

Italy

ACTELIOS

A winning combination

Buy (12m)

Price 19/10/10 €2.21 12m target €3.0

Sector
Weighting
Underweight
Preferred stock
EDF Energies Nouvelles
Least preferred stock
Theolia

■ **Investment case** The merger of Actelios' biomass-based electricity production activities with those of the wind energy specialist Falck Renewables (both controlled by Gruppo Falck) will lead to the creation of one of the principal independent producers of renewable electricity in Europe. This transaction enables the combination of a company with substantial cash but a limited growth outlook (Actelios) with a highly dynamic wind energy developer that operates in countries with high profitability (UK, Italy) but has substantial financing needs (Falck Renewables). The balance sheet structure of the new group appears solid for the period 2010-2014 despite significant investments. The combination of these two entities should also serve to limit the inherent risks of each by diversifying their technological and geographical bases. The new group should show earnings growth of over 15% per year. We believe that the share offers strong upside potential based on our target price of €3.0 per share.

■ **Catalysts for the share price** The completion of the transactions concerning the shareholder structure of Actelios and Falck Renewables should give the share new visibility. After a H1 in which trading was penalised by poor wind energy conditions in the UK and the shutdown of one of Actelios' sites for complete renovation, the outlook should improve significantly. Finally, discussions have resumed concerning the cancelled projects in Sicily. This could lead to the reimbursement of the €128m in investments made.

■ **12m target price and methodology** We have a target price of €3.0 per share. As with all electricity producers, our benchmark method is a sum of the parts valuation. Installed assets are valued using a DCF valuation based on assumed asset profitability, which varies as a function of geographical location and technology. Actelios' sum of the parts valuation (before market discount) equals €4.1. Stock market comparisons are also useful and lead to a valuation of €3. In contrast, a DCF valuation is not very relevant in the case of developers.

■ **Alternative scenarios and risk to our scenario** The regulatory situation concerning green certificates in Italy remains uncertain and their value could be revised downward. This would have an impact on the profitability of wind and biomass assets. Electricity price trends also remain an important factor in terms of Actelios' performance.



Source: SG Cross Asset Research

Risk

Stock vs sector na
Sector vs market na


Actelios on www.sgresearch.com

Share data				
RIC AA4.MI, Bloom ACT IM				
52-week range		4.24-2.21		
EV 10 (€m)		931		
Market cap. (€m)		357		
Free float (%)		31.3		
Performance (%)	1m	3m	12m	
Ordinary shares	-14.4	-22.0	-46.0	
Rel. Eurofirst 300	-15.2	-27.5	-48.8	

Financial data	12/09	12/10e	12/11e	12/12e
Revenues (€m)	94.9	202.3	243.7	276.6
EBIT margin (%)	19.8	29.2	28.4	28.9
Rep. net inc. (€m)	4.2	19.1	22.0	23.8
EPS (adj.) (€)	0.062	0.118	0.136	0.147
Dividend/share (€)	0.085	0.035	0.041	0.044
Payout (%)	269.5	58.0	26.2	24.0
Interest cover (x)	3.6	2.2	2.1	2.0
Net debt/equity (%)	nm	148.1	190.0	225.9

Ratios	12/09	12/10e	12/11e	12/12e
P/E (x)	35.8	18.7	16.2	15.0
FCF yield (/EV) (%)	5.5	-2.4	-11.8	-8.0
Dividend yield (%)	3.9	1.6	1.8	2.0
Price/book value (x)	0.4	0.9	0.9	0.9
EV/revenues (x)	2.76	4.60	4.51	4.50
EV/EBIT (x)	13.9	15.7	15.9	15.6
EV/IC (x)	1.0	1.0	1.0	1.0
ROIC/WACC (x)	0.5	0.7	0.5	0.5

CAGR 09-12e: +33.6%

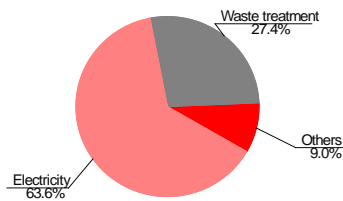
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Group anatomy – business overview

Actelios, an Italian company specialising in the production of electricity from biomass and waste, is in the process of merging its operations with those of Falck Renewables, a wind energy specialist. These two companies are controlled by Gruppo Falck, an Italian holding company.

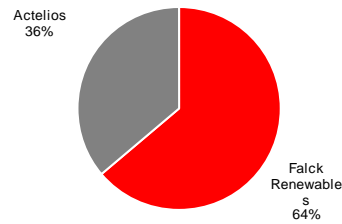
Sales/division 2009



The group's principal activity is electricity production. The merger with Falck Renewables will further increase the dominance of this segment.

Source: Company data

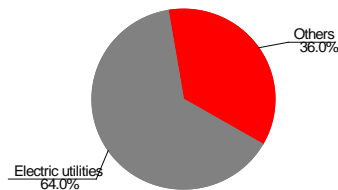
EBIT/division 2009 pf



On a pro forma 2009 basis, Falck Renewables is the major contributor to group EBITDA. It should also be the main growth driver.

Source: Company data

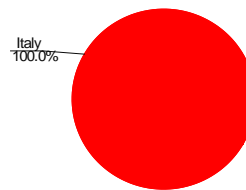
End-market exposure 2009



The Italian network operator is the principal customer for the electricity produced by Actelios. The service and waste treatment activities are linked to sector industrials.

Source: Company data

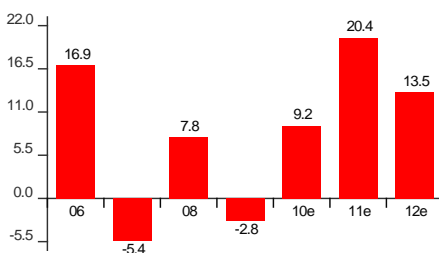
Sales/region 2009



Actelios operates exclusively in Italy. The merger with Falck Renewables will increase the geographical diversification and reduce regulatory risks.

Source: Company data

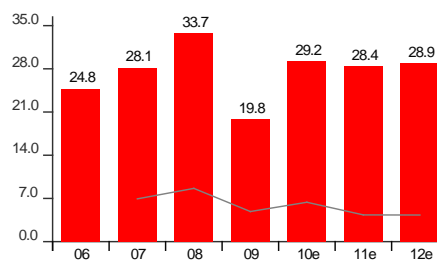
Revenues organic growth (%)



Actelios showed low growth due to the difficulty in obtaining capacity extensions. The consolidation of Falck Renewables will boost group growth.

Source: SG Cross Asset Research, Company data

EBIT margin (red) and ROIC (grey) (%)



The consolidation of Falck's assets will not affect long-term EBIT margins. The return on assets will also be maintained.

Source: SG Cross Asset Research, Company data

Competitive landscape

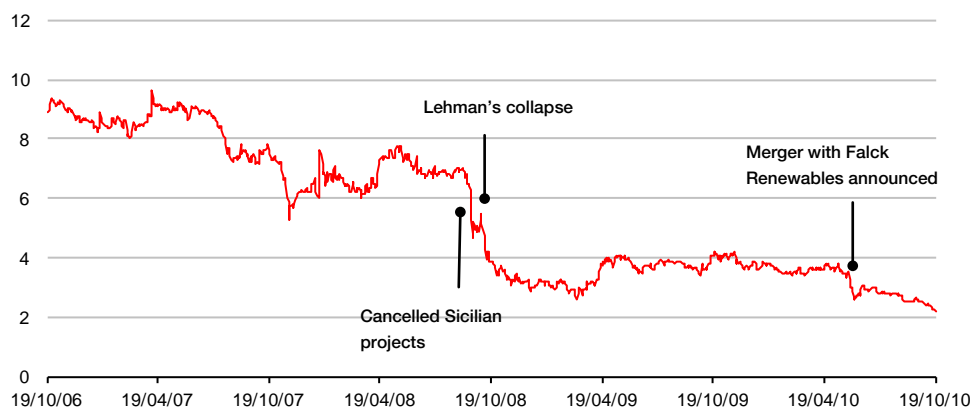
Business	Company market share	Sales CAGR (5y)	Company EBIT margin	Avg sector EBIT margin	Main players
Wind energy	NM	20%	35%	35%	Iberdola Re, EDPR, EDF EN, Greentech, Alerion
Biomass and incineration	NM	3%	25%	25%	Hera, Séché Environnement, Séchilienne
PV solar	NM	NS	NA	NA	EDF EN, T-Solar, Séchilienne

Source: SG Cross Asset Research

Group anatomy – performance and valuation

Actelios. Historical share price performance

Since its IPO in 2006, the share has been hit by a series of bad news, with the most important being the cancellation of waste treatment projects in Sicily in 2008.



Source: Datastream

Stock market comparisons – sample of renewable electricity producers

	Price (as of 19 Oct.)	Mkt cap	10e P/E	11e P/E	12e P/E	10e EV/EBITDA	11e EV/EBITDA	12e EV/EBITDA	10e P/Book
Babcock & Brown Wind	0.4	209							
Boralex Inc	5.5	333	97.9x	20.6x	16.5x	11.5x	7.7x	8.1x	0.9x
EDF Energies Nouvelles	29.8	2,308	19.3x	13.1x	10.7x	12.5x	10.9x	10.0x	1.7x
EDP Renovaveis	4.3	3,739	39.8x	23.5x	18.9x	11.7x	10.3x	9.5x	0.7x
FERSA Energias Renovables SA	1.2	161	230.0x	32.9x		21.0x	12.1x	11.0x	
Greentech Energy Systems A/S	2.7	134		104.6x		25.7x	20.6x	21.7x	0.6x
Iberdrola Renovables	2.4	10,231	24.8x	21.1x	18.1x	10.3x	9.4x	8.8x	0.9x
China Longyuan Power	0.8	2,085	30.4x	22.0x	16.8x	7.8x	7.4x	6.7x	2.3x
Sechilienne-Sidec	20.9	594	12.6x	9.1x	8.9x	10.1x	8.3x	8.1x	1.7x
Terna Energy S.A.	3.1	343	31.4x	17.4x	12.2x	16.4x	10.8x	7.0x	0.9x
Theolia	1.3	131	nm	nm	nm	10.6x	9.9x	8.5x	0.3x
Average			60.8x	29.4x	14.6x	13.3x	10.6x	9.7x	1.1x

Source: SG Cross Asset Research, Factset consensus.

Stock market comparisons – sample of Italian renewable energy producers and waste management groups

	Price (as of 19 Oct.)	Market cap.	10e EV/EBITDA	11e EV/EBITDA	2010 EV/EBIT	2011 EV/EBIT	2010 P/E	2011 P/E
Hera S.p.A.	1.45	1,616	5.8	5.4	10.8	9.9	14.5x	12.8x
Actelios S.p.A.	2.21	149	4.5	5.0	7.2	7.4	12.3x	13.8x
Alerion Clean Power S.p.A.	0.51	226	16.7	9.8	40.9	22.9		20.6x
ERG Renew S.p.A.	0.88	117	19.8	8.3		22.9		159.8x
Seche Environnement S.A.	55.46	479	6.9	6.4	10.7	9.7	15.6x	12.3x
Average*			10.8	7.0	17.4	14.6	14.1x	14.9x*

Source: SG Cross Asset Research, Factset consensus; * excluding ERG Renew

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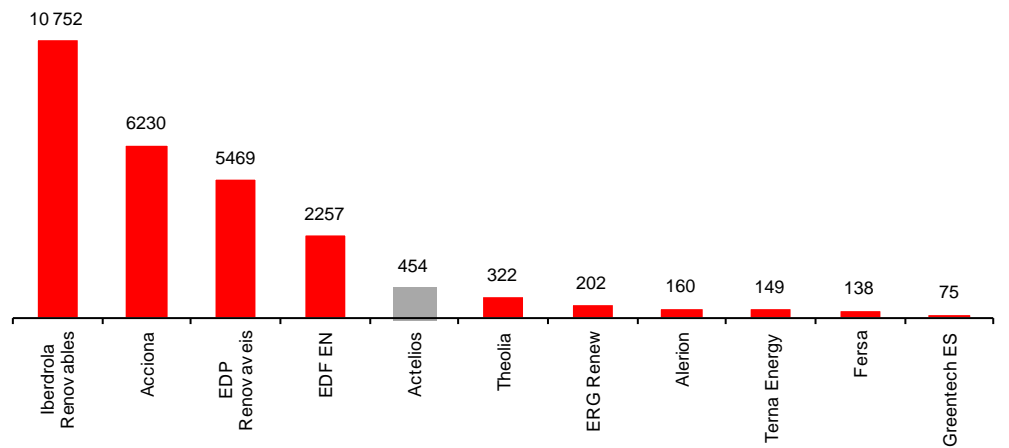
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Investment summary

A new, less risky ensemble

The transfer of Falck Renewables' assets to Actelios will lead to the creation of one of the most important independent European renewable electricity producers after the sector majors.

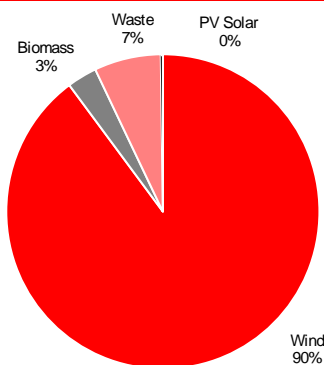
Installed capacities as of 31 December 2009



Source: SG Cross Asset Research

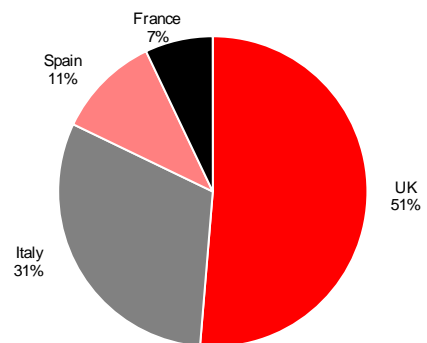
While Actelios had previously operated exclusively in Italy in the biomass and waste areas, the new group's revenue sources will be more diversified. Additionally, geographical diversification should reduce risk, particularly regulatory risks that penalise the renewable energy sector players.

Production asset breakdown by technology



Source: SG Cross Asset Research, company

Geographical breakdown of production assets

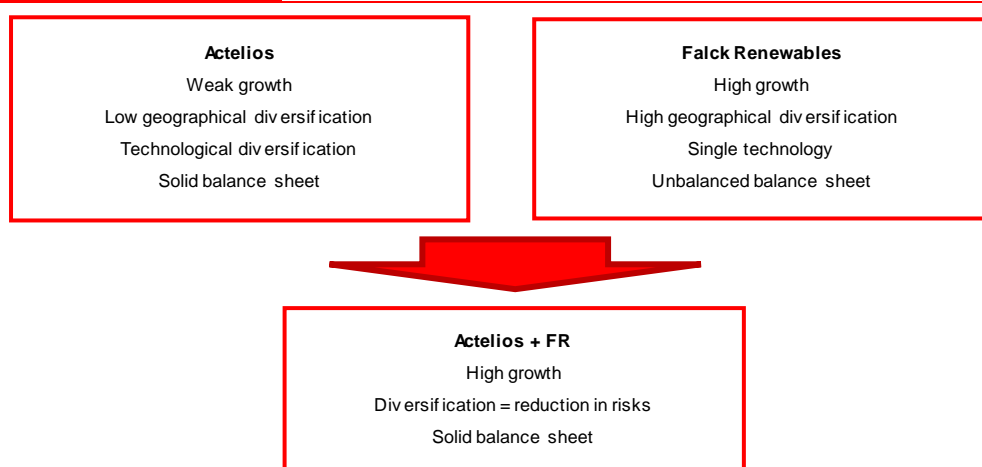


Source: SG Cross Asset Research, company

A new, more dynamic ensemble

The growth outlook for Actelios alone was limited by the difficulty in obtaining new authorisations for waste incinerators and in assuring the availability of producible biomass. Additionally, there appeared to be only limited opportunities for development in the PV solar segment over time. Actelios could not use its net cash (€95m) in an optimal manner. In contrast, Falck Renewables is benefiting from the dynamism of wind energy in the UK and Italy and has a strong growth outlook. However, seizing these opportunities requires major investments and Falck Renewables appears to lack the resources.

A winning combination



Source: SG Cross Asset Research

The combination of the two entities will create a group with a solid balance sheet and a strong growth outlook. Average earnings growth over 2009-2014e should be close to 15%. Finally, the new group's return on equity should improve compared to Actelios alone.

Over 30% upside potential

We have a target price of €3.0 per share based a sum of the parts valuation, our benchmark method. While the theoretical valuation equals €4.1, the market applies an average discount of nearly 25% to the sum of the parts valuation of the renewable development majors. Applying this discount to Actelios leads to our target price of €3.0. Stock market comparisons give a target price between €2.5 and €3.7 per share.

Summary of our valuation methods

Method	Theoretical valuation (€/sh)	Comments
Sum of the parts	4.1	Our benchmark method
FCF yield	2.6	Normalised valuation approach
Stock market comparisons	3.0	Based on 2011 EV/EBITDA multiples
DCF	3.2	Validation of the SOP valuation

Source: SG Cross Asset Research

Inherent risks, above all on the Italian market

Regulatory risk in Italy

Looking beyond the risks inherent in the operation of wind energy units (whose impact could be seen in Falck Renewables' H1 2010 results), the new group will be above all exposed to regulatory risk in terms of the future of green certificates in Italy. In a worst case scenario under which the repurchase obligation of the GSE (Italian renewable energy development authority) is cancelled, the value of green certificates would fall to close to zero given the surplus. Under this scenario, EBITDA over 2012-2014 would fall by 15-20%. Applying the average 2012 EBITDA multiples of wind energy developers would lead to a valuation of €2.0, a level 10% below the current share price.

Impact of a fall in prices of green certificate prices on wind energy operations in Italy

Scenario	Initial SGe forecasts			Forecasts including the risk		
	15% reduction in wind energy remuneration in Italy. Assumed price: €129/MWh over the period			End of systematic repurchases of green certificates in Italy. Assumed wind electricity price: €70/MWh		
Fiscal year	2012	2013	2014	2012	2013	2014
EBITDA	141	168	209	114	137	176
EPS	0.15	0.17	0.24	0.04	0.05	0.11

Source: SG Cross Asset Research

Limited exchange rate risk

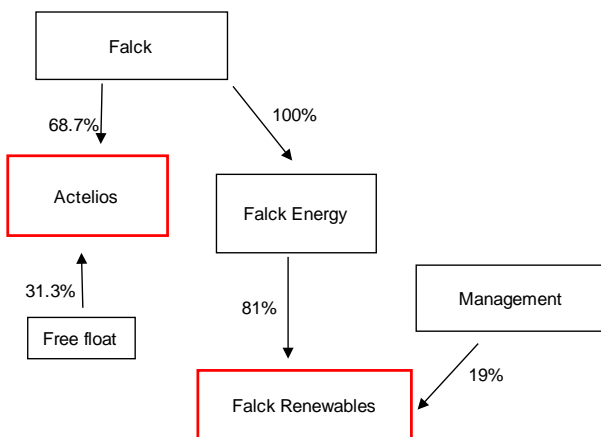
As the new group will realise around 30% of its revenues in the UK, it will be exposed to £/€ exchange rate risk. We estimate that a 10% variation in the £/€ exchange rate would lead to an around 5% variation in EBITDA.

Electricity production: Actelios' core business

The consolidation of Falck Renewables

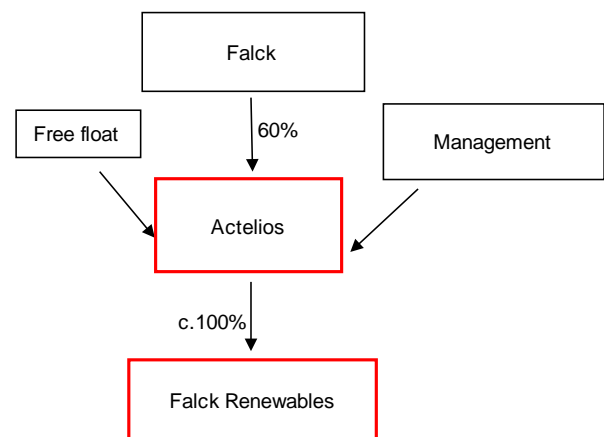
Actelios, an Italian company specialising in electricity production from biomass and waste, is in the process of merging its operations with those of Falck Renewables, a wind energy specialist. The two companies are controlled by Gruppo Falck, an Italian holding company.

Current shareholder structure



Source: company data

Final shareholder structure



Source: company data

A three-step merger

The creation of the new Actelios, which will lead to Actelios owning around 100% of Falck Renewables, will involve three steps:

- The de-merger of Falck Renewables from Falck Energy, which currently owns an 81% stake, and its direct attachment to Gruppo Falck. Management will continue to own a 19% stake, including 12.6% held by William Heller, the company's managing director.
- The contribution of Gruppo Falck's 81% stake to Actelios through an asset transfer. Actelios will issue in return around 74.7 million shares based on valuations of €340m for Actelios and €518m for Falck Renewables.
- The acquisition by Actelios of the 19% of Falck Renewables shares held by management through the issue of 19.5 million new Actelios shares.

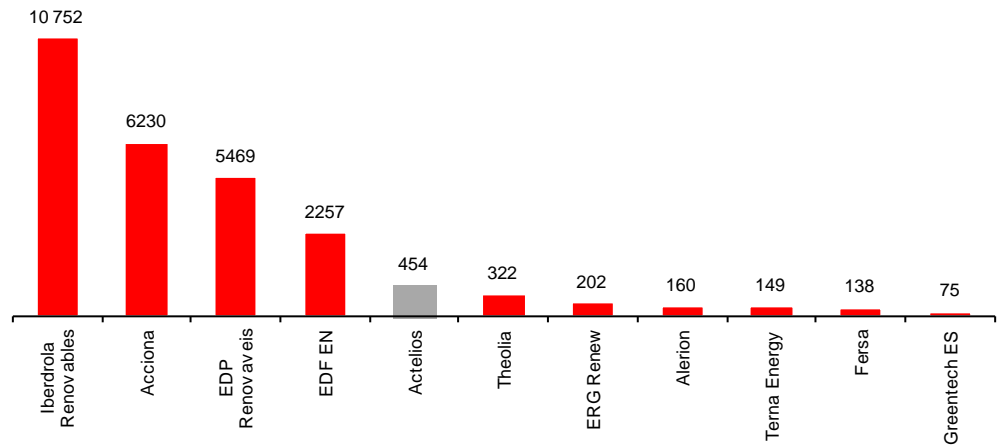
The valuation of Falck Renewables in this transaction appears perfectly justified. The theoretical EV of the existing wind energy assets equals €1.1bn, or around €500m after deducting debt. Actelios' final percent ownership of Falck Renewables will depend on management's response, keeping in mind that William Heller has decided to accept the offer.

In total, Actelios will issue 94.2 million new shares in this transaction, lifting its total number of shares to 161.9 million.

The creation of a significant player in the renewable energies area

The transfer of Falck Renewables' assets will lead to the creation of one of the most important independent European companies in the production of electricity from renewable sources, with 454MW of production capacity.

Installed capacity on 31 December 2009 (MW)

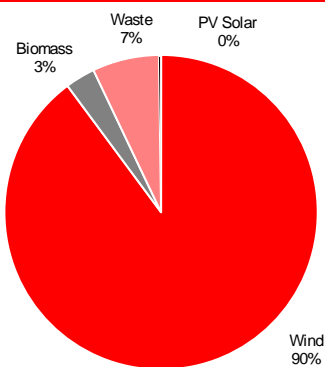


Source: SG Cross Asset Research

Diversification that will reduce risks

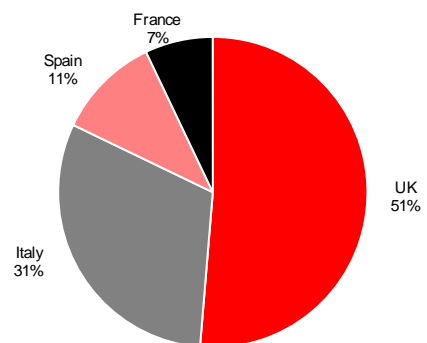
The new ensemble will be principally exposed to wind energy, which will represent 90% of installed assets. Additionally, the group will now be geographically diversified, with half of its assets in the UK compared to its exclusive exposure to Italy up until now. The technological and geographical diversification will diversify the risks associated with each technology and each market.

Production assets breakdown by technology



Source: SG Cross Asset Research, company

Geographical breakdown of production assets



Source: SG Cross Asset Research, company

A change in dimension

The consolidation of Falck Renewables will lead to a change in dimension at Actelios, not only in terms of production capacities, but also in financial terms.

Pro forma growth of 30%

Based on Falck Renewables' results (source: Gruppo Falck annual report), Actelios' 2009 post-merger pro forma P&L statement shows a doubling in revenues and operating profit. While pro forma net income appears stable compared to 2008, it should be noted that this is principally linked to asset write-downs on Actelios' accounts in 2009. Excluding these items, 2009 pro forma net income would have risen 30% compared to 2008.

Actelios pro forma P&L statement

(€m)	2006	2007	2008	2009	2009 pro forma
Sales	95,818	90,625	97,699	94,923	184,422
change in %	17%	-5%	8%	-3%	NA
EBITDA	45,520	39,809	47,425	34,740	94,028
change %	28%	-13%	19%	-27%	NA
EBITDA margin	48%	44%	49%	37%	51%
Operating profit (EBIT)	23,735	25,507	32,937	18,802	55,474
change %	25%	7%	29%	-43%	NA
EBIT margin	25%	28%	34%	20%	30%
Net income	14,243	14,927	19,462	5,734	21,736
change %	213%	5%	30%	-71%	NA
Number of shares	67,680	67,680	67,680	67,680	67,680
EPS (€ per share)	0.19	0.20	0.26	0.06	0.30

Source: SG Cross Asset Research

A re-balancing of the balance sheet

The individual balance sheet situations of the two companies are balanced out in the consolidated balance sheet of the merged group. Actelios had net cash of around €95m compared to equity funds of €350m at the end of 2009. The group had realised a capital increase in €250m in 2006 in order to finance projects in Sicily that have since been abandoned. In contrast, Falck Renewables has a significant need for equity capital, with net debt of €615m (including €353m in project financing) vs equity funds of €26m at the end of 2009. Compared to EBITDA generated in 2009, the debt ratio is above 10x.

Simplified balance sheets of the separate and combined entities

(€m)	Actelios	Falck Renewables	NewCo Pro forma
Net Lt assets	281	656	936
Working capital	(26)	(15)	(41)
Equity funds	350	26	376
Net debt	(95)	615	520

Source: SG Cross Asset Research

The debt of the combined companies totals €520m, including €383m of non-recourse debt. The new company shows a net debt/equity ratio of 1.4x and a net debt/EBITDA ratio of 5.5x. While the net debt/EBITDA ratio could appear high, it is in line with debt ratios of comparable companies using project financing.

A temporary drop in H1 results

Actelios affected by Rende

Actelios' H1 revenues fell 10%, exclusively as a result of the reduction in operations and then shutdown starting in April of the Rende biomass site. Note that the site will become operational again at the beginning of 2011 and that its production will be eligible for green certificates. The other sites have been operating at high levels, thereby partially offsetting the shutdown of Rende and maintaining the group's profitability. The H1 2010 gross margin equalled 43.7% (vs 39.4% in H1 2009). H1 investments totalled €17.3m, principally involving the renovation of the Rende site and the construction of PV solar projects. Note that the debt linked to two acquisitions in waste treatment (consolidated for one month) totalled €12.8m. Actelios' net cash totalled €75m in H1 2010 (vs €88.8m in H1 2009).

Actelios – H1 P&L statement

(€m)	H1 2009	H1 2010
Revenues	48.3	43.3
% change	-2%	-10.0%
Electricity revenues	30.3	25.7
% change	-2%	-15.0%
Services revenues	17.5	16.6
% change	10%	-5%
EBITDA	18.5	17.3
EBITDA margin (%)	38%	40%
Depreciation / amortisation	5.0	4.9
EBIT	13.5	12.3
EBIT margin (%)	28%	29%
Financial charges	-1.5	-1.4
Tax	-5.3	-4.2
Tax rate (%)	44%	38%
Net income	6.7	6.8
Minority interests	0.8	1.1
Attributable net income	5.9	5.7

Source: SG Cross Asset Research

Poor wind conditions in the UK affected Falck Renewables

Falck Renewables H1 revenues (reported in pounds) fell 8% (-6% in euros) despite a 16% increase in the installed base. The decline was exclusively due to the very poor wind conditions seen in the UK in H1 2010. As we had indicated in our SG Windtracker document dated 2 July 2010, average wind speeds were down over 15% compared to the historical average. Note that conditions returned to normal compared to historical data in Q3. EBIT fell, affected by the drop in revenues and the increase in depreciation charges linked to the entry into service of new wind parks. Net debt rose to €658m (vs €615m at the end of 2009). With the exception of the impact of the poor wind conditions, these factors were in line with the company's development plan.

Falck Renewables – H1 P&L statement

(€m)	H1 2009	H1 2010
Revenues	45.4	42.8
% change	-2%	-6%
EBITDA	30.3	ND
EBITDA margin (%)	67%	ND
Depreciation / amortisation	10.2	ND
EBIT	20.1	15.2
EBIT margin (%)	44%	35%
Net income	6.1	2.8

Source: SG Cross Asset Research

Actelios: centred on Italy

Active in biomass and waste

Actelios is a Falck group company founded in 2002 following the sale by Falck of Sondel (no. 2 independent electricity producer in Italy) and its re-centring on renewable energies. Actelios acquired the Rende site in 2002 and then started up the Trezzo site in 2003. Actelios has developed electricity production activities based on biomass and waste. The group operates three co-generation units located in Italy, with total net electrical power of 45MW. The group does not own 100% of its operating assets. The Granarolo plant in the Bologna region is a joint venture with Hera and is only 49% consolidated. In parallel with its production activities, Actelios has developed a service offer involving site maintenance and operates the Fusina plant (3MW).

Actelios electricity production sites

Site	Type	Power (MW)	% stake	Production (GWh)
Rende	Biomass	14.3	100%	96
Trezzo sull'Adda	Waste to Energy	18	85%	131
Granarolo dell'Emilia	Waste to Energy	20	49%	144

Source: SG Cross Asset Research

The group's units produce around 326 TWh per year, corresponding to an availability rate of 83%. The company treats around 270,000 tonnes of non-hazardous waste and 190,000 tonnes of biomass at these units. In 2010, Actelios acquired two waste treatment companies, Esposito Servizi Ecologici and EcoCentro Soluzioni Ambientali. These companies have annual revenues of €12m and will enable Actelios to increase the utilisation of its units.

Regulation

Actelios' electricity production sites are eligible under the CIP6/92 regulatory scheme, a law that created the first incentives for renewable energy production (including from waste) for durations of eight to 20 years. The co-generation plants are also covered by this scheme. The CIP6/92 scheme is the equivalent of a purchase price covering three forms of remuneration: avoided production cost compared to fossil fuels + a return on capital and O&M + premium (eight years). This law has since been modified and replaced by the creation of green certificates.

CIP6/92 rates (excluding premium)

	2005	2006	2007	2008	2009	2010p
Avoided production costs	60.7	73.2	60.5	74.7	67.2	60.0
Return on capital	26.9	27.4	27.9	28.5	29.4	29.7
Total	87.6	100.6	88.4	103.2	96.6	89.7

Source: GSE

A portion of the CIP6/92-linked remuneration for the Trezzo site ended in 2009. Nevertheless, the group will benefit from green certificates (GC) for 15 years at the end of the complete renovation of the site planned for January 2011. Note that biomass is eligible for 1.3 GC/MWh, corresponding to an electricity price of around €175-180/MWh.

Expiration of CIP6/92 status at the Actelios sites

Site	Type	Regulation
Rende	Biomass	CIP6/92: 9MW expired in 2009; 3MW to expire in 2013
Trezzo sull'Adda	Waste to Energy	CIP6/92: 15MW to expire in 2014; 3MW to expire in 2017
Granarolo dell'Emilia	Waste to Energy	CIP6/92: 20MW to expire in 2018

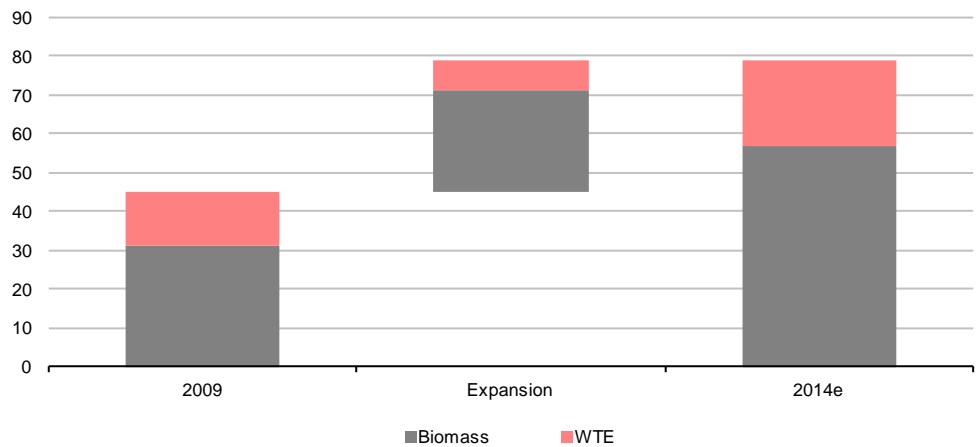
Source: company

Development

The Italian waste treatment market is dynamic, with an average annual growth rate of 7.1% since 2002. Additionally, the application of the European directive 2008/98/EC should lead to greater transformation of non-recyclable waste into electricity at incineration units. According to Eurostat figures, Italy ranks among the EU countries with the lowest waste incineration rate (25%), thereby creating market opportunities.

Actelios has several projects under development in the biomass, waste and PV solar areas. In the biomass area, the group is restructuring its Rende site (14MW), which will come back on line at the beginning of 2011. The site benefits from a 15-year PPA on the basis of market prices + green certificate. The group is also planning the start-up of a new 15MW unit (8MW consolidated) in H2 2013. Projects in the waste incineration area involve the existing Trezzo and Granarolo sites, whose capacities could be doubled by 2014.

Development plans in the biomass and waste treatment areas (MW)



Source: SG Cross Asset Research

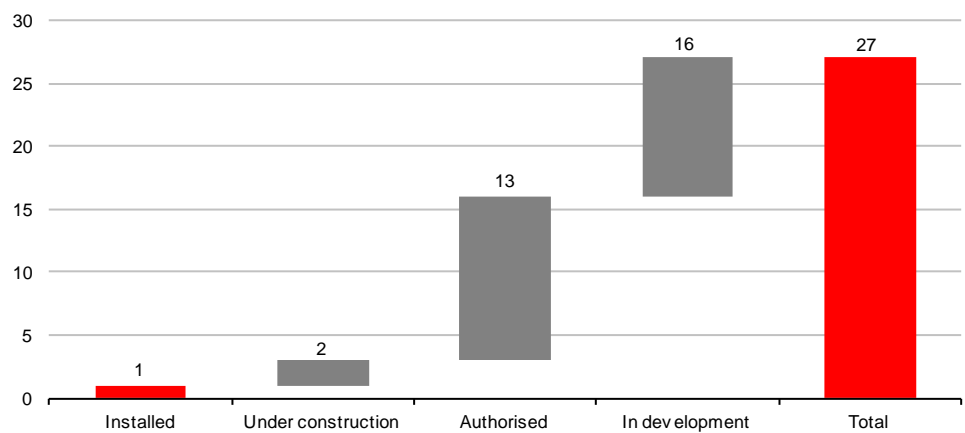
Looking beyond these projects, the company had three waste treatment-related projects totalling 150MW in Sicily. These three projects came out of an agreement signed with the Sicily region in 2003 that has since been cancelled (along with the authorisations). Legal procedures are underway to attempt to recover the total of around €128m in sums invested.

Photovoltaic solar energy

Actelios is a new entrant in the PV solar energy area with 1 MW of installed capacity. The group has opted for an opportunistic approach in its development in solar energy, with a focus exclusively on southern Italy. Note that the rate incentives for the development of PV solar energy in Italy are highly favourable and that Actelios' installations benefit from a rate of €360/MWh plus the market price of electricity.

Actelios' development in the PV solar energy area remains limited, with planned expansion to 27MW looking out to 2014. Develop is centred on Sicily.

Development in PV solar energy (MW)



Source: company data

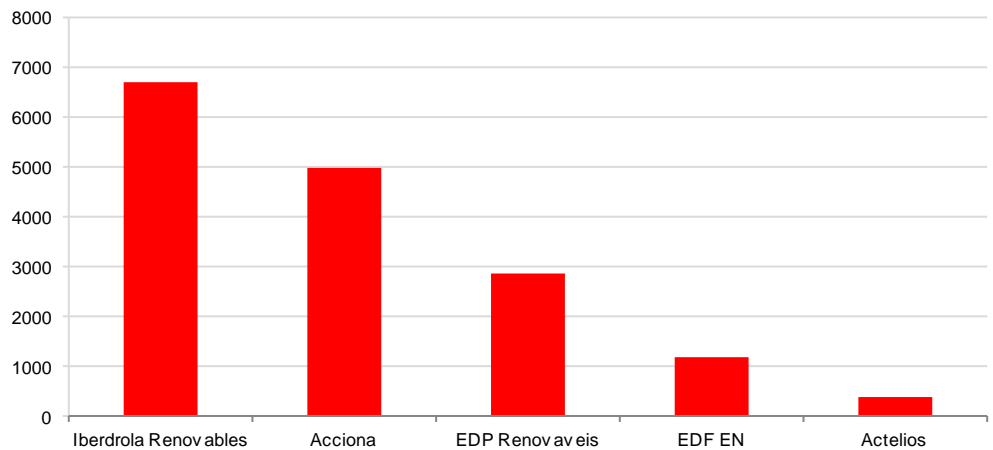
Falck Renewables: an important player in wind energy

408 MW of wind energy capacity in Europe

Falck Renewables was founded in 2002 by Willie Heller, the former CEO Edison Mission Energy, with the backing of the Italian family holding company Gruppo Falck.

Falck Renewables is a major player on the European wind energy market, with 408 MW of wind energy capacity (the majority in the UK) as of end 2009. The difference between Falck Renewables' capacity and that of the sector majors reflects these companies' historically very strong presence in Spain, which represents over 90% of installed capacity in Europe (Acciona).

Installed capacities in Europe by principal listed players (MW)



Source: SG Cross Asset Research

A player with a substantial presence in the UK and Italy

Falck Renewables' capacities are essentially located in the UK and Italy, markets where the groups' units are 100% owned. In contrast, the majority of the group's assets in Spain are jointly owned.

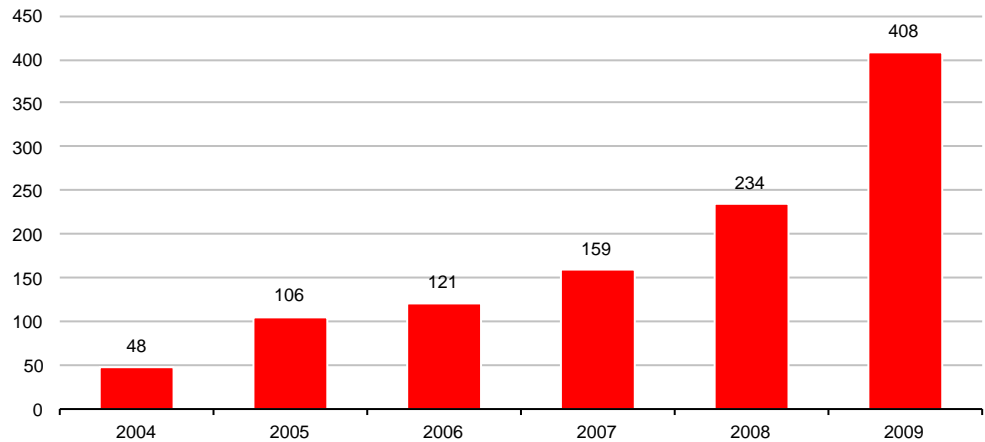
Installed wind energy capacities at the end of 2009

(MW)	Gross installed capacity	Net installed capacity
UK	233	233
Italy	94	94
Spain	122	49
France	32	32
Total	481	408

Source: company data

Growth in installed wind energy capacities has accelerated since 2007, when the group completed its initial projects in Italy.

Growth in installed capacities (MW)

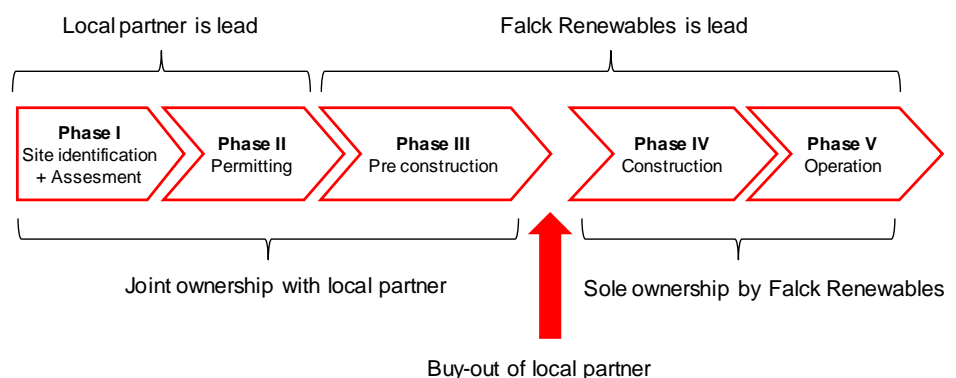


Source: company data

Development approach

Falck Renewables bought its first wind parks, particularly in Spain with the stakes in the La Muela and Cabezo wind parks. In the UK, the first wind park operated by the company, Cefn Croes, was acquired in 2004. After this start-up phase, Falck Renewables has developed its projects, in the majority of cases through co-development with partners, including RDC Scotland (with which the company has developed its principal Scottish wind parks) and Coriolis Energy. Falck Renewables has operated in the same manner in Italy, with for example the development of the Budduso wind park in partnership with GeoPower. While Falck Renewables also plans to develop projects on its own, we have not identified any such projects at this point.

Project co-development



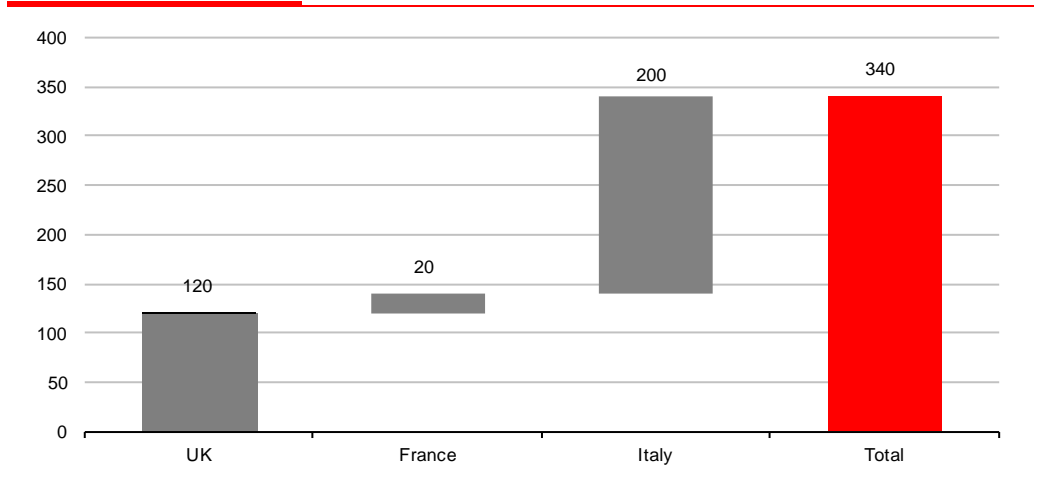
Source: SG Cross Asset Research

Note that in the wind energy sector, the earlier the control of the project development process, the greater the value creation. The choice of co-development allows the trade-off between value creation and development risks to be optimised.

Project portfolio

Falck Renewables has a wind energy project pipeline totalling 1,540 MW at different stages of development, including 340 MW authorised or under construction. Regarding the development projects, the company has identified 280 MW with a high probability of success, with the group having validated the wind energy potential and secured the location and network access while identifying the specific risks involving the obtaining of permits.

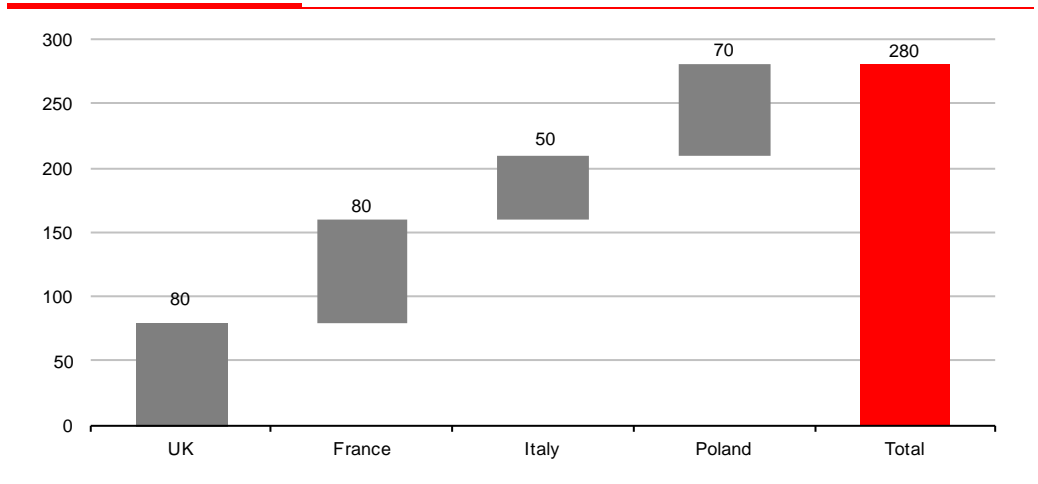
Projects authorised and/or under construction (MW)



Source: company data

Development is taking place principally in those countries where the company is already present, with the exception of Spain. However, the development focus is also turning to Eastern Europe, where certain countries such as Poland offer both good wind conditions and remuneration.

High probability project pipeline



Source: company data

Projects in development in France

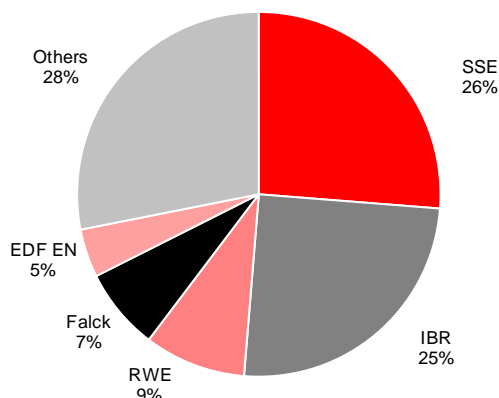
Country	Site	Power (MW)	Filing date
France	Moulismes	16	October 2008
France	Availles-Limouzine	14	November 2007
France	Plonévez du Faou	23	January 2010

Source: company data

UK: favourable rate environment

With 233 MW of installed capacity at the end of 2009, Falck Renewables is one of the principal players in the UK, with around 7% of installed onshore MW.

Principal wind energy players in the UK (excluding offshore)



Source: SG Cross Asset Research

Excellent wind conditions

The UK wind energy market benefits from very good wind conditions. Average capacity factors equal over 3,000 hours per year, corresponding to around 25% higher production potential than the European average.

Capacity factors of installed wind parks in the UK

Park	Power (MW)	Capacity factor	Hours
Ben AKetil	23	38.8%	3400
Boyndie	14	33.1%	2900
Earlsburn	37.5	36.5%	3200
Cefn Croes	58.5	32.0%	2800
Millenium	50	35.4%	3100
Kilbraur	47.5	34.2%	3000

Source: SG Cross Asset Research, company data

Favourable rate structure

The UK wind energy market also benefits from an attractive rate structure. Wind energy operators receive 1 ROC/ MWh produced, corresponding to £37.19/MWh for the 2009/2010 period + the market price of electricity (around £40-45/MWh) + the Buyout Fund Premium corresponding to the difference between realised ROCs and those required to attain renewable energy objectives + LEC (Levy Exempt Certificate), corresponding to a total of around £103/MWh (€118/MWh). This is 40% higher than the average purchase price seen in Europe. Nevertheless, the PPAs generally cover 90% of the theoretical value per MWh.

Theoretical price per wind energy MWh in the UK

	Value (£/MWh)	Value (€/MWh)	Percentage of total
Average electricity price (1)	43.0	49.0	41.5%
Total renewable support (2)	60.54	69.0	58.5%
ROC	37.19	42.4	35.9%
Buyout Fund Premium	18.65	21.3	18.0%
LEC	4.7	5.4	4.6%
Total renewable electricity price (1) + (2)	103.54	118.0	100%

Source: SG Cross Asset Research

Wind conditions and rate structure: two highly favourable factors

These two factors make possible excellent profitability of close to 13% for installed assets, above that of assets in continental Europe (with the notable exception of Italy).

Wind energy projects IRR as a function of electricity prices / capacity factors (construction cost: €1.6m/MW)

Capacity factor (hours) Electricity price (€/MWh)	2000	2400	2800	3200	3600
80	5%	7%	8%	10%	11%
90	6%	8%	10%	11%	12%
100	7%	9%	11%	12%	14%
110	8%	10%	12%	13%	15%
120	9%	11%	13%	15%	16%
130	10%	12%	14%	16%	17%
150	11%	14%	16%	18%	20%
180	14%	16%	19%	21%	23%

Source: SG Cross Asset Research

However, obtaining permits is increasingly difficult

In contrast, obtaining construction permits for new wind energy projects remains a major challenge, despite the stated ambitions of succeeding governments. For existing wind energy parks, the average delay was around 30 months. Projects underway are already encountering delays longer than this average. Unfortunately, the UK is not the only country where this trend is being seen.

Delays in obtaining construction permits – existing parks

Park	Application filing	Authorisation date	Delay
Ben AKetil	October 2002	September 2005	35 months
Boyndie	June 2003	July 2004	13 months
Earlsburn	November 2003	June 2006	31 months
Millenium	November 2003	June 2006	31 months
Kilbraur	April 2004	October 2006	30 months

Source: SG Cross Asset Research, company

Delays in obtaining construction permits – projects underway

Park	Application filing	Authorisation date	Delay
Dunbeath	August 2005	2010 (appeal still possible)	60 months
Nutberry	September 2006	Pending	48 months
Earlsburn North	February 2008	Pending	32 months
Nigg Hill	January 2008	Pending	33 months
Moor House	April 2010	Pending	6 months

Source: SG Cross Asset Research, company

Italian markets offers strong potential

After having developed in Spain and then the UK, Falck Renewables has expanded into Italy using the same development strategy as in the UK. The company operates the Minervino Murge park (52MW) and the first phase of the San Sostene park (42MW). Installed wind energy capacity in Italy reached 4.85 GW in 2009, with an estimated potential installed capacity of 16.2 GW in 2020, corresponding to average annual growth of around 33% over 10 years. The development potential for wind energy still remains very high and involves to a very large extent southern Italy, even if there are already significant wind energy operations there.

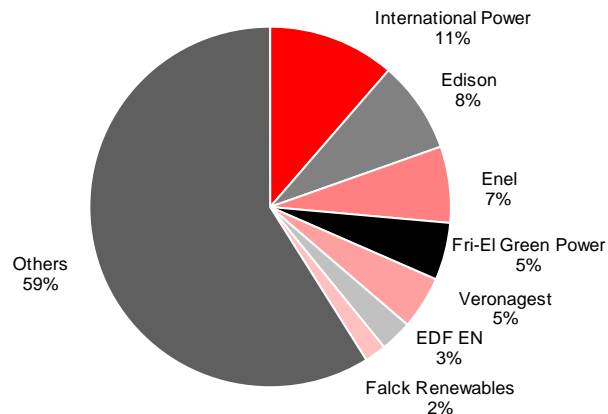
Wind energy potential in Italy through 2020 (MW)

	2009e	2020	Avg. annual growth rate
Puglia	830	2,070	25%
Campania	1,150	1,915	17%
Sicily	950	1,900	20%
Sardinia	550	1,750	32%
Marche	30	1,600	533%
Calabria	420	1,250	30%
Umbria	40	1,090	273%
Abruzzo	200	900	45%
Lazio	60	900	150%
Basilicata	250	760	30%
Molise	210	635	30%
Tuscany	80	600	75%
Liguria	30	280	93%
Emilia-Romagna	30	200	67%
Others	20	150	75%
Offshore	0	200	
Total	4,850	16,200	33%

Source: SG Cross Asset Research; ANEV

Following the acquisition of Trinergy in 2007, International Power has become the no. 1 player in wind energy in Italy with 550 MW installed, followed by Edison (400 MW) and Enel, the incumbent Italian electric utility (331 MW). Nevertheless, looking beyond these major players, the Italian market still remains highly fragmented, with several medium-sized independent developers (Alerion, Greentech ES, Sorgenia) and very small presences for Iberdrola Renewables and EDP Renovaveis. The immature nature of the market could lead to concentration movements, as was recently seen with GWM Renewable Energy's acquisition of a stake in Greentech Energy System.

Principal wind energy players in Italy (excluding offshore)



Source: SG Cross Asset Research

Complex and changing rate regulations

The Italian renewable energies market features high electricity purchase prices compared to the European average.

In order to reach a targeted proportion of renewable energy in electricity production, the Italian government has created a system of green certificates issued by the GSE, the Italian renewable energies authority. A green certificate is issued for each MWh produced by wind energy. Assets installed after 31 December 2007 are eligible under this system for 15 years. The value of the green certificates is determined by the difference between the average annual price of electricity and a reference value that is updated every three years and was set at €180/MWh in 2008.

Theoretical price per MWh in Italy

	Value (€/MWh)
Average electricity price in 2009 (1)	67.18
Reference price (2)	180
Green certificate price in 2010 =(2)-(1)	112.82

Source: SG Cross Asset Research, GSE

Surplus green certificates are systematically repurchased by the GSE at the average price seen in the previous year. In 2009, the GSE bought back around €800m in excess green certificates.

Green certificate surpluses (thousands)

	Demand	Supply	Balance
2006	5,920	5,966	+46
2007	5,790	7,760	-1,970
2008	7,100	10,388	+3,288
2009	8,505	16,623	+8,118

Source: SG Cross Asset Research, GSE

The Italian government recently announced that it wanted to modify the legislation concerning green certificates by eliminating the GSE's obligation to buy back excess certificates. This change was not adopted by the Italian parliament. Nevertheless, the repurchase amount guaranteed by the GSE could be reduced by an increase in renewable energy production objectives and a reduction in the GSE's average repurchase price (€88-89 in 2009). This modification could lead to a reduction in the price of wind energy to around €140/MWh, which nevertheless would still be far above the average price in effect in Europe.

Acceptable IRRs but low capacity factors

According to the GSE, average capacity factors in Italy equal around 22%, with a difference between northern and southern Italy. Capacity factors for Falck Renewables' wind energy parks are in line with the average for the Italian market.

Capacity factors at Falck Renewables' installed wind energy parks in Italy

Park	Power	Capacity factor	Hours
Minervino Murge	52	22%	1950
San Sostene	42	25%	2150

Source: SG Cross Asset Research, company

Nevertheless, given the rates applied to wind energy, project IRRs equal around 14%, a level of profitability equivalent to that obtained in the UK. Note the reduction in purchase prices

following a regulatory change would lower the IRR to around 10-11%, a level that would still allow continued investments under acceptable profitability conditions.

Wind energy project IRR as a function of electricity prices / capacity factors (construction cost: €1.6m/MW)

Capacity factor (hours) Price of electricity (€/MWh)	2000	2400	2800	3200	3600
80	5%	7%	8%	10%	11%
90	6%	8%	10%	11%	12%
100	7%	9%	11%	12%	14%
110	8%	10%	12%	13%	15%
120	9%	11%	13%	15%	16%
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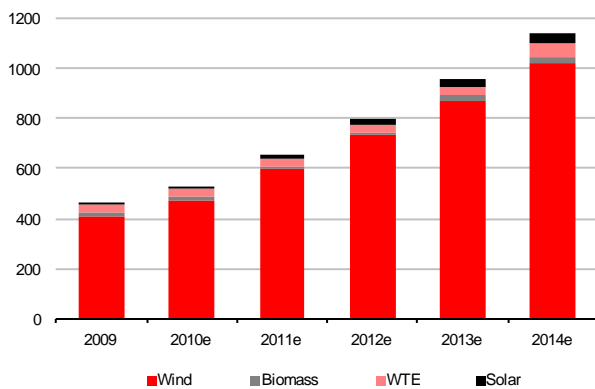
Source: SG Cross Asset Research

Revenues: growth driven by wind energy

Around 1.1 GW of capacities in 2014

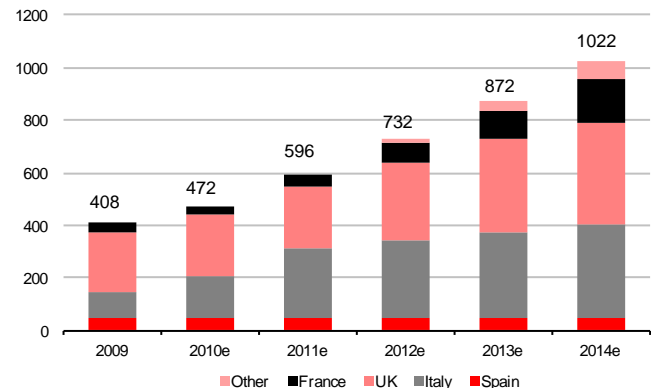
Based on development projects underway, we estimate that Actelios could reach 1,138 MW in production capacity looking out to 2014. The majority of development will involve the realisation of Falck Renewables' wind energy projects, which should represent 90% of additional capacities over 2009-2014e. As we have seen, development in PV solar energy is opportunistic based on the rate structure in Italy. Finally, despite the expected growth on the waste treatment market and needs in the biomass area, Actelios has adopted a prudent approach to these expansion projects given the required investments and problems encountered. In total, we estimate installed capacities in 2014e at 1,138 MW, including 1,022 MW in wind energy. Average annual growth in wind energy capacities is estimated at 20% over 2009-2014 compared to 50% over 2006-2009. As wind energy development is focussed on Italy and the UK, these two countries should represent 75% of installed assets in 2014e.

Forecast growth in installed capacities (MW)



Source: SG Cross Asset Research

Forecast growth in wind energy capacities (MW)

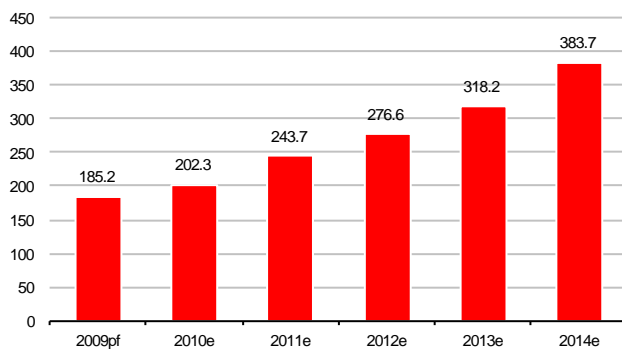


Source: SG Cross Asset Research

Revenues to double by 2014

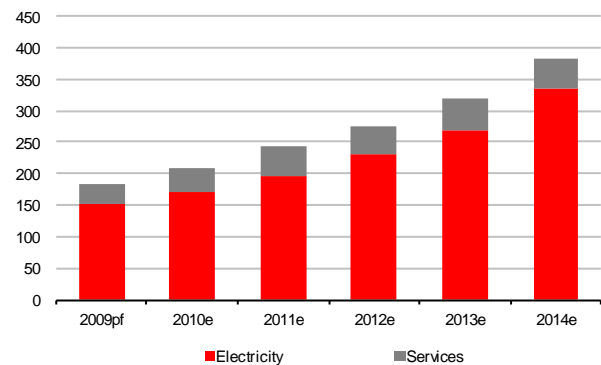
We are forecasting revenues close to €384m in 2014, corresponding to double the 2009 pro forma revenues. Based on the 2009 pro forma accounts, average annual revenue growth should equal nearly 16%.

Forecast Actelios revenues (€m)



Source: Company; estimates from SG Cross Asset Research

Forecast revenues by segment (€m)



Source: SG Cross Asset Research

Wind energy revenues to double by 2014e

Based on our forecast for installed capacities at the end of 2014, wind energy revenues should double by 2014. We have made the following assumptions in establishing our revenue forecasts:

- **UK:** we have used a conservative rate scenario (€92/MWh) given that even if electricity prices are currently low, there are no signs of an increase over the short term. The assumed capacity factor corresponds to 3,000 hours of functioning per year.
- **Italy:** The assumed capacity factor corresponds to the historical annual average (2,000 hours). Given the regulatory uncertainty concerning the systematic repurchase of green certificates, we have reduced the average price per MWh by around 15% (129€).
- **France:** Our forecasts are based on €82/MWh and a capacity factor of 2,300 hours.
- **Spain:** We assume an average price of €80/MWh and 2,200 hours of functioning per year.
- **Other countries:** Our forecasts do not take into account the impact of new capacities outside the company's four traditional markets due to the lack of defined rate information. In Poland, the average price is €141/MWh for an average capacity factor of 2,700 hours.

Wind energy revenue forecasts

(€k)	2009	2010e	2011e	2012e	2013e	2014e
Spain – MW installed	49	49	49	49	49	49
Production (GWh)	107	107	107	107	107	107
ASP	75	80.0	80.0	82.0	82.0	82.0
Sales	8,048	8,585	8,585	8,799	8,799	8,799
Italy	94	158	262	292	322	352
Production (GWh)	181	254	423	558	619	679
ASP	129	129	129	129	129	129
Sales	23,312	32,622	54,369	71,716	79,483	87,250
UK	233	233	233	299	359	389
Production (GWh)	583	674	674	769	951	1,081
ASP (€)	92	92	92	92	92	92
Sales	53,590	61,967	61,967	70,744	87,499	99,467
France	32	32	52	72	102	162
Load factor	2,100	2102	1698	1810	1793	1713
ASP	80.0	80.0	80.0	80.0	80.0	80.0
Sales	5,376	5,382	7,064	10,428	14,633	22,201
Total Sales	90,327	108,556	131,985	161,687	190,414	217,717

Source: SG Cross Asset Research

Biomass and waste: growth further out in time

We anticipate average annual revenue growth of 12% through 2014 outside the wind energy segment. Nevertheless, growth should be lower up to 2012 (7% per year) given the lack of new biomass and waste incineration capacities. We have made the following assumptions in establishing our revenue forecasts:

- **Biomass and electricity production from waste:** Following the reduction in the CIP6/92 remunerations and their expiration at the Rende site, the average price of electricity has fallen 12%. To be conservative, we have used the average electricity price in 2009 augmented by 1% per year. The final expiration of the CIP6/92 status at the Rende site in 2013 and the partial expiration at Trezzo in 2014 should be offset by the Rende site's eligibility for the green certificates programme starting in 2011. Concerning 2010, the shutdown of the Rende site since April 2010 is weighing on revenues.

- **PV solar energy:** Based on the increase in installed capacities, we assume a capacity factor of 1,400 hours per year and an average electricity price down 10% per year.
- **Waste treatment:** The group treats around 270-275,000 metric tons per year at an average price of €96/t. Looking beyond the acquisition of two companies in 2010, which should increase the quantities treated to around 390-395 kt in 2011, we assume that the average treatment price will rise by 2% per year.

Non-wind energy revenue forecasts

	2009	2010e	2011e	2012e	2013e	2014e
Biomass and WTG – MW installed	45	45	45	45	56	79
Production (TWh)	326	284	319	319	376	560
ASP (€/MWh)	185	185	187	189	191	193
Annual sales (k€)	60,300	52,513	59,601	60,197	71,607	107,803
PV solar– MW installed	1	3	16	24	29	37
Production (MWh)	ND	3,000	16,000	24,000	29,000	37,000
ASP (€/MWh)	350	350	315	284	255	230
Annual sales (k€)	ND	1,050	5,040	6,804	7,399	8,496
Waste treatment (kt)	271	331	392	392	392	392
ASP (€/t)	96	98	100	102	104	106
Annual sales (k€)	25,989	32,372	39,099	39,881	40,679	41,493
Other (k€)	7,784	7,855	7,934	8,013	8,093	8,174
Total Sales (k€)	94,095	93,790	111,674	114,896	127,779	165,966

Source: SG Cross Asset Research

Investment programme

The increase in production capacities to around 1.1 GW in 2014 will require significant investments. We estimate that the new group will have to invest around €1.2bn over 2010-2012. Our forecasts for growth investments are based on the following assumptions:

- **PV solar energy:** In its 23 June 2010 press release, Actelios announced €55m in investments for the construction of 13 MW of capacity, corresponding to €4.3/W. Additionally, Actelios has obtained €47m in financing for these projects, corresponding to the customary leverage of 85%. The decline in total installation costs compared to 2010 should be limited and we are assuming an average installation cost of €4/W over 2010-2014e.
- **Wind energy:** We are assuming an average construction cost of €1.3m/MW, 15-20% lower than the costs seen at the projects realised by Falck Renewables or certain of its competitors. Note that the Budduso project was financed on the basis of €1.67m/MW.
- **Biomass and incineration:** Based on the investments in the Granarolo plant, the cost equals around €6.6/W. The French company Séchilienne is also investing in biomass power plants at a cost close to €4/W. The investments to be made correspond to between €3-7/W based on the size of the installations. Given the limited size of the installations developed by Actelios, we assume an average investment cost on the high end of this range at €6/W.

Forecast investments over 2010-2014e

	2010e	2011e	2012e	2013e	2014e	Total
Wind energy (MW)	64	124	136	140	150	614
Investments (€m)	83	161	177	182	195	798
Solar (MW)	2	13	8	5	8	36
Investments (€m)	10	59	32	19	29	147
Biomass / Incineration (MW)	0	0	0	8	26	34
Investments (€m)	0	0	0	48	156	204
Total investments (€m)	93	220	209	249	380	1,150

Source: SG Cross Asset Research

Results driven by new assets

EBITDA: growth driven by wind energy

After a tricky year in 2010 marked by the shutdown of the Rende site and poor wind conditions in the UK that should weigh on the EBITDA margin, we anticipate a rebound in the group's profitability due principally to the increasing contribution of wind energy and, to a lesser extent, PV solar energy. The contribution of Actelios' historical activities should not be significantly affected despite the expiration of the CIP6/92 remuneration in 2013 and 2014, which should be offset by the green certificates resulting from the restart of the Rende site in 2011.

Actelios - 2009 – 2014e EBITDA forecasts

	2009pf	2010e	2011e	2012e	2013e	2014e
Revenues	184,422	202,346	243,655	276,572	318,178	383,663
Gross operating profit	83,497	92,878	110,133	127,631	148,625	187,869
% of revenues	45%	46%	45%	46%	47%	49%
% change		11%	19%	16%	16%	26%
Other revenues	4,093	1,619	1,949	2,213	2,545	3,069
Others charges	(32,116)	(34,399)	(41,421)	(47,017)	(54,090)	(65,223)
EBITDA	94,028	98,874	120,497	141,502	167,856	209,241
% change		185%	22%	17%	19%	25%
% of revenues	51%	49%	49%	51%	53%	55%

Source: SG Cross Asset Research

It should be noted that the gross margin published by the group includes depreciation linked production assets. This explains why the EBITDA margin is higher than the gross margin. In total, we anticipate a doubling in the EBITDA generated by the new group, with an average annual growth rate of 17% through 2014.

Falck Renewables: leverage for group growth

We anticipate a tripling in Falck Renewables' EBITDA by 2014e based on the following assumptions:

- Our revenue forecasts set out above.
- The wind energy gross margin includes wind park operating and maintenance costs. This corresponds to the EBITDA margin at Falck Renewables' peers. This margin reached 82% in 2009, in line with the normal levels at its peers. We expect this margin to remain stable over time.
- Falck Renewables's 2009 EBITDA margin of 67% could appear lower than the usually expected level for wind operators (80%). However, this figure includes holding company costs that are generally excluded when the profitability of assets is calculated, particularly in connection with project financing.

On average, we anticipate annual EBITDA growth of 21% over 2009-2014e. After 2010, which should be a mediocre year in terms of wind conditions, we anticipate a stabilisation in the EBITDA margin at around 72-73%.

Falck Renewables –2009-2014e EBITDA forecasts

	2009pf	2010e	2011e	2012e	2013e	2014e
Wind energy revenues (€m)	90.3	108.6	132.0	161.7	190.4	217.7
Cost of production (€m)	16.2	19.1	22.4	27.1	32.2	37.1
Cost of production (€/MWh)	17.3	17.3	17.3	17.3	17.3	17.3
Wind energy gross profit (€m)	74.1	89.5	109.6	134.6	158.2	180.6
Wind energy gross margin (%)	82%	82%	83%	83%	83%	83%
Wind energy EBITDA	60.1	74.1	92.7	116.0	137.7	158.1
Margin (%)	67%	68%	70%	72%	72%	73%

Source: SG Cross Asset Research

Attributable net income: growth of 14% per year

Our earnings forecasts are based on our revenue and EBITDA forecasts and planned investments as well as their repercussions on debt and financial charges. We have also made the following assumptions:

- Depreciation charges reflecting investments over the period based on a depreciation period of 20 ans.
- A pre-tax cost of debt of 5%.
- A normative tax rate of 35%. Note that Falck Renewables' 2009 tax rate appears particularly low.
- Stable minority interests given that we do not anticipate the arrival of other financial partners beyond the already existing ones.

In total, despite the expected decline in attributable net income in 2010 linked to the shutdown of the Rende site for eight months and poor wind conditions in the UK in H1, we anticipate average annual growth in attributable net income of 14% over 2009-2014. Note that this growth should accelerate as a result of the rising contribution of wind energy installations and the positive impact of investments in the biomass and incineration segments.

Actelios: forecast P&L statement

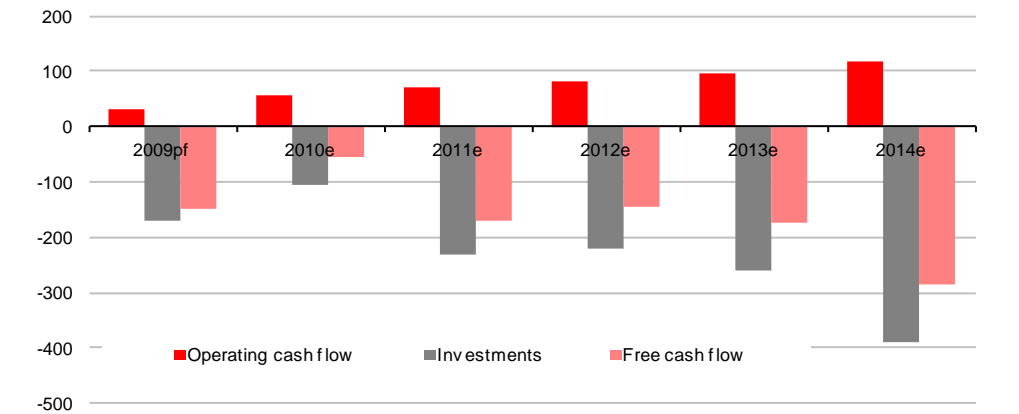
	2009pf	2010e	2011e	2012e	2013e	2014e
Revenues (€m)	184.4	202.3	243.7	276.6	318.2	383.7
% change	NA	9%	20%	14%	15%	21%
EBITDA (€m)	94.0	98.8	120.5	141.5	167.9	209.2
% of revenues	51%	49%	49%	51%	53%	55%
Depreciation / amortisation (€m)	38.6	39.8	51.3	61.7	73.8	85.5
EBIT (€m)	55.5	59.1	69.2	79.8	94.1	122.7
Financial charges (€m)	-25.5	-27.4	-32.9	-40.8	-48.8	-60.2
Taxes (€m)	-8.1	-11.1	-12.7	-13.7	-15.9	-21.9
Normative tax rate (%)	27.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Minority interests (€m)	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Attributable net income (€m)	20.2	19.1	22.0	23.8	27.9	39.1
% change	NA	-5.5%	15%	8%	17%	40%

Source: SG Cross Asset Research

A sound financial structure

Actelios' activities generate sufficient operating cash flow to finance investments and pay dividends. In contrast, Falck Renewables's growth plan will consume financial resources (as is the case for all of its competitors). While Actelios alone had a limited growth outlook, the combination of the two entities will enable them to benefit from Actelios' cash in order to finance growth. Additionally, the new group's financial risks should be limited.

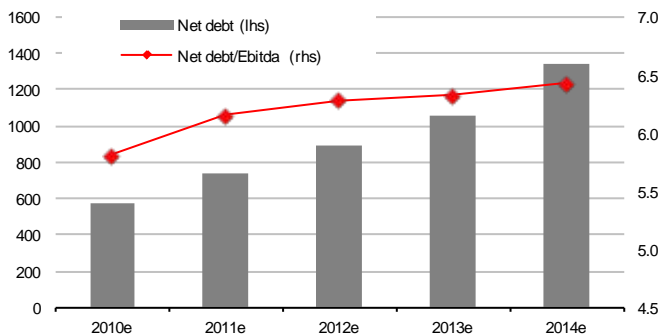
Forecast cash flow (€k)



Source: SG Cross Asset Research

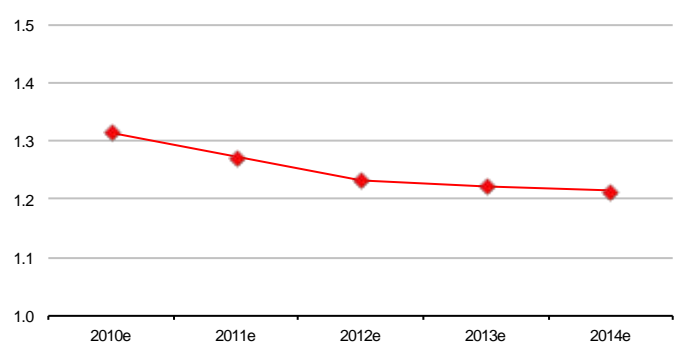
Nevertheless, the group should consume financial resources over the entire period in question and its debt should increase substantially. We estimate that net debt will reach €1.3bn in 2014e. While this tripling in debt is significant, the net debt / equity ratio should equal 3.3x in 2014e. This ratio does not appear particularly strained, particularly given that financing will principally be in the form of project financing. The net debt / EBITDA ratio is more pertinent and should equal 6.4x in 2014e, in line with ratios at the principal wind energy players. Among the project financing covenants, the DSCR (Debt service coverage ratio) enables the measurement of the risk concerning the debt. The DSCR corresponds to the ratio between EBITDA and the annual cost of debt plus annual depreciation charges. In the case of project financing, the DSCR must be 1x to avoid breaches of covenants. In the case of Actelios, based on debt with average maturity of 12 years, the DSCR is systematically above 1x despite slight erosion at the end of the period linked to investments in incineration and biomass capacities.

Net debt and debt ratio



Source: SG Cross Asset Research

Debt service coverage ratio

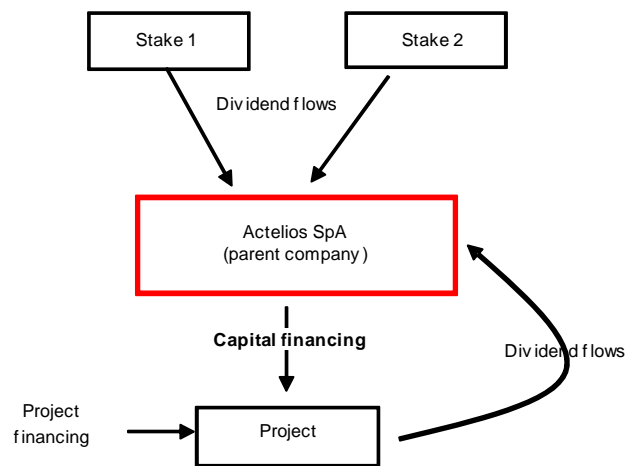


Source: SG Cross Asset Research

Financing of growth: a useful but not obligatory capital increase

While the financial structure of the new consolidated ensemble appears solid, it should be noted that project financing places restrictions on cash resources given that cash flows generated by projects guarantee project debt. Available cash flows on the holding level are therefore limited. This could act to limit the capacity for investment. Based on an investment programme of €1.2bn and leverage of 80%, the group must contribute €240m in cash.

Cash movements to finance growth



Source: SG Cross Asset Research

Actelios had around €200m in cash at the end of 2009. The €130m capital increase planned in 2010 will lift its cash reserves to €330m, sufficient to finance the growth programme through 2014 and pay a dividend. Excluding project financing, the group's gross debt equals around €300m, corresponding to around 3x EBITDA. This limits the refinancing risk concerning the bank debt.

Target price of €3.0

Calculation of the target price and fundamental valuation

Selecting a valuation method for a fast growing company in an investment phase is always difficult. We have selected four complementary valuation methods: 1) sum of the parts, 2) free cash flow yield over the medium term, 3) stock market comparisons, and 4) DCF method. Our benchmark method is the sum of parts, which leads to a valuation of €4.1 per share. However, renewable energy developers currently trade at a discount of around 25% to their sum of the parts valuations. We have applied this discount to Actelios to arrive at a target price of €3.0 per share indicating upside potential of over 30%.

Summary of our valuation methods

Method	Theoretical valuation (€/sh)	Comments
Sum of the parts	4.1	Our benchmark method
FCF yield	2.6	Normalised valuation approach
Stock market comparisons	3.0	Based on EV/EBITDA multiples
DCF	3.2	Validation of the SOP

Source: SG Cross Asset Research

Sum-of-the-parts: €4.1 per share

We detail below the assumption underlying our sum-of-the-parts model, which gives a valuation (before stock market discount) of €4.1 per share. For the wind energy segment, we have made the following assumptions:

- Valuation of installed MWs at the end of 2010e. The valuation depends on the geographical location of assets.
- We have assumed a terminal value for operating assets given that the lifespan of installations is theoretical greater than the PPA. In total, the terminal value equals around 10-15% of the total value of assets.
- As with all Actelios' peers, we do not value the project portfolio. Only assets under construction are included in the valuation.

For the other assets, we have made the following assumptions:

- The solar energy assets are valued on the basis of 1,400 hours per year at an average rate of €280/MWh and an EBITDA margin of 82%. We obtain a valuation of €3.8m/MW without terminal value.
- The incineration assets are valued around €1.5m/MW, which corresponds to the residual value of the CIP6/92 status. Beyond this, the units will sell their electricity at the market price.
- The Rende biomass production site is valued at €5m/MW given its rehabilitation and eligibility for the green certificates programme, which will assure an average remuneration of €140-150/MWh over the next 15 years.
- The minority interests are taken into account in the valuation of 85% of Trezzo.
- The year-end 2010 net debt is used.
- The number of shares used is 161.9 million, corresponding to the number of shares following the merger of the two companies.

Sum-of-the-parts valuation

Activity	Comments	EV/EBITDA	Value (€m)	€ per share	In %
Total wind energy		12.4	1,106	6.8	89%
Wind energy - UK	233 MW @ €2.5m per MW		583	3.6	47%
Wind energy - Spain	49 MW @ €1.6m per MW		78	0.5	6%
Wind energy - Italy	158 MW @ €2.2m per MW		348	2.1	28%
Wind energy - France	32 MW @ €1.5m per MW		48	0.3	4%
Assets under construction	124 MW @ €0.4m per MW		50	0.3	4%
Biomass and incineration		3.5	120	0.7	10%
Incineration	25 MW @ €1.6m per MW		40	0.2	3%
Biomass	14 MW @ €5.7m per MW		80	0.5	6%
PV solar	3 MW @ €3.8m per MW		11	0.1	1%
Other projects	20% of projects totalling 1,200 MW @ €0.0m per MW		0	0.0	0%
Enterprise value		12.5	1,237	7.6	100%
Net debt	end 2010e		-575	-3.6	
Provisions	end 2010e		-3	0.0	
Total net			659	4.1	

Source: SG Cross Asset Research

Normalised Free Cash Flow: €2.6

In order to model the impact of planned investments, we have used a valuation method starting in a period when investments are normalised, i.e. 2015. We assume a 10% increase in operating cash flow compared to 2014 in order to reflect the impact of investments made in 2014 and a free cash flow yield of 6%.

Valuation using the normalised FCF method

(€m)	Comments	Value
2015e operating cash flow	10% increase vs 2014e (i.e. €117m)	129
Maintenance investments	5% of revenues	-21
Change in working capital		-10
2015e free cash flow		98
FCF yield		6%
Theoretical 2015e EV (€m)		1 640
WACC		10%
Discounting period		5 years
Theoretical EV (€m)		1,000
- net debt at yearend 2010e		-575
Theoretical valuation (€m)		425
Valuation per share (€)		2.6

Source: SG Cross Asset Research

Stock market comparisons: €3.0

We have selected a sample of shares linked to electricity production from renewable sources. We have excluded the major European electricity producers (Endesa, E.ON and Enel) given that renewable energies play only a marginal role in their business. In contrast, we have included comparable Italian companies (ERG Renew, Alerion) as well as independent players in waste management in Italy (Hera) and France (Séché Environnement).

Stock market comparisons – sample of renewable electricity producers

	Price (as of 19 Oct.)	Mkt cap	10e P/E	11e P/E	12e P/E	10e EV/EBITDA	11e EV/EBITDA	12e EV/EBITDA	10e P/Book
Babcock & Brown Wind	0.4	209				8.9x	8.8x	7.0x	0.7x
Boralex Inc	5.5	333	97.9x	20.6x	16.5x	11.5x	7.7x	8.1x	0.9x
EDF Energies Nouvelles	29.8	2,308	19.3x	13.1x	10.7x	12.5x	10.9x	10.0x	1.7x
EDP Renovaveis	4.3	3,739	39.8x	23.5x	18.9x	11.7x	10.3x	9.5x	0.7x
FERSA Energias Renovables SA	1.2	161	230.0x	32.9x		21.0x	12.1x	11.0x	
Greentech Energy Systems A/S	2.7	134		104.6x		25.7x	20.6x	21.7x	0.6x
Iberdrola Renovables	2.4	10,231	24.8x	21.1x	18.1x	10.3x	9.4x	8.8x	0.9x
China Longyuan Power	0.8	2,085	30.4x	22.0x	16.8x	7.8x	7.4x	6.7x	2.3x
Sechilienne-Sidec	20.9	594	12.6x	9.1x	8.9x	10.1x	8.3x	8.1x	1.7x
Terna Energy S.A.	3.1	343	31.4x	17.4x	12.2x	16.4x	10.8x	7.0x	0.9x
Theolia	1.3	131	nm	nm	nm	10.6x	9.9x	8.5x	0.3x
Average			60.8x	29.4x	14.6x	13.3x	10.6x	9.7x	1.1x

Source: SG Cross Asset Research, Factset consensus.

Stock market comparisons – sample of Italian renewable energy producers and waste management groups

	Price (as of 19 Oct.)	Market cap.	10e EV/EBITDA	11e EV/EBITDA	2010 EV/EBIT	2011 EV/EBIT	2010 P/E	2011 P/E
Hera S.p.A.	1.45	1,616	5.8	5.4	10.8	9.9	14.5x	12.8x
Actelios S.p.A.	2.21	149	4.5	5.0	7.2	7.4	12.3x	13.8x
Alerion Clean Power S.p.A.	0.51	226	16.7	9.8	40.9	22.9		20.6x
ERG Renew S.p.A.	0.88	117	19.8	8.3		22.9		159.8x
Seche Environnement S.A.	55.46	479	6.9	6.4	10.7	9.7	15.6x	12.3x
Average*			10.8	7.0	17.4	14.6	14.1x	14.9x*

Source: SG Cross Asset Research, Factset; estimates * excluding ERG Renew

We have chosen a valuation based on EV/EBITDA multiples, which we believe reflect the operating impact of investments made up until now. The pure-play renewable energy companies trade at premiums of around 30-40% compared to incinerator operators in terms of their multiples. Despite an outlook for EBITDA growth comparable to its principal competitors, we believe that Actelios should trade at a discount of around 10% to the average valuation of the pure-play renewable energy players to reflect its exposure to the incineration market and to the inherent risks linked to the expiration of CIP6/92 status.

Theoretical valuation by stock market comparisons

(€m)	2010e	2011e
EBITDA multiple (sector average)	13.3x	10.6x
EBITDA multiple (10% discount)	11.9x	9.5x
EBITDA (SGe)	99	120
EV (€m)	1,178	1,150
- net debt at the end of the period	-575	-742
Theoretical value (€m)	603	408
Valuation per share (€)	3.7	2.5

Source: SG Cross Asset Research

DCF: valuation of €3.2

As with all the developers of renewable energy projects, we calculate a DCF valuation for information purposes only. The amount of investments made in the first phase of the model is such that this method is stripped of all value. Additionally, as the terminal value represents over 100% of the EV, the EV is extremely sensitive to assumptions used in the calculation of the discount rate.

Principal assumptions

Our model factors in the following assumptions:

- Detailed forecasts through 2014, with average annual revenue growth of 22%.
- EBITDA margin stabilised at 53%.
- Tax rate of 35%.
- Investments in line with the expected revenues growth of 5% over 2015-2020.
- Perpetual growth rate of 2%.

Calculation of the discount rate

We have used a WACC of 9.2% based on the following:

- 10y Euribor risk free rate of 2.8%.
- Risk premium of 8.3% for continental European shares.
- Beta of 1.20, leading to a cost of equity of 12.8%.

DCF assumptions

Adjustments are made to take into account the value of Falck Renewables' assets

Valuation (€m)		Weighted average cost of capital (%)	
Enterprise value	497	Risk-free rate - long-term bonds	2.80
o/w forecast period (%)	-33.6	Market risk premium	8.30
o/w terminal value (%)	133.6	Beta	1.2
		Cost of equity	12.8
Net debt (-)/cash (+)	95	Cost of debt after tax	3.3
Value of minorities	0	WACC	9.21
Value of associates	0	Normalised revenue growth (%)	5.0
Value of marketable assets		Normalised EBIT margin (%)	32.2
Other adjustments	518	Normalised cash conversion rate (%)	109.7
Value of equity (DCF)	510	Average cash conversion rate 06/12 (%)	23.3
SG DCF value/share (€)	3.15	CF perpetuity growth rate (%)	2.0

Source: SG Cross Asset Research

DCF details

(€m)	Forecast period (five years)					Normalised forecast period (six years)					
	12/10	12/11	12/12	12/13	12/14	12/15	12/16	12/17	12/18	12/19	12/20
Revenues	202	244	277	318	384	403	423	444	466	490	514
Revenue growth (%)		20.4	13.5	15.0	20.6	5.0	5.0	5.0	5.0	5.0	5.0
EBIT	59.1	69.2	79.8	94.1	122.7	129.9	136.4	143.2	150.4	157.9	165.8
EBIT margin (%)	29.2	28.4	28.9	29.6	32.0	32.2	32.2	32.2	32.2	32.2	32.2
Depreciation	40	51	62	74	87	84	88	92	97	102	107
Taxes	-21	-24	-28	-33	-43	-45	-48	-50	-53	-55	-58
Capex	-106	-233	-220	-260	-391	-62	-65	-68	-72	-75	-79
Capex as % of sales	-52.2	-95.6	-79.6	-81.7	-102.0	-15.4	-15.4	-15.4	-15.4	-15.4	-15.4
Change in working capital	-5	-5	-5	-8	-10	-9	-9	-10	-10	-11	-11
Other operating cash mvts											
Free cash flow	-32	-142	-112	-133	-235	97	102	107	112	118	124
EV/IC (x)	1.5	1.0	0.7	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.5
ROIC/WACC (x)	1.3	1.0	0.8	0.8	0.7	0.8	0.8	0.9	0.9	1.0	1.1

Source: SG Cross Asset Research

The DCF method is extremely sensitive to discounting parameters, largely reducing its usefulness in practice.

Sensitivity analysis

		WACC (%)				
		8.21%	8.71%	9.21%	9.71%	10.21%
CF perpetuity growth rate (%)	1.0%	3.60	3.07	2.62	2.22	1.88
	1.5%	3.96	3.37	2.87	2.43	2.06
	2.0%	4.38	3.71	3.15	2.67	2.26
	2.5%	4.87	4.11	3.48	2.94	2.49
	3.0%	5.45	4.58	3.86	3.26	2.75

Source: SG Cross Asset Research

Sum-of-the-parts valuation sensitivity analysis

Impact of the valuation of the development pipeline

We have seen that our sum-of-the-parts valuation is determined by the valuation of installed assets. The principal factor that could influence this valuation is the valuation of wind energy projects. In effect, our sum-of-the-parts valuation does not value the portfolio of wind energy projects under development. While this approach is conservative, it reflects the approach adopted by the market. The partial or total valuation of the development pipeline would potentially boost the valuation by 10-20%.

Sensitivity of the SOP to the valuation of the development pipeline

Description	Base valuation	Partial pipeline	Total pipeline
	MW installed + under construction	MW installed + under construction + authorised	MW installed + under construction + authorised + development
Power	124	340	1,540
Valuation of the pipeline (€m)	50	115	175
SOP / share (€)	4.1	4.5	4.8

Source: SG Cross Asset Research

Impact of regulatory risk

We have also seen that the reduction in the value of green certificates (GC) received in connection with the Italian wind energy assets could have a negative impact of 15-20% on 2012-2014 EBITDA. In the sum of the parts valuation, this scenario would reduce the valuation per wind energy MW in Italy. Based on €70/MWh (the price of electricity without subsidies), the valuation per wind energy MW in Italy would equal €1.3m/MW, corresponding to a sum-of-the-parts valuation of €3.2 per share. Applying a 25% discount, the target price could fall to €2.4 per share. Note that the valuation by stock market comparisons incorporating this scenario equals €2.0.

Impact of the value of green certificates on the valuation of Actelios

	Valuation with GC	Valuation without GC
Valuation of Italian wind energy assets (€/MW)	2.2	1.3
Group EV (€m)	1,237	1,094
Valuation / share (€)	4.1	3.2

Source: SG Cross Asset Research

APPENDIX

ANALYST CERTIFICATION

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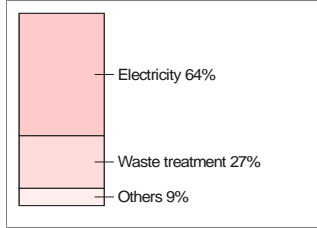
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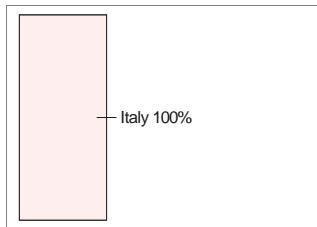
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Sales/division 09



Sales/region 09



Major shareholders (%)

Gruppo Falck 68.7

Normalised data

EBITDA margin (%) 53.0
Normalised growth (%) 4.1

Growth should gather pace thanks to the merger

Multi-Utilities & Unregulated Power (Italy)

Actelios

BUY

Price (19/10/10)

12m target

€2.21

€3.0

Valuation* (€m)	12/05	12/06	12/07	12/08	12/09	12/10e	12/11e	12/12e
Nb. of shares basic year end/outstanding	na	67.7	67.7	67.7	67.7	161.9	161.9	161.9
Share price (average)						2.208	2.208	2.208
Average market cap. (SG adjusted) (1)	0	0	0	0	0	357	357	357
Restated net debt (-)/cash (+) (2)	na	99	93	97	95	-573	-742	-889
Value of minorities (3)	na	0	0	0	0	0	0	0
Value of financial investments (4)	na	0	0	0	0	0	0	0
Other adjustment (5)	na	0	0	0	0	0	0	0
EV = (1) - (2) + (3) - (4) + (5)	na	na	na	na	na	931	1,099	1,246
P/E (x)	na	na	na	na	na	18.7	16.2	15.0
Price/cash flow (x)	na	na	na	na	na	6.5	5.1	4.4
Price/free cash flow (x)	na	na	na	na	na	nm	nm	nm
Price/book value (x)	na	na	na	na	na	0.9	0.9	0.9
EV/revenues (x)	na	na	na	na	na	4.60	4.51	4.50
EV/EBITDA (x)	na	na	na	na	na	9.4	9.1	8.8
Dividend yield (%)	na	na	na	na	na	1.6	1.8	2.0
Per share data (€)								
SG EPS (adj.)	na	0.189	0.203	0.265	0.062	0.118	0.136	0.147
Cash flow	na	0.694	0.383	0.479	0.316	0.342	0.432	0.507
Book value	na	4.957	5.057	5.172	5.081	2.344	2.356	2.364
Dividend	na	0.000	0.011	0.100	0.085	0.035	0.041	0.044
Income statement (€m)								
Revenues	na	95.8	90.6	97.7	94.9	202.3	243.7	276.6
Gross income	na	56.1	49.3	55.5	48.8	131.7	160.0	186.3
EBITDA	na	45.5	39.8	47.4	34.7	98.9	120.5	141.5
Depreciation and amortisation	na	-21.8	-14.3	-14.5	-15.9	-39.8	-51.3	-61.7
EBIT	na	23.7	25.5	32.9	18.8	59.1	69.2	79.8
Impairment losses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net interest income	na	0.3	2.5	-0.4	-2.7	-27.4	-32.9	-40.8
Exceptional & non-operating items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxation	na	-9.8	-13.1	-13.1	-10.4	-11.1	-12.7	-13.7
Minority interests	na	-1.5	-1.2	-1.5	-1.6	-1.6	-1.6	-1.6
Reported net income	na	12.8	13.8	17.9	4.2	19.1	22.0	23.8
SG adjusted net income	na	12.8	13.8	17.9	4.2	19.1	22.0	23.8
Cash flow statement (€m)								
EBITDA	na	45.5	39.8	47.4	34.7	98.9	120.5	141.5
Change in working capital	na	5.9	-8.1	-11.3	-4.7	-5.0	-5.0	-5.0
Other operating cash movements	0.0	-4.4	-5.8	-3.8	-8.6	-38.5	-45.6	-54.4
Cash flow from operating activities	na	47.0	25.9	32.4	21.4	55.4	69.9	82.1
Net capital expenditure	na	-17.4	-14.8	9.0	-8.7	-105.6	-233.0	-222.1
Free cash flow	na	29.5	11.1	41.4	12.7	-50.2	-163.1	-140.0
Cash flow from investing activities	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from financing activities	na	228.8	-13.1	-197.8	-8.8	-5.8	-5.7	-6.6
Net change in cash resulting from CF	na	258.4	-2.0	-156.5	3.9	-55.9	-168.8	-146.6
Balance sheet (€m)								
Total long-term assets	na	292.2	302.2	305.0	280.9	1,001.3	1,181.1	1,339.6
of which intangible	0.0	1.7	2.0	3.0	4.6	4.6	4.6	4.6
Working capital	0.0	-46.6	-44.0	-43.4	-23.3	-45.3	-50.3	-55.3
Employee benefit obligations	na	1.9	2.1	2.1	2.2	2.2	2.2	2.2
Shareholders' equity	na	335.5	342.3	350.0	343.8	379.4	381.4	382.7
Minority interests	na	4.0	4.1	5.0	5.8	7.6	9.1	10.7
Provisions	na	3.1	2.5	0.8	1.0	1.0	1.0	1.0
Net debt (-)/cash (+)	na	99.1	93.0	96.7	95.3	-573.1	-741.9	-888.5
Accounting ratios								
ROIC (%)	na	na	6.9	8.6	4.9	6.4	4.3	4.3
ROE (%)	na	na	4.1	5.2	1.2	5.3	5.8	6.2
Gross income/revenues (%)	na	58.6	54.4	56.8	51.4	65.1	65.7	67.4
EBITDA margin (%)	na	47.5	43.9	48.5	36.6	48.9	49.5	51.2
EBIT margin (%)	na	24.8	28.1	33.7	19.8	29.2	28.4	28.9
Revenue yoy growth (%)	na	na	-5.4	7.8	-2.8	nm	20.4	13.5
Rev. organic growth (%)	na	16.9	-5.4	7.8	-2.8	9.2	20.4	13.5
EBITDA yoy growth (%)	na	na	-12.5	19.1	-26.7	nm	21.9	17.4
EBIT yoy growth (%)	na	na	7.5	29.1	-42.9	nm	17.0	15.4
EPS (adj.) yoy growth (%)	na	na	7.9	30.2	-76.7	90.9	15.4	8.3
Dividend growth (%)	na	na	na	nm	-15.0	-58.4	15.4	8.3
Cash conversion (%)	na	143.1	66.2	137.1	113.3	-19.8	-169.8	-107.2
Net debt/equity (%)	na	nm	nm	nm	nm	148.1	190.0	225.9
FFO/net debt (%)	na	nm	nm	nm	nm	10.5	10.1	9.8
Dividend paid/FCF (%)	na	0.0	6.8	16.4	88.7	nm	nm	nm

In red: IFRS Data

* Valuation ratios for past years are based on average historical prices and market capitalisations