

CENTROBANCA **FALCK RENEWABLES**

CORPORATE & INVESTMENT BANKING Gruppo UBI Banca

Initiation of coverage

Buy

19 April 2012

MARKET PRICE: EUR **0.84**

TARGET PRICE: EUR **1.45**

Data

Shares Outstanding (m):	291.4
Market Cap. (EURm):	243.5
Enterprise Value (EURm):	1,022.5
Free Float (%):	32%
Av. Daily Trad. Vol. (m):	1.34
Main Shareholder:	Falck SpA 60.0%
Reuters/Bloomberg:	AA4.MI FKR IM
52-Week Range (EUR)	0.67 1.57

Performance

	1m	3m	12m
Absolute	-14.5%	14.3%	-44.6%
Rel. to FTSE IT	-0.9%	17.9%	-22.2%

Financials

	2011	2012e	2013e
Revenues (EURm)	248.7	289.4	307.7
EBITDA (EURm)	141.7	157.4	173.1
Net profit (EURm)	18.9	25.0	34.6
Net profit Adj. (EURm)	31.0	25.0	34.6
EPS (EUR)	0.06	0.09	0.12
EPS Adj. (EUR)	0.11	0.09	0.12
CFPS (EUR)	0.37	0.31	0.35
BVPS (EUR)	1.53	1.53	1.61
DPS (EUR)	0.03	0.03	0.04

Ratios

	2011	2012e	2013e
EBITDA margin	57.0%	54.4%	56.3%
ROIC	6.5%	7.1%	8.3%
ROAE	4.9%	5.6%	7.6%
Debt/Equity	1.9	1.7	1.7
Debt/EBITDA	5.8	4.9	4.5

Valuation

	2011	2012e	2013e
P/E (x)	12.9	9.8	7.0
P/E Adj. (x)	7.8	9.8	7.0
P/CF (x)	2.3	2.7	2.4
P/BV (x)	0.5	0.5	0.5
Dividend Yield	3.4%	3.1%	4.3%
EV/Sales (x)	4.3	3.5	3.3
EV/EBITDA (x)	7.6	6.5	5.9
EV/CE (x)	0.8	0.8	0.8

Source: Centrobanca estimates

Undervalued assets in a tough environment

We start coverage of Falck Renewables with a **Buy** rating and a target price of **EUR1.45** per share. In our view, the main reasons to invest in the stock are: **1)** its profitable power generation base (684 MW of installed capacity) spread amongst four European countries and four renewable sources; **2)** focus on organic growth with 112 MW of projects underway, 160 MW of projects under development funded by cash flow and a limited increase in net debt and ca. 950 MW of pipeline; **3)** moderate regulatory risk due to its technological and geographical diversification and the announcement from the Italian government of guidelines for the new incentive schemes for new renewable energy and confirmation of the current mechanisms for existing plants; **4)** healthy earnings growth with a 2011-2016 CAGR in EPS of 15.6%, despite our conservative assumptions for its Italian activities; **5)** the huge discount to its European peers based on 2012 and 2013 estimates, which we believe is unjustified. The Group is in legal dispute with the region of Sicily after it blocked three projects for WTE plants. We expect no outcome until after 2015 but we believe that the Group is unlikely to write-down EUR105 million of capitalized costs and EUR25 million of goodwill related to these projects.

- Falck Renewables is the main independent generator of electricity from different renewable sources (wind, waste, biomass and solar) in Europe (Italy, the UK, France and Spain). The Group is the third pure renewable listed company by installed capacity in Europe after Enel GreenPower and EDPR.
- Italy recently upgraded the 2020 electricity demand target which must be covered by renewable sources and declared that incentives for renewable energy should increase by EUR3 billion to EUR12 billion p.a. from 2020 onward. Following announcement of these measures, we do not expect any material cut in incentives in Italy for its existing plants (ca. 25% of FY11 Group revenues) in the next few years.
- On 30 March, Falck Renewables presented a new business plan which targets an installed capacity of 955 MW in 2014, FY14 EBITDA of EUR190 million and net debt/EBITDA of 5.2x at the end of 2014 (5.4x in 2011). We expect the Group to have installed capacity of 804 MW at the end of 2014 as we believe the continuation of the sovereign debt crisis will lead to the cancellation and/or postponement of some projects.
- Our target of **EUR1.45** per share is based on the weighted average fair values of a SoP, a Value Maps and a multiples comparison analysis. The stock offers potential upside of ca. 75% and this supports our buy rating.

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Key Financials

(EURm)	2011	2012e	2013e	2014e
Revenues	248.7	289.4	307.7	334.4
EBITDA	141.7	157.4	173.1	187.9
EBIT	79.2	93.0	107.8	117.4
NOPAT	42.2	53.7	63.3	69.5
Free Cash Flow	-154.2	55.8	10.4	-28.3
Net Capital Employed	1,277.8	1,233.0	1,253.8	1,321.1
Shareholders' Equity	444.9	446.6	468.0	493.7
Net financial debt	826.0	778.5	775.5	814.2

Source: Company data, Centrobanca estimates

Key Profitability Drivers

	2011	2012e	2013e	2014e
Capital Turnover	0.2	0.2	0.2	0.3
Financial leverage	5.8	4.9	4.5	4.3
Net profit margin	7.6%	8.6%	11.3%	11.5%
NOPAT margin	17.0%	18.5%	20.6%	20.8%
Free Cash Flow margin	n.m.	19.3%	3.4%	n.m.
ROAE	4.9%	5.6%	7.6%	8.0%
ROIC	6.5%	7.1%	8.3%	8.8%
ROCE	3.3%	4.4%	5.0%	5.3%

Source: Company data, Centrobanca estimates

Key Valuation Ratios

	2011	2012e	2013e	2014e
P/E (x)	12.9	9.8	7.0	6.3
P/BV (x)	0.5	0.5	0.5	0.5
P/CF (x)	10.5	2.5	2.3	2.1
Dividend yield (%)	3.4%	3.1%	4.3%	4.7%
EV/Sales (x)	4.3	3.5	3.3	3.2
EV/EBITDA (x)	7.6	6.5	5.9	5.7
EV/EBIT (x)	13.5	11.0	9.5	9.1
EV/CE (x)	0.8	0.8	0.8	0.8

Source: Company data, Centrobanca estimates

Key Value Drivers

	2011	2012e	2013e	2014e
Payout	43.9%	30.0%	30.0%	30.0%
Cost of Equity	8.9%	8.9%	8.9%	8.9%
WACC	5.4%	5.4%	5.4%	5.4%
EVA Spread	-2.1%	-1.1%	-0.4%	-0.2%

Source: Company data, Centrobanca estimates

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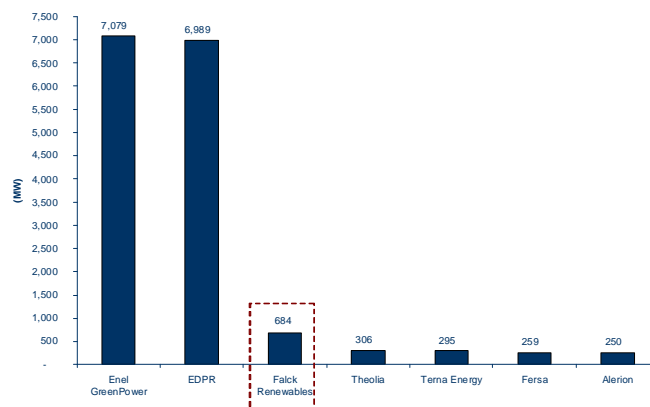
I. INVESTMENT CASE

We start coverage of Falck Renewables with a **Buy** rating and a target price of **EUR.1.45** per share. The main reasons behind our positive stance on the stock, despite market coldness toward leveraged companies, are:

- 684 MW of installed capacity spread amongst four European countries (Italy, UK, France and Spain) and four renewable sources (wind, waste, vegetable biomass and solar) which allow Falck Renewables to be the main independent generator of electricity in Europe from different renewable sources.

Figure 1. Falck Renewables – Installed capacity of the main European listed renewable companies

In terms of installed capacity, Falck Renewables is the third largest pure renewable company listed in Europe following the successful tender offer for Iberdrola Renovables and EDF Energie Nouvelle by the respective parent companies Iberdrola and EDF last year.



Source: Centrobanca

- Focus on organic growth with an installed capacity target of 955 MW at the end of 2014. The focus for additional capacity is on wind farms located mainly in the UK but also in new markets for the Group, such as Poland. Despite the ability of the management to deliver projects, with over 50% of the net pipeline already operational, we forecast lower installed capacity of 804 MW at the end of 2014 (ca. 16% below the Falck Renewables target) as the probable continuation of the sovereign debt crisis could result in more difficult access to financing and/or less leveraged financial structures.
- Technological and geographical diversification should allow the Group to reduce the regulatory risk. We are conscious that Falck Renewables' share price is suffering from market fears that the prolonged sovereign debt crisis could put at risk the current advantageous regulatory framework in Southern European countries. We believe that this concern is overdone in the case of Falck Renewables as ca. 45% of its total revenues benefit from incentives from four different European countries. In addition, the recent guidelines of the Italian government on the new incentive schemes for all new renewable plants, confirmation of the current support mechanisms for existing plants in Italy, and the new 2020 electricity consumption target to be covered by

renewable sources should avoid any dramatic cut in incentives in Italy for existing plants also from 2016, when the right to use GCs will be converted into a right to receive a feed-in tariff for the remainder of the incentive period.

- healthy earnings growth with a 2011-2016 CAGR in EPS of 15.6%, despite our assumption of lower incentives in Italy from 2016 onwards;
- based on our 2012 and 2013 estimates, Falck Renewables is trading at a ca. 20% discount in terms of EV/EBITDA and at a ca. 33% discount in terms of P/E compared to the other main Italian and European listed renewable energy stocks, even though the Group should have a 2011-2014 CAGR in EBITDA of ca. 10% compared to an average of 12% for its larger peers, such as Enel GreenPower and EDPR.

The main threats to our investment case are external factors: (i) sudden changes in the regulatory framework and tax treatment in countries where the Group owns plants (ii) execution risk or delay in the realization of projects; (iii) a strong increase in interest rates could have a negative impact on our EPS estimates (even though 85% of the net debt without derivatives is hedged) and could reduce the IRR of any new capacity; (iv) a deflationary scenario like that for the France and Spain where tariffs are reviewed annually on the basis of the Consumer Price Index; (v) a strong increase in the £/EUR exchange rate could affect Falck Renewables as revenues in the UK (32.5% of FY11 revenues) are exposed to exchange rate risk even though this negative impact at net profit level is mitigated by lower D&A and financial charges (as part of the debt is in UK sterling); (vi) a negative outcome to the ongoing legal dispute with the region of Sicily, which we expect to be resolved after 2015 and which could give an impact from non-cash items in the accounts.

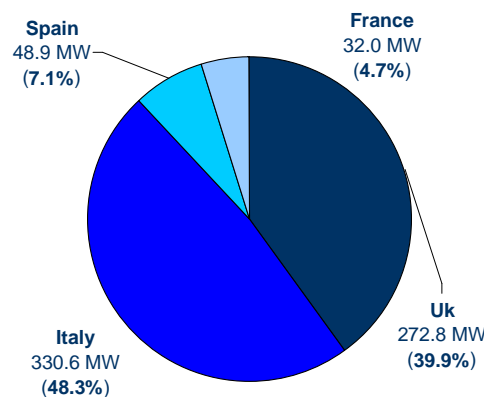
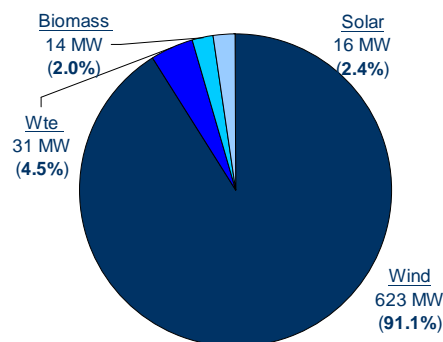
2. BUSINESS OVERVIEW

2.1. Company profile

Falck Renewables develops, designs, constructs and manages energy production plants from renewable sources (wind, solar, vegetable biomass and waste) in Italy, the UK, Spain and France. The Group is the main independent generator of renewable electricity in Europe, covering the entire life cycle of a project: from preliminary activities (pre-feasibility and feasibility studies, technical/economic evaluation, optimum design of the plant, and financial planning) and execution (preparation of the contract technical specifications and contractual documents, negotiation and assignment of contracts, construction supervision), through to operation and maintenance and energy portfolio management activities. Falck Renewables is active in the North of Italy in the collection and treatment of special waste from street cleaning and in the maintenance of third-party WTE plants. The Group had 241 employees at 31 December 2011.

Figure 2. Falck Renewables – Installed capacity by technology and by country at the end of 2011

The installed capacity of Wte, Biomass and Solar plants is located in Italy while that related to wind energy is spread amongst four European countries.



Source: Company data

Its geographical diversification allows Falck Renewables to reduce risks related

greenhouse gas emissions set by the Kyoto protocol in February 2005.

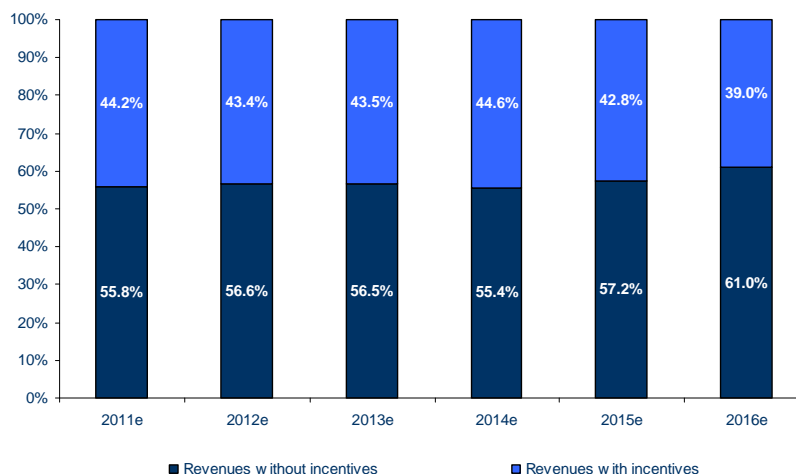
The key EU document for environmental policies is the “climate and energy package”, which became law in June 2009 and set three climate and energy targets to be met by 2020. The so called “20-20-20 targets” set by European directive 2009/28 are:

- a reduction in EU greenhouse gas emissions of at least 20% below 1990 levels;
- 20% of EU energy consumption must come from renewable sources;
- a 20% reduction in primary energy use compared to projected levels, to be achieved by energy efficiency.

Each European country is implementing the “climate and energy package”, through different types of incentive mechanisms for power generation from renewable sources. Based on FY11 revenues, we have calculated that incentives represent ca. 44% of the total revenues of Falck Renewables.

Figure 4. Falck Renewables – Revenue breakdown based on incentives

According to our estimates, revenues from incentives for the energy generated by Falck Renewables should decline to 39% in 2016 from ca. 44% in 2011 as we expect a cut in incentives in Italy for all the wind, WTE and Biomass plants.



Source: Centrobanca estimates

2.3.1 Italy

Recently, the Italian government announced guidelines for the new incentive schemes for electricity produced from renewable sources. In detail, Italy has increased the 2020 electricity consumption target to be covered by electricity generated from renewable sources to 32%-35% (120-130 TWh) from 26% (100 TWh). Secondly, from 2020 onwards, incentives for renewable energy in the Italian electricity system could increase to EUR12 billion p.a. from the current

figure of EUR9 billion (which includes EUR6 billion of incentives for PV plant and EUR3 billion for other renewable sources). This is instead of the figure of EUR15 billion which would have been reached under the old incentive system. EUR2.5 billion of the additional EUR 3 billion of incentives will be for non-solar renewable energy and EUR0.5 billion for PV plants.

Falck Renewables generates electricity from four renewable resources (wind, solar, waste and biomass) that benefit from different types of incentives. According to our estimates, revenues from incentives for the electricity generated by Falck Renewables in Italy represent ca. 25% of total revenues of the Group. The main incentive mechanisms in Italy are the following:

- **GREEN CERTIFICATES (GCs)** support the producers of electricity from non-solar renewable sources (hydro, geothermal, wind, waste and vegetable biomass). They are in units of 1 MWh, have a validity of three years and are issued for each plant in a number equal to the net electricity production multiplied by a co-efficient different by source (0.5 for waste, 1.0 for wind and 1.3/1.8 for biomass), applicable for 15 years from the Commercial Operation Date (COD) of the plant. Under Legislative Decree 28/2011, the GCs issued for electricity generated from 2011 to 2015 by plants entered into service before 1 January 2013 will be withdrawn by the ESO (Gestore Servizi Elettrici or GSE) at a price equal to 78% of the difference between EUR180/MWh and the average price for the sale of electricity during the previous year set by the AEEG. The right to receive GCs from 2016 will be converted into a right to receive a feed-in tariff for the remainder of the incentive period.

The Italian government is going to implement the Legislative Decree 28/2011, through a Ministerial Decree which should become law in about one month, following suggestions carried out by the State-Region committee and by the Italian Authority for the Electricity and Gas (AEEG). The key points of the Ministerial Decree for non-solar renewable plants already disclosed by the Italian government are the following:

- the current incentives for the existing plants will be maintained;
- plants with an installed capacity of between 0.05 MW and 5 MW (between 0.05 MW and 20 MW for hydro and geothermal plants) entering into service after 1 January 2013 would be eligible for incentives in the form of feed-in tariffs, which will be set by the ESO, if these plants are entered on a special list (the“registro”);
- plants with an installed capacity of over 5 MW (above 20 MW for hydro and geothermal plants) entering into service after 1 January 2013 would be eligible for incentives via an auction run by the Energy Service Operator if they are included in the annual limits of installed capacity;
- the total average remuneration for onshore wind plants entering into service after 1 January 2013 and until 31 December 2015 would be ca.

EUR124/MWh from the current level of EUR154/MWh, even though the amount of the feed-in-tariff and the auction mechanism have still to be defined;

- from 2016 onward, when the right to use GCs will be converted into a right to receive a feed-in tariff for the remainder of the incentive period, the feed-in tariff will be calculated at a price equal to 78% of the difference between EUR180/MWh and the average price for the sale of electricity during the previous year set by the AEEG.

Figure 5. Falck Renewables – Installed capacity of non solar renewable plants starting operations from 1 January 2013 that will benefit from incentives compared to the targets of the National action plan (Piano d’Azione Nazionale or PAN)

The 120 MW of hydro plants included in the National action plan are related to repowering of existing plants which do not benefit from incentives.

Technology (MW)	Installed capacity at the end of 2011	Registro annual average	Auction annual average	Registro + Auction annual average	PAN annual average
Wind	6,860	50	715 *	765	621
Hydro	17,950	70	-	70	120
Geothermal	772	35	-	35	17
Bioenergy/Waste	3,020	155	145	300	190
TOTAL	28,602	310	860	1,170	948

Source: Italian government, (*) This figure includes 215 MW of offshore plants

Figure 6. Falck Renewables – Total remuneration for non solar renewable plants in Italy, Germany, France and an average of EU27 based on 20 year normalized figures

The Italian government set the new incentives for non solar renewable plants using a model which calculates the adequate remuneration taking into account the effective costs of plants.

(EUR/MWh)	Type of plant	Italy Old	Italy New	% change Old vs. New	Germany Current	France Current	Average EU-27 Current
Wind	10 MW	148*	124	-16.2%	65 - 109	91	122
Biomass	200 kW	250	174 - 257	-13.8%	114 - 222	75 - 160	130
Biomass	10 MW	189	122 - 189	-17.7%	80 - 150	76 - 160	115
Biogas	200 kW	250	180 - 276	-8.8%	114 - 292	172	137
Hydro	5MW	121	139	14.9%	113	137 - 157	154
Geothermal	5MW	121	99 - 172	12.0%	81	111	108

Source: Italian government, (*) This figure increases to EUR154/MWh based on 15 year normalized figures

The decision of the Italian government to increase the 2020 target for electricity consumption to be covered by electricity generated from renewable sources should avoid a strong cut in incentives in 2016 when the right to use GCs will be converted into a right to receive a feed-in tariff for the remainder of the incentive period.

At the same time, we believe that the growing pressure to cut the weight of incentives for renewable energy in the electricity bills of Italian citizens, equal to 21.8%, in 2011, could imply that a new government (Italy will have political elections in Spring 2013) could reduce the total remuneration for all non solar renewable plants from 2016 onwards.

In order to reflect this risk, we conservatively assume that from 2016 onwards the total remuneration for non solar renewable plants that came into service before 31 December 2012 will be a flat tariff calculated on the sum of the expected average price of electricity in 2015 and 78% of the difference between EUR180/MWh and the expected average price of the electricity in 2015 with a 30% discount.

Overall, we consider the new regulatory framework to be positive for Falck Renewables as it does not reduce the current generous incentives for existing plants and sets clear rules for new renewable plants.

- **FOURTH ENERGY ACCOUNT**, or “Quarto Conto Energia” supports the producers of electricity from solar energy. The Legislative Decree, signed on 5 May 2011, concerns PV plants that enter service between 1 June 2011 and 31 December 2016 and it set a national target of 23,000 MW of installed capacity for a total expenditure of EUR6-7 billion. The key point of this Legislative Decree is the distinction between small and large plants. The threshold for large plants is greater than 1,000 kW for systems on buildings and 200 kW for other plants. The Decree sets a transitional period from June 2011 to December 2012 for large plants, with capacity eligible for incentives amounting to a total of 2,690 MW, with expenditure of EUR580 million while small plants are eligible for incentives without any annual cost ceilings. During summer 2012 The “Quarto Conto Energia” will be superseded by the “Quinto Conto Energia”.
- **FIFTH ENERGY ACCOUNT** or “Quinto Conto Energia” cuts incentives for new PV plants coming on-stream after 1 July 2012 by an average of 33.5% compared to those set by the “Quarto Conto Energia”. At the same time, it increases the total annual amount of incentives for PV plants by EUR500 million to EUR6.5 billion p.a. The “Quinto Conto Energia” intends to manage the increase in the installed capacity of PV energy, which the Italian government expects to rise by 2,000/3,000 MW p.a., by insisting that PV plants will only be eligible for incentives if they are registered in a special register.

Figure 7. Falck Renewables - Total remuneration for solar plants in Italy, Germany and France

The new average incentive for PV plant set by the Italian government reduces the gap with the average incentive applied in other EU countries and brings the Italian Pv system nearer so-called grid parity.

(EUR/MWh)	Italy	Italy	% change IV vs. V	Germany	Germany	France
	IV Conto Energia	V Conto Energia		Old	New	
2 kW on building	352	237	-32.7%	171	110	152
200 kW on building	313	199	-36.4%	162	98	92
1 MW groundfloor	236	161	-31.8%	125	89	92

Source: Italian government

- **CIP 6/92** was the first incentive offered by the Italian Republic and still exists for some old Wte plants. The CIP6 tariff is based on three components: (i) avoided production costs compared to fossil fuel, (ii) return on capital and

O&M and (iii) premium of eight years.

As far as the fiscal treatment of generators of electricity in Italy from renewable sources. Last September, a “second package” of budget adjustment measures was made law by the Italian parliament; these included the so-called “Robin Hood” Tax. In detail: article 7 of this law increased from 6.5% to 10.5% the additional corporate tax (“Robin Hood” Tax) introduced by the Italian Government in 2008 for companies that produce and sell electricity and gas, which is in addition to the base tax of 27.5% applied to other Italian companies. This article implies that, over the 2011-2013 period, companies that produce and sell electricity and gas will pay IRES (one form of corporate tax) of 38% compared to the previous level of 34%. In addition, the article does not allow these higher taxes to be transferred to the customer. The “Robin Hood” Tax is also applicable to companies that generate electricity from renewable sources, with at least EUR10 million of revenues and a taxable income of at least EUR1 million, and means that for these companies IRES will rise to 38% from the original 27.5%. In our projections, we assume that the government will extend this higher tax burden beyond 2013 due to the pressure on public finances.

2.3.2 United Kingdom

While a new incentive scheme is expected to be introduced in April 2013, the current incentive schemes for the production of electricity from renewable sources in the UK are the following:

- **NON-FOSSIL FUELS ORDERS (NFFO):** Although the legislation set by the Non-Fossil Fuels Orders has been repealed, existing plants that started their activities under this law will continue to operate under those rules until expiry of existing NFFO (Non-fossil Fuel Order) contracts, which are fixed price long-term sales contracts. For these plants the incentive mechanism is the feed-in tariff. The Cefn Croes plant operates under the NFFO Orders.
- **RENEWABLES OBLIGATION ORDER (ROs):** The main incentive scheme in the UK is a quota system, which is similar to the Italian system of green certificates. In detail, the electricity suppliers must produce an increasing quota of electricity from renewable sources and each MWh produced by wind plants receives one Renewable Obligation Certificate (ROC). The current target is set at 11.4% of all electricity fed into the network in the period from 1 April 2010 to 31 March 2011. The Office of Gas and Electricity Markets (OFGEM) issues these ROCs. ROCs are tradable, are priced in the market and traded at a premium compared to the market price of a similar quantity of energy. The ROCs market value ranges between £45 and £50 per MWh (or between EUR53 and EUR59 per MWh).

In addition to ROCs, smaller wind farms (which means all the Group’s wind farms except Kilbraur and Millennium) are connected to the low voltage regional electricity distribution network rather than to the high voltage transmission network operated by National Grid, avoiding the charges imposed by National Grid.

The Finance Act 2000 introduced the Climate Change Levy, which is a flat rate, currently at £4.4/MWh, charged on the supply of electricity to non-domestic customers. Eligible renewable generators are entitled to climate change Levy Exemption Certificates (**LECs**). In order to meet the obligations of the Finance Act 2000, suppliers may either purchase LECs from a generator of qualifying renewable energy, which can then be submitted to OFGEM, or pay the tax directly to OFGEM. Unlike ROCs, LECs are not fully tradable and the supplier must show they relate to a quantity of renewable electricity actually supplied to a specific industrial consumer. Companies need to negotiate Power Purchase Agreement (PPA) contracts in order to sell electricity produced; usually, these contracts cover 90% of gross revenues.

2.3.3 Spain

The main regulations for renewable energy sources in Spain comprise the Royal Decrees 436 and 661. New regulations were approved in July 2010 which did not affect the wind farms falling under the Royal Decree /436. In addition, the Spanish government has stopped incentives for new Renewable energy plants. In detail:

- The **Royal Decree /436** established that electricity generated could be sold at a price which includes a fixed component (or premium) and a variable component depending on the prices in the Spanish market. Remuneration under the Royal Decree /436 is calculated as the sum of the negotiated market price plus premium, plus/minus a reactive power bonus, plus incentives, minus deviations. The negotiated market price is calculated either by reference to the settlement of demand and supply and other procedures carried out by the market operator or by reference to the price negotiated between the parties when the sale is made through bilateral agreements or forward market trading. The premium is set at 40% of the average or reference tariff, while the incentive is set at 10% of the average reference tariff. The Royal Decree /436 was superseded by the Royal Decree /661.
- The **Royal Decree /661** maintains the feed-in tariff regime and introduces a new pool price regime, which is subject to a floor and a cap to ensure wind farm owners are not under or over remunerated. Remuneration under the Royal Decree /661 is calculated as the sum of the negotiated market price plus a premium of EUR29.3/MWh. The market price plus the premium must be included between EUR84.9/MWh and EUR71.3/MWh. The remuneration also includes a reactive power bonus (calculated as a percentage of EUR78.4/MWh) in relation to the ability of the operator to control reactive power. The premium will be reviewed annually, taking into consideration the Consumer Price Index minus 0.25% until 2012 and minus 0.50% thereafter.

Electricity generated from renewable sources also benefits from priority access to the transmission and distribution grid, ensuring all power is purchased. The wind farms of Falck Renewables have elected to apply the pool price regime established in the Royal Decree /436 until December 2012, following which the new pool price regime established under the Royal Decree /661 will be applied.

2.3.4 France

The wind power plants in France benefit from a feed-in tariff system set by Law 2000-198, which gives EDF a mandate to purchase electricity produced from renewable sources under a 15 year agreement. This system guarantees a minimum rate of return, which is set by the French Government also taking into consideration technological developments. Subsequent to the amendment of July 2005, the purchase obligation applies to wind farms located within the perimeter of a wind farm development area (zone de développement de l'éolien or ZDE). The terms applicable to the purchase of electricity generated by renewable energy plants are set out in the Arrêté of 17 November 2008. The Arrêté sets a fixed tariff regime (EUR82/MWh subject to indexation) for the first 10 years of generation, while the tariff for the last five years of the purchase contract is linked to the volume of energy produced in the first 10 year period. Wind sites with less than 2,400 hours of generation per year will continue to benefit from the same tariff for the full 15 year period while the other sites will see a decrease in the purchase tariff in the final five years of the contract.

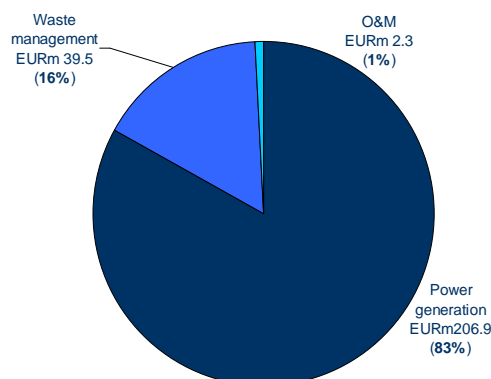
The tariff applicable to a wind farm is set using a coefficient (k index) dependent on the year in which EDF received the full application to enter into the electricity purchase agreement. The k index is annually updated in line with a formula defined in the Arrêté. Tariffs are adjusted annually to reflect inflation (producer price index); for Falck Renewables we estimate that it currently averages ca. EUR90/MWh for wind energy.

2.4. Power generation

The main business of Falck Renewables is electricity generation, which represents ca. 80% of its total revenues in 2011. The group produces electricity from several renewable sources (wind, solar, waste and biomass) for a total installed capacity of 684 MW.

Figure 8. Falck Renewables – Business breakdown by revenues in 2011

The waste management (disposal and collection) and the O&M activities are focused on Italy while the power generation business is also located in UK, France and Spain.



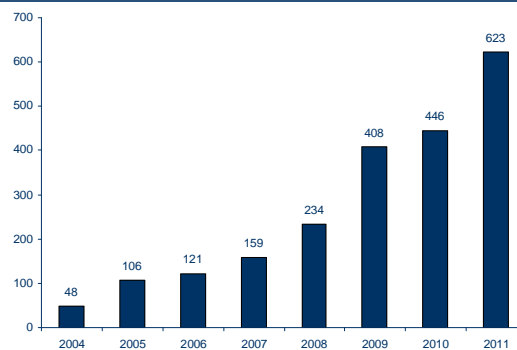
Source: Centrobanca estimates on Company data

2.4.1 Wind

Amongst the renewable sources, wind is the most important for Falck Renewables. It manages 15 wind energy plants in four European countries for an installed capacity of 623 MW, which represents 91.1% of the total installed capacity of the Group at the end of 2011 and 66.7% of the total EBITDA of Falck Renewables in 2011.

Figure 9. Falck Renewables – Wind installed capacity evolution

Falck Renewables started its activity in the wind business in 2004 by acquiring a 26% stake in La Muela wind park.



Source: Company data

At 31 March 2012, Falck Renewables had wind projects for 112 MW, which includes 47 MW under construction and 65 MW of projects ready to build and with the authorizations phase completed. At the same date, the Group had further 120 MW of projects under development, of which 70 MW in the UK, 30 MW in Italy and 20 MW in Poland; these are already included in the business plan and have a high probability of being realized. In addition, Falck Renewables had a pipeline of 870 MW, of which 700 MW in the UK and 80 MW in Poland.

Figure 10. Falck Renewables – Details of the projects in execution

The Group owns 100% of all the projects in execution and also of those in the net pipeline but is developing these projects with partners. The co-development of wind projects allows Falck Renewables to reduce the so-called development risk but also implies lower value creation.

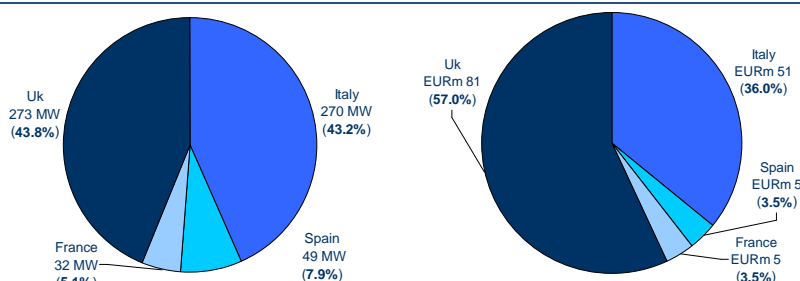
	Country	Net capacity (MW)	Load factor (hours/year)	Type of incentive	COD
Under construction					
Petralia Sottana	Italy	22.0	1,900	Green certificates	3Q12
Ty-RU	France	10.0	2,000	Feed-in-tariff	3Q12
Nutberry	UK	15.0	3,000	ROCs	2Q13
TOTAL		47.0			
Authorized					
Kingsburn	UK	20.0	2,900	ROCs	1Q14
Westbrown Castle	UK	30.0	2,300	ROCs	1Q14
Spaldington	UK	15.0	2,300	ROCs	1Q14
TOTAL		65.0			

Source: Centrobanca estimates

The management of Falck Renewables has a well proven ability to deliver projects and has an outstanding historical success rate: over 50% of the projects in the net pipeline entered in operation.

Figure 11. Falck Renewables – Installed capacity and revenue breakdown by country in the wind power generation business in 2011

The UK represents the most important country for the wind activities of Falck Renewables in terms of installed capacity and revenues. The revenues generated from the UK activities should represent ca. 57% of the total revenues of the wind power generation business even though the installed capacity is ca. 44% of the total due to the fact that the average load factors of the UK wind farms is higher than those of the other countries.



Source: Company data

> UNITED KINGDOM

The revenues in the UK are exposed to the £/EUR exchange rate risk. We calculate that a 10% increase in the exchange rate would lead an average 3.7% decline in 2012-2016 EBITDA.

Figure 12. Falck Renewables – Details of the wind parks in operation in UK

In 2011, the average revenues of these plants was ca. £95/MWh or EUR119/MWh, based on a average £/EUR exchange rate of 0.868, compared to the UK electricity price of £42.5/MWh (or EUR48.9/MWh).

Name of the site	Net installed capacity (MW)	Stake	Load factor (Hours/ year)	Type of incentive	COD
Cefn Croes	58.5	100%	3,000	NFFO	2Q05
Boyndie	16.7	100%	3,000	ROCs	2Q06
Earlsburn	37.5	100%	3,000	ROCs	4Q07
Kilbraur	47.5	100%	3,000	ROCs	2Q08
Ben Aketil	23.0	100%	3,000	ROCs	3Q08
Millenium	50.0	100%	3,000	ROCs	3Q08
Ben Aketil Extension	4.6	100%	3,000	ROCs	1Q11
Millenium Extension	15.0	100%	3,000	ROCs	2Q11
Kilbraur Extension	20.0	100%	3,000	ROCs	4Q11
TOTAL	272.8				

Source: Centrobanca estimates

> ITALY

According to ANEV (Associazione Nazionale dell'Energia Eolica), which is the confederation of the main companies in the wind sector in Italy, the installed

capacity of wind plants in Italy reached 6,737 MW at the end of 2011, of which 4% belonged to Falck Renewables. The average load factor of the three Italian wind farms of Falck Renewables is ca. 24% (or 2,090 hours per year) which is slightly above the average load factor in Italy.

Figure 13. Falck Renewables – Details of the wind parks in operation in Italy

In 2011, the average revenues of these plants were ca. EUR155/MWh which is the result of the sum of the electricity PRICE (PUN), equal to EUR72.2/MWh, and of the price of the green certificates, equal to EUR82.3/MWh.

Name of the site	Net installed capacity (MW)	Stake	Load factor (Hours/ year)	Type of incentive	COD
Minervino Murge	52.0	100%	2,100	Green certificates	2Q09
San Sostene Sud	79.5	100%	2,100	Green certificates	2Q10
Buddusò and Alà dei Sardi	138.0	100%	2,400	Green certificates	4Q11
TOTAL	269.5				

Source: Centrobanca estimates

> FRANCE

Figure 14. Falck Renewables - Details of the wind parks in operation in France

In 2011, the average revenues of these plants were ca. EUR91/MWh compared to an electricity price of EUR48.9/MWh in France.

Name of the site	Net installed capacity (MW)	Stake	Load factor (Hours/ year)	Type of incentive	COD
Esquennoy	12.0	100%	2,100	Feed-in tariff	2Q08
Le Fouy	10.0	100%	2,100	Feed-in tariff	1Q09
Les Crêtes	10.0	100%	2,100	Feed-in tariff	1Q10
TOTAL	32.0				

Source: Centrobanca estimates

> SPAIN

Figure 15. Falck Renewables - Details of the wind parks in operation in Spain

In 2011, the average revenues of these plants were ca. EUR91/MWh compared to an electricity price of EUR49.9/MWh in Spain. La Muela wind farm is equity consolidated.

Name of the site	Net installed capacity (MW)	Stake (%)	Load factor (Hours/ year)	Type of incentive	COD
La Muela	26.7	26%	2,200	Feed-in Premium	1Q03
Cabezo San Roque*	22.2	96%	2,200	Feed-in Premium	1Q04
TOTAL	48.9				

Source: Centrobanca estimates, (*) The total installed capacity is 23.5 MW

> POLAND

In 2011, the Company opened a new office in Warsaw (Poland) as it is developing ca. 100MW of wind power projects in various parts of Poland in partnership with important local developers. According to management, 20 MW

has a high probability of being realised by 2015. This opening follows the acquisition of a 50% stake in two Polish companies to develop new projects in Poland: Elektrovnie Wiatrowe Bonwind Lezno and Elektrovnie Wiatrowe Lyszkowice.

Figure 16. Falck Renewables – Price of electricity and incentives for Wind energy in Falck Renewables' key markets.

Our projections for the UK are based on the assumption of a £/EUR exchange rate of 0.87

(EUR/MWh)		2011e	2012e	2013e	2014e	2015e	2016e
Italy	Price of Electricity	72.2	78.0	78.6	78.6	78.8	79.4
	Incentive	82.3	81.8	79.4	79.1	79.0	55.3
	Total remuneration	154.5	159.8	157.9	157.7	157.8	134.8
United Kingdom	Price of Electricity	48.9	49.3	49.8	50.3	50.8	51.3
	Incentive	60.4	59.8	59.3	58.8	58.3	57.8
	Total remuneration	109.3	109.1	109.1	109.1	109.1	109.1
Spain	Price of Electricity	50.0	50.0	50.0	50.0	50.0	50.0
	Incentive	45.0	45.0	25.0	25.0	25.0	25.0
	Total remuneration	95.0	95.0	75.0	75.0	75.0	75.0
France	Price of Electricity	48.9	47.0	47.0	47.0	47.0	47.0
	Incentive	42.0	44.8	45.7	46.7	47.6	48.5
	Total remuneration	90.9	91.8	92.7	93.7	94.6	95.5

Source: Centrobanca estimates

2.4.2 Solar

Falck Renewables manages seven PV plants in Italy for an installed capacity of 16.1 MW, which represent 2.4% of the total installed capacity of the Group. In 2011, this activity represented 5.9% of the total EBITDA of Falck Renewables. The Group has no PV projects in execution and a net pipeline of 10 MW in Italy which are of the Rooftop type.

Figure 17. Falck Renewables – Installed capacity in the solar power generation business

The Trezzo PV plant is located on the roof of the Group Wte plant while the other PV plants of Falck Renewables are sited on the ground. The Rende PV plant benefits from a tariff of EUR525.2/MWh for 20 years. The three plants which started operating in 1Q11 benefit from a tariff of EUR343/MWh for 20 years.

Name of the site	Net installed capacity (MW)	Stake	Load factor (Hours/ year)	Type of incentive	COD
Trezzo	0.1	100%	1,200	Conto Energia 1	2007
Rende	1.0	100%	1,350	Conto Energia 1	2007
La Calce	1.0	100%	1,350	Conto Energia 2	2010
Notarpanaro	1.0	100%	1,350	Conto Energia 2	2010
Cardonita	3.8	100%	1,350	Conto Energia 3	1Q11
Spinasanta	5.9	100%	1,350	Conto Energia 3	1Q11
Sughertorto	3.3	100%	1,350	Conto Energia 3	1Q11
TOTAL	16.1				

Source: Centrobanca estimates

2.4.3 WTE

Falck Renewables manages two WTE plants in Italy for a net installed capacity of 31 MW, which represents 4.5% of the total installed capacity of the Group. One plant is located near Milan (Trezzo) and generates electricity using the heat produced by the combustion of solid urban waste. The other plant is located near Bologna (Granarolo) and generates electricity and heating from the heat produced by the combustion of solid urban waste. The plant in Granarolo is managed in joint-venture with Hera, which owns a 51% stake while Falck Renewables owns the remaining 49% stake and consolidates this stake using the proportional method. The two WTE plants benefit from the old CIP6/92 incentive system: 15MW from the WTE plant in Trezzo will benefit from CIP6 incentives until 2014 and a further 3MW will benefit until 2017, while 11MW of the WTE plant in Granarolo will benefit from the same incentive until 2018.

Figure 18. Falck Renewables - Installed capacity in the Wte business

In 2011, the average revenues of these plants were ca. EUR117/MWh.

Name of the site	Net installed capacity (MW)	Stake	Load factor (Hours/ year)	Type of incentive	COD
Trezzo	20.0	85%	7,800	CIP6 - 2014/2017	2003
Granarolo *	11.0	49%	7,800	CIP6 2018	2004
TOTAL	31.0		7,800	CIP6	

Source: Centrobanca estimates, (*)The total installed capacity is 22 MW

Falck Renewable already plans to increase the installed capacity of the Trezzo plant by a further 20 MW that should be operational at the end of 2015 (without interrupting production at the existing plant) with 51% of the electricity output being entitled to the GC incentive. Management is also monitoring the UK market, exploiting the knowledge of the Group in terms of the authorization process in this market and its experience in the management of Wte plants in Italy. At 31 March 2012, Falck Renewables had 30 MW of WTE/biomass plants which are in the pipeline and under development.

We would like to stress that the Italian waste treatment market has considerable potential but the difficulty in obtaining new authorisations for WTE plants significantly reduces its attractiveness. In 2003, Actelios won three bids for Wte plants in Sicily for a total installed capacity of 150 MW in an agreement signed with the region of Sicily. In 2006, the Company launched a rights issue for EUR250 million to build these new plants.

In 2007, the Sicilian regional authorities blocked the authorisations for these projects in which Actelios had already invested EUR105 million. The Company started legal proceedings to recover ca. EUR130 million, including EUR105 million of capitalized costs and EUR25 million of goodwill. These proceedings are ongoing and we do not expect a final outcome until after 2015. At this stage, we see no significant risk of further write-downs related to the Sicilian projects.

In FY11 results, Falck Renewables made a provision of EUR12.2 million for its associate PEA (Palermo Energia Ambiente). Falck Renewables has a 23.27% stake

in this company, which is being liquidated, and it was consolidated on a proportional basis up to the FY10 financial statements. PEA owns the right to build one of the three Sicilian projects, but neither the first (2010) nor the second (2011) interim liquidation financial statements has yet been approved due to disagreements with Amia SpA, which holds a 48% stake in PEA and is in extraordinary administration. This situation prevented the exercise of joint control over PEA, which meant that Falck Renewables could deconsolidate this stake and carry it at book value.

Following the deconsolidation of PEA, Falck Renewables subjected the value of the investment in PEA and all trade receivables due from it to an impairment test, given the risk of the company liquidation. However, Falck Renewables considers the legal claims it is making to be good since no relevant information has arisen that would significantly affect the outcome of the legal proceedings; however, risks and uncertainties related to PEA's governance increase the difficulty of recovering the impaired assets.

We wish to stress that the issues concerning PEA do not apply to the other two companies which own Sicilian projects: Tifeo and Platani. These are owned by Falck Renewables through Elettroambiente SpA with respective holdings of 96.35% and 86.77%.

2.4.4 Biomass

Falck Renewables manages one biomass plant in Italy, located near Cosenza (Rende), for a net installed capacity of 14 MW, which represents 2.0% of the total installed capacity of the Group. This plant was acquired by Actelios in 2002 and generates electricity using the heat produced from the combustion of biomass. Modernisation of this plant was completed in IQ11, which meant that Falck Renewables could benefit from the GC incentive, with each MWh multiplied by a co-efficient of 1.8 for biomass, applicable for 15 years.

The company has already planned to invest ca. EUR25 million to acquire and/or to build a new Biomass plant of 7 MW which could be fully operational in 2014. It is not planning to build other biomass plants due to the difficulty in ensuring the availability of biomass.

Figure 19. Falck Renewables - Installed capacity in the Biomass business

In 2011, the average revenues of these plants were ca. EUR225/MWh.

Name of the site	Net installed capacity (MW)	Stake (%)	Load factor (Hours/ year)	Type of incentive	COD
Rende	14.0	100%	7,800	Green Certificates	2003

Source: Centrobanca estimates

2.5. Waste management

Falck Renewables operates in the collection and treatment of solid urban waste,

which is used in its WTE plants. This activity is, therefore, complementary to the Wte business. Following the acquisition of EcoCentro Soluzioni Ambientali and Esposito Servizi Ecologici, the Group also operates in the collection and treatment of special waste coming from street cleaning.

Figure 20. Falck Renewables – Highlights of the waste management activity

The average tariff for the waste treated is EUR81/ton while for the waste collected it is EUR106/ton. The expansion of the Trezzo plant implies an increase in the waste treatment capacity of 200,000 ton/year.

	Type of business	Net Capacity Ton/year	Stake (%)
Trezzo	Disposal	175,000	85%
Granarolo	Disposal	100,000	49%
EcoCentro Soluzioni A.	Treatment	55,000	100%
Esposito Servizi Ecologici	Collection	60,000	100%

Source: Centrobanca estimates

2.6. O&M

Falck Renewables offers site maintenance services and currently operates in the Fusina plant with a contract due to expire in June 2012. However, the weight of this activity in the Group's P&L is not material.

2.7. SWOT analysis

STRENGTHS

- Strong management team;
- Geographical and technological diversification;
- Limited exposure to the economic cycle;
- No relevant financial needs in the next two years;
- High and visible earnings growth in 2012-2016.

WEAKNESSES

- Low free float;
- Exposure to incentives, which implying a significant regulatory risk.

OPPORTUNITIES

- Expansion in Eastern Europe;
- Positive outcome of the legal proceedings on the Sicilian Wte projects;
- Potential takeover target for ex-incumbent Utilities which aim to grow in the renewable business without execution risk;
- Large onshore wind pipeline.

THREATS

- Changes in regulatory frameworks;
- £/EUR exchange rate fluctuations;

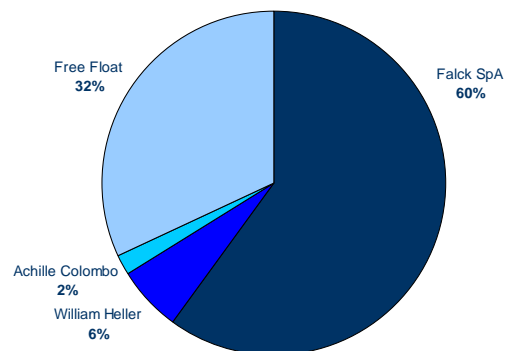
- Interest rate increases that could reduce the IRR of new capacity;
- Extraordinary transactions done at unfavourable conditions;
- Climate changes which can reduce the average hours expected for each plant;
- Further write-down of goodwill related to the Sicilian projects.

2.8. Shareholder structure

Falck Renewables is 60% controlled by the Falck family through the holding company Falck SpA. The second largest shareholder is Mr William Heller with a 6% stake; he is currently the Wind and Solar Director of the Group and founded Falck Renewables Wind in 2002 together with Falck.

Figure 21. Falck Renewables – Shareholder structure

Mr Achille Colombo is the former chairman of Actelios, the listed company controlled by the Falck family that was merged with Falck Renewables plc, also owned by the Falck Family, in 2011. Currently, Mr Colombo is not working in any companies of the Falck Renewables Group.



Source: Borsa Italiana on Company data

3. FINANCIAL PROJECTIONS

3.1. FY11 results

FY11 revenues increased by 34.7% year-on-year mainly due to the higher contribution (EUR48 million) from the wind sector which benefited from the start-up of operations at the Buddusò and Alà dei Sardi wind farms (138 MW) and the wind power expansion at Millenium (15 MW) and Kilbraur (20 MW) which more than offset the weak wind conditions recorded in the first few months of 2011 in Italy. Falck Renewables also benefited from the operational start-up of PV plants in Sicily for EUR7.7 million, the full year consolidation of the companies acquired in the waste business for EUR3.7 million and the full capacity of the biomass plant in Rende following revamping, combined with the strong result of the Trezzo and Granarolo plants that contributed EUR4.7 million of revenues.

Figure 22. Falck Renewables – Key figures of the FY11 results

The FY10 consolidated pro-forma income statement includes the results of the Actelios Group and of the Falck Renewables Wind Group for the year, adjusted where necessary for the wind power activities consolidated from 1 December 2010. The EBITDA breakdown has been calculated gross of holding company costs which we estimate are EUR10.7 billion.

(EURm)	FY10 PF	FY11	% Change YoY
- Wind UK	53.5	80.8	51.0%
- Wind Spain	5.5	5.0	-10.2%
- Wind France	5.5	5.0	-10.2%
- Wind Italy	29.5	51.0	72.6%
- Solar Itay	1.8	9.9	n.m.
- Wte/Biomass Italy	88.6	97.0	9.4%
Revenues	184.6	248.7	34.7%
- Wind UK	35.9	53.9	49.8%
- Wind Spain	2.8	3.0	4.9%
- Wind France	2.8	3.0	4.9%
- Wind Italy	12.3	34.7	182.4%
- Solar Itay	0.9	8.3	n.m.
- Wte/Biomass Italy	39.7	38.8	-2.3%
EBITDA	94.6	141.7	49.9%
<i>EBITDA margin</i>	<i>51.2%</i>	<i>57.0%</i>	
D&A	-46.0	-62.5	35.8%
EBIT	48.5	79.2	63.3%
<i>EBIT margin</i>	<i>26.3%</i>	<i>31.9%</i>	
Net financial charges	-35.8	-42.7	19.2%
Associates	1.1	0.7	-38.5%
Pre-tax profit	13.9	37.3	168.6%
Taxes	-11.5	-17.4	51.4%
Minorities & discontinued oerations	-2.1	-1.0	-52.7%
Net profit	0.3	18.9	n.m.
Net profit adjusted	0.3	31.0	n.m.
Capex	190.0	178.0	-6.3%

Source: Centrobanca estimates based on Company data

Falck Renewables reported in 2011 a 50% year-on-year increase in EBITDA also due to strong cost management across the Group; the EBITDA margin increased to 57% from 51%. The FY11 EBIT was EUR79.2 million, a 63.3% year-on-year increase, despite being negatively impacted by: (i) impairment losses of EUR6.1 million for the Trezzo, Petralia Sottana and Kernebet projects; (ii) impairment losses of EUR4 million on trade receivables and EUR2.2 million of provisions for risks related to PEA.

The FY11 pre-tax profit had impressive growth despite the higher financial charges (+19.2% year-on-year), which reflected the higher average net financial debt and the lower contribution of associates.

The Group reported a positive bottom line of EUR18.9 million from EUR0.3 million in 2010, despite EUR12.2 million of non-cash provisions for PEA, the expiry of tax benefits under the Tremonti-ter law that had had a positive impact on FY10 net profit for EUR5.9 million, and the introduction of the Robin Hood Tax.

Net financial debt was EUR826 million (including EUR61 million of the fair value of derivatives) at 31 December 2011 compared to EUR728 million at the end of 2010 and EUR742.9 million at 30 September 2011. The increase in net financial debt was mainly driven EUR178 million of investments that were partially funded by the capital increase of ca. EUR130 million held in March 2011.

Falck Renewables also announced a FY11 DPS of EUR0.0284 compared to a FY10 DPS of EUR0.012. This dividend implies a pay-out ratio of 43.7% based on stated EPS and of 26.6% on adjusted EPS. The FY11 DPS will be paid on 31 May 2012 (ex-dividend date 28 May) and at the current market price of the stock implies a dividend yield of 3.1%.

3.2. Business plan

On 31 March 2012, Falck Renewables released its 2012-2014 business plan which is an update of the old plan published in December 2010. The guidelines of the new business plan, which are in line with the old plan, are the following:

- diversification by country and technology, with a constant increase in the installed capacity;
- focus on projects included in the pipeline in order to develop the most profitable opportunities;
- increased attention on the business characteristics and project profitability;
- focus on operating efficiencies and cost management.

Figure 23. Falck Renewables - Key 2011 figures and main economic and operational targets of the new and old Business plan compared to Centrobanca estimates

In the old business plan, Falck Renewables targeted EUR1.2 billion of Capex for the 2010-2014 period which did not include any relevant change in the consolidation area.

(EURm)	2011	2014e		% Change New BP vs Cbe	2014e	
		New BP	Cbe		Old BP	New BP vs Old BP
Revenues	249	340	334	-1.7%	400	-15.0%
EBITDA	142	190	188	-1.1%	230	-17.4%
Net capital invested	1,278	1,550	1,321	-14.8%	n.a.	-
Net financial debt *	765	990	814	-17.8%	n.a.	-
- Wind	142	301	163	-45.8%	592	-49.1%
- Wte / Biomass	17	131	121	-7.7%	193	-31.9%
- Solar	20	28	-	-	46	-40.4%
Cumulative Capex (12-14)	179	460	282	-38.7%	831	-44.6%
- Wind (MW)	623	853.9	735	-13.9%	990	-13.7%
- Wte/Biomass (MW)	45	75.0	53	-30.0%	77	-2.6%
- Solar (MW)	16	26.1	16	-38.3%	33	-20.9%
Installed capacity (MW)	684	955	804	-15.8%	1,100	-13.2%
- Italy (MW)	331	424	360	-15.1%	451	-6.0%
- UK (MW)	273	420	353	-16.0%	473	-11.2%
- France (MW)	32	42	42	0.0%	77	-45.5%
- Spain (MW)	49	49	49	0.0%	55	-10.9%
- Poland (MW)	-	20	-	-	44	-54.5%
Installed capacity (MW)	684	955	804	-15.8%	1,100	-13.2%

Source: Company data, Centrobanca estimates, (*) The Group figures do not include the fair value of derivatives

The new plan reflects (i) the regulatory uncertainties in Italy for plants that will begin operating in 2013, (ii) the stressed financial environment in the Eurozone and (iii) regulatory changes across Europe. However, the recent regulatory changes in the countries of interest to Falck Renewables do not involve investments already made and those under construction.

The new business plan includes capex which will be spent in 2014 but will contribute to revenues and EBITDA in 2015. Falck Renewables 2015 revenues of EUR375 million (vs. our estimate of EUR384.6 million) and EBITDA of EUR210 million (vs. our estimate of EUR211.2 million) with further potential upside in EBITDA from internalisation of development initiatives.

Overall, Falck Renewables' development plan includes 112 MW of projects in execution, 160 MW of projects under development already included in the business plan and ca. 950 MW of pipeline. In terms of MW, the largest part of these projects is located in UK (72.3%) while the remaining 27.7% is in Italy (14.5%), Poland (8.2%) and France (4.9%). Falck Renewables will continue to focus on wind technology, which represents ca. 90% of the MW of the business development plan and will strengthen its role in the WTE/Biomass business.

Figure 24. Falck Renewables – Projects in execution and Pipeline under development

The Group is developing a pipeline of wind projects in UK and in Poland will have more than 2,500 per year wind hours.

Country	Authorized / Under construction included in BP	Under development included in BP	Pipeline
UK	80 MW - Wind	70 MW - Wind	700 MW - Wind 30 MW - Wte/Biomass
Italy	22 MW - Wind	30 MW - Wte/Biomass 30 MW - Wind 10 MW - Solar	45 MW - Wte/Biomass 40 MW - Wind
France	10 MW - Wind		50 MW - Wind
Poland		20 MW - Wind	80 MW - Wind
Total	112 MW	160 MW	945 MW

Source: Falck Renewables

Our forecasts for Capex in the 2012-2014 period are more conservative than those of the Group as we believe that the probable continuation of the sovereign debt crisis could imply a risk of reductions in incentives for renewable energies across Europe, combined with more difficult access to credit and/or a demand for less leveraged financial structures (at least 70% debt and the remaining part equity) for new renewable plants in project finance contracts.

Overall, we assume that Falck Renewables will not install new wind and PV plants in Italy through 2014, excluding the new wind farm in Petralia which is currently under construction. In addition, our forecasts do not include any new wind farms in Poland but reflects 80 MW of new installed capacity in the UK by the end of 2014 and a further 51 MW (Dunbeath) in 2015. As far as new WTE/Biomass plants are concerned, we assume that the work to extend the WTE plant at Trezzo (20 MW) will start in 2013 and that the new plant will be fully operational at the end of 2015. In addition, we assume in 2013 an investment in a new biomass plant of 6 MW even though the management stated that they plan to invest in a plant with an installed capacity of 7-10 MW.

3.3. Income statement projections

We estimate CAGR in 2011-2014 revenues of 10.4% compared to management guidance of 11%. We believe that the wind business will be the fastest growing area with CAGR in 2011-2014 revenues of 15.2%.

We forecast EUR370.9 million of revenues in 2016, which is 3.6% below the figure expected in 2015 as we assume that in the in the next few years a new government (Italy will have political elections in Spring 2013) will reduce the total remuneration for all non solar renewable plants from 2016 onwards. In detail, we assume that from 2016 onwards the total remuneration for non solar renewable plants located in Italy that come on-stream before 31 December 2012 will be a flat tariff which is calculated as the sum of the expected average price of electricity in 2015 and of the figure calculated applying a 30% discount on 78% of the difference between EUR180/MWh and the expected average

price for electricity in 2015. We also assume that a flat tariff would implicitly confirm the current co-efficient, which differs by source (0.5 for waste, 1.0 for wind and 1.3/1.8 for biomass), which are now applied only to the incentive. In detail, we expect that in Italy the cut in incentives for the existing wind, WTE and Biomass plants in 2016 could be the following:

- **wind farms** (Italy): EUR55.3/MWh in 2016 from EUR79/MWh in 2015 with the total remuneration declining to EUR134.8/MWh from EUR157.8/MWh;
- **Wte plant** (Italy): EUR27.7/MWh in 2016 from EUR39.5/MWh in 2015 with the total remuneration declining to EUR107.1/MWh from EUR118.3/MWh;
- **Biomass plant** (Italy): EUR99.6/MWh in 2016 from EUR142.2/MWh in 2015 with the total remuneration declining to EUR179/MWh from EUR221/MWh;

Figure 25. Falck Renewables – Income statement projections

We assume EUR15.5 million of holding company costs in 2012 which include ca. EUR11 million of expenses for the headquarters in Milan and ca. EUR4.5 million of other costs, including development costs.

(EURm)	2011	2012e	2013e	2014e	2015e	2016e
- Wind	142.8	190.8	206.0	218.5	237.3	230.8
- Solar	9.9	10.2	10.2	10.2	10.2	10.2
- Waste, Wte & Biomass, O&M	96.3	88.3	91.5	105.6	137.1	129.9
- Holding Italy / Adjustements	-0.3	0.0	0.0	0.0	0.0	0.0
Revenues	248.7	289.4	307.7	334.4	384.6	370.9
- Wind	101.5	140.7	153.6	162.2	175.2	166.0
- Solar	9.0	9.3	9.3	9.3	9.3	9.3
- Waste, Wte & Biomass, O&M	41.9	22.9	25.7	31.9	42.2	34.4
- Holding Italy / Other	-10.7	-15.5	-15.5	-15.5	-15.5	-15.5
EBITDA	141.7	157.4	173.1	187.9	211.2	194.2
<i>EBITDA margin</i>	<i>57.0%</i>	<i>54.4%</i>	<i>56.3%</i>	<i>56.2%</i>	<i>54.9%</i>	<i>52.4%</i>
- Wind	-37.5	-38.4	-39.4	-43.5	-46.8	-46.8
- Solar	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
- Waste, Wte & Biomass, O&M	-16.3	-17.3	-17.2	-18.2	-23.1	-23.5
- Holding Italy / Other	-7.2	-7.2	-7.2	-7.2	-7.2	-7.2
D&A	-62.5	-64.4	-65.3	-70.5	-78.6	-79.0
- Wind	64.0	102.3	114.3	118.7	128.4	119.2
- Solar	7.5	7.8	7.8	7.8	7.8	7.8
- Waste, Wte & Biomass, O&M	25.6	5.6	8.5	13.6	19.1	10.9
- Holding Italy / Other	-17.9	-22.7	-22.7	-22.7	-22.7	-22.7
EBIT	79.2	93.0	107.8	117.4	132.6	115.2
<i>EBIT margin</i>	<i>55.5%</i>	<i>48.7%</i>	<i>52.3%</i>	<i>53.7%</i>	<i>55.9%</i>	<i>49.9%</i>
Net financial expense	-42.7	-48.6	-47.2	-50.7	-53.2	-51.3
Associates	0.7	0.7	0.7	0.7	0.7	0.7
Pre-tax profit	37.3	45.0	61.3	67.4	80.1	64.6
Taxes	-17.4	-19.0	-25.3	-27.5	-31.1	-24.4
<i>Tax rate</i>	<i>-46.7%</i>	<i>-42.3%</i>	<i>-41.3%</i>	<i>-40.8%</i>	<i>-38.8%</i>	<i>-37.8%</i>
Minorities & discontinued operations	-1.0	-1.0	-1.4	-1.4	-1.7	-1.3
Net profit	18.9	25.0	34.6	38.5	47.3	38.9

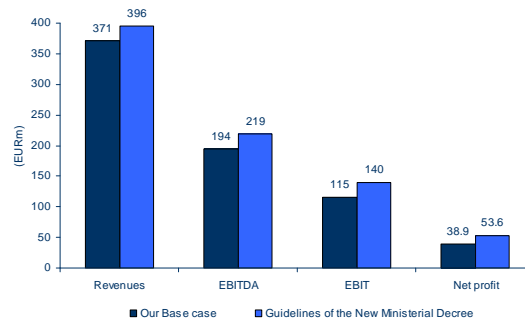
Source: Company data, Centrobanca estimates

We estimate CAGR in 2011-2014 EBITDA of ca. 10%, which is slightly below guidance in the business plan, although we forecast installed capacity at the end of 2014 that is lower than the Group's target. Our FY14 EBITDA estimate is slightly below with that set by Falck Renewables due to our higher electricity prices projections for Italy and the fact that the majority of the new capacity targeted by the Group in 2014 will enter into operation at the end of that year.

According to our estimates, FY14 net profit will reach EUR38.5 million which implies a 26.8% 2011-2014 CAGR in EPS based on the FY11 EPS reported and a 7.4% 2011-2014 CAGR in EPS based on the FY11 EPS adjusted. Our 2012-2016 EPS projections are also based on an average cost of debt of 6.5%, which also reflects the fact that 85% of net financial debt (without derivatives) is hedged, and an average tax rate of 40.2% for the period. Our estimated fiscal burden reflects our conviction that the Italian government will extend the Robin Hood Tax beyond 2013 due to the pressure on public finances. Our FY16 net profit estimate is EUR38.9 million, which is 17.8% below the figure expected in 2015, as we assume that a new government (Italy will have political elections in Spring 2013) could reduce the total remuneration of all non solar renewable plants from 2016 onwards. According to our calculations, an incentive scheme in line with the guidelines of the new Ministerial Decree of the Italian government would imply a respective 12.7% and an 37.7% increase in our FY16 EBITDA and net profit estimates.

Figure 26. Falck Renewables – Sensitivity of P&L to changes in incentives in Italy in 2016

Our base case reflects a flat fixed tariff of EUR134.8/MWh for wind farms, EUR107.1/MWh for WTE plants and EUR179/MWh for Biomass plants.



Source: Centrobanca estimates

3.3.1 Italy – Wind

We estimate a 73% year-on-year increase in FY12 revenues as we include the contribution of the Petralia Sottana wind farm (22 MW of installed capacity) from 1 July 2012 and of the wind farms in Buddusò and Alà dei Sardi (138 MW), that came on-stream on 7 October 2011 and were fully operational by year-end. We also forecast FY16e EBITDA of EUR66.5 million which implies a 2011-2016e CAGR of 10.9% for the wind activities of Falck Renewables located in Italy. Based on our key assumption of EUR1.6 million per MW of installed capacity, our Capex projections for the Italian wind activities do not include EUR48 million for the 30 MW of pipeline already included in the business plan.

Figure 27. Falck Renewables – Key figures of the wind activities of the Group in Italy

We have conservatively assumed that the amount of the feed-in-tariff for all the wind plants from 2016 onwards will be EUR134.8/MWh.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average capacity (MW)	200.5	280.5	291.5	291.5	291.5	291.5
Capacity at year-end (MW)	269.5	291.5	291.5	291.5	291.5	291.5
Load factors (hours/year)	1,678	2,006	2,227	2,227	2,227	2,227
PUN (EUR/MWh)	72.2	78.0	78.6	78.6	78.8	79.4
Incentive (EUR/MWh)	82.3	81.8	79.4	79.1	79.0	55.3
PUN + Incentive (EUR/MWh)	154.5	159.8	157.9	157.7	157.8	134.8
Revenues without incentive	24.3	43.9	51.0	51.0	51.2	51.6
Revenues with incentive	27.7	46.1	51.5	51.4	51.3	35.9
Total revenues	52.0	89.9	102.5	102.4	102.5	87.5
Opex	-12.4	-19.6	-20.6	-20.8	-20.9	-21.0
EBITDA	39.6	70.4	81.9	81.6	81.6	66.5
<i>EBITDA margin</i>	<i>76.2%</i>	<i>78.2%</i>	<i>79.9%</i>	<i>79.7%</i>	<i>79.6%</i>	<i>76.0%</i>
D&A	-16.8	-18.2	-18.2	-18.2	-18.2	-18.2
EBIT	22.8	52.2	63.7	63.4	63.4	48.3
<i>EBIT margin</i>	<i>43.9%</i>	<i>58.0%</i>	<i>62.1%</i>	<i>62.0%</i>	<i>61.9%</i>	<i>55.2%</i>
Capex	116.0	7.0	-	-	-	-

Source: Centrobanca estimates

3.3.2 Italy – Wte / Biomass

Figure 28. Falck Renewables - Key figures of the Wte and Biomass activities of the Group

We assume that a new biomass plant of 7.5 MW and the expansion of the Trezzo Wte plant (20 MW) will be fully operational in 2014 and at the end of 2015, respectively.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average capacity (MW)	45.0	45.0	45.0	52.5	72.5	72.5
Capacity at the year-end (MW)	45.0	45.0	45.0	52.5	72.5	72.5
Load factors (hours/year)	7,740	7,831	7,831	7,912	7,881	7,881
PUN (EUR/MWh)	72.2	78.0	78.6	78.6	78.8	79.4
Average Incentive (EUR/MWh)	76.4	46.2	54.5	68.1	57.8	44.5
PUN + Incentive (EUR/MWh)	148.6	124.2	133.1	146.7	136.6	123.9
Revenues without incentives	25.1	27.5	27.7	32.6	44.0	45.4
Revenues with incentives	26.6	16.3	19.2	28.3	34.1	25.4
Total revenues	51.7	43.8	46.9	60.9	78.1	70.8
Opex	-15.8	-24.0	-24.4	-32.2	-40.0	-40.6
EBITDA	35.9	19.8	22.6	28.7	38.1	30.2
<i>EBITDA margin</i>	<i>69.4%</i>	<i>45.2%</i>	<i>48.1%</i>	<i>47.1%</i>	<i>48.8%</i>	<i>42.7%</i>
D&A	-13.7	-15.6	-15.6	-16.6	-21.1	-21.5
EBIT	22.3	4.2	7.0	12.2	17.0	8.8
<i>EBIT margin</i>	<i>43.1%</i>	<i>9.5%</i>	<i>14.9%</i>	<i>20.0%</i>	<i>21.7%</i>	<i>12.4%</i>
Capex	7.5	0.9	81.9	41.2	1.2	1.2

Source: Centrobanca estimates

3.3.3 Italy – Solar

Figure 29. Falck Renewables - Key figures of the Solar activities of the Group

We assume that the net pipeline of 10 MW of PV plants will be not developed by the Group, implying no Capex in this business in the next five years.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average capacity (MW)	9.6	16.1	16.1	16.1	16.1	16.1
Capacity at year-end (MW)	16.1	16.1	16.1	16.1	16.1	16.1
Load factors (hours/year)	2,195	1,349	1,349	1,349	1,349	1,349
PUN of electricity (EUR/MWh)	72.2	78.0	78.6	78.6	78.8	79.4
Incentive (EUR/MWh)	397.8	392.0	391.4	391.4	391.2	390.6
PUN + Incentive (EUR/MWh)	470.0	470.0	470.0	470.0	470.0	470.0
Revenues without incentive	1.5	1.7	1.7	1.7	1.7	1.7
Revenues with incentive	8.4	8.5	8.5	8.5	8.5	8.5
Total revenues	9.9	10.2	10.2	10.2	10.2	10.2
Opex	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
EBITDA	9.0	9.3	9.3	9.3	9.3	9.3
<i>EBITDA margin</i>	<i>90.9%</i>	<i>91.2%</i>	<i>91.2%</i>	<i>91.2%</i>	<i>91.2%</i>	<i>91.2%</i>
D&A	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
EBIT	7.5	7.8	7.8	7.8	7.8	7.8
<i>EBIT margin</i>	<i>75.5%</i>	<i>76.2%</i>	<i>76.2%</i>	<i>76.2%</i>	<i>76.2%</i>	<i>76.2%</i>
Capex	19.7	-	-	-	-	-

Source: Centrobanca estimates

3.3.4 Italy – Waste management

Figure 30. Falck Renewables - Key figures of the waste management activities

The extended capacity of Trezzo plant that will come on-stream at the end of 2015 implies a 43.6% increase in the waste treatment capacity of the Group.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average waste treated (Ton)	396,350	396,350	396,350	396,350	569,150	569,150
Average waste collected (Ton)	64,000	64,000	64,000	64,000	64,000	64,000
Tariffs for waste disposal	87.5	87.5	87.6	87.6	86.1	86.3
Tariffs for waste collection	106.0	106.0	106.0	106.0	106.0	106.0
Total revenues	41.5	41.5	41.5	41.5	55.8	55.9
Opex	-35.8	-38.6	-38.7	-38.7	-52.0	-52.1
EBITDA	5.7	2.8	2.8	2.8	3.8	3.8
<i>EBITDA margin</i>	<i>13.7%</i>	<i>6.8%</i>	<i>6.8%</i>	<i>6.8%</i>	<i>6.9%</i>	<i>6.9%</i>
D&A	-2.6	-1.6	-1.6	-1.6	-2.0	-2.0
EBIT	3.1	1.2	1.2	1.2	1.9	1.9
<i>EBIT margin</i>	<i>7.4%</i>	<i>2.9%</i>	<i>2.9%</i>	<i>2.9%</i>	<i>3.3%</i>	<i>3.3%</i>

Source: Centrobanca estimates

3.3.5 Italy – O&M

We assume that the site maintenance service contract for the Fusina plant will be renewed and estimate an annual contribution to revenues and EBITDA of

EUR3 million and ca. EUR0.3 million respectively.

3.3.6 Wind - United Kingdom

We estimate a 10.5% year-on-year increase in FY12 revenues due to the full contribution from 1 January 2012 of the extension to the wind farms of Millenium (15 MW) and Kilbraur (20 MW) which started operating in 2011.

We also forecast FY16e EBITDA of EUR92.1 million, which implies a 2011-2016e CAGR of 10.5% for the wind activities of Falck Renewables in the UK, taking the weight of these activities on Group EBITDA to 47.4% from 39.4% in 2011. These estimates include five new wind farms for a total installed capacity of 121 MW, of which 51 MW for the Dunbeath wind farm that should start operations in 2015, compared to the Company target of 180 MW. Based on our key assumption of EUR1.6 million per MW of installed capacity, our Capex projections for the UK wind activities at the end of 2014 exclude EUR128 million for the 80 MW of pipeline already included in the business plan.

Figure 31. Falck Renewables - Key figures of the UK wind energy activities of the Group

We have also assumed installed capacity of ca. 350 MW at the end of 2014 compared to the new Company target of 420 MW, down from 473 MW in the old business plan.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average capacity (MW)	255.3	272.8	280.3	320.3	378.3	403.8
Capacity at year-end (MW)	272.8	272.8	287.8	352.8	403.8	403.8
Load factors (hours/year)	2,895	3,000	2,997	2,985	2,979	2,980
Price of electricity (EUR/MWh)	48.9	49.3	49.8	50.3	50.8	51.3
Incentive (EUR/MWh)	60.4	59.8	59.3	58.8	58.3	57.8
Price of electricity + Incentive (EUR/MWh)	109.3	109.1	109.1	109.1	109.1	109.1
Revenues without incentives	36.1	40.3	41.8	48.1	57.2	61.7
Revenues with incentives	44.7	48.9	49.8	56.2	65.7	69.5
Total revenues	80.8	89.3	91.6	104.3	122.9	131.3
Opex	-24.9	-26.5	-27.3	-31.1	-36.7	-39.2
EBITDA	55.9	62.8	64.4	73.2	86.2	92.1
<i>EBITDA margin</i>	<i>69.2%</i>	<i>70.3%</i>	<i>70.3%</i>	<i>70.2%</i>	<i>70.2%</i>	<i>70.2%</i>
D&A	-16.5	-17.1	-17.5	-21.6	-24.9	-24.9
EBIT	39.4	45.6	46.9	51.6	61.4	67.2
<i>EBIT margin</i>	<i>48.8%</i>	<i>51.1%</i>	<i>51.2%</i>	<i>49.5%</i>	<i>49.9%</i>	<i>51.2%</i>
Capex	32.6	16.0	8.0	104.0	81.6	-

Source: Centrobanca estimates

Our projections assume a flat £/EUR exchange rate of 0.87 for 2012-2016. According to our calculations, a 10% increase in the exchange rate would lead an average 3.7% decline in 2012-2016 EBITDA while at net profit level this negative impact is mitigated by lower D&A and financial charges (as part of the debt is in UK sterling).

3.3.7 Wind - France

Figure 32. Falck Renewables - Key figures of the Group wind activities in France

Our projections use a flat tariff annually adjusted by a coefficient of 1%. We have assumed installed capacity of 42 MW at the end of 2014, which is in line with the Company target.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average capacity (MW)	32.0	37.0	42.0	42.0	42.0	42.0
Capacity at the end of the year (MW)	32.0	42.0	42.0	42.0	42.0	42.0
Load factors (hours/year)	1,719	1,978	2,076	2,076	2,076	2,076
Price of electricity (EUR/MWh)	48.9	47.0	47.0	47.0	47.0	47.0
Incentive (EUR/MWh)	42.0	44.8	45.7	46.7	47.6	48.5
Price of electricity + Incentive (EUR/MWh)	90.9	91.8	92.7	93.7	94.6	95.5
Revenues without incentive	2.7	3.4	4.1	4.1	4.1	4.1
Revenues with incentive	2.3	3.3	4.0	4.1	4.1	4.2
Total revenues	5.0	6.7	8.1	8.2	8.2	8.3
Opex	-2.0	-2.3	-2.7	-2.7	-2.7	-2.7
EBITDA	3.0	4.4	5.4	5.5	5.5	5.6
<i>EBITDA margin</i>	<i>60.0%</i>	<i>65.5%</i>	<i>66.9%</i>	<i>67.0%</i>	<i>67.1%</i>	<i>67.3%</i>
D&A	-2.0	-2.0	-2.7	-2.7	-2.7	-2.7
EBIT	1.0	2.4	2.7	2.8	2.9	2.9
<i>EBIT margin</i>	<i>19.0%</i>	<i>35.0%</i>	<i>33.6%</i>	<i>34.1%</i>	<i>34.6%</i>	<i>35.0%</i>
Capex	-	16	-	-	-	-

Source: Centrobanca estimates

3.3.8 Wind - Spain

Figure 33. Falck Renewables - Key figures of the Group wind activities in Spain

We have assumed an installed capacity of 23.5 MW related to the Cabezo San Roque wind farm and a flattish tariff of EUR75/MWh from 2013 onwards. The decline in the total remuneration for the wind farms in Spain from 2013 is due to the fact that these plants will be regulated by the Royal Decree 1661 which sets a floor of EUR71.3/Mwh.

(EURm)	2011e	2012e	2013e	2014e	2015e	2016e
Average capacity (MW)	23.5	23.5	23.5	23.5	23.5	23.5
Capacity at the end of the year (MW)	23.5	23.5	23.5	23.5	23.5	23.5
Load factors (hours/year)	2,250	2,200	2,100	2,100	2,100	2,100
Price of electricity (EUR/MWh)	50.0	50.0	50.0	50.0	50.0	50.0
Incentive (EUR/MWh)	45.0	45.0	25.0	25.0	25.0	25.0
Price of electricity + Incentive (EUR/MWh)	95.0	95.0	75.0	75.0	75.0	75.0
Revenues without incentives	2.5	2.6	2.5	2.5	2.5	2.5
Revenues with incentives	2.4	2.3	1.2	1.2	1.2	1.2
Total revenues	5.0	4.9	3.7	3.7	3.7	3.7
Opex	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8
EBITDA	3.0	3.1	1.9	1.9	1.9	1.9
<i>EBITDA margin</i>	<i>60.8%</i>	<i>64.0%</i>	<i>51.7%</i>	<i>51.2%</i>	<i>50.7%</i>	<i>50.3%</i>
D&A	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
EBIT	2.0	2.1	0.9	0.9	0.9	0.8
<i>EBIT margin</i>	<i>40.6%</i>	<i>43.1%</i>	<i>24.0%</i>	<i>23.5%</i>	<i>23.0%</i>	<i>22.6%</i>
Capex	-	-	-	-	-	-

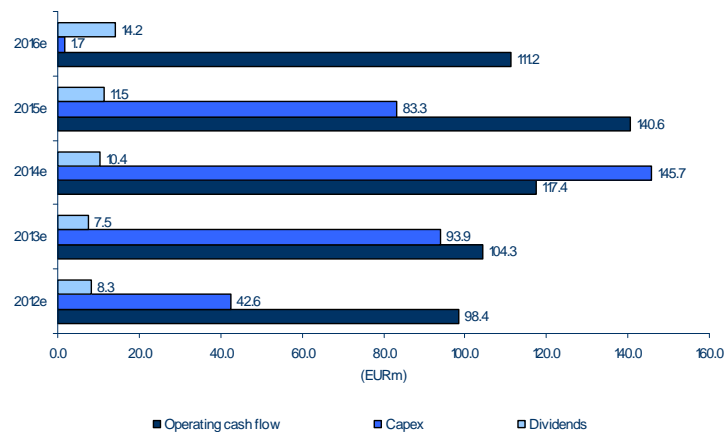
Source: Centrobanca estimates

3.4. Cash flow projections

According to our estimates, Falck Renewables' operating cash, equal to EUR320 million through 2014 flow will be used for: (i) the payment of the debt related to project financing; (ii) the equity component (ca. 30%-35% of the total amount) of investments in new project and (iii) the payment of dividends. It should be noted that the Group has an available residual credit line of EUR80 million.

Figure 34. Falck Renewables – 2012-2016 Operating cash flow, Capex and dividends projections

Our FY14 Capex estimate includes EUR104 million and EUR41.2 million of investments in the wind activities in UK and in the environmental business in Italy, respectively.



Source: Centrobanca estimates

3.5. Dividend policy

Falck Renewables published a clear dividend policy based on a minimum pay out ratio of 30%, which is in line with that of its largest Italian peer, Enel GreenPower. In our view, the Group is focused on investing in new installed capacity rather than offering a higher return to its shareholders.

Figure 35. Falck Renewables – Dividend yield: a comparison between Falck Renewables and a sample of the main Italian and European pure renewable companies.

Falck Renewables offers a dividend yield above the average of those offered by the other main Italian and European pure renewable players, excluding Terni Energia.

(%)	2011	2012e	2013e
Alerion	3.0%	3.0%	3.0%
Theolia	0.0%	0.0%	0.0%
Terna Energy	2.4%	4.2%	6.3%
Fersa Energias Renovables	0.0%	0.0%	4.3%
EDP Renovaveis	0.0%	0.0%	0.6%
Enel Green Power	1.8%	2.4%	2.8%
Terni Energia	7.8%	7.8%	7.8%
AVERAGE	2.1%	2.5%	3.5%
Falck Renewables	3.4%	3.1%	4.3%

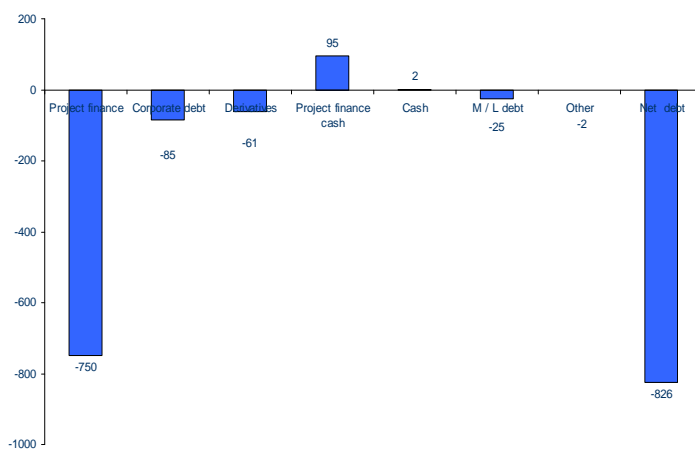
Source: Centrobanca estimates, FactSet

3.6. Financial structure

At the end of 2011, Falck Renewables had net debt of EUR826 million, which also included EUR61 million for the fair value of derivatives. Net debt was 94.7% linked to operating plants and 5.3% to plants under construction.

Figure 36. Falck Renewables – Debt structure at 31 December 2011

The debt from project financing is 77.3% hedged. We would like to stress that this debt refers to specific projects as the cash flows generated by these projects guarantee the debt.

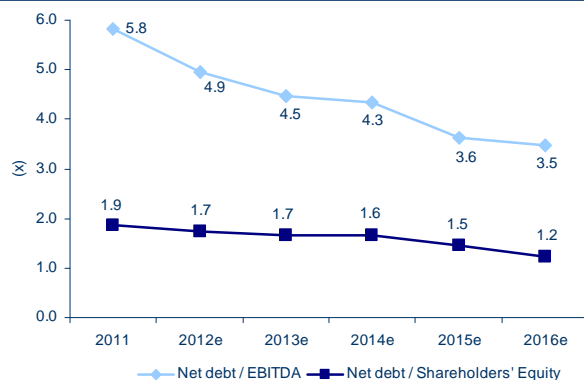


Source: Company data

The debt, which is due to the project financing (the so called-non-recourse debt), represented 86.7% of net financial debt at the end of 2011. The average maturity of the project financing debt is 12.5 years with an average cost of ca. 5.5%. We would like to stress that the terms of project financing contracts also include financial covenants that were met at the end of 2011, even though details have not been disclosed by the Group. Falck Renewables had gearing (Net debt/Equity) of 1.9x and financial leverage of (Net debt/EBITDA) of 5.8x at 31 December 2011.

Figure 37. Falck Renewables – Financial leverage and gearing

Our projections are based on the assumption that Falck Renewables will cease investments after 2015.



Source: Company data, Centrobanca estimates

According to our estimates, net financial debt should reach EUR814 million in 2014; this compares to guidance from Falck Renewables of EUR990 million. The difference is because we have assumed cumulative Capex of EUR282 million compared to the EUR460 million announced in the new business plan. In addition, we expect net financial debt to decline to EUR673 million at the end of 2016, assuming cumulative Capex of EUR85 million for 2015 and 2016. As a result, we expect the gearing and financial leverage of the Group to decline to 1.2x and 3.5x in 2016 respectively from the current levels.

Figure 38. Falck Renewables – Financial leverage and gearing: a comparison between Falck Renewables and a sample of the main Italian and European pure renewable players.

According to our estimates, Falck Renewables has a financial leverage which is lower than the average of a sample of the leading Italian and European pure renewable players while the gearing is considerably higher due to the fact that the majority of the Falck Renewables plants are financed through project finance agreements, which are based on a financial structure with at least 70% of debt and the remaining part of equity.

(x)	Net debt / EBITDA			Net debt / Equity		
	2011	2012e	2013e	2011	2012e	2013e
Alerion	9.4	6.5	7.0	2.2	2.6	3.0
Theolia	9.8	7.2	6.2	1.3	1.3	1.3
Terna Energy	5.5	5.2	3.6	0.4	0.7	0.7
Fersa Energias R.	8.1	7.1	5.6	0.6	0.6	0.6
EDP Renovaveis	5.8	5.1	4.5	0.9	0.8	0.8
Enel Green Power	2.6	2.7	2.6	0.6	0.6	0.6
Terni Energia	2.9	3.2	2.9	1.1	1.1	0.9
AVERAGE	6.3	5.3	4.7	1.0	1.1	1.1
Falck Renewables	5.8	4.9	4.5	1.9	1.7	1.7

Source: Company data, Centrobanca estimates and FactSet

4. VALUATION

4.1. Valuation summary

Our target price of **EUR1.45** per share is a weighted average of the fair values from three valuation methods (SoP, Value maps and a multiples comparison) and excludes any potential upside linked to significant external growth. 50% of our target price derives from a SoP valuation based on DCF models and 50% from relative valuations methods. The stock is trading well below our target price, which adds support to our buy recommendation on the stock.

Figure 39. Falck Renewables – Valuation summary

Valuation approach	Weight	Fair value (EUR)
SoP based on a DCF of each activity of the Group	50%	1.76
Value Maps (EV/CE on ROCE based on 2012 and 2013 estimates)	25%	0.92
Multiple comparisons (EV/EBITDA, P/E, P/BV based on 2012 and 2013 estimates)	25%	1.38
Target price (EUR)		1.45
Current market price (EUR)		0.84
Upside potential		73.7%

Source: Centrobanca estimates

4.2. Sum of the parts

The Sum-of-Parts (SoP) valuation model based on a DCF for each business of Falck Renewables captures the long-term value prospects of planned investments in new wind farms across Europe and in the new WTE/Biomass plants in Italy.

The fair value obtained from this approach is **EUR1.76** per share, which is 110% above the current market price, and is based on the following assumptions:

- we include in our projections the value of existing assets, the projects that are in execution (authorized or under construction) and 50% of the pipeline already included in the business plan at the end of March 2012 but have excluded the remainder of the pipeline. We have not included any new wind projects in Poland or WTE plants in the UK where the Group is sustaining development costs;
- we have mainly used a 25-year DCF model, with no terminal value for the wind assets of the Group, a 20-year DCF model, with no terminal value for the other assets of the Group;
- the Feed-in-tariff which will replace the GC incentive system in Italy for non solar renewable plants that will start before 31 December 2012 is calculated on the expected average price of electricity in 2015 and 78% of the difference between EUR180/MWh and the expected average price of electricity in 2015

plus a 30% discount;

- the current fiscal burden of the Robin Hood Tax will be extended in perpetuity after 2013 even though the law that introduced this tax envisages a decrease from 10.5% to 6.5% from 2014 onwards;
- the net present value of holding company costs based on the perpetuity of the expected costs from 2012 onwards which we assume to be EUR15.5 million.
- to evaluate the wind activities of Falck Renewables outside Italy we have used a risk-free rate that equates to the average yield of the 10-year government bond in each country, applying a spread to calculate the related cost of debt. The weighted average of the risk-free rates used in our SoP is ca. 4.2%.

Figure 40. Falck Renewables – Valuation: Sum of the parts

We have calculated the Enterprise value (EV) of the wind and PV activities of the Group in Italy and of the stakes in the two Spanish wind farms taking into account plants already operational; the EV of the wind activities in UK and France also includes projects which are under construction. In detail, we have assumed that in UK and France 131 MW and 10 MW respectively will enter into operation in the next four years. The EV of the WTE & Biomass activities is based on the assumption that the expansion of the Trezzo plant will be fully operational at the end of 2015 for 20 years.

	EURm	EUR	% weight	Method	MW	EV/MW
EV Wind Italy	516.7	1.77	34.9%	DCF, no TV	291.5	1.77
EV Wind UK	664.9	2.28	44.9%	DCF, no TV	403.8	1.65
EV Wind Spain	41.2	0.14	2.8%	DCF, no TV	49.0	0.84
EV Wind France	49.6	0.17	3.4%	DCF, no TV	42.0	1.18
EV Wind Poland	-	-	-	DCF, no TV	-	-
Total EV Wind	1,272.5	4.37	86.0%		786.3	1.62
EV Solar Italy	76.6	0.26	5.2%	DCF, no TV	16.1	4.76
Total EV Solar	76.6	0.26	5.2%		16.1	4.76
EV WTE & Biomass Italy	103.2	0.35	7.0%	DCF, no TV	72.5	1.42
EV Waste mgmt Italy	25.7	0.09	1.7%	DCF, no TV		-
EV O&M	2.3	0.01	0.2%	DCF, no TV		
Total EV Wte & Waste mgmt	131.2	0.45	8.9%			
Total EV Falck Renewables	1,480.3	5.08	100.0%		874.9	1.69
Holding costs	-132.1	-0.45	-8.9%			
Minorities	-6.9	-0.02	-0.5%			
Net debt at the end of 2011	-826.0	-2.83	-55.8%			
Pension provisions/Risk funds	-3.8	-0.01	-0.3%			
Total Equity Value	511.4	1.76				
Market price		0.84				

Source: Centrobanca estimates

Figure 41. Falck Renewables – WACC assumptions.

Our Beta is based on the 3-year levered Beta of a peer sample for Falck Renewables (which includes the main Italian and European listed renewable companies) versus the DJ Stoxx 600. In a second stage, we de-leveraged these Betas and obtained an average unleveraged Beta for our sample of peers. Lastly, we leveraged this Beta for the expected financial structure of Falck Renewables in the 2012e-2015e period.

	Risk-free rate	Cost of debt	Market premium	Beta unlevered	Tax rate	D/ D+E	WACC
Wind UK	2.75%	5.25%	4.0%	1.20	26.0%	70.0%	5.0%
Wind Spain	5.25%	5.75%	4.0%	1.20	27.5%	75.0%	5.6%
Wind France	3.00%	5.50%	4.0%	1.20	33.0%	70.0%	4.9%
Wind Italy	5.50%	6.25%	4.0%	1.20	38.0%	70.0%	5.8%
Solar Italy	5.50%	6.25%	4.0%	1.20	38.0%	80.0%	5.2%
WTE & Biomass Italy	5.50%	6.25%	4.0%	1.20	38.0%	60.0%	6.4%
Waste mgmt Italy	5.50%	6.25%	4.0%	1.20	27.5%	60.0%	6.8%
O&M	5.50%	6.25%	4.0%	1.20	27.5%	60.0%	6.8%

Source: Centrobanca estimates

Figure 42. Falck Renewables – Sensitivity analysis of our SoP to Beta and the Risk-free rate

A 100 bps decrease in the average risk-free rate used in our SoP analysis implies a ca. 25% increase in the fair value from this analysis.

		Beta		
		0.9	1.2	1.5
Average	3.2%	2.41	2.19	1.98
Risk-free rate	4.2%	1.95	1.76	1.57
	5.2%	1.54	1.37	1.20

Source: Centrobanca estimates

4.3. Value maps

The value map approach refers to a more limited time horizon than the previous methodology. We have chosen to concentrate on EV/CE and ROCE in order to look at the different returns generated on capital employed from the main European listed renewable energy companies.

According to the EV/CE to ROCE value maps for 2012e and 2013e, the fair value of Falck Renewables is **EUR0.92** per share, which is 10% above the current market price. The gap with the fair values delivered by the SoP valuation is due to the fact that the value maps approach fails to incorporate the present value of future cash flows.

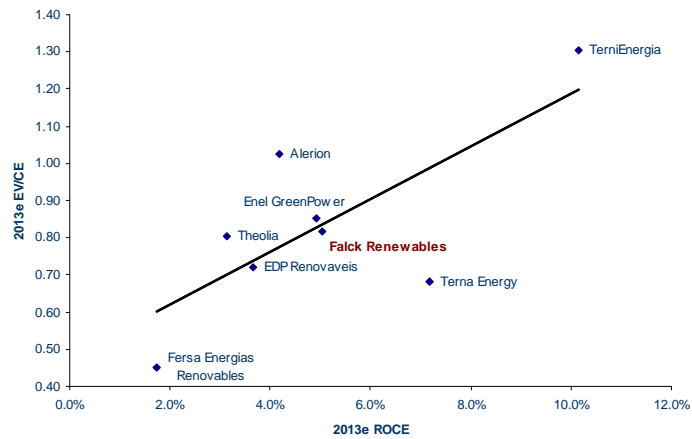
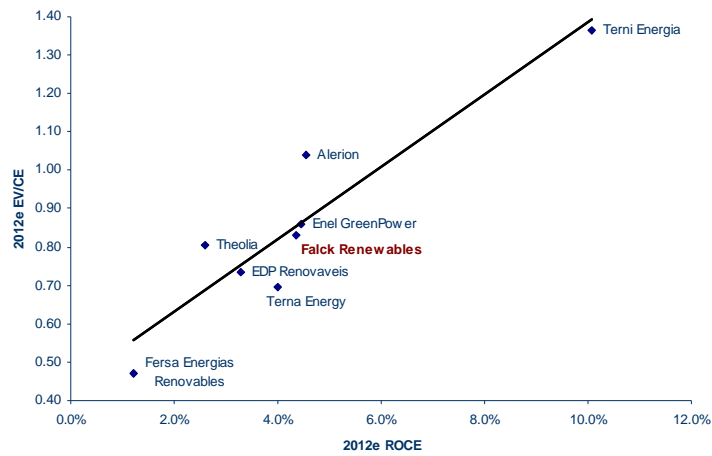
However, the fair values delivered by these two different approaches indicate that the stock is undervalued whether this is based on the long term value prospects of the planned investments in new renewable power generation plants or on the current market multiples for renewable energy companies using the estimated ROCE for 2012 and 2013.

Figure 43. Falck Renewables – Value map 2012e and 2013e: EV/CE on ROCE

EV/CE - ROCE	2012e	2013e
regression line	$Y=9.4306x + 0.4468$	$Y=7.0832x + 0.4804$
R2	0.8629	0.5464
Falck Renewables - ROCE (%)	4.4%	5.0%
Falck Renewables - Implied EV / CE (x)	0.8573	0.8378
Falck Renewables - CE (EURm)	1,233	1,254
Falck Renewables - Theoretical EV (EURm)	1,057	1,050
Net financial debt (EURm)	-778.5	-775.5
Minorities (EURm)	-8.0	-10.4
Implied Market Cap (EURm)	271	265
Number of shares (m)	291.4	291.4
Value per share (EUR)	0.93	0.91
Average Fair value (2012e-2013e) (EUR)	0.92	

Source: Centrobanca estimates

Figure 44. Falck Renewables – EV/CE on ROCE value maps for 2012e and 2013e



Source: FactSet, Centrobanca estimates

4.4. Multiples comparison

Falck Renewables looks cheap compared to the main Italian and European listed renewable energy stocks even though the Group is expected to have healthy growth (2011-2014 CAGR in EBITDA of 10.9%). We consider this discount to be unjustified also because of the company's diversified technological and geographical business mix.

Our peer Group includes Hera, which is a traditional multi-utility with single digit earnings growth, as this Company has significant exposure to the waste business (ca. 30% of its FY11 EBITDA); for Falck Renewables the waste business accounts for ca. 26% of total FY11 EBITDA. In this comparison, Falck Renewables looks more expensive compared to Hera in terms of EV/EBITDA estimates but appears cheaper for no good reason in terms of P/E and P/BV based on our 2012 and 2013 estimates.

Figure 45. Falck Renewables – EV/EBITDA, P/E, P/BV comparison

(x)	EV/EBITDA		P/E		P/BV	
	2012e	2013e	2012e	2013e	2012e	2013e
Alerion	9.3	9.6	22.0	14.7	1.1	1.1
Theolia	10.4	8.9	neg.	n.m.	0.6	0.5
Terna Energy	8.8	5.9	9.8	5.2	0.5	0.5
Fersa Energias Renovables	9.0	7.2	n.m.	n.m.	0.2	0.2
EDP Renovaveis	8.3	7.5	20.7	15.8	0.5	0.5
Enel Green Power	6.9	6.3	13.5	11.6	0.8	0.8
Terni Energia	8.5	8.1	7.1	7.3	1.7	1.6
Hera	5.1	5.0	11.0	11.1	0.7	0.7
AVERAGE	8.3	7.3	14.0	11.0	0.8	0.7
Falck Renewables	6.5	5.9	9.8	7.0	0.5	0.5
Discount	-21.3%	-19.1%	-30.3%	-35.8%	-28.2%	-28.1%
Falck Renewables at our TP	7.7	7.0	16.9	12.2	0.9	0.9
Discount / Premium	-7.3%	-4.6%	20.9%	11.4%	24.8%	24.8%

Source: FactSet, Centrobanca estimates

If we apply the average multiples (EV/EBITDA, P/E and P/BV based on 2012 and 2013 estimates) of Hera and the main Italian and European listed renewable energy companies to Falck Renewables, the valuation would be **EUR1.38** per share.

Figure 46. Falck Renewables - Implicit target prices using the average multiples of the peers of Falck Renewables

(x)	EV/EBITDA		P/E		P/BV		Average
	2012e	2013e	2012e	2013e	2012e	2013e	
AVERAGE (x)	8.3	7.3	14.0	11.0	0.8	0.7	
Implicit fair value (EUR)	1.8	1.6	1.2	1.3	1.2	1.2	1.38

Source: FactSet, Centrobanca estimates

Income Statement

(EURm)	2011	2012e	2013e	2014e	2015e	2016e
Revenues	248.7	289.4	307.7	334.4	384.6	370.9
EBITDA	141.7	157.4	173.1	187.9	211.2	194.2
EBITDA margin	57.0%	54.4%	56.3%	56.2%	54.9%	52.4%
D&A	-62.5	-64.4	-65.3	-70.5	-78.6	-79.0
EBIT	79.2	93.0	107.8	117.4	132.6	115.2
EBIT margin	31.9%	32.1%	35.0%	35.1%	34.5%	31.1%
Net financial expenses	-42.7	-48.6	-47.2	-50.7	-53.2	-51.3
Associates	0.7	0.7	0.7	0.7	0.7	0.7
Pre-tax profit	37.3	45.0	61.3	67.4	80.1	64.6
Taxes	-17.4	-19.0	-25.3	-27.5	-31.1	-24.4
Minorities & discontinued ops.	-1.0	-1.0	-1.4	-1.4	-1.7	-1.3
Net profit	18.9	25.0	34.6	38.5	47.3	38.9

Source: Company data, Centrobanca estimates

Balance Sheet

(EURm)	2011	2012e	2013e	2014e	2015e	2016e
Net working capital	62.0	54.0	51.0	44.0	31.0	39.0
Net fixed assets	1,268.8	1,232.0	1,255.8	1,330.1	1,330.9	1,254.9
M/L term funds	-52.9	-52.9	-52.9	-52.9	-52.9	-52.9
Capital employed	1,277.8	1,233.0	1,253.8	1,321.1	1,308.9	1,240.9
Shareholders' equity	444.9	446.6	468.0	493.7	524.2	554.0
Minorities	6.9	8.0	10.4	13.2	16.3	19.2
Shareholders' funds	451.8	454.6	478.3	506.9	540.5	573.2
Net financial debt	826.0	778.5	775.5	814.2	768.4	673.1

Source: Company data, Centrobanca estimates

Cash Flow Statement

(EURm)	2011	2012e	2013e	2014e	2015e	2016e
NFP Beginning of period	-705.1	-826.0	-778.5	-775.5	-814.2	-768.4
Group Net profit	18.9	25.0	34.6	38.5	47.3	38.9
Minorities	1.0	1.0	1.4	1.4	1.7	1.3
D&A	62.5	64.4	65.3	70.5	78.6	79.0
Change in Funds & TFR	24.7	0.0	0.0	0.0	0.0	0.0
Gross Cash Flow	107.0	90.4	101.3	110.4	127.6	119.2
Change in NWC	-83.7	8.0	3.0	7.0	13.0	-8.0
Operating Cash Flow	23.3	98.4	104.3	117.4	140.6	111.2
Capex	-177.5	-42.6	-93.9	-145.7	-83.3	-1.7
Other Investments	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	-154.2	55.8	10.4	-28.3	57.3	109.5
Dividends paid	-3.5	-8.3	-7.5	-10.4	-11.5	-14.2
Others & chg in consolid. area	-93.5	0.0	0.0	0.0	0.0	0.0
Capital increase & other	130.4	0.0	0.0	0.0	0.0	0.0
Change in NFP	-120.9	47.5	2.9	-38.7	45.8	95.3
NFP End of Period	-826.0	-778.5	-775.5	-814.2	-768.4	-673.1

Source: Company data, Centrobanca estimates

Financial Ratios

(%)	2011	2012E	2013E	2014E	2015E	2016E
Net margin	7.6%	8.6%	11.3%	11.5%	12.3%	10.5%
ROAE	4.9%	5.6%	7.6%	8.0%	9.3%	7.2%
ROIC - after tax	3.5%	4.1%	4.9%	5.2%	5.9%	5.4%
Net fin. debt / Equity (x)	1.9	1.7	1.7	1.6	1.5	1.2
Net fin. debt / EBITDA (x)	5.8	4.9	4.5	4.3	3.6	3.5
NOPAT (EURm)	42.2	53.7	63.3	69.5	81.1	71.7
ROACE	3.6%	4.7%	5.4%	5.8%	6.8%	6.2%

Source: Company data, Centrobanca estimates

Per Share Data

(EUR)	2011	2012e	2013e	2014e	2015e	2016e
EPS	0.06	0.09	0.12	0.13	0.16	0.13
EPS adj.	0.11	0.09	0.12	0.13	0.16	0.13
DPS	0.03	0.03	0.04	0.04	0.05	0.04
Pay out	43.9%	30.0%	30.0%	30.0%	30.0%	30.0%
Op. CFPS	0.08	0.34	0.36	0.40	0.48	0.38
Free CFPS	-0.53	0.19	0.04	-0.10	0.20	0.38
BVPS	1.53	1.53	1.61	1.69	1.80	1.90

Source: Company data, Centrobanca estimates

Stock Market Ratios

(x)	2011	2012e	2013e	2014e	2015e	2016e
P/E	12.9	9.8	7.0	6.3	5.1	6.3
P/E adj.	7.8	9.8	7.0	6.3	5.1	6.3
P/OpCFPS	10.5	2.5	2.3	2.1	1.7	2.2
P/FreeCFPS	-1.6	4.4	23.4	-8.6	4.2	2.2
P/BVPS	0.5	0.5	0.5	0.5	0.5	0.4
Dividend Yield	3.4%	3.1%	4.3%	4.7%	5.8%	4.8%
Free Cash flow Yield	n.m.	22.9%	4.3%	n.m.	23.5%	45.0%
EV (EURm)	1,069	1,022	1,021	1,060	1,016	921
EV/Sales	4.3	3.5	3.3	3.2	2.7	2.5
EV/EBITDA	7.6	6.5	5.9	5.7	4.8	4.8
EV/EBIT	13.5	11.0	9.5	9.1	7.7	8.0
EV/Capital employed	0.8	0.8	0.8	0.8	0.8	0.7

Source: Company data, Centrobanca estimates

Growth Rates

(%)	2011	2012e	2013e	2014e	2015e	2016e
Growth Group Net Sales	34.7%	16.4%	6.3%	8.7%	15.0%	-3.6%
Growth EBITDA	49.9%	11.0%	10.0%	8.5%	12.4%	-8.0%
Growth EBIT	63.2%	17.3%	16.0%	8.9%	12.9%	-13.1%
Growth Net Profit	n.m.	32.3%	38.8%	11.1%	23.0%	-17.8%

Source: Company data, Centrobanca estimates

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