of revenue (2018: 73.8%).

The increase in EBITDA was primarily due to: (i) the positive dynamics related to revenues and (ii) the coming into force of IFRS 16 (€2,421 thousand).

As a result, operating income increased by €7,551 thousand compared to the first nine months of 2018 and represented 51.3% of revenues (50.2% in 2018).

In the first nine months of 2019, investments in property, plant and equipment and intangible assets amounted to €110,400 thousand and mainly related to the acquisition of 100% of the companies holding a portfolio of five wind farms in operation in France (€20,732 thousand), and the construction of the wind farms in Brattmyrliden (€16,621 thousand) and Aliden (€29,826 thousand) in Sweden, Falck Renewables Vind in Norway (€31,355 thousand), Energia Eolica de Castilla in Spain (€7,512 thousand), maintenance work on the Eolo 3W Minervino Murge plant (€347 thousand) and Kilbraur Wind Energy (€342 thousand) and costs on the Falck Renewables Vind concessions for €1,259 thousand and Parc Eolien d'Illouis Sarl for €473 thousand and the capitalisation of rights of use for €1,100 thousand.

The data relating to the acquisition of the French companies being acquired will be subject to purchase price allocation, in accordance with IFRS 3, to be completed within 12 months from the acquisition date.

Other investments (change in scope of consolidation)

The investment in acquisitions, recorded as a change in the scope of consolidation, amounted to €45,037 thousand (including the net financial position acquired), which must be added to the investments in tangible and intangible fixed assets described above for a total of €155,437 thousand.

The net financial position amounted to €504,088 thousand, including non-recourse project financing for €633,931 thousand and the negative fair value of interest rate, foreign exchange and commodity hedging derivatives for €48,544 thousand, up €45,367 thousand on 30 September 2018 due to the entry into force of IFRS 16, which increased financial payables for operating leases at 30 September 2019 by €57,904 thousand, and due to investments and acquisitions of wind farms in France, partially offset by cash generated by operating plants and the capital increases for the Swedish and Norwegian companies.

4. Notes to the interim financial report

❖ **Services sector**

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

	(EUR thousands)		
	30.9.2019	30.9.2018	31.12.2018*
Revenue	31,437	9,688	20,121
EBITDA	3,883	41	984
Operating profit/(loss)	(1,039)	(783)	(1,136)
Profit/(loss) before tax	(1,171)	(786)	(1,200)
Intangible assets	45,260	9,418	48,960
Property, plant and equipment	2,781	623	1,229
Net financial position - indebtedness/(asset)	2,964	(227)	998
<i>of which non-recourse financing</i>			
Capital expenditure	919	613	32,743
Employees at the period-end	(no.)	292	189
		189	271

(*) The figures at 31 December 2018 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of Energy Team SpA.

The sector consists mainly of the Spanish group Vector Cuatro and the Energy Team SpA group (the latter consolidated from 3 October 2018). This sector is active in the services and management of renewable energy production facilities, with a strong and extensive international presence with offices in Spain, Italy, France, Japan, Mexico, the United Kingdom and Bulgaria.

Vector Cuatro also offers engineering and consulting services in the development of projects to generate electricity principally using solar and wind energy.

Energy Team offers consumption monitoring and flexibility management services on the electricity markets.

On 2 August 2018, the Vector Cuatro Srl subsidiary concluded an agreement to acquire 100% of Windfor Srl, a leading and well-known technical advisory firm in the Italian wind power sector.

On 2 October 2018, Falck Renewables SpA finalised the agreement for the acquisition of 51% of Energy Team SpA, Italy's leading consumer control and flexibility management services in the electricity markets, which is 100% consolidated under put-and-call agreements on the remaining shares, with the related financial debt recorded as a counter entry. In the third quarter of 2019, the Group completed its purchase price allocation in accordance with IFRS 3, which was presented as provisional at 31 December 2018 and 30 June 2019.

In July 2019, a business unit transfer from Vector Cuatro Srl to Falck Renewables Sviluppo Srl was completed.

The unit was comprised of 3 Business Development staff and goodwill from intellectual property.

In July 2018 Falck Renewables SpA and Falck Renewables Wind Ltd sold the business units of certain staff functions to Vector Cuatro Srl and Vector Cuatro UK Ltd, respectively. The total number of people transferred to the Services sector was 37, of which 20 from the Other Activities sector and 17 from the Wind sector.

Revenues increased by €21,749 thousand, due to increased asset management services, mainly due to the transfer of the staff business units, and to the consolidation of Energy Team SpA, Windfor Srl and the consortia for the management of the energy interruptibility service on the Italian market.

4. Notes to the interim financial report

EBITDA amounted to €3,883 thousand, an increase of €3,842 thousand over the same period last year and equal to 12.4% of revenue (2018: 0.4%). The increase is mainly attributable to the new and broader scope of companies belonging to the sector and to the entry into force of IFRS 16 (€480 thousand). Revenues from consortia for the management of the energy interruptibility service on the Italian market, amounting to approximately €7.8 million, do not generate margins. Excluding these revenues, the percentage of EBITDA in 2019 would be approximately 16.4% of revenues in the sector.

Capital expenditure on property, plant and equipment and intangible assets in the first nine months of 2019 amounted to €919 thousand and related mainly to furniture and office equipment.

The figures at 30 September 2019 include a writedown of one million euros attributable to the contract portfolio of the Vector Cuatro group.

The net financial position was negative and amounted to €2,964 thousand, worsening by €3,191 thousand compared with 30 September 2018, mainly due to the introduction of IFRS 16, which increased financial payables for operating leases at 30 September 2019 by €1,353 thousand, and for investments in the fourth quarter of 2018 and 2019.

❖ **Other Businesses**

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

		(EUR thousands)		
		30.9.2019	30.9.2018	31.12.2018*
Revenue		51,570	23,618	33,089
EBITDA		(14,597)	(10,102)	(16,927)
Operating profit/(loss)		(17,768)	(11,884)	(20,224)
Profit/(loss) before tax		(7,424)	4,848	31,079
Intangible assets		6,140	1,467	2,097
Property, plant and equipment		2,493	173	303
Net financial position - indebtedness/(asset)		131,333	20,594	14,636
of which non-recourse project financing				
Capital expenditure		6,003	497	1,365
Employees at the period-end	(no.)	95	76	78

(*) The figures at 31 December 2018 have been restated to reflect the adjustments made following the application of IFRS 3 - Business Combinations - related to the acquisition of Energy Team SpA.

In July 2019, a business unit transfer from Vector Cuatro Srl to Falck Renewables Sviluppo Srl was completed.

The unit was comprised of 3 Business Development staff and goodwill from intellectual property. Revenues posted an increase of €27,952 thousand, due to the sale of energy by Falck Next Energy Srl.

Operating income fell by €5,884 thousand. This decline was mainly due to lower releases of provisions for risks.

Capital expenditure for the period amounted to €6,003 thousand, of which €4,943 thousand relating to intangible assets (software, licences and development costs) and €997 thousand for the capitalisation of user rights.

4. Notes to the interim financial report

This table sets out the data for the sector:

	FKR	Other companies	Eliminations	Sector
Revenue	71	51,499		51,570
EBITDA	(14,903)	306		(14,597)
Operating profit/(loss)	(17,365)	(403)		(17,768)
Intangible assets	4,989	1,151		6,140
Property, plant and equipment	2,403	90		2,493
Net financial position - indebtedness/(asset)	148,347	(17,014)		131,333
of which non-recourse project financing				
Capital expenditure	4,136	1,867		6,003
Employees at the period-end	(no.) 91	4		95

Note: FKR is Falck Renewables SpA; the Other companies heading includes Falck Next Energy Srl, Falck Renewables Sviluppo Srl, Falck Renewables Sicilia Srl, Falck Renewables Power 1 SL, Falck Renewables Power 2 SL, Falck Renewables Power 3 SL, Sol Occidental, SL, Big Fish SPV Srl and Falck Next Energy UL Ltd.

The financial position (primarily Falck Renewables SpA) showed a net debt of €131,333 thousand, compared with a net debt of €20,594 thousand at 30 September 2018. The increase in debt is due to capital increases in companies in Italy, Norway, Sweden and the USA, to support the development and construction of new plants, as well as the purchase of Energy Team and its Consortia and the distribution of dividends to shareholders net of dividends received.

The financial position also deteriorated as a result of the entry into force of IFRS 16, which increased financial payables for operating leases at 30 September 2019 by €2,088 thousand.

The net financial position includes the positive fair value of foreign exchange and commodity hedging derivatives for €6,940 thousand (negative for €3,313 thousand at 30 September 2018).

4.4 *Performance of the parent company Falck Renewables SpA*

The income statement of Falck Renewables SpA for the third quarter of 2019 closed with a loss before income tax of €4,770 thousand (loss of €4,282 thousand at 30 September 2018). The result was mainly affected by higher operating costs to support development initiatives in new markets and lower dividends partially offset by lower provisions.

The cumulative income statement for the nine months ended 30 September 2019 shows a loss before tax of €6,770 thousand, worsening compared with the same period of 2018, which was a profit of €5,836 thousand.

The result was affected by: (i) smaller releases of risk funds, net of provisions, mainly relating to the Sicily Projects (€3,862 thousand), (ii) lower income from equity investments (€7,486 thousand), (iii) higher services (€2,147 thousand) partially offset by lower personnel costs (€525 thousand) and higher Other income (€935 thousand).

In July 2018, Falck Renewables SpA sold the company staff branches to Vector Cuatro Srl. A total of 20 people were transferred.

The financial position showed a debit balance of €148,347 thousand, compared with a debit balance of €21,448 thousand at 30 September 2018. The increase in debt is due to capital increases in companies in Italy, Norway, Sweden and the USA, the acquisition of Energy Team and its consortia and the distribution of dividends to shareholders net of dividends received.

It should be noted that on 30 July 2018, Falck Renewables SpA signed an amendment to the “Corporate Loan” agreement stipulated on 12 June 2015. The change entailed an increase in the amount from €150 million to €325 million and an extension of the maturity from 30 June 2020 to 31 December 2023, while

4. Notes to the interim financial report

the other very favourable conditions remain unchanged: at 30 September 2019 the new loan was used for €32 million.

The net financial position also includes the positive fair value of the derivatives to hedge interest rate and foreign exchange risks for €2,392 thousand.

Capital expenditure for the period amounted to €4,136 thousand, of which €2,650 thousand relating to software licenses for management system development, €489 thousand relating to furniture and office equipment and €997 thousand for the capitalisation of rights of use.

4.5 *Employees*

At 30 September 2019, the Group had increased its workforce by 20 units in comparison to 31 December 2018, composed as follows:

	30.9.2019	31.12.2018	(number) 30.9.2018
Managers	54	54	50
White-collar staff and special categories	393	360	279
Blue-collar staff	33	46	48
Total	480	460	377

The number of employees by sector is composed as follows:

	30.9.2019	31.12.2018	(units) Delta
WtE, biomass and solar sector	68	84	(16)
Wind sector	25	27	(2)
Services sector	292	271	21
Other Businesses	95	78	17
Total	480	460	20

Compared to 31 December 2018, the increase is mainly due to internal growth, as the main departments were adapted in 2019 to deal with the development of new initiatives envisaged in the business plan, partially offset by the reduction in employees due to the sale of Esposito Servizi Ecologici Srl.

In July 2019, a business unit transfer from Vector Cuatro Srl to Falck Renewables Sviluppo Srl was completed.

The unit was comprised of 3 Business Development staff and goodwill from intellectual property.

4.6 *Management outlook*

The Group's results for 2019 will benefit from (i) the production of the solar power plants in Massachusetts (20.5 MW) for the entire year; (ii) the production of the five wind farms in operation in France acquired in March 2019 (56 MW) for ten months; and (iii) the results of Energy Team SpA for the entire year.

Construction of the Åliden (Sweden), Hennøy (Norway) and Energia Eolica de Castilla (Spain) wind farms for a total of 107 MW is expected to be completed by the end of 2019.

4. Notes to the interim financial report

The Business Plan was updated on 12 December 2018, envisaging significant growth in the Group's assets and economics, combined with a policy of attention to financial soundness. Please refer to the Plan for further information.

Some dossier investments in the geographical areas of interest included in the Business Plan are currently under evaluation.

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

5. Directors' report

5.1 Review of significant business developments

Risks relating to the British referendum on remaining in the European Union (“Brexit”)

At 30 September 2019 the Falck Renewables Group was present in the UK with twelve plants in operation (of which one in England of 11.75 MW, ten in Scotland of a total of 342.75 MW and one in Wales of 58.5 MW) with a total installed capacity, calculated at 100%, of 413 MW. Please also remember that of the twelve plants in operation in the UK, six plants, with a total of 273 MW, were subject to 49% transfer in March 2014 to CII Holdco (share 134 MW).

Given the importance of the Falck Renewables Group presence in the UK, we note the potential risks relating to the result of the referendum held on 23 June 2016, in which the majority of voters were in favour of the UK leaving the European Union (“Brexit”). There is still a great deal of uncertainty about the conclusion of the results of the negotiations with the European Union, after the British Parliament rejected any agreement on Brexit reached between the EU and the governments led by former Prime Minister Theresa May and the current Boris Johnson, opening up scenarios of extreme uncertainty about the possible ways in which the United Kingdom will have to leave the European Union.

Since the beginning of 2019, in fact, the British Parliament has rejected the agreement reached with the European Union by the government of former Prime Minister Theresa May (who was then forced to resign with effect from June 7) three times, has not agreed to hold a second referendum or to support the withdrawal of Article 50 of the Lisbon Treaty (the one that triggered Brexit), has rejected a "No Deal", has always spoken out against any early elections and has, finally, also rejected the last attempt to exit by not voting on the new agreement reached in mid-October by current Prime Minister Boris Johnson asking, instead, for a further postponement of Brexit.

On 28 October, the European Council approved the postponement of Brexit to 31 January 2020 as requested by the United Kingdom. This new postponement will be "flexible", as it will allow the United Kingdom to leave the European Union earlier than the deadline set, if parliament is able to approve the agreement negotiated. In addition to the new attempts to get the agreement approved, however, the current Prime Minister is also willing to ask his Parliament to vote for new early elections to be held before the end of the year.

During this period, the United Kingdom will remain a member of the Union, maintaining all its rights and obligations, including participating in the European elections held last May.

The deadlock that has occurred and the continuing doubts about the outcome of the negotiations with the EU continue to prevent operators from forecasting future geo-political, economic, financial, fiscal and industrial scenarios, also with reference to the British electricity market and the policies for the development and promotion of renewable energy following Brexit. It is therefore impossible to exclude the risk of volatility on the financial markets in the near future, including interest rates and the exchange rate for the pound sterling, with knock-on effects on the demand for electricity and a tightening of the credit market; for the moment, however, there is no sign of any of the above, given the openness towards clean energy by some members of the British government and the liquidity of the credit market. Furthermore, it cannot be ruled out that financial effects may also spread to other EU Member States, especially to those countries that have strong government debt exposures or banking sectors with strong exposures or weaker economies, in a climate that is not particularly favourable for the European Monetary Union, and that they may lead to an economic slowdown that, in addition to affecting the United Kingdom, may extend to other countries, with an effect on exchange rates, interest rates but also on prices and electricity tariffs.

5. Directors' report

More specifically, with reference to the Falck Renewables Group's operating plants, the cash flows generated in British pounds are at the service of the portion of debt in the same currency and that the Group continued to have access in the last two years to project financing at decidedly favourable conditions for the plants that entered into operation after the Brexit referendum.

The Company will continue to monitor medium and long-term indicators and any decisions that could affect the UK electricity market as well as the evolution of the GBP exchange rate which, in the event of devaluation, could have a positive impact on the Group's debt in GBP while also negatively affecting the financial indicators, net equity and future cash flow from UK assets that are converted, even in translation, into EUR.

Review of significant business developments

The following were the most significant events that took place:

On 15 January 2019 Falck Renewables completed the sale of 100% of the shares held in Esposito Servizi Ecologici Srl for a total price of €1,190 thousand.

On 15 March 2019 Falck Energies Renouvelables SAS completed the purchase of 5 wind farms in France, equal to approximately 56 MW of grid capacity for a total value of approximately €37 million.

On 7 May 2019 Middleton Electric Light Department ("MELD"), a Massachusetts-based utility (USA), entered into a long-term capacity agreement with a Falck Renewables Group company for the dispatching of energy accumulated during periods of high system costs. The storage plant will allow MELD to reduce these charges, generating benefits for the entire Middleton community, which will benefit from the lower operating costs of the system. The investment is estimated at \$3.6 million for the installation of a 6.6 MWh battery storage system that will be connected to the solar power plant in Middleton, Massachusetts. The battery is expected to be commissioned in the fourth quarter of 2019.

On 8 May 2019 Falck Renewables Vind AS signed a supply contract with Vestas Norway AS for the purchase of 5 V117-4.2 MW wind turbines for its Okla wind farm in Norway, with a total capacity of 21 MW and a total value of approximately €13.1 million, financed entirely from its own resources. The parties have also signed a long-term operations and maintenance agreement.

On 25 July Falck Renewables SpA signed an agreement with the Canadian Solar Group for the purchase of 70% of Big Fish SPV Srl, the owner of a solar project under development in Sicily, for a total capacity of up to 195 MW.

The price for the shareholding in Big Fish SPV Srl is approximately €60 thousand, and may subsequently increase to a maximum of €145 thousand, depending on the total final capacity of the project. Falck Renewables SpA has also reimbursed pro-rata the development costs incurred to date. The project, which has secured connection permits and preliminary land rights, will begin the authorisation process in the last quarter of 2019. The Parties will contribute pro rata to the development of the project. The operation also includes the stipulation of a shareholders' agreement that provides for a lock-up mechanism, which will end when the exit mechanisms from the company are activated, and a reciprocal change of control clause that implies, as the case may be, the right or obligation of Falck Renewables to acquire the minority interests. Once the authorisations for the construction of the plant have been obtained, Falck Renewables SpA may exercise a call option for the purchase of the remaining 30% of Big Fish SPV Srl.

On 9 September 2019, Energia Eolica de Castilla signed a long-term contract (Power Purchase Agreement) with Hólaluz, a Spanish energy supplier. The contract allows a coverage of about 75% of the plant's production.

5. Directors' report

The seven-year agreement is one of the first of its kind for wind projects in Spain and represents an important milestone for bilateral renewable energy purchase and sale contracts between a wind farm and an energy supplier to end customers, as it does not rely on public subsidies or support.

On 23 September 2019, Kilbraur Wind Energy Ltd signed a Power Purchase Agreement (PPA) for the sale of 100% of the energy produced by the Kilbraur wind farm in the UK to Shell Energy Europe Ltd. The contract came into force in October 2019. The agreement will result in the sale of the energy and associated benefits, such as ROCs, ROC Recycle and REGOs, produced by the plant located near Golspie, Scotland, and follows a similar agreement signed last April with Shell Energy Europe Ltd for the Millennium wind farm, located near Fort Augustus, Scotland.

Important events occurring after the closure of the quarter

On 10 October 2019, Falck Renewables Wind Ltd signed a joint development agreement with REG Windpower Ltd for approximately 200 MW of solar and wind projects in the UK. A dedicated development company, Naturalis Energy Developments Ltd, has been set up for this purpose, owned 70% by Falck Renewables Wind Ltd and 30% by REG Damery Developers Ltd. The company will benefit from services provided by the REG team, which has experience in development, management and design, and from Falck Renewables' know-how in engineering, purchasing, financing, sustainability and PPA Origination. Two projects included in the portfolio, one wind and one solar, have already been approved. Once the authorisation process has been completed, Falck Renewables Wind Ltd will have an option to buy and build the projects or sell one or more of them on the market.

On 25 October 2019, Actelios Solar SpA successfully renegotiated and extended a €21.7 million non-recourse project financing agreement for three solar power plants in Sicily, with the addition of €13.3 million, for a total of €35 million. Actelios Solar SpA has a portfolio of 13 MW of solar power, with plants located in the municipalities of Vittoria (Ragusa), Centuripe (Enna) and Catania, for a total annual production of green energy of 19.9 GWh which allows the savings of about 10 thousand tons of CO₂ per year. The renegotiated project financing contract, entirely with Crédit Agricole Corporate & Investment Bank, as Structuring Arranger, Hedging Provider and Agent Bank, is valid until December 2029, with a maturity of 3.5 years longer than the previous one and better terms and conditions. Crédit Agricole Italia is acting as Account Bank. The additional funding will also be used to replace 6 MW of existing solar modules to improve plant performance and return on investment.

5.2 Main investments and divestments

In the first nine months of 2019, total investments amounted to €119,179 thousand.

Investments in property, plant and equipment amounted to €112,266 thousand and mainly related to the acquisition of 100% of the companies holding a portfolio of five wind farms in operation in France (€20,732 thousand), the construction of the wind farms in Brattmyrliden (€15,816 thousand) and Aliden (€29,599 thousand) in Sweden, Falck Renewables Vind in Norway (€31,156 thousand), Energia Eolica de Castilla in Spain (€7,421 thousand), maintenance work on the Eolo 3W Minervino Murge plant (€347 thousand), the Trezzo plant (€1,030 thousand) and the Kilbraur Wind Energy plant (€342 thousand), the construction of the Falck Middleton battery (€1,708 thousand), the purchase of furniture and office investments (€1,006 thousand) and the capitalisation of user rights (€1,969 thousand).

The data relating to the acquisition of the French companies being acquired will be subject to purchase price allocation, in accordance with IFRS 3, to be completed within 12 months of the acquisition date.

Investments in intangible assets amounted to €6,913 thousand and mainly relate to operating software and licensing costs of €2,747 thousand, development costs of €1,847 thousand, costs of concessions for Falck Renewables Vind of €1,259 thousand and Parc Eolien d'Illois Sarl of €473 thousand and the capitalisation of user rights of €516 thousand.

5. Directors' report

Other investments (change in scope of consolidation)

The following companies were acquired during 2019, and consolidated line-by-line from the date of their acquisition:

- CEF Vento SAS, 100% owned by Falck Energies Renouvelables SAS;
- CEP Tramontane 1 SAS, 100% owned by Falck Energies Renouvelables SAS;
- Eol Team SAS, 100% owned by CEF Vento SAS;
- Ferme Eolienne de Noyales SAS, 100% owned by CEF Vento SAS;
- Parc Eolien du Bois Ballay SAS, 100% owned by CEP Tramontane 1 SAS;
- Parc Eolien de Mazeray et de Bignay SAS, 100% owned by CEP Tramontane 1 SAS;
- Parc Eolien des Coudrays SAS, 100% owned by CEP Tramontane 1 SAS.

The investment in acquisitions, recorded as a change in the scope of consolidation, amounted to €45,037 thousand (including the net financial position acquired), which must be added to the investments in tangible and intangible fixed assets described above for a total of €164,216 thousand.

***6. Certification of the Corporate Accounting Documents Officer pursuant to Article 154-bis paragraph
2 of Italian 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 Consolidated Finance Act (Legislative Decree no. 58/1998), Paolo Rundeddu, in his capacity as corporate accounting documents officer, declares that the accounting information contained in this interim financial report at 30 September 2019 is consistent with the data in the documents, accounting records and other records.

Paolo Rundeddu
(Corporate accounting
documents officer)

Milan, 7 November 2019