

FALCK RENEWABLES Group

Interim Financial Report
at 30 September 2020

Board of Directors

Milan, 11 November 2020

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

Interim Financial Report at 30 September 2020

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1. Company officers

1. Company officers

Board of Directors

Falck Enrico Ottaviano	Executive Chairman
Corbetta Guido Giuseppe Maria	Deputy Chairman
Volpe Toni	Chief Executive Officer
Caldera Elisabetta (*)	Director
Dassù Marta (*)	Director
Falck Federico Francesco Sergio	Director
Giadrossi Nicoletta (*)	Director
Grenon Georgina (*)	Director
Marchi Filippo Claudio Neil	Director
Ott Andrew Lee (*)	Director
Pietrogrande Paolo (*)	Director
Stefini Silvia (*)	Director

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

The Board of Directors was appointed by the Shareholders' Assembly on 7 May 2020

Board of Statutory Auditors

Righetti Dario	Chairman
Conca Giovanna	Statutory auditor
Paleologo Oriundi Patrizia	Statutory auditor
Busetto Domenico	Alternate auditor
Delfrate Daniela	Alternate auditor

The Board of Statutory Auditors was appointed by the Shareholders' Assembly on 7 May 2020

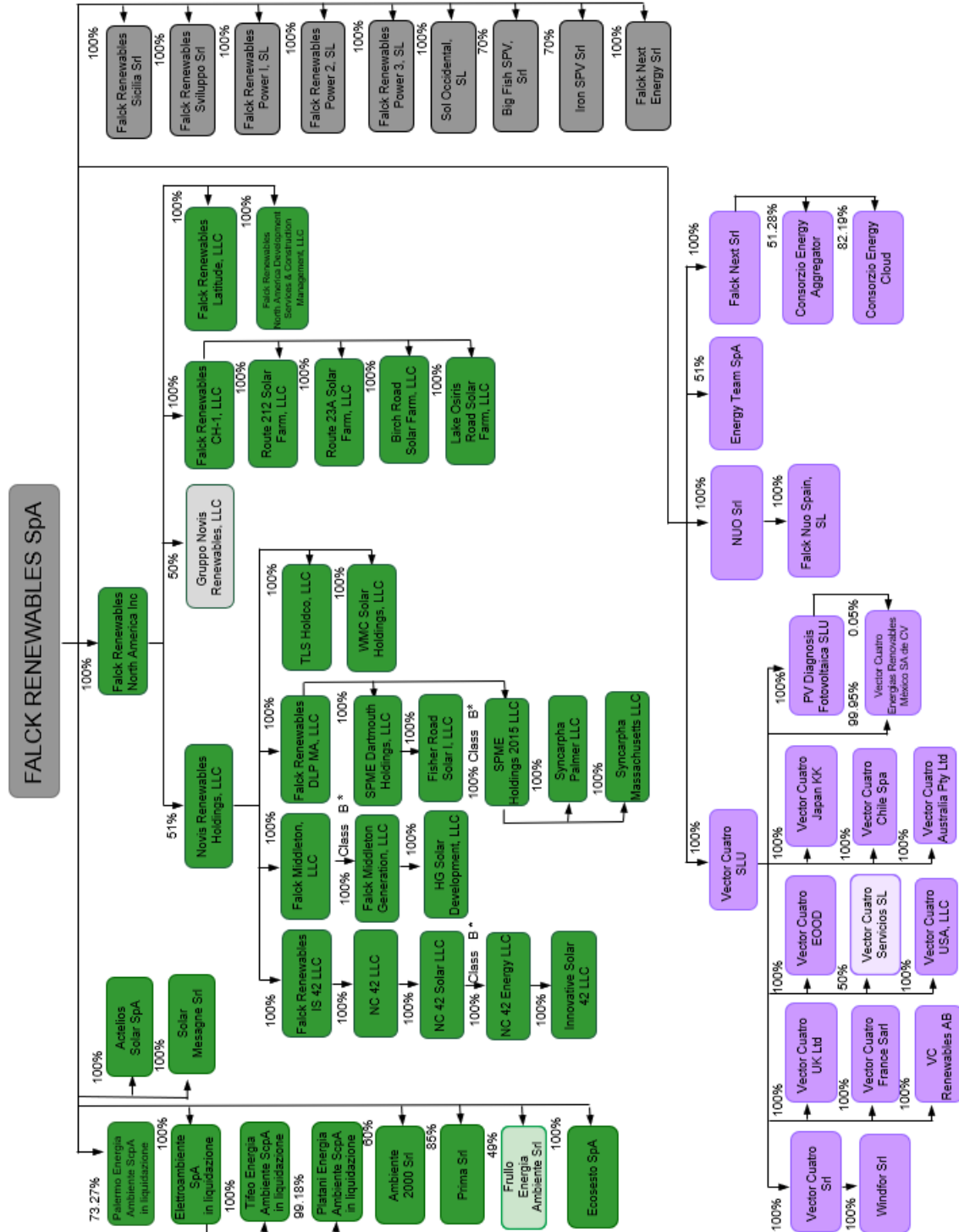
Independent Auditors

PricewaterhouseCoopers SpA

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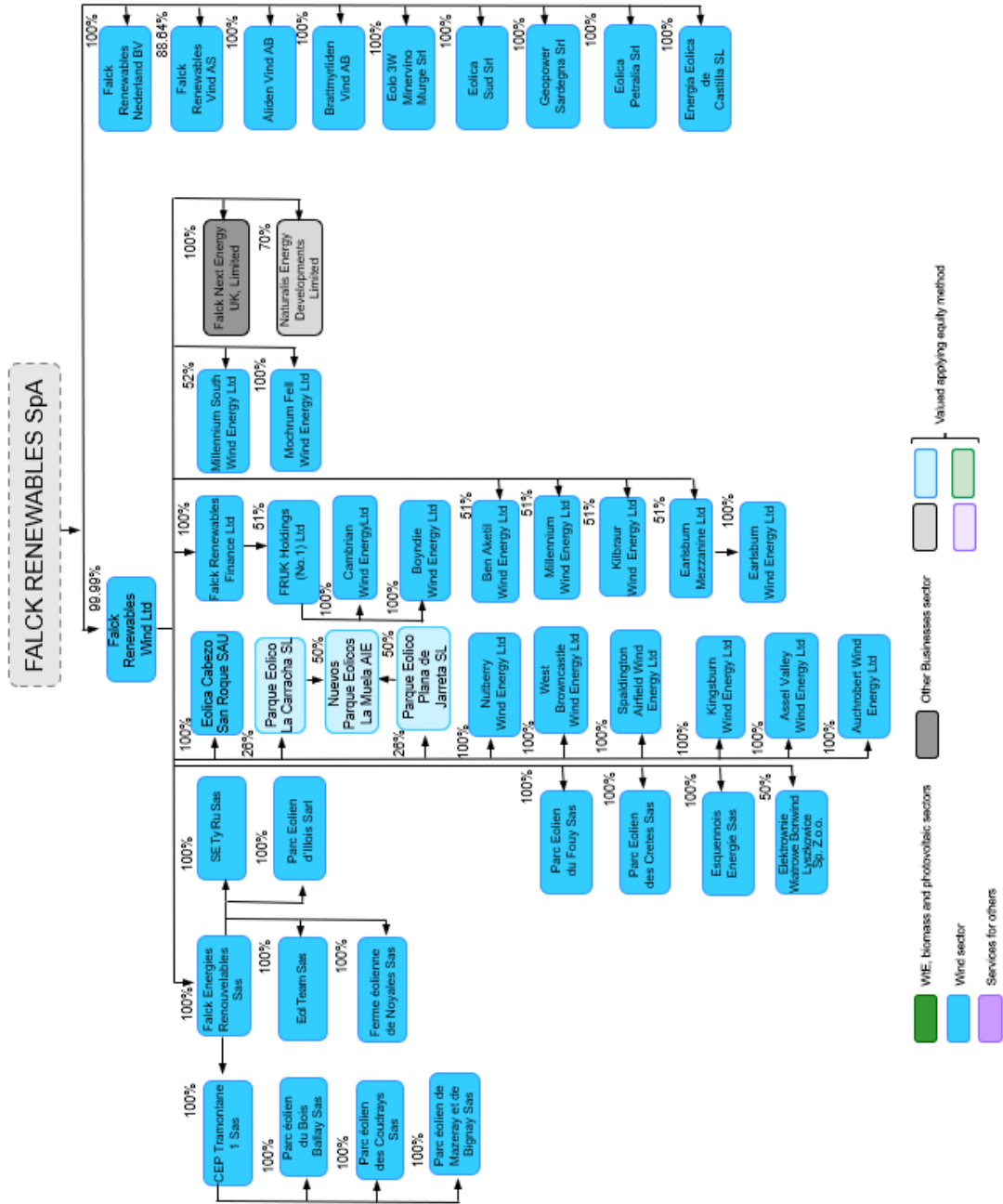
2. Group structure

2. Group structure



FALCK RENEWABLES Group – Interim Financial Report at 30 September 2020

2. Group structure



Legend:

- WIE, biomass and photovoltaic sectors (Green box)
- Wind sector (Blue box)
- Services for others (Purple box)
- Other Businesses sector (Grey box)
- Valued applying equity method (Light blue box)

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

3. Financial statements

3. Financial statements

3.1 Income statement

	(€ thousands)				
	Third quarter 2020	Third quarter 2019	At 30.9.2020	At 30.9.2019	At 31.12.2019
Revenues	80,550	83,012	275,839	268,429	374,494
Direct costs	(52,815)	(54,135)	(156,135)	(148,828)	(199,897)
Personnel costs	(11,423)	(9,918)	(34,038)	(29,615)	(41,222)
Other income	2,197	3,006	11,703	8,184	10,747
Administrative expenses	(7,939)	(6,709)	(24,605)	(19,300)	(29,683)
Net margin from trading activities	(59)	(4)	37	(51)	(44)
Operating profit/(loss)	10,511	15,252	72,801	78,819	114,395
Financial income/(expenses)	(6,277)	(10,005)	(27,083)	(29,468)	(39,139)
Investment income/expenses	43	38	12	38	37
Share of profit of investment accounted for using the equity method	(2,407)	1,028	(3,187)	1,915	2,670
Profit/(loss) before tax	1,870	6,313	42,543	51,304	77,963
Income tax expense					(14,782)
Profit/(loss) for the period					63,181
Profit attributable to non-controlling interests					14,745
Profit/(Loss) attributable to owners of the parent					48,436
EBITDA (*)	31,152	42,727	137,403	147,662	204,011

(*) EBITDA = EBITDA is measured by the Falck Renewables 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.

3. Financial statements

3.2 Net financial position

	30.9.2020	30.6.2020	31.12.2019	Changes	
	(1)	(2)	(3)	(4)=(1)-(2)	(5)=(1)-(3)
Current third party financial liabilities	(85,760)	(97,549)	(89,722)	11,789	3,962
Current financial liabilities for operating leases	(5,355)	(5,285)	(4,971)	(70)	(384)
Current third party financial receivables	6,032	9,103	7,681	(3,071)	(1,649)
Current financial receivables from associates and joint ventures	1,172	58		1,114	1,172
Cash and cash equivalents	339,066	173,457	131,232	165,609	207,834
Current net financial position	255,155	79,784	44,220	175,371	210,935
Non-current third party financial liabilities	(694,711)	(703,304)	(697,847)	8,593	3,136
Non-current financial liabilities for operating leases	(75,682)	(76,596)	(75,761)	914	79
Bonds issued (<i>Green Bonds</i>)	(175,428)			(175,428)	(175,428)
Non-current financial position	(945,821)	(779,900)	(773,608)	(165,921)	(172,213)
Net financial position pursuant to					
Consob circular DEM/6064293/2006	(690,666)	(700,116)	(729,388)	9,450	38,722
Non-current third party financial receivables	8,559	7,636	8,622	923	(63)
Total net financial position	(682,107)	(692,480)	(720,766)	10,373	38,659
- of which non-recourse loans	(611,199)	(614,204)	(671,909)	3,005	60,710
- of which financial liabilities for operating leases	(81,037)	(81,881)	(80,732)	844	(305)
- of which fair value of derivatives	(43,236)	(38,887)	(32,587)	(4,349)	(10,649)
-of which fair value of derivatives on <i>Green Bonds</i>	(22,331)			(22,331)	(22,331)
Net financial position excluding fair value of derivatives	(616,540)	(653,593)	(688,179)	37,053	71,639
Net financial debt excluding operating leases	(601,070)	(610,599)	(640,034)	9,529	38,964
Net financial debt excluding operating leases and derivatives	(535,503)	(571,712)	(607,447)	36,209	71,944

4. Notes

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

The interim report at 30 September 2020 includes information on 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 123 companies, of which 105 are consolidated on a line-by-line basis, and 18 are consolidated applying the equity method.

During the first nine months of 2020, the following companies were set up:

- Novis Renewables Holdings LLC (formerly EF Columbus Energy Holdings LLC) is 51% owned by Falck Renewables North America Inc and is fully consolidated;
- Novis Renewables LLC (formerly EF Columbus Renewables LLC) 50% owned by Falck Renewables North America Inc and consolidated using the equity method.

EF Columbus Renewables LLC changed its name to Novis Renewables LLC with effect from 22 April 2020, and EF Columbus Energy Holdings LLC changed its name to Novis Renewables Holdings LLC with effect from 22 May 2020.

Moreover, with effect from 3 April 2020, the following new US companies have been incorporated, 100% owned by Novis Renewables LLC and therefore consolidated using the equity method:

- EF NY CDG 001 LLC
- EF NY CDG 002 LLC
- EF NY CDG 003 LLC
- EF NY CDG 004 LLC
- EF NY CDG 005 LLC
- EF NY CDG 006 LLC
- EF NY CDG 007 LLC
- EF NY CDG 008 LLC
- EF NY CDG 009 LLC
- EF NY CDG 010 LLC
- EF NY CDG 011 LLC

On 20 March 2020 Eni New Energy US Inc. ("ENE US") and Falck Renewables North America Inc. ("FRNA") completed the strategic agreement announced on 20 December 2019. This agreement provided for the creation of an equal platform, through Novis Renewables LLC, for the development, construction and financing of new renewable energy projects such as solar, photovoltaic, onshore wind and storage. At the same time, under the terms of the agreement, FRNA sold its 49% stake in Novis Renewables Holdings LLC, owner of the plants currently operating in the United States, to ENE US for a total capacity of 112.5 MW.

4. Notes

In March 2020 Falck Renewables SpA completed the purchase of the shares held by Ascia Renewables SI in Energia Eolica de Castilla SI. As a result of this transaction Falck Renewables SpA holds a 100% stake.

In April 2020, Falck Renewables SpA's stake in Falck Renewables Vind AS increased from 80% to 88.64% following a share capital increase.

In May 2020 Elettroambiente SpA in liquidation completed the purchase of the shares held by Epc Sicilia Srl in Tifeo Energia Ambiente ScpA in liquidation. As a result of this transaction Elettroambiente SpA in liquidation holds a 100% stake.

Furthermore, with effect from 12 June 2020, CEF Vento Sas was merged into Falck Energies Renouvelables Sas, which held 100% of the company.

On 1 July 2020, Falck Renewables SpA acquired the shares held by EPC Sicilia Srl in Palermo Energia Ambiente ScpA in liquidation. As a result of this transaction Falck Renewables SpA increased its holding from 71.27% to 73.27%. Also on 1 July 2020, Elettroambiente SpA in liquidation acquired the shares held by EPC Sicilia Srl in Platani Energia Ambiente ScpA in liquidation. As a result of this transaction Elettroambiente SpA in liquidation increased its holding from 87.18% to 99.18%.

With effect from 31 July 2020, the following new companies have been incorporated and registered in the United States of America, 100% owned by Novis Renewables Holdings LLC:

- WMC Solar Holdings LLC;
- TLS Holdco LLC.

In addition, with effect from 6 August 2020, the German company Falck Renewables Verwaltungs GmbH has been definitively removed from the Trade Register, having completed the liquidation procedure.

4.2 Main changes

The alternative indicators used by the Group are:

- 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 debt excluding 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.

4. Notes

Third quarter 2020 results

On 16 September 2020, Falck Renewables SpA placed a senior unsecured equity-linked green bond for a nominal amount of €200 million maturing on 23 September 2025. For further details, please refer to paragraph 5.1 *Review of business*.

In the third quarter of 2020 the Falck Renewables Group recorded a profit before tax and before minority interests of €1,870 thousand, down on the profit of €6,313 thousand recorded in the same period of the previous year.

Moreover, the third quarter generally shows very low profitability due to the seasonal nature of the wind energy sector.

Revenues were down compared to the corresponding quarter of 2019 by €2,462 thousand: (i) lower electricity sales prices compared to last year, (ii) lower revenues from ROC Recycle compared to the corresponding period of 2019, partially offset by (iii) the higher electricity production resulting from the higher installed capacity, and (iv) the higher volume of energy sold by Falck Next Energy Srl.

EBITDA dropped from €42,727 thousand to €31,152 thousand due to (i) the decrease in revenues described above, (ii) the increase in development activities for new initiatives and related costs, (iii) higher personnel costs deriving from the strengthening of the business line and staff structures, and (iv) lower revenues following the settlement of disputes over Sicilian projects. Operating income amounted to €10,511 thousand compared to €15,252 thousand in the third quarter of 2019.

The positive change in the Fair Value of the conversion option of the senior unsecured equity-linked green senior bond for a value, net of contractual costs and the effect of the amortised cost in accordance with IFRS 9, of €1,489 thousand ("**Non-recurring event**") influenced the pre-tax result and before minority interests.

Without the "**Non-recurring event**" the **profit/(loss) before tax and minority interests** would have amounted to €381 thousand (€6,313 thousand in the third quarter of 2019).

Progressive results up to 30 September 2020

The cumulative income statement at 30 September 2020 shows a pre-tax profit before taxes and before minority interests of €42,543 thousand, down by €8,761 thousand compared to the same period last year.

In the first nine months of 2020, the Falck Renewables Group recorded revenues of €275,839 thousand, an increase of €7,410 thousand (+3%) compared to the same period in 2019.

The increase in revenues reflects multiple opposing dynamics, which can be summarised as follows: (i) about €11 million for higher production from the operation of the Hennøy (Norway), Åliden (Sweden) and Energia Eolica de Castilla (Spain) plants and the 5 French wind farms acquired in 2019, (ii) about €6 million for higher production in the United Kingdom and France, (iii) about €9 million for higher volumes of energy sold to third parties by Falck Next Energy Srl, (iv) about €16 million for the significant reduction in electricity sales prices mainly in Italy, Spain and the United Kingdom, including the differential attributable to the Roc Recycle component, (v) about €1 million for lower revenues from the Services sector, and finally (vi) about €3 million for lower revenues from the biomass plant at Rende due to the shutdown for scheduled maintenance every two years.

In the first nine months of 2020 the wind power sector produced 1,689 GWh compared to 1,350 in the same period of 2019 (+25%). The GWh produced globally by all the Group's technologies amounted to 1,977 compared to 1,656 in the same period of 2019 (+19%). As already highlighted, the increase is mainly due to the higher installed capacity in operation in 2020 compared to last year.

4. Notes

As mentioned above, electricity sales prices, including the incentive component, decreased during the first nine months of 2020 compared to the same period in 2019, in Italy, by 5% for wind farms, including price risk hedging activities, 7% for solar power plants, 11% for WtE plants, 25% for wind power plants in Spain, 10% for wind power plants in the United Kingdom, 3% for solar power plants in the United States of America, while in France, for wind power plants, the Feed-in Tariff mechanism offset the price fluctuation (+1%).

In Italy, on the other hand, there was a 4% increase in electricity prices for biomass plants due to the incentive component and a 6% increase in prices for waste disposal and treatment services.

Furthermore, with reference to revenues in the United Kingdom, in the first nine months of 2020, the pound sterling's average devaluation against the euro was 0.2% compared to the same period of the previous year. On the other hand, with regard to revenues in the United States of America, in the first nine months of 2020, the average devaluation of the dollar against the euro was 0.1% compared to the same period of the previous year. The reference exchange rates in conversion transactions between euro and sterling and between euro and dollar are as follows:

	Euro/GBP	Euro/USD
End of period exchange rate 30 September 2020	0.9124	1.1708
End of period exchange rate 30 September 2019	0.8857	1.0889
End of period exchange rate 31 December 2019	0.8508	1.1234
Average exchange rate 30 September 2020	0.8851	1.1250
Average exchange rate 30 September 2019	0.8835	1.1236
Average exchange rate 31 December 2019	0.8778	1.1195

A breakdown of revenues by category of activity is shown below:

	(€ thousands)			
	Third quarter 2020	Third quarter 2019	30.9.2020	30.9.2019
Sale of electricity	68,603	71,628	237,843	232,139
Waste disposal and treatment	4,003	3,933	14,293	13,617
Services and management of renewable energy plants	7,195	7,410	22,100	21,467
Other services	749	41	1,603	1,206
Total	80,550	83,012	275,839	268,429

Against an increase in revenues of approximately €7.4 million, costs increased by approximately €16.9 million and other income by approximately €3.5 million, resulting in a reduction in operating income of approximately €6.0 million, due to the following trends:

- **Other income** increased compared to the first nine months of 2019 by €3,519 thousand mainly due to (i) higher revenues from the provision of services of €2,110 thousand mainly to Novis Renewables, LLC and (ii) the capital gain of €3,925 thousand realised following the sale by the Group of 50% of the equity investment in Novis Renewables, LLC (and therefore joint control) to Eni New Energy US Inc with consequent deconsolidation of the same and the first recognition at fair value of the remaining 50% equity investment. When comparing with the same period of 2019, it is worth mentioning that this was influenced by the capital gains of Esposito Servizi Ecologici Srl, (€809 thousand) Tifeo (€898 thousand) and Energy Team SpA (€198 thousand). The amount was partially offset by lower contingent assets and lower income from non-current operations.

4. Notes

- the item **Direct costs and expenses** increased by €7,307 thousand, mainly: (i) the purchase of energy from the market by Falck Next Energy Srl, (ii) higher costs and depreciation due to the increased installed capacity, and (iii) higher maintenance costs for the biennial shutdown of the biomass plant;
- **Personnel costs** increased by €4,423 thousand compared to the first nine months of 2019, mainly due to the average increase in the workforce (+69 employees) compared to the same period of 2019. The increase in the average number of employees is mainly due to a growth in internal personnel as the main functions have been structured to cope with the development of new initiatives envisaged in the business plan. Compared to 2019, higher Long Term Incentive Plan costs of €613 thousand (of which €448 thousand for one-off costs of the 2017-2019 plan) also had an impact on personnel costs;
- **General and administrative expenses** increased by €5,305 thousand compared to the first nine months of 2019, mainly due to costs associated with development activities in the various businesses (assets, services and digital asset management), higher allocations to funds, higher Long Term Incentive Plan costs for the CEO of Falck Renewables SpA of €791 thousand (of which €526 thousand for one-off costs under the 2017-2019 plan) and costs in favour of the local communities and territories in which the Group operates in support of the "Covid-19" emergency of approximately €780 thousand. These higher costs were partially offset by greater use of the risk provisions compared to the previous period.

As a result of the above, in the first nine months of 2020 **EBITDA** reached €137,403 thousand (€147,662 thousand in 2019) and **Operating income** amounted to €72,801 thousand (€78,819 thousand in 2019).

EBITDA for the first nine months of 2020 decreased compared to 2019 mainly due to the decrease in electricity selling prices, mainly attributable to the United Kingdom, Italy and Spain, partially offset by the increased electricity production of the Group due to the new installed capacity.

Net financial expenses decreased compared to the first nine months of 2020 by €2,385 thousand mainly due to the positive change in the Fair Value of the conversion option for the senior unsecured equity-linked green bond issued on 23 September 2020, for a value, net of contractual costs and the effect of amortised cost in accordance with IFRS 9, of €1,489 thousand ("**Non-recurring event**").

There were lower financial charges relating to a lower average non-recourse loan debt and management actions aimed at making financial costs more efficient, partly offset by lower net exchange gains.

Share of profit from investments accounted for using the equity method decreased by €5,102 thousand compared to the first nine months of 2019 mainly due to the negative change in the valuation at equity of the development companies Novis Renewables, LLC (€3,643 thousand) and Naturalis Energy Developments Ltd (€1,133 thousand).

In the first nine months of 2020, the Falck Renewables Group therefore recorded a **profit before tax and non-controlling interests** of €42,543 thousand, a decrease of €8,761 thousand compared to 2019.

Without the "**Non-recurring event**" the **profit/(loss) before tax and minority interests** would have amounted to €41,054 thousand.

4. Notes

The **net financial position, including the fair value of derivatives**, amounts to €682,107 thousand compared with €720,766 thousand at 31 December 2019. This includes:

- non-recourse financing of €611,199 thousand, down €60,710 thousand on the balance at 31 December 2019;
- €81,037 million due under operating leases, which in accordance with IFRS 16 is classified as financial debt. Net of this amount, the net financial position would have been €601,070 thousand, down by €38,964 thousand compared to 31 December 2019;
- includes the fair value of derivatives hedging interest rate, exchange rate and commodity exposures for €43,236 thousand and the fair value for €22,331 thousand of the derivative relating to the conversion option on the senior unsecured equity-linked green bond, as it is currently not yet convertible into shares pending approval of the capital increase to service the above bond issue by the extraordinary shareholders' assembly called for 17 November 2020;
- net financial debt of €104,993 thousand relating to projects under construction and development which, at 30 September 2020, had not yet generated full year revenue; net of this amount, the fair value of derivatives (€65,567 thousand at 30 September 2020 compared with €32,587 thousand at 31 December 2019) and financial debt under operating leases, the net financial position would have been €430,510 thousand.

The components affecting the change in the net financial position are as follows: cash generation from operating activities amounts to approximately €62 million, offset by net investments made during 2020 of approximately €71.2 million. The write-down of the pound sterling and the dollar against the euro positively affected net financial debt by €25.2 million, and the change in the fair value of derivatives had a negative effect of €6.5 million on the net financial position. The sale of assets in the USA, net of investments in the development company Novis Renewables LLC, generated a positive effect of €55.6 million. The adjustment of existing rights of use in accordance with IFRS 16 resulted in an increase in the net financial position of approximately €3.8 million. Finally, the payment of dividends, net of the contribution from minorities, amounted to approximately €22.6 million.

Moreover, 78% of Gross debt, amounting to €884,601 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 €687,895 thousand.

As a result, the net financial position, excluding the fair value of derivatives and the debt of operating leases, amounting to €535,503 thousand, is also covered against the risk of changes in interest rates, through interest rate swaps and fixed rate loans, for an amount of 128%.

During the first nine months of 2020, total **investments** amounted to €71,307 thousand.

Investments on property, plant and equipment amounted to €63,983 thousand and mainly related to the construction of the Brattmyrliden (€49,415 thousand) and Aliden (€200 thousand) wind farms in Sweden, Falck Renewables Vind (€3,102 thousand) in Norway and Energia Eolica de Castilla (€1,908 thousand) in Spain, maintenance work on the plants of Ecosesto SpA, Actelios Solar SpA and Ambiente 2000 (a total of €1,862 thousand), Falck Next Energy's investments in photovoltaic plants (€2,415 thousand), the capitalisation of rights of use (€4,025 thousand) and investments in office hardware and the purchase of furniture (€813 thousand).

Investments in intangible fixed assets amounted to €7,324 thousand and refer to operating software and licensing expenses of €4,892 thousand and €2,432 thousand in development costs.

4. Notes

The table below shows the **installed capacity** compared to previous periods:

Technology	(MW)		
	30.9.2020	30.9.2019	31.12.2019
Wind	932.7	825.9	922.7
WtE	20.0	20.0	20.0
Biomass	15.0	15.0	15.0
Photovoltaic	129.5	128.6	128.6
Total	1,097.2	989.5	1,086.3

The installed capacity increased by 107.7 MW compared to 30 September 2019.

At the end of December 2019, the wind farms in Hennøy (Norway) and Åliden (Sweden) came into operation for a total of 96.8 MW. In addition, in the month of February 2020, the Spanish plant of Energia Eolica de Castilla came into operation, increasing the installed capacity of the Group by 10 MW. In July 2020, Falck Next Srl purchased from Bryo SpA a ground-based photovoltaic plant with a nominal power of 0.9 MW, located in the province of Bologna in Italy.

Non-financial performance indicators

	Unit of measurement	30.9.2020	30.9.2019
Gross electricity generated	GWh	1,977	1,656
Total waste handled	Ton	102,439	103,489

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

Results before taxes and minority interests in the sectors, compared with 30 September 2019, are shown in the table below:

	(€ thousands)			
	Third quarter 2020	Third quarter 2019	30.9.2020	30.9.2019
WtE, biomass and solar sector	3,846	(46)	15,274	7,270
Wind sector	8,475	13,115	54,409	62,797
Services sector	(694)	(183)	(2,057)	(1,171)
Other Businesses	(9,741)	(5,055)	(5,318)	(7,424)
Consolidation adjustments	(16)	(1,518)	(19,765)	(10,168)
Total	1,870	6,313	42,543	51,304

4. Notes

4.3 Performance of the business sectors

This paragraph sets out, with a brief commentary, the main economic and financial data of the sectors that make up the Group.

❖ WtE, biomass and photovoltaic sectors

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

	(€ thousands)		
	30.9.2020	30.9.2019	31.12.2019
Revenues	49,016	51,253	68,026
EBITDA	28,459	26,341	33,846
Operating profit/(loss)	17,230	8,726	13,786
Profit/(loss) before tax	15,274	7,270	12,447
Intangible assets	391	389	301
Property, plant and equipment	228,599	246,743	244,541
Net financial position - indebtedness/(asset)	88,959	145,906	153,610
of which non-recourse loans	57,774	53,595	59,823
Investments	2,051	3,520	6,488
Employees at the period-end	(no.)	65	68
		68	68

This Sector is focused on the production of electricity from renewable sources and more specifically from photovoltaic energy, waste-to-energy from urban waste and biomass.

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.

On 20 March 2020 Eni New Energy US Inc. ("ENE US") and Falck Renewables North America Inc. ("FRNA") completed the strategic agreement announced on 20 December 2019. This agreement provides for the creation of an equal platform for the development, construction and financing of new renewable energy projects such as solar, onshore wind and storage. At the same time, under the terms of the agreement, FRNA transferred to ENE US 49% of the shares in the installations currently operating in the United States, maintaining control. These quotas concern a total portfolio of 112.5 MW. The total value paid by ENE US to FRNA was of approximately \$71 million.

Furthermore, with effect from June 2020, five employees of Falck Renewables North America LLC were transferred to Novis Renewables LLC, an associate company of the Group dedicated to the joint development of renewable projects with Eni New Energy US Inc.

Revenues in the sector decreased by €2,237 thousand compared to the first nine months of 2019, a reduction of 4%. The main effect was due to the scheduled maintenance shutdown of the Rende Biomass plant and the consequent decrease in production (-20% compared to the previous period). The fall in electricity sales prices recorded in Italy and to a lesser extent in the United States of America had a limited impact on photovoltaic plants and on the Biomass plant and the Waste to Energy plant thanks to the coverage strategy decided at the beginning of the year. This reduction was partially offset by the increase in the incentive component for the biomass plant and by the better prices for the transfer of waste at the Waste to Energy plant in Trezzo sull'Adda.

EBITDA amounted to €28,459 thousand and increased by €2,118 thousand compared to the first half of 2019: compared to revenues, it stood at 58.1% (51.4% in 2019).

The increase in EBITDA was mainly due to the capital gain of €3,925 thousand realised following the sale by the Group of 50% of the shares in Novis Renewables LLC to Eni New Energy US Inc., with the consequent deconsolidation of these shares and the first recognition at fair value of the remaining 50% shareholding.

4. Notes

Operating income rose by €8,504 thousand and now totals €17,230 thousand. The operating income for the first nine months of 2019 included a write-down of €6,240 thousand relating to a photovoltaic plant of Actelios Solar SpA, in anticipation of the replacement of solar modules, for a total of 6 MW.

During the first nine months of 2020, investments in property, plant and equipment and intangible assets amounted to €2,051 thousand and mainly related to maintenance work on the plants of Ecosesto SpA (€1,079 thousand), Actelios Solar SpA (€369 thousand) and Ambiente 2000 (€414 thousand) and purchases of Software licenses (€146 thousand).

The net financial position, which shows a debit balance of €88,959 thousand, improved by €56,947 thousand compared to 30 September 2019 mainly due to the proceeds from the sale of the shares in Novis Renewables Holdings, LLC and Novis Renewables, LLC to Eni New Energy US Inc. and the cash generation of operating plants net of investments.

The net financial position includes non-recourse project financing of €57,774 thousand (€53,595 thousand at 30 September 2019) and negative fair value of interest rate risk hedging derivatives of €432 thousand (€2,879 thousand at 30 September 2019). In October 2019, Actelios Solar SpA renegotiated and extended a non-recourse project financing contract for three solar plants in Sicily with the addition of €13.3 million.

❖ Wind sector

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

	(€ thousands)		
	30.9.2020	30.9.2019	31.12.2019
Revenues	175,642	174,621	247,080
EBITDA	127,689	132,891	186,663
Operating profit/(loss)	79,594	89,536	127,512
Profit/(loss) before tax	54,409	62,797	91,830
Intangible assets	98,366	99,179	101,211
Property, plant and equipment	1,006,875	974,843	1,020,884
Net financial position - indebtedness/(asset)	428,405	504,088	501,441
of which non-recourse loans	553,425	633,931	612,086
Investments	56,438	110,400	133,847
Employees at the period-end	(no.)	27	25
		25	28

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.

At the end of December 2019 the wind power plants in Hennøy (Norway) and Åliden (Sweden) went into operation and in February 2020 the Spanish wind power plant Energia Eolica de Castilla went into operation for a total increase of the Group's installed capacity of 106.8 MW.

The increase in revenues (€1,021 thousand) was mainly due to: (i) the increase in production capacity following the entry into operation of the wind farms in Hennøy (Norway), Åliden (Sweden) and the Spanish plant of Energia Eolica de Castilla, (ii) the increased windiness recorded in the United Kingdom and France, which more than offset the lower production in Italy and Spain, and (iii) the fact that the sector enjoyed the energy production of the 5 French wind farms for the first nine months of the year, an acquisition completed in March 2019.

The positive effects mentioned above were partly offset by the decrease in electricity sales prices and lower revenues from ROC Recycle compared to the first nine months of 2019.

4. Notes

In fact, in the first nine months of 2020 electricity sales prices fell by 6% in Italy, compared to the same period in 2019, before the price risk hedges which are recorded in the "Other Activities" sector, in Spain by 25% and in the UK by 10%, while in France the Feed-in tariff mechanism offset the price fluctuation (+1%).

Mainly as a result of the higher production deriving also from the increased installed capacity, in the first nine months of 2020, the GWh produced by the wind sector amounted to 1,689 compared to 1,350 in the same period of 2019 (+25% compared to the same period of 2019).

With reference to production in the UK, there was also an average devaluation of the pound sterling against the euro of 0.2% in the first nine months of 2020 compared to the same period of the previous year.

EBITDA amounted to €127,689 thousand, a fall of €5,202 thousand over the same period last year and equal to 72.7% of revenues (2019: 76.1%).

The decrease in EBITDA is mainly due to revenue dynamics that were more than offset by higher costs compared to the previous period related to the increase in installed capacity, higher maintenance, insurance and network connection costs.

The operating income fell by €9,942 thousand compared to the first nine months of 2019, accounting for 45.3% of revenues (51.3% in 2019).

During the first nine months of 2020, investments in tangible and intangible assets amounted to €56,438 thousand and mainly related to the construction of the Brattmyrliden (€49,742 thousand) and Åliden (€200 thousand) wind farms in Sweden, Falck Renewables Vind in Norway (€3,126 thousand), Energia Eolica de Castilla in Spain (€1,908 thousand), purchases of software licenses (€532 thousand) and development costs (€407 thousand).

The net financial position, which shows a debit balance of €428,405 thousand, improved by €75,683 thousand compared to 30 September 2019, mainly due to the cash generation of operating plants net of investments as well as the write-down of sterling compared to 30 September 2019.

The net financial position includes non-recourse project financing for €553,425 thousand (€633,931 thousand at 30 September 2019) and negative fair value of derivatives hedging interest risk, foreign exchange risk and commodity risk for €41,671 thousand (€48,544 thousand at 30 September 2019).

4. Notes

❖ Services sector

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

	(€ thousands)		
	30.9.2020	30.9.2019	31.12.2019
Revenues	30,074	31,437	43,713
EBITDA	2,197	3,883	6,045
Operating profit/(loss)	(1,530)	(1,039)	(1,528)
Profit/(loss) before tax	(2,057)	(1,171)	(1,784)
Intangible assets	45,043	45,260	43,205
Property, plant and equipment	5,256	2,781	3,211
Net financial position - indebtedness/(asset)	6,249	2,964	(581)
of which non-recourse loans			
Investments	7,679	919	1,756
Employees at the period-end	(no.) 334	292	301

The sector consists mainly of the Spanish group Vector Cuatro, Energy Team SpA, Falck Next Srl and Nuo Srl.

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, and the United Kingdom.

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

Energy Team SpA and Falck Next Srl work side by side with producers and consumers (Public Administration, Industry and Tertiary Sector, Local Communities) for a sustainable energy development, implementing efficient, transparent and intelligent measurement, management and local energy production systems.

Nuo Srl offers digital asset management solutions in order to optimise asset management and performance thanks to the support of digital technology.

In July 2019, a business unit transfer from Vector Cuatro Srl to Falck Renewables Sviluppo Srl was completed. The business unit comprised three Business Development employees and goodwill from intellectual capital.

Furthermore, during January 2020 a contribution in kind of Nuo Asset Management software was made by Falck Renewables SpA to Nuo Srl following the resolution to increase the latter's share capital.

In July 2020, Falck Next Srl completed the purchase by Falck Next Srl of a ground-based photovoltaic plant with a nominal capacity of 0.9 MW owned by Bryo SpA for an amount of €2,330 thousand.

Revenues show a decrease of €1,363 thousand, due both to lower intercompany activities and to the slowdown by Energy Team SpA in the technical activities for the sale and installation of measurement products and assistance due to the "Coronavirus (or Covid-19) crisis". The above mentioned sale of branch of business in 2019 and the transfer of other resources to Nuo Srl resulted in a consequent reduction of intra-group revenues, which were present in 2019.

On the other hand, asset management activities in favour of third parties showed a slight increase, mainly due to the commercial efforts made in the second half of 2019.

4. Notes

EBITDA amounted to €2,197 thousand, a decrease of €1,686 thousand compared to the same period of the previous year, accounting for 7.3% of revenues (12.4% in 2019) as it was affected by: i) the decrease in turnover described above, ii) the start-up activities and costs of the newly incorporated company Nuo Srl, active in digital asset management services, and iii) the higher development costs of Falck Next Srl. During the first nine months of 2020, investments in property, plant and equipment and intangible assets amounted to €7,679 thousand and mainly related to software development by Nuo Srl (€4,053 thousand), investments in Falck Next Srl in photovoltaic plants (€2,415 thousand) and the capitalisation of rights of use (€698 thousand).

The net financial position is negative and amounts to €6,249 thousand, an increase of €3,285 thousand compared to 30 September 2019, mainly due to the purchase of the photovoltaic plant from Bryo SpA.

❖ Other Businesses

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

		(€ thousands)		
		30.9.2020	30.9.2019	31.12.2019
Revenues		51,165	51,570	72,378
EBITDA		(19,245)	(14,597)	(21,907)
Operating profit/(loss)		(21,097)	(17,768)	(26,350)
Profit/(loss) before tax		(5,318)	(7,424)	22,290
Intangible assets		14,082	6,140	12,111
Property, plant and equipment		5,464	2,493	2,648
Net financial position - indebtedness/(asset)		241,835	131,333	149,408
of which non-recourse project financing				
Investments		9,212	6,003	12,111
Employees at the period-end	(no.)	118	95	101

The sector is mainly composed of the parent company Falck Renewables SpA, the energy management company Falck Next Energy Srl and some companies dedicated to development.

On 16 September 2020, Falck Renewables SpA placed a senior unsecured equity-linked green bond for a nominal amount of €200 million maturing on 23 September 2025. For further details, please refer to paragraph 5.1 *Review of business*.

In July 2019, a business unit transfer from Vector Cuatro Srl to Falck Renewables Sviluppo Srl was completed. The business unit comprised three Business Development employees and goodwill from intellectual capital.

Furthermore, during January 2020 a contribution in kind of Nuo Asset Management software was made by Falck Renewables SpA to Nuo Srl following the resolution to increase the latter's share capital.

Revenues from this sector derive almost exclusively from the management and sale of energy by Falck Next Energy Srl. The overall decrease compared to last year, amounting to approximately €405 thousand, was due to the lower volumes managed in relation to the Group's plants, while revenues from the same management activity carried out for third parties increased.

4. Notes

Operating income fell by €3,329 thousand. This fall is mainly attributable to higher asset development and digital asset management costs as well as the strengthening of digital transformation, energy management and downstream and staff structures.

The positive change in the Fair Value of the conversion option of the senior unsecured equity-linked green senior bond for a value, net of contractual costs and the effect of the amortised cost in accordance with IFRS 9 of €1,489 thousand influenced the profit/(loss) before tax and non-controlling interests.

Investments for the period amounted to €9,212 thousand, of which €5,516 thousand relating to intangible assets (software, licences and development costs), €653 thousand relating to hardware components and €3,043 thousand relating to the capitalisation of user rights.

This table sets out the data for the sector:

	(€ thousands)			
	FKR	Other companies	Eliminations	Sector
Revenues	61	51,162	(58)	51,165
EBITDA	(16,667)	(631)	(1,947)	(19,245)
Operating profit/(loss)	(18,887)	(800)	(1,410)	(21,097)
Profit/(loss) before tax	1,688	(6,152)	(854)	(5,318)
Intangible assets	8,228	5,854		14,082
Property, plant and equipment	5,464			5,464
Net financial position - indebtedness/(asset)	250,873	(9,038)		241,835
of which non-recourse project financing				
Investments	7,550	1,662		9,212
Employees at the period-end	(no.)	112	6	118

Note: FKR is Falck Renewables SpA; Other companies include 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, Iron SPV Srl and Falck Next Energy UK Ltd.

The financial position (primarily Falck Renewables SpA) showed a net debt of €241,835 thousand, compared with a net debt of €131,333 thousand at 30 September 2019. The increase in the financial position compared to 30 September 2019 is due to capital increases in companies in Italy, Norway, Sweden and the USA to support the development and construction of new plants and the distribution of dividends to shareholders net of dividends received.

The net financial position includes the negative fair value of derivatives hedging foreign exchange risk, commodity risk and the fair value of the conversion option on the "Green Bond" for a total of €23,464 thousand (positive €6,940 thousand at 30 September 2019).

4.4 Performance of the parent company Falck Renewables SpA

On 16 September 2020, Falck Renewables SpA placed a senior unsecured equity-linked green bond for a nominal amount of €200 million maturing on 23 September 2025. For further details, please refer to paragraph 5.1 *Review of business*.

Falck Renewables SpA's income statement for the third quarter of 2020 closed with a loss before tax of €6,498 thousand (a loss of €4,770 thousand at 30 September 2019). This result was mainly influenced by lower intercompany revenues, higher asset development and digital asset management costs and the strengthening of digital transformation, energy management and downstream and staff structures.

The loss was partially offset by the increase in the Fair Value of the derivative embedded in the senior unsecured equity-linked green bond.

The cumulative income statement at 30 September 2020 shows a profit before tax of €1,688 thousand, an improvement compared to the same period of 2019, which was negative by €6,770 thousand.

The result was mainly influenced by the higher dividends received (€ 10,124 thousand), the positive change in the Fair Value of the derivative embedded in the senior unsecured equity-linked green bond for

4. Notes

a value, net of contractual costs and the effect of the amortised cost in accordance with IFRS 9, of €1,489 thousand ("**Non-recurring event**") and higher exchange gains (€457 thousand) partially offset by: (i) higher interest expense and lower interest income related to financial management (€756 thousand) (ii) higher allocations and lower utilisation for write-downs of financial receivables (€588 thousand), (iii) higher commission expenses on sureties (€667 thousand) and (iv) higher personnel costs (€1,674 thousand) for the strengthening of certain business line and staff structures.

Lastly, other income increased (€2,747 thousand) primarily due to the gain on the sale of Nuo software to Nuo Srl and higher general and administrative expenses (€2,585 thousand) due in particular to the higher Long Term Incentive Plan costs of the CEO of Falck Renewables SpA and higher asset development and digital asset management costs.

Without the "**Non-recurring Event**" the profit before tax would have been €199 thousand.

The financial position showed a debit balance of €250,873 thousand, compared with a debit balance of €148,347 thousand at 30 September 2019. The increase is due to capital increases in companies in Italy, Norway, Sweden and the United States of America to support the development and construction of new plants and the distribution of dividends to shareholders net of dividends received.

On 30 July 2018, Falck Renewables SpA signed an amendment to the Corporate Loan agreement signed on 12 June 2015. The change involved an increase in the amount from €150 million to €325 million and an extension of the maturity date from 30 June 2020 to 31 December 2023, while the other very favourable conditions remain unchanged: as at 30 September 2019 the new loan had been used for €58 million.

In addition, the net financial position includes the positive fair value of exchange rate risk hedging derivatives and the fair value of the conversion option on the "Green Bond" bond for a total of €24,482 thousand.

Capital expenditure for the period amounted to €7,550 thousand, of which €3,854 thousand relating to software licences and management system developments, €653 thousand relating to hardware components and €3,043 thousand relating to the capitalisation of user rights.

4.5 Personnel

As at 30 September 2020, the Group's personnel increased by 46 units compared to 31 December 2019 and is composed as follows:

	30.9.2020	31.12.2019	(number) 30.9.2019
Managers	57	55	54
Employees and special categories	456	410	393
Blue-collar staff	31	33	33
Total	544	498	480

4. Notes

The personnel by sector is broken down as follows:

	(Number)		
	30.9.2020	31.12.2019	Delta
WtE, biomass and solar sector	65	68	(3)
Wind sector	27	28	(1)
Services sector	334	301	33
Other Businesses	118	101	17
Total	544	498	46

The increase was mainly due to internal growth as, in continuity with 2019, the main business lines and staff functions are being structured to cope with the development of the new initiatives envisaged in the business plan.

4.6 Business outlook for the current year

The Group's results in 2020 will benefit from the production of the wind farms in Åliden (46.8 MW, Sweden), Hennøy (50 MW, Norway) for the full year, (ii) the production of the five wind farms in operation in France acquired in March 2019 (56 MW) for the full year, (iii) the production of the wind power plant in Castilla (10 MW, Spain) for 11 months.

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

The Company is closely monitoring the effects of the situation resulting from the "Coronavirus (or Covid-19) crisis" which is re-emerging in these autumn months and will implement, as far as possible, initiatives aimed at calming any impact on the Group's economic and financial indicators relating to the 2020 results.

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' notes

5. Directors' notes

5.1 Review of business

Senior unsecured equity-linked green bond

On 16 September 2020 Falck Renewables SpA successfully placed its offer of a senior unsecured equity-linked green bond for €200 million, maturing on 23 September 2025.

With this transaction, Falck Renewables SpA has confirmed its commitment to sustainability as part of its financing strategy, contributing to the growth of the Green Finance market.

The net proceeds of the equity linked green bond, under the Green Financing Framework, will be used to finance and/or refinance, in whole or in part, new or existing renewable energy assets with a significant environmental impact (Eligible Green Assets) in accordance with the Green Bond Principles published by the International Capital Markets Association (ICMA) in 2018 and the Green Loan Principles published by the Loan Market Association (LMA) in May 2020. The alignment of the Green Financing Framework to these principles has been verified by DNV GL Business Assurance Italia ("DNV GL") whose opinion is available on the website of Falck Renewables SpA www.falckrenewables.com.

Bond features

type of bond: equity-linked bond, with the possibility for the investor to convert the newly issued ordinary shares of Falck Renewables SpA into ordinary shares, subject to the authorisation of convertibility by the Shareholders' Assembly and approval of the capital increase to service the conversion with the exclusion of shareholders' pre-emption rights;

total nominal amount: €200 million;

minimum denomination of bonds: €100,000;

duration: 5 years, expiring 23 September 2025;

target: institutional investors;

issue price: 101.25% of the nominal value of the bond;

interest rate: zero;

repayment: on expiry, the principal must be repaid in a lump sum for an amount equal to 100% of the nominal value, except in cases of early repayment;

early repayment: the company can repay the bond in advance and in full at its nominal value:

- (i) at a value indexed to the market price of the underlying shares, if the capital increase to service the conversion is not approved by the Long-Stop Date (i.e. by 31 March 2021);
- (ii) at nominal value if conversion or early repayment rights have been exercised in a percentage equal to or greater than 85% of the nominal amount of the loan (so-called clean-up call);
- (iii) at nominal value if, as from 8 October 2023, the listing of the company's ordinary shares is, for a number of days identified in the regulations, higher than 130% of the Conversion Price (so-called issuer's soft call); or

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(iv) if the company is required, in relation to the payments due, to pay taxes attributable to bondholders as a result of changes in tax regulations (so-called tax call);

change of control and free float event: if there is a change of control of the company (or if the free float of the company's ordinary shares calculated in accordance with the procedures set out in the regulations) falls below 20% and remains there for at least 30 trading days from the first day on which it fell below this threshold (free float event), each holder of the bonds will alternatively have the right to request (i) early redemption at nominal value or (ii) recognition of a new conversion price, lower than the original and based on the time between the event and the maturity of the bonds (if applicable, according to the mechanism of the so-called cash alternative amount); all in accordance with the terms and procedures identified in the regulation.

Pursuant to the regulation, a change of control will be deemed to have occurred if one or more parties in concert acquire control of the company or the possibility of exercising a dominant influence, pursuant to Article 93 of the TUF, over the company's shareholders' assembly and the right to appoint or remove all or the majority of the company's directors.

conversion right: subject to the approval of the resolution of the Shareholders' Meeting authorising the conversion of the bonds and approving the capital increase to service the conversion, the company will be required to notify the bondholders of the above mentioned Physical Settlement Date, i.e. the date from which they will be granted the right to convert the bonds into ordinary shares of the newly issued company.

In the absence of approval of the capital increase by the Shareholders' Meeting by 31 March 2021:

- (I) each bondholder may request early cash redemption of the bonds, at a value indexed to the market price of the underlying shares (as equal to the market value, determined in accordance with the regulations, of the number of Falck Renewables ordinary shares to which the bondholder would have been entitled if they had exercised the right to convert the bonds into ordinary shares), and
- (II) the company may, within a limited period of time following the Long-Stop Date, proceed with the full early repayment of the bond loan with payment of a premium, i.e., with payment in cash of an amount equal to the higher of (a) 102% of the nominal amount of the bond loan, and (b) 102% of the fair market value of the bonds, calculated by an independent entity on the basis of the average of the bond prices in the five open market days following the notice of early repayment.

initial conversion price: €7.22 per share, subject to adjustment as per the settlement, in line with market practice in force for this type of financial instrument.

Conversion price adjustments: The bond regulations state that the initial conversion price is subject to adjustments in accordance with current market practice for this type of debt instrument upon the occurrence of, among other things, the following events: grouping or splitting of shares, free capital increase through allocation of profits or reserves to capital, distribution of dividends, issue of shares or financial instruments reserved for shareholders, assignment of options, warrants or other rights to subscribe/purchase shares or financial instruments to shareholders, issue of shares or assignment of options, warrants or other subscription rights, issue of financial instruments convertible or exchangeable into shares, change in conversion/exchange rights associated with other financial instruments, change of control and other relevant events identified in the bond loan regulations.

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In particular, if the company distributes dividends during the bond's duration in excess of the amounts of €0.067 per share in 2021 and €0.069 per share in 2022, 2023, 2024 and 2025, the conversion price will be adjusted in order to compensate the bondholders for the dividends distributed ("*dividend protection*" clause);

quotation: Vienna MTF managed by the Vienna Stock Exchange;

applicable law: the bond loan regulations are governed by English law, without prejudice to the rules of the bondholders' meeting which will be governed by Italian law.

Economic and financial effects

At the date of issue, the bond was only projected to affect the net financial position (both consolidated and Falck Renewables SpA's) without affecting the overall value: indeed, against a positive impact on cash and cash equivalents totalling €202.5 million (as the bond loan was issued at 101.25% with an issue premium of €2.5 million), before issue costs, there was a negative impact of the same amount given by the sum of the two components of the debt ("bond debt" and "debt for the conversion option").

As at 30 September 2020 the bond debt was €175.4 million while the debt for the conversion option was €22.3 million. The pre-tax result (both in the consolidated and separate financial statements) was affected by the positive change in the fair value of the bond conversion option, net of contractual costs and amortised cost in accordance with IFRS 9, of €1.5 million.

If the extraordinary shareholders' meeting (called for 17 November 2020) approves the proposed convertibility of the loan into shares, the fair value, at that date, of the debt for the conversion option will be recorded as an equity component in shareholders' equity (both in the consolidated and separate financial statements), thus leading to an improvement in the net financial position of the same amount, but this improvement will be reabsorbed for accounting purposes over the useful life of the loan.

At maturity (23 September 2025), assuming the total conversion of the bond loan into ordinary shares of the company, there will be an improvement in the net financial position of €200 million and a corresponding increase in shareholders' equity (for the consolidated financial statements, an increase in the portion of "shareholders' equity attributable to the shareholders of the parent company"), net of the difference between the issue premium and the issue costs.

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

At 30 September 2020 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 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").

After more than three years of negotiations with the European Union, from 1 February 2020, the United Kingdom is no longer considered a member of the European Union. In fact, on 29 January 2020 the European Parliament approved the agreement on Brexit which had been negotiated by the British Government and the European Commission in October 2019 and preliminarily approved by the British Parliament and the other European institutions involved, the Commission and the Council, between December 2019 and January 2020, following the new British parliamentary elections, held on 12

5. Directors' notes

December 2019, which confirmed a broad consensus for the incumbent Prime Minister, leader of the Conservatives, Boris Johnson, awarding a strong majority in the newly constituted Parliament.

Since 1 February, the United Kingdom has therefore formally left the European Union and a transition period has begun that will last until 31 December 2020, a period that could be extended by the Parties by 1 July although the option has not been exercised. During this transition period the UK will technically remain in the European Union but without participating in its decision-making bodies and in the interim parties will have to deal with very complex and sensitive trade agreements, which until now have been left open, including the system of tariffs which will affect thousands of products, the new competitive relationship between British and European companies, the system of movement of people and the treatment of each other's citizens. The European negotiators' proposal should move towards an agreement without duties or quotas on any kind of product, provided that the UK commits to a number of conditions on labour rights, high European environmental standards and state aid rules. The negotiators' fear, however, is that in order to revive its economy after Brexit, the United Kingdom could offer particularly favourable conditions for multinationals, such as minimum wages, favourable tax systems, or low environmental regulatory standards, to compete with European companies.

Negotiations are intensifying, but the parties still appear far apart at the moment. In fact, in recent weeks a new law presented in Parliament by Boris Johnson's government, which no longer intends to accept the prospect of seeing Northern Ireland separated from the rest of Great Britain, risks calling into question the entire Brexit agreement. On the other hand, the European Commission has announced that it has launched an infringement procedure against the United Kingdom because of this bill which, if approved, would violate part of the agreement reached at the end of last year that provided for Northern Ireland to remain in the single market.

Consequently, the final outcome of the negotiations remains highly uncertain and the risk of no deal cannot be ruled out just a few weeks before the end of the transition period on 31 December. This prevents operators from speculating as to what the geo-political, economic, financial, fiscal and industrial scenarios might be, also with reference to the British electricity market and the development and incentive policies for 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 the above, given the openness towards clean energy by some members of the British government and the liquidity of the credit market.

Moreover, it cannot be excluded that the effects may also spread to other EU Member States, especially to those countries with high government debt exposures or banking sectors with high exposures, in a climate that is not particularly favourable also due to the Coronavirus (or Covid-19) pandemic, which has made European economies weaker.

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 recent years to project financing at decidedly favourable conditions for the plants that entered into operation after the Brexit referendum.

The Group 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.

5. Directors' notes

Risks associated with the "*Coronavirus (Covid-19)*" emergency

Given that the Group operates in a sector whose market dynamics are often linked to unpredictable external variables, we are concerned about the negative effects that may result from the continuation and expansion of the "Covid-19" pandemic and the emergency health situation that has affected most countries at both European and global level since the end of 2019, causing an unprecedented upheaval in the approach to the management of personal social relations, including within the company's life, as well as the global macro-economic effects.

The directives and measures issued by the countries involved in the crisis, in order to contain the spread of contagion, have imposed increasingly restrictive regulations on the mobility of people and goods, on the reduction/suspension of production activities in areas at greater risk of contagion (so-called lockdown), with consequent negative impacts on production activities in all industrial sectors and on trade at national and international level.

Faced with these scenarios, the Group has implemented all the analysis activities and continuity strategies set out in its operational plans since the very beginning of the pandemic, in order to better manage the effects described above, as well as reduce the risk of contagion among staff in the workplace. On this last point, it is important to underline that more than 90% of the staff in all the Italian and foreign offices, right from the first days of the crisis, have been encouraged to use remote work for a widespread and prolonged period of time ("*Smart working*"), which is still allowing the Group to significantly reduce its exposure to many of the related risk factors, including staff mobility, while still ensuring an excellent level of service.

This situation had some negative effects on the Group's activities in the first nine months, although the third quarter showed signs of recovery, mainly limited to the following areas:

- a very significant drop in the sales prices of energy produced on the Italian market and on the other markets in which the Group operates (as regards the component produced exposed to the volatility of spot prices on the electricity markets), correlated to a decrease in electricity demand and liquidity in the markets, as the main effect of the prolonged lockdown in March and April and a recovery in economic activity that is well below 2019. The negative effects were only partially countered by the Group thanks to the hedging activities under the 2020 Portfolio, which made it possible to minimise the exposure related to the increasing volatility of the markets;
- a temporary contraction in the services provided by Group companies (e.g. Energy Team) directly at customers' plants (e.g. energy audit and monitoring services, sale and installation of components for energy efficiency, asset management and technical services) due to a forced absence of personnel, reduced mobility on national and international territory and closure of customers' production activities due to lockdown and the subsequent economic crisis;
- a delay in the progress of projects under development, both in Italy and in other countries (e.g. the United States of America) linked to the strong attention that public structures have had to devote to the health crisis, shortages of sick personnel and lockdown situations.

These impacts have not so far led to uncertainties such as to reflect negatively on the assumption of business continuity, although during the year they have led to a reduction in the economic result compared to 2019 and the initial estimates for 2020, made in the very early stages of the crisis.

In view of the current situation of the pandemic, which continues to spread worldwide, there are restrictive "lockdown" measures (even partial ones) in the countries where the Group operates, which could lead to a reduction in demand and a further reduction in electricity sales prices compared to forecasts, with effects on future results. These effects are difficult to quantify at the moment as they are closely linked to the continuation and/or expansion of the health emergency as well as to a very unpredictable epidemic context that generates significant volatility in economic/financial/production.

5. Directors' notes

To date, further areas of the Group that are believed to be potentially impacted by new crises include:

- any delays in the development, construction and commissioning of the plants (with regard to the timing and methods of management of the administrative procedures for the issue of the necessary authorisations of the plants under development by the public bodies concerned, or the methods of procurement and supply of the various components, both wind and solar) and with regard to the availability of contractors and components related to the new plants;
- the management of continuity of operations in continuous cycle thermal plants with regard to issues related to a forced absence of personnel, internal and external, from the workplace where a physical presence is required, or to operational limitations related to biomass supply, waste disposal and waste disposal activities, or in maintenance activities, planned or not, however managed through the activation of the applicable business continuity plans.

Other review of business

On 30 January 2020 Falck Renewables Vind AS signed a 10-year Power Purchase Agreement (PPA) for the sale of 70% of the electricity produced by its wind farm in Hennøy (Norway) to one of the most important energy players in Europe.

On 7 February 2020, the Spanish wind power plant Energia Eolica de Castilla started operation, which increased the Group's installed capacity by 10 MW. The plant was built in collaboration with Ascia Renovables SL. The company has signed a long-term contract (Power Purchase Agreement, PPA) with Holaluz, a Spanish energy supplier, which will allow a stable revenues stream.

On 20 March 2020 Eni New Energy US Inc. ("ENE US") and Falck Renewables North America Inc. ("FRNA") completed the strategic agreement announced on 20 December 2019. This agreement provides for the creation of an equal platform for the development, construction and financing of new renewable energy projects such as solar, photovoltaic, onshore wind and storage. At the same time, under the terms of the agreement, FRNA transferred to ENE US 49% of the shares in the installations currently operating in the United States. These quotas concern a total portfolio of 112.5 MW. The total value paid by ENE US to FRNA is approximately \$71 million.

On 27 March 2020 Falck Renewables SpA completed the purchase of the shares held by Ascia Renovables SI in Energia Eolica de Castilla SI. As a result of this transaction Falck Renewables SpA holds 100% of the shares in the company whose plant commenced operations in February 2020.

On 22 April 2020 Falck Renewables SpA launched an international support programme to alleviate the impacts of the Covid-19 pandemic with targeted actions in favour of local communities and the territories in which it operates.

On 7 May 2020, the Falck Renewables SpA Shareholders' Assembly approved the launch of the treasury share purchase program. The Company may purchase a maximum of 3,000,000 ordinary shares of Falck Renewables, corresponding to 1.0295% of the Company's share capital, and, taking into account the treasury shares already held by the Company as at 7 May 2020 (2,210,000 ordinary shares, equal to 0.7584% of the share capital), up to 1.7878% of the Company's share capital, in compliance with the legal and regulatory requirements as well as the accepted market practices in force at the time, where applicable.

The Company may purchase its own shares, on one or more occasions, until 7 November 2021.

5. Directors' notes

The purchase of shares must take place at a unit price that will be determined on a case-by-case basis for each transaction, it being understood that (i) it may neither be 20% higher nor lower than the reference price recorded by the share in the stock exchange session on the day prior to each individual transaction and (ii) it may in any case not be higher than the highest price between the price of the last independent transaction and the price of the highest current independent purchase offer on the trading venue where the purchase is made. Purchases may be made within the limits of distributable profits and available reserves resulting from the latest regularly approved financial statements (including interim ones), capped at €24 million.

The programme also provides that (i) the quantity of shares purchased on each day must not exceed 25% of the average daily volume of the Company's shares traded on the MTA (Mercato Telematico Azionario); (ii) purchases may be made on regulated markets in compliance with and in accordance with the provisions of laws and regulations, including European regulations, in force from time to time.

The buy-back program is mainly aimed at fulfilling the obligations deriving from the "Stock grant plan 2020 - 2022" as well as at carrying out possible acts of disposition of treasury shares for the realisation of industrial projects or corporate operations and/or financing and/or extraordinary finance in compliance with the laws and regulations in force.

On 7 May 2020 the Shareholders' Assembly of Falck Renewables SpA approved the "Stock grant plan 2020-2022" for the Chief Executive Officer and executives and employees holding key roles within the Company and its subsidiaries.

The purpose of the three-year incentive plan is to assign free of charge to the beneficiaries a maximum of 1,800,000 ordinary shares of the Company, equal to a maximum of approximately 0.6177% of the Company's share capital.

The stock grant Plan is subject to:

- (i) the sustainability of the Group's balance sheet (expressed by the ratio of Net Financial Position to EBITDA);
- (ii) achieving a three-year cumulative EBITDA target;
- (iii) the continuation of the existing relationship between the beneficiary and the Company.

The "2020-2022 stock grant Plan" is in line with what was announced during the Capital Markets Day on 12 March 2020 and is designed to provide incentives for beneficiaries to pursue medium-long term value creation objectives and to align the interests of the latter with those of the Company and its shareholders. The plan will be implemented with company treasury shares already in the portfolio or purchased under Article 2357 of the Italian Civil Code.

On 22 July 2020 Brattmyrlden Vind AB signed a Corporate Power Purchase Agreement ("PPA") with Ball Corporation, a leading multinational aluminium packaging supplier.

The contract, with a duration of 10 years, will cover the supply of about 70% of the electricity produced by the wind farm. The Virtual PPA will cover about 39% of the energy needs of Ball Corporation's beverage packaging production facilities in Europe, excluding Russia, from 2021.

On 31 July 2020, Falck Next Srl purchased from Bryo SpA a ground-based photovoltaic plant with a nominal power of 0.9 MW, located in the province of Bologna in Italy.

On 27 August 2020, Novis Renewables Holdings LLC signed an agreement with Building Energy SpA for the purchase of Building Energy Holdings US LLC (BEHUS). BEHUS' business includes 62 MW of wind and solar projects in operation in the United States of America, a development and asset management team and a pipeline of wind projects up to 160 MW. The total purchase price is \$32.5 million and the closing is expected by the end of the year.

5. Directors' notes

Significant events after the end of the period

Nothing to report.

6. Statement by the Director responsible for drafting corporate accounting documents in compliance with art. 154-bis paragraph 2 of Legislative Decree no. 58/1998

6. Statement by the Director responsible for drafting corporate accounting documents in compliance with art. 154-bis paragraph 2 of Legislative Decree no. 58/1998

The Director responsible for drafting corporate accounting documents, Paolo Rundeddu, states, in compliance with art. 154-bis, paragraph 2 of the Unified Finance Law (Legislative Decree no. 58/1998), that the accounting information contained in this Interim Financial Report at 30 September 2020 corresponds to the accounting documents, books and records.

Paolo Rundeddu
(Director responsible for drafting
corporate accounting documents)

Milan, 11 November 2020