Financial report

eam

Q1
2014

# EAM Solar ASA

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# Highlights in the 1st quarter 2014

**EAM Solar ASA took important strategic steps during the first three months of 2014. The company is close to finalise the P31 transaction at improved terms. Operations have been in line with expectations, and a dividend of EUR 0.36 (NOK 3) is to be paid in May.**

- P31 expected to close near term, yet delayed due to final negotiations, which will reduce the total risk for EAM. The share purchase agreement will be amended and EAM will under certain conditions have the right to sell back some of the power plants and thus lower the portfolio risk.
- Equity issue of EUR 26,3m (NOK 220m) at an issue price of EUR 5,2 (NOK 80) per share concluded in January. The equity issue and credit facility of EUR 6m secures financing of the P31 acquisition.
- Q1 power production of 1.5 GWh, 8% lower than seasonal average. Momo and Caltignaga 15% above normal in the quarter while Varmo and Codroipo 14% below normal in the quarter
- Reported EBITDA in the quarter was negative with EUR 342k, adjusted for equity issue cost and due diligence cost on P31, EBITDA was positive with EUR 216k.
- 1st quarter 2014 dividend payment of EUR 0.36 (NOK 3) per share decided in accordance with Company bylaws) to be distributed to shareholders in week 20, 2014. Share will trade ex dividend from Monday 12th of May. Full year 2014 dividend distribution based on the P31 acquisition is expected between EUR 0,84 to 1,2 per share (NOK 7 to 10) to be paid on a quarterly basis.

# Key figures

| (EUR 000') | Unaudited **Q1 2014** | Unaudited **Q1 2013** | Audited **2013** | Audited **2012** | Audited **2011** |
|---|---|---|---|---|---|
| **Revenues** | **592** | **496** | **3 110** | **3 106** | **340** |
| Cost of operations | -116 | -81 | -360 | -259 | -25 |
| Sales, general and administration expenses | -260 | -281 | -1 021 | -1 133 | -343 |
| Acquisition and transaction costs | -558 | -327 | -512 | -908 | -1 123 |
| **EBITDA** | **-342** | **-193** | **1 216** | **806** | **-1 151** |
| Depreciation, amortizations and write downs | -360 | -345 | -1 240 | -1 036 | -148 |
| Gain on bargain purchase | 0 | 0 | 2 244 | 2 668 | 0 |
| **EBIT** | **-702** | **-538** | **2 220** | **2 438** | **-1 299** |
| Net financial items | -215 | 176 | 2 538 | -1 848 | -41 |
| **Profit before tax** | **-917** | **-362** | **4 758** | **590** | **-1 340** |
| Income tax gain/(expense ) | 277 | 36 | -106 | -61 | 355 |
| **Net income** | **-640** | **-326** | **4 652** | **529** | **-985** |
| **Earnings per share** (fully diluted): | **-0,13** | **-0,26** | **2,01** | **0,44** | **-0,82** |
| Distribution to shareholders per share | 0,00 | 0,00 | 0,60 | 0,00 | 0,00 |
| Dividend yield | 0,0 % | 0,0 % | 5,6 % | 0,0 % | 0,0 % |
| Million no. of shares (fully diluted) | 5,07 | 1,20 | 2,32 | 1,20 | 1,20 |
| **EBITDA adjusted** | **216** | **134** | **1 729** | **1 714** | **-28** |
| EBIT adjusted | -145 | -211 | 489 | 678 | -176 |
| Net income adjusted | -290 | -333 | 252 | -424 | 946 |

*Adjusted EBITDA, EBIT and Net income are adjusted for non-recurring items such as cost of acquisition and financing, gains from bargain purchase and non-cash currency movements.*

# Interim report 1st quarter 2014

*EAM Solar ASA is a listed investment company on the Oslo Stock Exchange under the ticker EAM. The Company's business is to own solar photovoltaic power plants and sell produced electricity under long-term fixed price sales contracts. Initial geographical focus is Italy where the company owns four power plants in the Friuli and Piemonte regions in Northern Italy. Energeia Asset Management AS manages EAM Solar ASA under a long-term management agreement.*

# Operational review and outlook

## Operations

### *Power production & performance*

The quarterly power production of 1,52 GWh was 7,7% below norm level due to very poor solar irradiation conditions in January and February of 40% below normal in the North of Italy. March was 20% above normal solar irradiation. By end of April good sun conditions have improved production to now being on a normal level year to date.

### *Market price development*

Around 13% of the total revenue in Q1 2014 came from variable market contracts (RiD).

The market price of electricity in Italy has dropped from a level of EUR 75 to 85 per MWh in 2011 and 2012 to a level of EUR 55 to 65 per MWh in 2013. The market price in the 1st quarter was EUR 50 per MWh in average and is expected to stay at a low level during the spring.

EAM assumes in its budgets and in its acquisition appraisals that the long-term electricity price in Italy will remain at a level in the range EUR 50 to 60 per MWh going forward and has adjusted valuation of acquisition targets accordingly and not reduced the required capital return ratios.

EAM use from time to time to 12mths fixed contracts for market electricity sales.

## P31 portfolio closing

On the 31st of December 2013 EAM signed a conditional Share Purchase Agreement (SPA) with Aveleos S.A. of Luxembourg for the acquisition of a portfolio consisting of 31 power plants in southern Italy with a combined capacity of 30 MW and an annual electricity production capacity of approximately 44 GWh.

The enterprise value of the acquisition is in the range of EUR 107m to 114m depending on the outcome of the final due diligence and the P31 portfolio obtaining certain revenue and production targets in 2014. Final settlement of all acquisition price adjustments will be concluded in 2015.

The P31 portfolio has an existing debt financing of EUR 73.4m, at the financial take-over date the 1st of January 2013, in a combination of leasing and non-recourse project finance. The equity payment for the shares in the P31 portfolio companies will consequently be in the range EUR 34m to 41m.

The portfolio will contribute with annual sales of approximately EUR 16m and an annual EBITDA in the range EUR 12 to 14m.

By the end of the 1st quarter the confirmatory due diligence work were almost complete. As a result of certain findings in the due diligence, EAM has renegotiated certain terms and conditions to the Share purchase agreement. In addition, the finalization of formalities relating to change of ownership has taken longer than anticipated. The transaction closing longstop date has been postponed and the final adjustments to the terms and conditions of the acquisition will be concluded shortly.

EAM and the seller works toward achieving that all necessary formalities prior to the closing are finalized before the end of May.

## Dividends

Based on the Company by-laws, recent change in Norwegian company law, and the decision made by the Company's extraordinary general meeting the 17th of December 2013, the Board of Directors in EAM will distribute dividends on a quarterly basis in 2014.

EAM Solar will distribute a dividend of EUR 0,36 per share (NOK 3) in conjunction with the 1st quarter report. The dividend will be distributed to shareholders in week 20. Share will trade ex. dividend from Monday 12th of May.

Based on the closing of the P31 Portfolio acquisition, EAM expects to pay dividends following each quarterly report in 2014. The dividend payments in 2014 in addition to the 1st quarter dividend will be in the range EUR 0,84 to 1,2 per share (NOK 7 to 10).

# Debt financing

The market for non-recourse project financing to renewable energy in Italy has been inactive the last years.

EAM has started discussions on debt financing of the existing portfolio, but no conclusion was achieved prior to the end of the quarter. Indicated pricing of project financing debt is in the range 6,5% to 7% all-inclusive for a fixed interest 15-year duration loan.

EAM’s overall target gearing level is approximately a 60% to 65% debt level.

# Outlook

## *Post closing of the P31 portfolio*

In conjunction with the closing of the acquisition and subsequent increased scope of EAM's business in Italy, Energeia Asset Management AS has started to establish an operational office in Italy in the 1st quarter 2014 as part of the organisation to manage the day-to-day operation of EAM Solar ASA's power plants in Italy.

# Financial review

## Income Statement

### *Revenues*

1st quarter revenues came in at EUR 592k.

Achieved average electricity price for the quarter was EUR 390 per MWh against EUR 450 per MWh in 1st quarter 2013. The main reasons for the reduction in achieved electricity price is due to the fact that the Momo & Caltignaga SPP's has a FIT of EUR 245 per MWh against Varmo and Codroipo that has EUR 346 per MWh. In addition, the reduction in the RID price of 32% from EUR 65 per MWh to EUR 50 per MWh.

### *Operational cost*

Cost of operations came in at EUR 116k, an increase of EUR 35k, since Momo & Caltignaga plants are now included.

SG&A costs came in at EUR 259k in the 1st quarter 2014 against EUR 281k in 2013.

Based on the closing of the P31 portfolio the Company expects the relative SG&A cost level per SPP to be decreased significantly due to economies of scale going forward.

### *Operational earnings*

1st quarter EBITDA came in at a loss of EUR 342k, adjusted for expensed costs related to the private placement in January and the due diligence costs of the P31 acquisition EBITDA from operations came in at EUR 216k.

### *Net financial items*

Net finance is mainly affected by the fluctuations in the NOK/EUR currency exchange rate since EAM does not have any debt financing at the moment.

Due to the weakening of the NOK against the EUR in the period EAM had a non-cash currency loss of EUR 207m.

### *Profit before tax and net income after tax*

The result for the quarter was a net loss of EUR 640k representing loss per share of EUR 0,13 in the quarter.

## Cash Flow and Balance Sheet Statements

### *Cash Flow*

Cash flow operations for the quarter came in at a negative amount of EUR 1,6m mainly related to changes in working capital and cost of due diligence. Investments of EUR 217k were related to the final payment for the Momo and Caltignaga acquisition.

Cash flow form financing was the net proceeds from the private placement in January of EUR 25,1m.

Cash at hand for the Company is by the end of the quarter EUR 29,5m, and in addition the Company has a credit facility of EUR 6m.

### *Balance Sheet*

Total assets stands at EUR 56.5m 100% financed by equity. Net working capital (excluding cash) was negative with EUR 770k at end of March.

Oslo 30th of April 2014

| | | |
|---|---|---|
| Ragnhild Wiborg<br>Director | Paal E Johnsen<br>Chairman | Marthe Hoff<br>Director |
| Viktor E Jakobsen<br>Executive Director | Audun Wickstrand Iversen<br>CEO | |

# Condensed consolidated interim financial information

## Interim condensed statement of comprehensive income

| (EUR) | Note | Unaudited Q1 2014 | Unaudited Q1 2013 | Audited 2013 | Audited 2012 | Audited 2011 |
|---|---|---|---|---|---|---|
| **Revenues** | 6,8,13 | **592 109** | **496 414** | **3 109 548** | **3 106 472** | **340 075** |
| Cost of operations | 12 | -116 450 | -81 324 | -360 210 | -259 260 | -25 230 |
| Sales, general and administration expenses | 12 | -259 964 | -281 303 | -1 020 720 | -1 133 138 | -342 639 |
| Acquisition and transaction costs | 12 | -557 583 | -326 740 | -512 385 | -907 671 | -1 122 832 |
| **EBITDA** | | **-341 888** | **-192 953** | **1 216 233** | **806 403** | **-1 150 626** |
| Depreciation, amortizations and write downs | 9 | -360 399 | -345 069 | -1 240 020 | -1 036 269 | -148 012 |
| Gain on bargain purchase | | 0 | 0 | 2 243 510 | 2 668 237 | 0 |
| **EBIT** | | **-702 287** | **-538 022** | **2 219 723** | **2 438 371** | **-1 298 638** |
| Finance income | | 42 841 | 333 121 | 2 753 421 | 4 711 | 86 740 |
| Finance costs | | -258 042 | -157 520 | -215 308 | -1 853 042 | -128 021 |
| **Profit before tax** | | **-917 488** | **-362 421** | **4 757 837** | **590 040** | **-1 339 919** |
| Income tax gain/(expense) | | 277 214 | 36 048 | -106 093 | -61 171 | 355 330 |
| **Profit after tax** | | **-640 274** | **-326 373** | **4 651 744** | **528 869** | **-984 589** |
| | | | | | | |
| **Other comprehensive income** | | | | | | |
| Translation differences | | 1 284 843 | -94 469 | -3 138 155 | 812 044 | 236 114 |
| **Other comprehensive income net of tax** | | **1 284 843** | **-94 469** | **-3 138 155** | **812 044** | **236 114** |
| **Total comprehensive income** | | **644 569** | **-420 842** | **1 513 589** | **1 340 913** | **-748 475** |
| | | | | | | |
| **Profit for the year attributable to:** | | | | | | |
| Equity holders of the parent company | | -640 274 | -326 373 | 4 651 744 | 528 869 | -984 589 |
| Non-controlling interests | | 0 | 0 | 0 | 0 | 0 |
| **Equity holders of the parent company** | | **-640 274** | **-326 373** | **4 651 744** | **528 869** | **-984 589** |
| | | | | | | |
| **Total comprehensive income attributable to:** | | | | | | |
| Equity holders of the parent company | | 644 569 | -420 841 | 1 513 589 | 1 340 913 | -748 475 |
| Non-controlling interests | | | 0 | 0 | 0 | 0 |
| **Equity holders of the parent company** | | **644 569** | **-420 841** | **1 513 589** | **1 340 913** | **-748 475** |
| | | | | | | |
| **Earnings per share:** | | | | | | |
| Continued operation | | | | | | |
| - Basic | | **-0,13** | **-0,26** | **2,23** | **0,44** | **-1,15** |
| - Diluted | | **-0,14** | **-0,26** | **1,98** | **0,44** | **-0,82** |

The interim financial statement information has not been subject to audit or review. Diluted number of shares at the end of the 1st quarter 2014 is 5,070,000. The equity issue was concluded on the 17th of January, increasing the number of outstanding shares by 2,750,000.

# Consolidated condensed statement of financial position

| (EUR) | Note | Unaudited Q1'2014 | Audited 2013 | Audited 2012 | Audited 2011 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | 9 | 23 144 630 | 23 721 735 | 19 533 095 | 6 563 352 |
| Other long term assets | | 3 263 330 | 422 867 | 338 210 | 355 330 |
| **Non-current assets** | | **26 407 960** | **24 144 602** | **19 871 305** | **6 918 682** |
| Receivables | | 522 723 | 802 046 | 950 882 | 429 266 |
| Other current assets | | 42 119 | 77 723 | 598 551 | 209 770 |
| Cash and short term deposits | 10 | 29 591 965 | 4 861 406 | 713 730 | 8 000 351 |
| **Current assets** | | **30 156 806** | **5 741 174** | **2 263 163** | **8 639 387** |
| **TOTAL ASSETS** | | **56 564 766** | **29 885 776** | **22 134 468** | **15 558 069** |
| **EQUITY AND LIABILITIES** | | | | | |
| Issued capital | | 6 152 669 | 2 932 561 | 1 523 423 | 1 523 423 |
| Share premium | | 429 971 | 429 971 | 13 400 695 | 13 400 695 |
| **Paid in capital** | | **6 582 640** | **3 362 532** | **14 924 118** | **14 924 118** |
| Translation differences | | -854 942 | -2 089 997 | 1 048 158 | 236 114 |
| Other equity | | 49 500 585 | 28 051 626 | -455 720 | -984 589 |
| **Other equity** | | **48 645 643** | **25 961 629** | **592 438** | **-748 475** |
| **Total equity** | | **55 228 283** | **29 324 160** | **15 516 556** | **14 175 643** |
| **Total non-current liabilities** | | **0** | **0** | **0** | **0** |
| Trade payables | | 917 008 | 167 772 | 1 004 610 | 590 729 |
| Income tax payable | | 417 642 | 174 311 | 164 106 | 175 591 |
| Short term loan - interest bearing | | 0 | 0 | 5 420 265 | 0 |
| Other current liabilities | | 1 834 | 219 533 | 28 931 | 616 106 |
| **Total current liabilities** | | **1 336 483** | **561 616** | **6 617 912** | **1 382 426** |
| **Total liabilities** | | **1 336 483** | **561 616** | **6 617 912** | **1 382 426** |
| **TOTAL EQUITY AND LIABILITIES** | | **56 564 766** | **29 885 776** | **22 134 468** | **15 558 069** |

**Oslo, 30th of April 2014**

Board of Directors

# Consolidated condensed statement of changes in equity

| *(EUR)* | Share capital | Share premium fund | Other equity | Currency translation reserve | Total equity |
|---|---|---|---|---|---|
| **Equity as at 1 January 2013** | **1 523 423** | **13 400 695** | **-455 720** | **1 048 158** | **15 516 556** |
| Capital increase 25 March 2013 | 1 335 833 | 13 519 263 | | | 14 855 096 |
| Costs related to capital increase | | -1 026 588 | | | -1 026 588 |
| Conversion of share premium fund | | -25 415 355 | 25 415 355 | | |
| Dividends or distribution to shareholders | | | -1 484 705 | | -1 484 705 |
| Profit (loss) After tax | | | 4 651 744 | | 4 651 744 |
| Other comprehensive income | | | | -3 187 943 | -3 187 943 |
| **Equity as of 31 December 2013** | **2 859 256** | **478 016** | **28 126 674** | **-2 139 785** | **29 324 160** |
| **Equity as at 1 January 2014** | **2 859 256** | **478 016** | **28 126 674** | **-2 139 785** | **29 324 160** |
| Capital increase 17 January 2014 | 3 293 413 | | 23 053 892 | | 26 347 305 |
| Costs related to capital increase | | | -1 087 752 | | -1 087 752 |
| Dividends or distribution to shareholders | | | | | 0 |
| Profit (loss) After tax | | | -640 274 | | -640 274 |
| Other comprehensive income | | | | 1 284 843 | 1 284 843 |
| **Equity as of 31 March 2014** | **6 152 669** | **478 016** | **49 452 541** | **-854 942** | **55 228 283** |

# Consolidated condensed cash flow statement

| *(EUR)* | Note | Unaudited **Q1 2014** | Unaudited **Q1 2013** | Audited **2013** | Audited **2012** | Audited **2011** |
|---|---|---|---|---|---|---|
| Ordinary profit before tax | | -640 274 | -372 456 | 4 757 837 | 590 040 | -1 339 919 |
| Paid income taxes | | 0 | -15 057 | 0 | -727 658 | 0 |
| Depreciation | | 360 399 | 345 069 | 1 240 020 | 1 036 269 | 148 012 |
| Gain on bargain purchase | | 0 | 0 | -2 243 510 | -2 668 237 | 0 |
| Changes in trade receivables and trade payable | | -1 028 559 | 1 659 506 | -688 002 | 130 944 | 861 238 |
| Changes in other accruals | | -278 934 | -589 878 | 491 897 | -390 824 | 188 526 |
| **Cash flow from operations** | | **-1 587 368** | **1 027 184** | **3 558 243** | **-2 029 466** | **-142 143** |
| Purchase of property, plant and equipment | | 0 | -66 240 | 0 | -73 685 | 0 |
| Acquisition of subsidiary, net of cash acquired | | -217 845 | 0 | -3 368 989 | -11 696 898 | -6 933 426 |
| **Cash flow from investments** | | **-217 845** | **-66 240** | **-3 368 989** | **-11 770 583** | **-6 933 426** |
| Proceeds from issue of share capital | | 25 259 554 | 14 855 096 | 13 828 508 | 0 | 14 924 118 |
| Dividends or shareholder distributions | | 0 | 0 | 0 | 0 | 0 |
| Proceeds from new loans | | 0 | 0 | -5 420 265 | 6 106 249 | 0 |
| Repayment of loans | | 0 | -5 420 265 | -1 484 705 | -685 984 | 0 |
| **Cash flow from financing** | | **25 259 554** | **9 434 831** | **6 923 538** | **5 420 265** | **14 924 118** |
| **Cash at beginning of period** | | **4 861 406** | **713 730** | **713 730** | **8 000 351** | **0** |
| Net currency translation effect | | 1 276 218 | -397 484 | -2 965 116 | 1 093 163 | 151 802 |
| Net increase/(decrease) in cash and cash equivalents | | 24 730 559 | 9 998 292 | 7 112 792 | -7 286 621 | 8 000 351 |
| **Cash at end of period** | | **29 591 965** | **10 712 022** | **4 861 406** | **713 730** | **8 000 351** |

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# Notes to the Interim Condensed Consolidated Financial Statements

## Note 1 - Basis of preparation

### *General accounting principles*

EAM Solar ASA (the Group) is a public limited company, incorporated and domiciled in Norway. The registered office of EAM Solar ASA is Dronningen 1, N-0287 Oslo, Norway. The Company was founded the 5th of January 2011.

The Company is listed on the Oslo Stock Exchange under the ticker EAM.

The main activity of EAM Solar ASA is to own solar PV power plants and sell the electricity produced under long-term contracts. EAM's main purpose is to create a steady long-term dividend yield for its shareholders. EAM Solar ASA currently owns four photovoltaic power plants in Italy. The company has three subsidiaries in Italy and no employees.

Energeia Asset Management AS manages EAM Solar ASA under a long-term management agreement. EAM Solar Park Management AS (EAM SPM), a subsidiary of Energeia Asset Management AS, is conducting most of the day-to-day management tasks directly or through the use of subcontractors.

This interim condensed consolidated financial statement for the 1st quarter 2014 has been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's Annual Report 2013

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st of December 2013. Standards and interpretations as mentioned in the Group's Annual Report 2013 Note 1 and effective from the 1st of January 2013 did not have a significant impact on the Group's consolidated interim financial statements.

### *Financial risk*

The primary focus of the Group's capital management is to ensure good solidity and liquidity that will support a strong credit rating and healthy capital ratio in order to support its business and maximize the shareholders values.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives policies or processes during 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by enterprise value. The Group's policy and ambition is to keep the gearing ratio between 60% and 65%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to equity holders of the parent.

The Company is currently debt free. However, as financial markets seems to improve, the Company will seek to increase its acquisition capacity by assuming debt on the currently 100% equity financed power plants.

### *Market and regulatory risk*

The European financial crisis and Basel III funding requirements has reduced European banks possibilities to secure funding for long-term project finance, which has limited the financing of solar power plants in Europe from August 2011. Although the project financing showed signs of reopening in 2013 the recovery of a normalized bank financing market is still not in place.

This has affected EAM Solar, although the outcome is positive so far through the acquisition of power plants of high quality and with a price significantly below market terms as seen in 2011 and 2012.

In Italy the main incentive program expired in 2013, which most probably will reduce the volume of new built solar power plants the next couple of years. As Solar PV power plants have become cheaper, Italian authorities expect 1 – 2 GW of new capacity to be installed annually without subsidies.

The secondary market is strong, especially in Italy, with a steady availability of projects that have been in operation for 2 – 3 years.

During the last years there has been changes in different taxes that impact the profitability of solar power plants. Increases in IMU (real estate taxes) and corporate taxes have had negative impact during the last years.

On the regulatory side there are minor changes that impact the profitability of solar power plants. Including, tariff for one year RiD contracts for plants below 1MW.

With the transition from a subsidy-based industry to grid parity, with pure commercial considerations, off-take agreements and new valuation models to factor in new risk elements will have to be developed.

### *Credit risk*

The risk for losses is considered to be low, as the counterpart will be sovereign states in Western Europe. The group has not made any set-off or other derivate agreements to reduce the credit risk in EAM Solar ASA.

## Note 2 – Currency exposure

Almost all of EAM's activity is in EUR. Some of the cost base is in NOK and the effective currency for the mother company is NOK.

Due to the weakening of the Norwegian krone against the Euro, EAM has booked a net non-realized currency exchange loss in the 1st quarter 2014 of EUR 207k.

## Note 3 - Tax

The subsidiaries are mainly financed through intercompany loans granted by the Mother Company. Interest charged on loans from Norway to Italy is subject to a 15% withholding tax in Italy. The withholding tax is payable at the time of transfer of funds from Italy to Norway as payment for accrued interest.

## Note 4 – Acquisition accounting and impairment test

EAM Solar ASA has as its core business to acquire and operate solar PV power plants (SPP's). Acquisitions are either conducted by acquiring companies that owns SPP's, or by acquiring the power plant directly (asset purchase). Choice of acquisition method has tax implications, and implications for the asset value used in the Company's accounts post acquisition.

As experienced in the 3rd quarter 2013, the book value of assets owned by the acquired company was higher than the purchase price. In conjunction with the accounting principles used in the group accounts by EAM Solar ASA in 2012 and in 2013, a difference between purchase price and the book value of assets results in an accounting gain or loss recognized in the Company's profit and loss statement.

Since EAM is experiencing that the current accounting practise of recognising such difference in the P&L statement results in significant gains, which may distort the perception of the underlying economic activity of the company, the Board of Directors have evaluated this accounting practise together with the Company's auditor in conjunction with the full year 2013 audit. See the Annual Report 2013 for further comments.

Based on the current IFRS accounting rules, the Board of Directors in EAM has, together with the Company's Auditor, decided to apply the IFRS accounting rules, i.e. maintain the recognition of book values when deemed appropriate.

## Note 5 - List of subsidiaries

The following subsidiaries are included in the interim consolidated financial statements:

| Company | Country of incorporation | Main operation | Ownership |
|---|---|---|---|
| EAM Solar Italy Holding Srl | Italy | Holding company | 100% |
| EAM Solar Italy 1 Srl | Italy | Solar power plant | 100% |
| EAM Solar Italy 2 Srl | Italy | Solar power plant | 100% |
| EAM Solar Italy 3 Srl | Italy | Solar power plant | 100% |

## Note 6 - Segment information

| EAM Solar Italy 1 Srl | Q1'2014 | Q1'2013 |
|---|---|---|
| Revenues from external customers | 144 963 | 146 055 |
| EBITDA | 83 858 | 62 456 |
| EBIT | -12 658 | -58 439 |
| Investments | 0 | 22 080 |
| Non-current assets | 6 051 760 | 6 490 655 |

| EAM Solar Italy 2 Srl | Q1'2014 | Q1'2013 |
|---|---|---|
| Revenues from external customers | 296 011 | 350 359 |
| EBITDA | 175 798 | 189 719 |
| EBIT | -20 893 | -33 174 |
| Investments | 0 | 44 160 |
| Non-current assets | 12 463 129 | 13 476 954 |

| EAM Solar Italy 3 Srl | Q1'2014 | Q1'2013 |
|---|---|---|
| Revenues from external customers | 151 135 | 0 |
| EBITDA | 67 873 | 0 |
| EBIT | 681 | 0 |
| Investments | 217 845 | 0 |
| Non-current assets | 5 324 717 | 0 |

| Other & eliminations | Q1'2014 | Q1'2013 |
|---|---|---|
| Revenues from external customers | 0 | 0 |
| EBITDA | -669 418 | -445 128 |
| EBIT | -669 418 | -446 409 |
| Investments | 0 | 0 |
| Non-current assets | 2 568 354 | 4 053 975 |

| Total | Q1'2014 | Q1'2013 |
|---|---|---|
| Revenues from external customers | 592 109 | 496 414 |
| EBITDA | -341 888 | -192 953 |
| EBIT | -702 287 | -538 022 |
| Investments | 217 845 | 66 240 |
| Non-current assets | 26 407 960 | 24 021 584 |

EAM Solar ASA owns, through three 100% owned Italian subsidiaries, four solar power plants in Italy.

EAM Italy 1 Srl owns the Varmo power plant, EAM Italy 2 Srl the Codroipo power plant, and EAM Solar Italy 3 Srl owns, through the 100% acquired company M&T Solare Srl, the Momo and Caltignaga power plants.

Non-current assets consist of the solar power plants in Italy, land, deferred tax asset and capitalized acquisition costs.

## Note 7 - Transactions with related parties

All the transactions have been carried out as part of the ordinary operations and at arms-length prices.

Energeia Asset Management, and its daughter company EAM SPM, delivers management services to EAM Solar ASA according to the Management Agreement. EAM SPM is a 100% owned by Energeia Asset Management AS.

According to the Management Agreement, the Energeia group charges EAM Solar ASA the direct operating costs, without any profit margin, related to the management services provided. At the moment any direct operating costs above NOK 5 million a year must be approved by the board of directors in EAM Solar ASA.

Furthermore, the Energeia group receives 12,5% of the Groups pre-tax profit as royalty from EAM Solar ASA – the financial participation mechanism. The royalty is based on the fact EAM Solar is developed, created and managed by Energeia Asset Management AS. The royalty structure aligns the interests of the Energeia group with the interests of the shareholders of EAM Solar ASA.

Direct cost charged by the Energeia group according to the Management Agreement amounts can bee seen in note 11.

In the calculation of the royalty, any non-cash currency gain or non-cash gain on bargain purchase is subtracted from the royalty calculation base.

## Note 8 – Information on major customers

Of the groups' revenues of EUR 592k in the 1st quarter all came from sale of electrical power.

The sale of electricity is mostly (85%) conducted through long-term electricity sales contracts (the FIT contracts), and the rest is from sales at market price.

The Company's major customer is GSE for the FIT contracts. GSE is short for Gestore dei Servizi Energetici GSE S.p.A., a company owned by the Ministry of Economy and Finance. For further information about GSE visit the following web page: www.gse.it.

## Note 9 – Property, plant and equipment

The assets are depreciated based over an economic life of 11 to 20 years and linear depreciation.

In the 4th quarter 2013 the tax depreciation period for SPP's was changed from 20 to 25 years according to a regulatory change in Italy. This has not impacted our IFRS practise of depreciation over 20 years equivalent to the FIT electricity sales contract period.

(EUR)

| 2014 | Power plants |
|---|---|
| Carrying value 1 January 2014 | 23 197 458 |
| Additions | 217 845 |
| Depreciation | -360 399 |
| **Carrying value 31 March 2014** | **23 144 630** |

| 2013 | Power plants |
|---|---|
| Carrying value 1 January 2013 | 19 533 095 |
| Additions | 4 904 382 |
| Depreciation | -1 240 020 |
| **Carrying value 31 December 2013** | **23 197 458** |

| 2012 | Power plants |
|---|---|
| Carrying value 1 January 2012 | 6 563 352 |
| Additions | 14 006 012 |
| Depreciation | -1 036 269 |
| **Carrying value 31 December 2012** | **19 533 095** |

## Note 10 - Cash and cash equivalents

| (EUR) | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Q1'2014 |
|---|---|---|---|---|---|---|---|---|---|
| Unrestricted cash Norway | 225 149 | 725 | 860 075 | 249 256 | 9 860 020 | 7 507 109 | 1 746 242 | 1 435 170 | **25 975 787** |
| Unrestricted cash Italy | 1 448 391 | 756 072 | 254 943 | 203 564 | 588 323 | 659 126 | 2 105 870 | 3 176 028 | **3 365 968** |
| Restricted cash Italy | 260 910 | 260 910 | 260 910 | 260 910 | 260 885 | 250 208 | 250 208 | 250 208 | **250 208** |
| **Cash** | 1 934 449 | 1 017 707 | 1 375 927 | 713 730 | 10 709 227 | 8 416 443 | 4 102 320 | 4 876 716 | **29 591 962** |

The group has a credit facility of EUR 6m at the end of the 1st quarter 2014. The credit facility has not been utilized in the quarter and is issued by the Company's largest shareholder, Sundt AS.

## Note 11 – Detailed operational cost overview

| (EUR) | EAM Solar ASA | EAM Solar Italy 1 | EAM Solar Italy 2 | EAM Solar Italy 3 | Other & Eliminations |
|---|---|---|---|---|---|
| **Revenues** | **592 109** | **144 963** | **296 011** | **151 135** | **0** |
| **Cost of operations** | **-116 450** | **-23 041** | **-57 657** | **-35 752** | **0** |
| Land rent | -26 804 | -8 696 | -18 108 | 0 | 0 |
| Insurance | -24 746 | -4 399 | -17 123 | -3 225 | 0 |
| Operation & Maintenance | -49 372 | -8 253 | -15 559 | -25 560 | 0 |
| Other operations costs | -15 528 | -1 693 | -6 867 | -6 967 | 0 |
| **Sales, General & Administration** | **-259 964** | **-38 064** | **-58 517** | **-47 510** | **-115 873** |
| Commercial management | -12 693 | -6 250 | -6 250 | -193 | 0 |
| Accounting, audit & legal fees | -49 572 | -9 688 | -9 623 | -12 866 | -17 396 |
| IMU tax | -37 837 | -8 941 | -16 091 | -12 805 | 0 |
| EAM SPM direct costs | -146 250 | -12 679 | -26 070 | -16 544 | -90 957 |
| EAM SPM management service contract | 0 | 0 | 0 | 0 | 0 |
| Other administrative costs | -13 613 | -507 | -483 | -5 102 | -7 520 |
| **Acquisition & financing cost** | **-557 583** | **0** | **-4 038** | **0** | **-553 545** |
| Acquisition transaction costs | -491 335 | 0 | 0 | 0 | -491 335 |
| Funding & IPO costs | -62 210 | 0 | 0 | 0 | -62 210 |
| Other non-recurring items | -4 038 | 0 | -4 038 | 0 | 0 |
| **EBITDA** | **-341 888** | **83 858** | **175 798** | **67 873** | **-669 418** |

The costs under other & eliminations are costs of EUR 490k related to the due diligence costs of the P31 acquisition in EAM Solar Italy Holding Srl., and EUR 62k related to the Private placement conducted in January 214 in the Norwegian mother company.

## Note 12 – Quarterly P&L overview 2012 - 2014

| (EURm) | Q1 2012 | Q2 2012 | Q3 2012 | Q4 2012 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Q1 2014 |
|---|---|---|---|---|---|---|---|---|---|
| **Production (GWh)** | **1,176** | **2,484** | **2,574** | **0,931** | **1,102** | **2,335** | **2,692** | **1,310** | **1,521** |
| % of annual production | 16% | 35% | 36% | 13% | 15% | 31% | 36% | 18% | |
| **Revenues** | **0,501** | **1,047** | **1,085** | **0,474** | **0,496** | **0,986** | **1,131** | **0,497** | **0,592** |
| **Total operating costs** | **-0,550** | **-0,789** | **-0,448** | **-0,516** | **-0,689** | **-0,318** | **-0,431** | **-0,455** | **-0,934** |
| Operations costs | -0,061 | -0,080 | -0,064 | -0,061 | -0,081 | -0,083 | -0,068 | -0,128 | -0,116 |
| SG&A costs | -0,193 | -0,202 | -0,255 | -0,479 | -0,281 | -0,173 | -0,234 | -0,332 | -0,260 |
| A&T costs | -0,295 | -0,507 | -0,129 | 0,023 | -0,327 | -0,062 | -0,129 | 0,005 | -0,558 |
| **EBITDA** | **-0,049** | **0,258** | **0,637** | **-0,042** | **-0,193** | **0,667** | **0,700** | **0,042** | **-0,342** |
| EBITDA margin | -10% | 25% | 59% | -9% | -39% | 68% | 62% | 9% | -58% |
| Depreciation | -0,161 | -0,291 | -0,292 | -0,293 | -0,345 | -0,241 | -0,295 | -0,358 | -0,360 |
| Gain on bargain purchase | 2,668 | 0,000 | 0,000 | 0,000 | 0,000 | 0,000 | 2,422 | -0,179 | 0,000 |
| **EBIT** | **2,458** | **-0,033** | **0,345** | **-0,335** | **-0,538** | **0,426** | **2,826** | **-0,494** | **-0,702** |
| Financial income | 0,000 | 0,027 | 0,003 | 0,001 | 0,333 | 0,999 | 0,666 | 0,755 | 0,043 |
| Financial costs | -0,313 | -0,413 | -0,658 | -0,496 | -0,158 | -0,003 | -0,049 | -0,006 | -0,258 |
| **Profit before tax** | **2,145** | **-0,419** | **-0,310** | **-0,831** | **-0,362** | **1,422** | **3,444** | **0,254** | **-0,917** |
| **Adjusted EBITDA** | **0,246** | **0,765** | **0,766** | **-0,066** | **0,134** | **0,729** | **0,828** | **0,037** | **0,216** |

EBITDA adjusted is adjusted for acquisition, transaction and funding costs.

## Note 13 – Power production

The following power plants are included in the consolidated financial statements:

| Power plant | Capacity kW | Production MWh (*) | Location Province | Type |
|---|---|---|---|---|
| Codroipo | 3 128 | 4 623 | Udine | Dual axis tracker |
| Varmo | 1 521 | 2 298 | Udine | Dual axis tracker |
| Momo | 994 | 1 133 | Piemonte | Fixed tilt |
| Caltignaga | 992 | 1 120 | Piemonte | Fixed tilt |
| **Total** | **6 635** | **9 173** | | |

*(*) Production is based on historical average solar irradiation.*

| Reported power production | Q1 2014 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | FY2013 | FY2012 |
|---|---|---|---|---|---|---|---|
| Codroipo | **749** | 750 | 1 550 | 1 798 | 707 | 4 806 | 4 595 |
| Varmo | **367** | 352 | 785 | 862 | 315 | 2 315 | 2 571 |
| Momo | **198** | 0 | 0 | 16 | 143 | 159 | 0 |
| Caltignaga | **208** | 0 | 0 | 15 | 144 | 160 | 0 |
| **Total** | **1 521** | **1 102** | **2 335** | **2 692** | **1 310** | **7 439** | **7 166** |

| Actual power production | Q1 2014 | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | FY2013 | FY2012 |
|---|---|---|---|---|---|---|---|
| Codroipo | **749** | 750 | 1 550 | 1 798 | 707 | 4 806 | 5 238 |
| Varmo | **367** | 352 | 785 | 862 | 315 | 2 315 | 2 571 |
| Momo | **198** | 0 | 0 | 460 | 143 | 603 | 0 |
| Caltignaga | **208** | 0 | 0 | 439 | 144 | 583 | 0 |
| **Total** | **1 521** | **1 102** | **2 335** | **3 559** | **1 310** | **8 307** | **7 808** |

Varmo commenced commercial operations in December 2010, Codroipo in May 2011, and Momo and Caltignaga since September 2011. All power plants are on 20-year fixed price electricity sales contracts with the GSE in Italy. Varmo and Codroipo receive a fixed price (FIT) of EUR 346 per MWh delivered and Momo and Caltignaga receives a fixed price of EUR 245 per MWh. In addition all power plants receives a market-determined price (RID-price). The market price for electricity in Italy has dropped from a level of approximately EUR 80 per MWh to EUR 60 per MWh the past 12 months.

All power plants are included in the financial report from the time of the financial close. Varmo since September 2011, Codroipo since March 2012, and Momo and Caltignaga from the 27th of September 2013. However, the financial ownership of the power plants took place earlier. EAM Solar ASA assumed ownership of Varmo and Codroipo the 1st of September 2011 and Momo and Caltignaga the 1st of July 2013.

The power plants are located on the North of Italy, and production follows the seasonality of solar irradiation, implying that about 19% of annual power production is in Q1, 32% in Q2, 35% in Q3 and 14% in Q4.

Electricity production in the Q1 2014 was 7,7 % lower than budget (based on historic average irradiation), which is within normal weather variations.

Varmo & Codropio experienced two very weak solar irradiation months in January and February with 40% below normal irradiation levels. March on the other hand was 20% above normal levels for all power plants.

Technical status for the power plants in the 1st quarter was fair with three minor technical disruptions recorded that resulted in a total power loss of 35 MWh, equivalent to 2,3% of the production in the quarter. Most technical faults where corrected within days.

EAM (the Manager) has since January introduced a new technical management and preventive maintenance programme. The new programme involves amongst others a faster fault response intervention. Furthermore, a continuous operational monitoring is now conducted from the Manager's office in Oslo.

# First quarter 2014

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