

UBS Investment Research

Trends and Changes

Cover Stories

■ **US Energy Bill: Potential \$21bn incentives for renewable energy**

The current bill contains \$21bn for the development of renewable energy sources (offset by repealing tax credits for large oil companies), as well as higher auto fuel efficiency standards and higher renewables' requirements for utilities. However, the bill has yet to pass the Senate and may ultimately be vetoed by Pres. Bush. (North American E&P Weekly, Featherston, 7th Dec 07)

■ **US Energy Bill and the Renewable Fuel Standard: Ethanol**

If passed in its current form, we believe the Energy bill is a long-term positive for the industry. The new RFS would likely ensure that ethanol achieves a 10% blend rate by 2015, slightly more than doubling ethanol's current demand. (Ethanol Sector, Shaw, 6th Dec 07)

■ **European Utilities 2008 Outlook: Renewables' Growth Underestimated**

We believe the market may be underestimating the growth potential from renewable sources. EDP and Iberdrola offer significant exposure to this theme. We expect more spin-offs to crystallise value, eg Iberdrola Renovables, EDP and Acciona/Endesa. (European Utilities 2008 Outlook, Lekander, 5th Dec 07)

■ **Germany's Renewable Energy Act improves Wind Economics**

Germany has passed the amendment to the Renewable Energy Act (EEG): higher feed-in tariffs for offshore wind projects should substantially improve their economics and we expect the first major farms to be installed at the end of this decade. One of the key beneficiaries of the higher offshore wind tariffs should be Vestas. (First Read: German Renewable Act, Hummel, 5th Dec 07)

11 December 2007

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Summary and Investment Case

In this weekly publication, we bring together UBS research relevant to environmental and social issues, trends and regulatory changes. We thereby intend to highlight areas where such 'extra-financial' factors act as catalysts for industry change and lead to investable ideas.

Note: Stock prices contained in this publication are as at the time of respective reports' issuance, and may not necessarily be current.

SRI Comment:

In a real boost for offshore wind this week, the UK's Secretary of State for Business, John Hutton, announced Government support to expand wind capacity to 25GW of electricity by 2020, in addition to the 8GW already planned.

Hutton made his speech in Berlin a week after the European Wind Energy Association Conference, whose members produce 98% percent of wind power internationally.

Last week the German cabinet approved a Euro 3.3bn energy policy package that included plans to increase the percentage of renewable energy in Germany from current levels around 14% to 25%-30% by 2020.¹ Although this was widely anticipated, our analyst, Patrick Hummel, notes that this 'substantially improves the economics of offshore wind projects'² and he expects the first major farms to be installed at the end of this decade.

If the British plans come to fruition, we estimate Britain's offshore wind industry would ultimately be twice the size of any other nation's and would produce enough electricity for all UK domestic use. Currently just 2% of Britain's power comes from renewables, and wind is the source for less than 1 GW.

Of course, the speech will have to be matched by financial and political commitments, and let us not forget that until as recently as six weeks ago Mr Hutton was arguing against a major expansion of renewable sources on the grounds that it would interfere with plans to build new nuclear power stations. Reportedly, he was overruled by Gordon Brown, who insisted that the target would be maintained and met.

The challenge for Government and for industry is to turn this potential into a cost-effective reality. The challenge for investors is to ascertain which aspect of the sector to focus on. As we noted in our recent Climate Change report³, the availability bottleneck of components in the near future favours vertically integrated players. Despite strong demand, the upside for turbine manufacturer margins is limited because it is difficult to pass on the increase in component prices. Therefore, it may be an interesting alternative to buy in operators of wind farms (either pure players or utilities with wind exposure).

¹ Der Spiegel online, 10th Dec 2007

² First Read: German Renewable Act, Hummel, 5th Dec 07

³ Need to Know – Reacting to Climate Change: European small & mid-caps – opportunity and risk, Baptista, 4th Oct 2007

Cover Stories

US Energy Bill

(from North American E&P Weekly)

The House of Representatives passed a vote (235-to-181) on the Energy Independence and Security Act. The bill represents a compromise between House legislation (H.R. 3221 and H.R. 2776) and a Senate version (S. 1419). The package will now be sent to the Senate next week for its consideration. Senate passage at this point is far less clear. Should the bill manage to pass the Senate, we think the President is likely to veto this version of the bill. The following represents what we understand to be in the compromise package:

- **Corporate Average Fuel Economy (CAFÉ) standards.** The bill has a provision to raise CAFÉ standards to 35 miles per gallon by 2020 for new cars and trucks. The bill apparently secured language basing the new standards on vehicle weight that would give automakers more flexibility in meeting requirements for light trucks and SUVs.
- **Automakers' Renewable Fuels Standard.** The CAFÉ provision would also contain language that would require 36 billion gallons of ethanol and other biofuels to be blended with gasoline by 2022. In addition, the bill intends to provide a plug-in hybrid/electric vehicle tax credit for individuals while encouraging the domestic development and production of advanced technology vehicles to including next generation vehicle batteries and plug-in hybrids.
- **Utilities' Renewable Fuels Standard.** The bill includes provisions to require utilities to produce 15 percent of their electricity from alternative sources, including wind, biomass, wave, tidal, geothermal and solar, by 2022. The provision would permit utilities to meet up to 4 percent of their target through conservation and energy efficiency. This provision was not included in legislation the Senate passed earlier this year, and is the most controversial part of the energy package.
- **Energy Efficiency.** The bill contains a number of energy efficiency provisions to require the production of energy efficient appliances, improved commercial and federal building energy efficiency, and incentives for the use of mass transit and development of efficient transit projects. This is achieved through a mix of tax incentives, loan guarantees, grant programs and mandates.
- **Tax provisions and offsets.** The bill contains upwards of \$21 billion in tax incentives for the development of renewable energy sources including solar, wind, biomass, geothermal, hydro, and landfill gas and trash combustion. The \$21 billion cost is largely offset (upwards of \$13 billion) by repealing certain production credits for large oil and gas companies and by changing a provision in the tax code to require companies to fully state their foreign oil and gas income. We believe the Major oil producers would be most adversely impacted by the repeal of these tax breaks.

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US Ethanol Sector

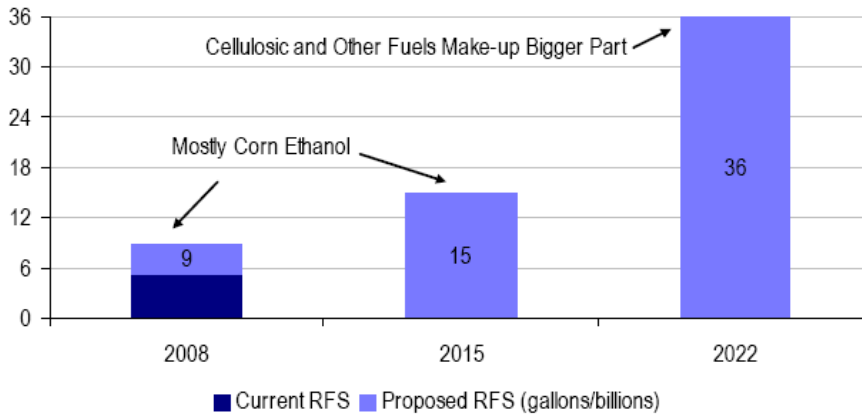
6 December 2007

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House Passes Energy Bill, Likely Vetoed – 36 Billion Gallon RFS Positive Long Term

■ House Bill Would Increase 2008 RFS to 9 Billion Gallons

The House passed an Energy bill that would increase the Renewable Fuel Standard, culminating in 36b gallons of renewable fuel usage by 2022. Nearer term, the new RFS would call for 9b gallons of renewable fuels, most likely ethanol. The bill needs approval by the Senate, but it has been threatened with a veto by President Bush. However, the President's objections seem less around the RFS and more on a renewable energy requirement and increased taxes on oil companies.

■ Positive for Industry But More for the Long Term

If passed in its current form, we think the Energy bill is a long-term positive for the industry. The new RFS would likely insure that ethanol achieves a 10% blend rate by 2015, slightly more than doubling ethanol's current demand. After E10, the benefit for corn-based ethanol producers likely wanes, as additional supply over 15b gallons is likely to come from cellulosic ethanol. Short term, the 9b gallon requirement for 2008 could lend support to near term pricing, as some blenders may want to enter contracts to ensure supply. However, we believe close to 10b gallons of ethanol are likely to be produced and blended in 2008, even without the increased RFS.

■ Pricing Has Strengthened – Discount to Gas Narrowed

Ethanol pricing has continued to strengthen, remaining significantly above the lows of the summer. Spot pricing remains near \$2 as incremental discretionary blending and higher gasoline prices have helped spur the increase. The price increase has also narrowed the discount to RBOB from around \$0.50 to \$0.30.

German Renewable Act

5 December 2007

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Federal cabinet approves EEG amendment

■ Changes in EEG in line with proposal

As widely expected, Germany's federal government has passed the amendment to the Renewable Energy Act (EEG), which is to come into effect on 1 January 2009. All changes in feed-in tariffs are fully in line with the latest proposal.

■ Solar PV: Annual digression up by 200bp plus €0.01 one-off cut in 2009

The provisions for solar PV are as follows: The annual digression factor, which is currently 500bp for roof-mounted systems and 650bp for ground-mounted systems, is to be increased by 200bp from 2009 and by another 100bp from 2011. On top, there is a one-time cut in feed-in rates of €0.01 per kWh effective in 2009. In absolute numbers, the feed-in tariff for rooftop systems no larger than 30kW will go down to €0.42 per kWh, from €0.49 in 2007 and €0.47 in 2008.

■ Wind power: Higher subsidies for offshore turbines

Also in line with the proposal, offshore wind farms are to receive higher feed-in tariffs, depending on the year of installation, the distance to the shoreline and the water depth. The base tariff is to be increased from €0.09 to €0.12 per kWh. We think this substantially improves the economics of offshore wind projects, ie, we expect the first major farms to be installed at the end of this decade.

■ Impact on our European renewable coverage universe

As today's government decision has been widely expected, we see very limited impact on solar and wind stock prices. Due to the EEG's benchmark character, we expect increasing pressure on module prices from 2009, but no structural weakening of demand. Least affected by the tariff cut should be the upstream players, such as REC (Buy (CBE), PT NKr320). One of the key beneficiaries of the higher offshore wind tariffs should be Vestas (Buy (CBE), PT DKr630).

European Utilities 2008 Outlook

Utility bulls on power prices and M&A

5 December 2007

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■ Defensive and growing at the same time

Notwithstanding what we consider to be an unattractive relative valuation, we believe the 2008 sector outlook remains bullish, for three reasons. First, strength in commodities implies further EPS revisions, which should also improve relative valuation. Second, the sector could be a "relatively safe heaven for equities" in the event of a global recession. Third, we believe strong power prices would lead to even stronger cash flows and put further pressure on M&A.

■ Positive view on sector fundamentals

We see 15-20% potential upside on power prices and expect a Pan-European convergence to €70/MWh. We believe M&A is likely to continue, we see renewables as a new growth area, and finally we expect liberalization to continue.

■ Clean and green the way to play it

We retain our preference for clean generators, as they benefit from higher power prices, and are only marginally affected by rising fuel and carbon costs. Although we estimate a sector upside potential of 14%, our three key picks offer an average total forecast return in excess of 30%.

■ Top picks: EDF, Fortum and Union Fenosa

Our top picks are EDF, Fortum and Union Fenosa, all on the power price theme. Other stocks we like are Enel, Severn Trent, Northumbrian, and BKW. We would recommend selling Drax and Veolia. We view RWE and Iberdrola as the most difficult stocks to call as they are driven by both strong positives and negatives.

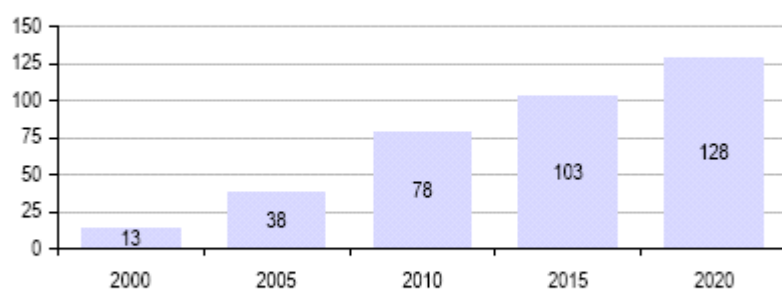
Renewables continue booming

We believe the appetite for these high-growth, clean assets will continue. As more transactions / IPOs are likely to take place, we expect renewable stocks to continue to perform. **EDP** and **Iberdrola** offer significant exposure to this theme, in our opinion.

Growth potential underestimated

We believe the market may be underestimating the growth potential from renewable sources. Data from official bodies suggest that, during 2005-20 only, the EU-25 only could add some 128,000 MW of wind capacity, or 6,000 MW pa. This implies an average growth of 8% pa over the coming 15 years.

Chart 14: Wind capacity evolution in EU-25 (GW)



Source: EU

We expect a “rush to invest” – We favour global, early movers

Given the attractive IRRs – 10-12% on average, with peaks of 15% in Italy and UK – we believe that investments in these activities will accelerate. The following table shows an average annual addition of 6,000 MW only in Europe, and shows that, over the next 15 years, **annual capex** in this field could approach **€8.1bn**

Table 2: Annual capex needs in EU-25 to develop wind farms, through to 2020

EU additions pa 2005-20 (MW)	6,000
Average IC/kW over the period (€)	1,350
Capex requirement pa (€m)	8,100

To avoid the threat of falling returns in mature regions, we believe geographical diversification will be key. Indeed, we expect returns to fall once markets reach their maturity, in terms of wind capacity installed. Thus, global diversification would dilute said risk and – more importantly – allow companies to reallocate capital in higher-IRR-countries.

More IPO / M&A to come

As most large caps try to grow in these activities, and given the industry fragmentation, we expect more transactions to take place during 2008. We believe the large caps will step up capex and grow externally too. Thus, the value from asset scarcity could support a further increase in valuations. We also expect more spin-offs of renewable activities as a way to crystallize value. Besides the long-awaited Iberdrola Renovables, EDP and Acciona/Endesa could follow similar routes.

Table 3: Pure plays on renewables traded multiples

Company	(€m) Market Cap	(€m) Net Debt 2008	(€m) EV 2008	(MW) Avg Capacity 2008	(€/kW) EV/kW (2008)
Theolia	826	210	1,036	475	2,181
EEN	3,261	1,154	4,415	1,439	3,068
Rokas	394	176	570	388	1,470
TERNA	962	0	962	320	3,007

Source: UBS research, Bloomberg

Note: Net debt from Bloomberg consensus

Wind

FPL Group Inc. (Neutral, Price: US\$72.13, PT: US\$75)

5 December 2007

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Downgrading to Neutral on Valuation

■ Recent strong performance limits further upside

FPL's stock has had a very strong performance rising 26% since July (18% relative to UTY). We believe this has been fuelled by the market's growing appreciation of FPL's wind pipeline, in part due to enhanced mgmt disclosures and, to some extent, driven by the impending IPO of Iberdrola's wind business. We see room for some additional wind upside (and are adjusting our price target upwards) but not enough to justify a continuation of our Buy rating on the stock.

■ Our new price target on FPL is \$75

We are raising our price target on FPL to \$75, from \$69, to reflect higher pricing on wind output than our prior estimates, lower interest rate outlook and a roll over of our sum-of-the-parts valuation to 2009 (from 2008). Our new price target implies around 18.0x EV/EBITDA multiple on 2009 wind EBITDA estimates (9.0x including wind PTCs).

■ Fundamental outlook remains solid

We continue to believe FPL's strong portfolio of assets is well positioned for a carbon constrained world. The wind pipeline remains solid and a 10% CAGR in EPS over the next five years is above par. Legislative initiatives on renewables and carbon are key to FPL's future outlook, in our view; our estimates reflect extension of wind PTCs beyond 2008 but do not incorporate likely upside from a federal RPS.

■ Valuation: Lowering rating to Neutral, 6.4% total return potential

Our price target (derived from SOP and DCF) implies a 19.5x PE on 2008E EPS and a 17.6x PE on our 2009E EPS.

Risks:- At the FPL utility level, the main risk to our forecast comes from unfavourable weather conditions (above/below normal heating degree-days) and extension of conservation by customers in response to the high electricity prices. In addition, adverse regulatory changes and denial of reasonable rate relief could affect FPL earnings going forward. In our opinion, the main risk to our investment thesis on FPL comes from the unregulated subsidiaries. In particular, we are concerned that spark spreads volatility will yield a poor return on FPLE's merchant portfolio. In this context, portfolio hedging below the 75% rolling target could have a negative impact on earnings. In addition, as the company increases its nuclear assets it could face higher risk of nuclear accidents. Given the volatility in natural gas and power prices, there is risk of significant deviations from the various risk management mechanisms that FPLE has put in place.

Global Infrastructure & Utilities

Outlook 2008: Defensive exposure in volatile times

4 December 2007

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■ O/W Infrastructure / Neutral Utilities: est. 14% return over 12 months

As global growth continues to slow, we expect to see good risk adjusted returns from the infrastructure & utilities (I&U) sector globally over 12-months. This view is subject to a stable real bond yield environment. I&U stocks tend to have inflation protection built into their assets, so we are less concerned about inflation.

■ Key themes for 2008: Carbon, credit markets & infrastructure spending

1) Carbon: as the world follows Europe's lead, more systematic carbon pricing will create winners (gas/hydro/nuclear) and losers (high carbon players); 2) Credit markets: ongoing volatility; 3) Infrastructure spending cycle: asset supply should grow as world governments continue to realise the enormity of their task, contractors/developers/asset-packagers should also benefit.

■ Upside risk is growth slows faster, downside risk if credit volatility rises

Upside: 1) faster slow-down in world growth could see flows into defensives; 2) higher fuel & carbon prices. Downside: 1) continued credit market volatility given gearing is on average higher; 2) more robust broader equity market conditions.

■ Top picks

Infrastructure & Utilities - Key Stock List

Company	UBS Rating	Price Target (local currency)	Company	UBS Rating	Price Target (local currency)
EDF	Buy	€ 120	Cemig	Buy (CBE)	\$ 55
Vinci	Buy	€ 65	Cesp	Buy (CBE)	\$ 45
Fortum	Buy	€ 36	Transmissao Paulista	Buy (CBE)	\$ 52
Centrica	Buy	430p	Santos Brazil	Buy (CBE)	\$ 32
Severn Trent	Buy	1680p	Wilson Sons	Buy (CBE)	\$34
British Energy	Buy	600p	GAP	Buy (CBE)	\$ 72.2
Fenosa	Buy	€ 56	AGL Energy	Buy	A\$ 15.25
Obrascom Huarte	Buy	€42.9	Transurban	Buy	A\$ 8.45
Abertis	Buy	€25	Datanq International Power	Buy	\$8.80
Questar	Buy	\$ 70	PNOC EDC	Buy	P 8.2
Equitable Resources	Buy	\$68	Glow Energy	Buy - STB	Bt 44
Public Service Enterprise	Buy	\$102	Tokyo Gas	Buy	¥ 580
Constellation Energy	Buy	\$104			

Source: UBS. Priced as at market close on 30 November 2007

CO2

Iberian Utilities

CO2 clawback would reduce values by <2%

■ CO2 clawback in 2008-12 could lower EPS by 2-6%

According to CincoDias, the Spanish government is planning to clawback free CO2 allocations, in the event of power prices increasing beyond a certain regulated level. If applied literally, this could impact generators' 2008-12E EPS by 2-6%.

Table 1: Potential Impact from CO2 clawback from sales into the pool

	UNF	IBE	ELE	EDP
Avg CO2 permits pa (mt) 2008-12	8	7	18	5
EPS impact 2008-12	6%	2%	5%	4%
Negative impact on value (€ ps)	1.0	0.1	0.6	0.1
As % of share price	2.1%	0.5%	1.7%	1.1%

Source: UBS estimates

Note: ELE allowances do not include the islands as these operate under a regulated scheme

Note: We assume liberalized sales of 40% in 2008, gradually rising to 80% in 2012

■ Impact on value is 1-2% for the industry

This proposal would impact only 2008-12E EPS, as we already assume zero carbon allocations post-2012. Furthermore, it appears the government is not proposing a full CO2 clawback, as the deduction should only relate to the output sold in the regulated market. As some 40-50% of volumes are already sold in the free market (percentage set to increase to at least 80% by 2012), we calculate that the NPV of these measures should have an average impact on share prices of 1-2%.

■ Expect side effects: €3/MWh increase in power prices to offset this

Lobbying from utilities and their key shareholders could change the final decision. More importantly, as we assume spark spreads at just €3-7/MWh in 2008-12, we believe power prices could surge faster, as utilities react to this news. We estimate that a €3/MWh increase in power prices would eliminate any impact on EPS.

■ Worst case – Full CO2 deduction would impact value by up to 5%

On a worst scenario of full CO2 clawback (€1.7bn pa) our SOPs could suffer a 1-5% reduction. We underscore that our valuations rest on conservative assumptions, as we expect a discount to German prices through to 2013. The power price recovery story remains solid. Fenosa is our favoured exposure to this theme.

10 December 2007

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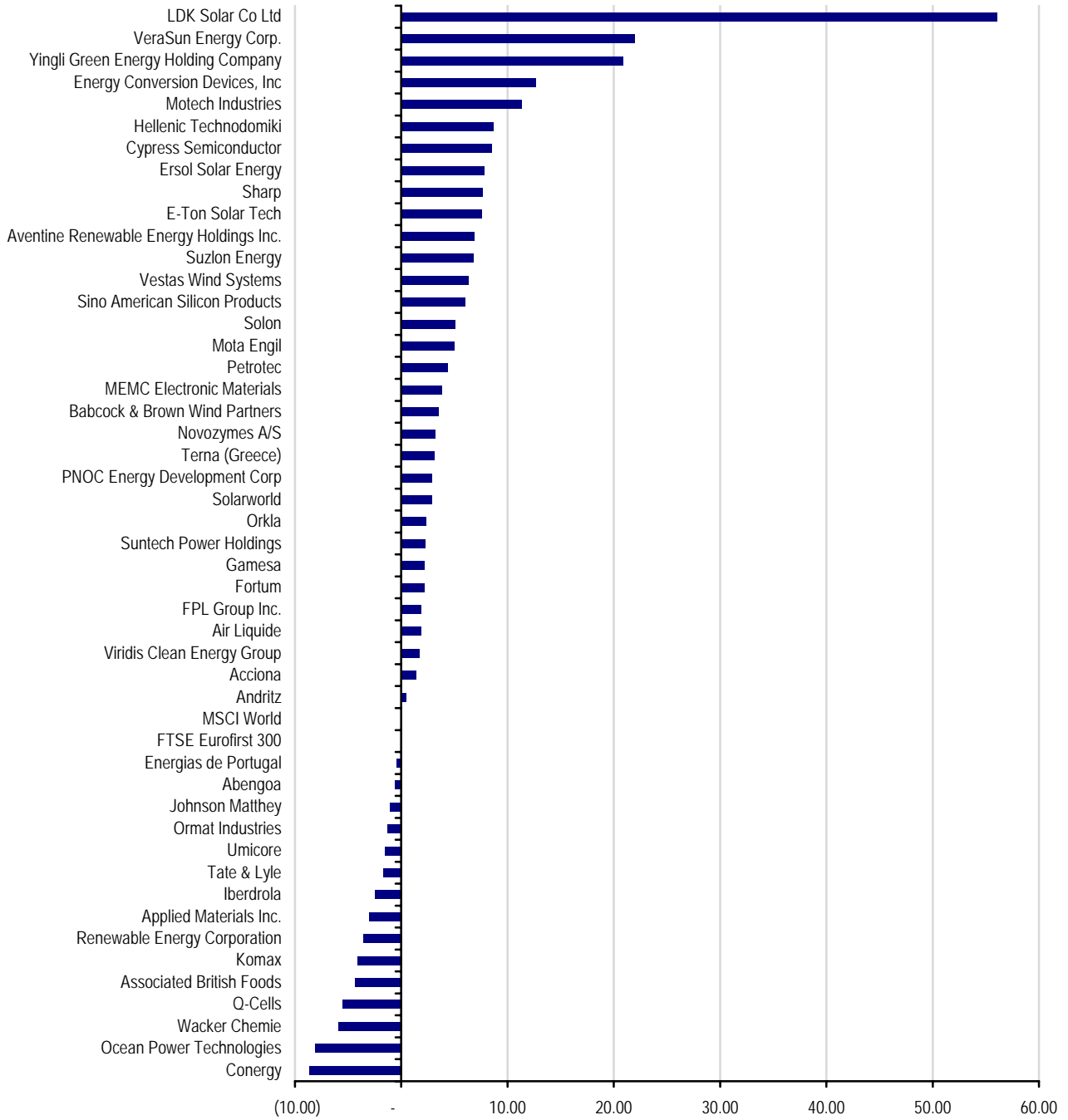
Company Events

Company	Event	Exposure	Date
Swiss Re	Investor Day	Climate Change	11-Dec
Intertek Group plc	FY Trading Statement	Climate Change	11-Dec
Vmware	UBS Fieldtrips	Climate Change	11-Dec
Bunzl	FY Trading Statement	Climate Change	12-Dec

Source: UBS

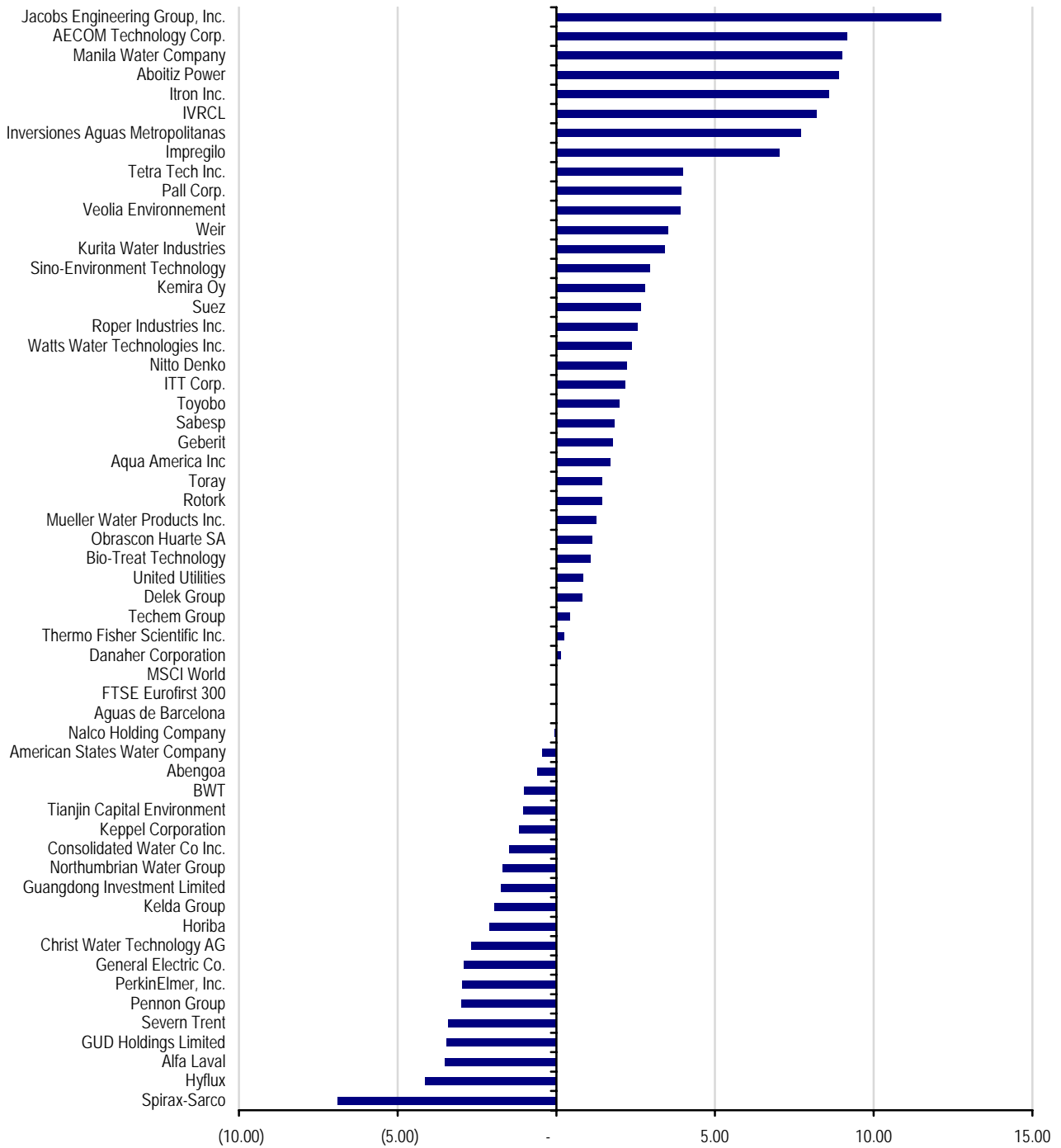
Weekly Performance (Nov 30th – Dec 7th)

Alternative Energy Watch List



Source: UBS, Bloomberg

Water Watch List



Source: UBS, Bloomberg

Alternative Energy Watch List

Company Name	Theme	Sector	Prices	MC (Eur) (Mn)	Absolute Performance (Eur) (%)				
					Week	1M	3M	YTD	12M
Johnson Matthey	Fuel Cells	Chemicals, Specialty	1,730p	5,060	(1.04)	(2.69)	6.77	14.78	17.43
Umicore	Fuel Cells	Chemicals, Specialty	€157.6	3,970	(1.50)	(4.67)	(2.81)	22.13	35.12
Abengoa	Bio Fuel	Advanced Industrial Equipment	€22.9	2,072	(0.61)	(15.81)	(22.37)	(17.66)	(16.09)
Andritz	Bio Fuel	Electric Components & Equipment	€42.4	2,204	0.45	(7.24)	(7.75)	3.20	10.10
Associated British Foods	Bio Fuel	Food Products	860p	9,433	(4.33)	(6.45)	0.39	(2.67)	(3.04)
Aventine Renewable Energy Holdings Inc.	Bio Fuel	Chemicals, Specialty	US\$10.5	301	6.84	2.68	(23.05)	(59.71)	(58.00)
Novozymes A/S	Bio Fuel	Biotechnology	DKr575.0	4,910	3.20	1.87	(6.05)	18.27	21.63
Petrotec	Bio Fuel	Oil Companies, Secondary	€5.5	58	4.34	4.34	(18.68)	(66.48)	(67.22)
Tate & Lyle	Bio Fuel	Food Products	448p	2,993	(1.65)	7.70	(21.40)	(45.48)	(46.74)
VeraSun Energy Corp.	Bio Fuel	Chemicals, Specialty	US\$14.4	736	22.00	13.35	7.43	(34.20)	(42.45)
Ormat Industries	Geo-Thermal	Electric Components & Equipment	NIS62.0	1,249	(1.27)	(1.99)	14.07	25.94	20.85
PNOC Energy Development Corp	Geo-Thermal	Electric Utilities	P6.7	1,602	2.86	(1.07)	19.08	50.56	NA
Applied Materials Inc.	Solar	Semiconductors	US\$18.3	19,797	(3.01)	(2.10)	(17.63)	(10.73)	(10.83)
Conergy	Solar	Electric Components & Equipment	€25.6	843	(8.65)	(6.17)	(56.13)	(46.97)	(38.53)
Cypress Semiconductor	Solar	Semiconductors	US\$36.1	3,921	8.51	(1.06)	29.86	92.70	89.99
Energy Conversion Devices, Inc	Solar	Electric Components & Equipment	US\$29.2	755	12.70	(6.00)	12.70	(22.61)	(27.73)
Ersol Solar Energy	Solar	Electric Components & Equipment	€76.5	820	7.84	(8.37)	21.01	66.14	82.12
E-Ton Solar Tech	Solar	Electric Components & Equipment	NT\$304.0	389	7.58	(10.94)	(13.55)	(24.29)	(20.93)
Komax	Solar	Industrial Diversified	CHF170.5	333	(4.09)	(11.85)	0.99	8.91	10.09
LDK Solar Co Ltd	Solar	Electric Components & Equipment	US\$40.4	2,868	56.05	13.55	(25.88)	NA	NA
MEMC Electronic Materials	Solar	Electric Components & Equipment	US\$80.7	12,206	3.85	13.56	31.20	85.65	71.36
Motech Industries	Solar	Electric Components & Equipment	NT\$271.5	1,139	11.36	(10.18)	(9.98)	(26.44)	(29.58)
Orkla	Solar	Food Products	NKr101.5	13,526	2.33	(3.85)	9.15	47.52	45.65
Q-Cells	Solar	Electric Components & Equipment	€91.0	9,928	(5.52)	(4.72)	41.02	167.10	191.39
Renewable Energy Corporation	Solar	Electric Components & Equipment	NKr259.5	15,975	(3.57)	(13.12)	17.15	133.57	134.01
Sharp	Solar	Consumer Electronics	¥1974.0	13,485	7.70	7.98	(1.38)	(7.87)	(6.41)
Solarworld	Solar	Electric Components & Equipment	€42.4	4,736	2.86	(10.04)	20.67	78.11	83.07
Solon	Solar	Electric Components & Equipment	€76.7	911	5.07	(15.81)	28.05	224.31	272.33
Sino American Silicon Products	Solar	Electric Components & Equipment	NT\$247.0	979	6.03	2.48	(24.14)	135.43	181.19
Suntech Power Holdings	Solar	Electric Components & Equipment	US\$75.4	7,917	2.25	30.90	118.09	112.47	125.50
Wacker Chemie	Solar	Chemicals, Specialty	€179.0	8,894	(5.90)	(6.76)	19.12	81.61	77.75
Yingli Green Energy Holding Company	Solar	Electric Components & Equipment	US\$29.4	2,607	20.87	0.51	60.19	NA	NA
Acciona	Wind	Heavy Construction	€235.3	14,950	1.40	3.02	46.03	66.73	72.47
Babcock & Brown Wind Partners	Wind	Electric Utilities	A\$1.8	931	3.51	(4.89)	12.27	5.74	20.59
Energias de Portugal	Wind	Electric Utilities	€4.6	16,784	(0.43)	(5.17)	17.99	19.53	22.73
FPL Group Inc.	Wind	Electric Utilities	US\$71.2	19,636	1.91	3.51	12.67	17.82	20.20
Gamesa	Wind	Industrial Diversified	€31.7	7,713	2.19	(8.20)	15.86	52.04	58.66
Iberdrola	Wind	Electric Utilities	€11.0	54,862	(2.48)	(7.49)	15.38	32.73	32.93
Mota Engil	Wind	Heavy Construction	€5.4	1,113	5.02	(2.51)	(2.33)	5.84	5.43

Company Name	Theme	Sector	Prices	MC (Eur)	Absolute Performance (Eur) (%)					
				(Mn)	Week	1M	3M	YTD	12M	
Suzlon Energy	Wind	Industrial Diversified	Rs1935.6	9,659	6.78	3.81	51.47	54.87	53.09	
Terna (Greece)	Wind	Heavy Construction	€13.0	597	3.17	(6.47)	4.17	1.56	20.37	
Vestas Wind Systems	Wind	Industrial Diversified	DKr515.0	12,085	6.37	(1.61)	49.89	115.63	129.80	
Ocean Power Technologies	Wave Power	Electric Components & Equipment	US\$13.4	93	(8.06)	(26.36)	5.29	(29.23)	(31.26)	
Air Liquide	Portfolio of Strategies	Chemicals, Specialty	€101.1	24,265	1.89	9.32	15.36	12.36	17.32	
Fortum	Portfolio of Strategies	Electric Utilities	€30.0	26,464	2.18	(1.90)	27.64	39.24	33.78	
Hellenic Technodomiki	Portfolio of Strategies	Heavy Construction	€9.8	1,554	8.67	(4.86)	2.95	15.60	20.44	
Viridis Clean Energy Group	Wind	Electric Utilities	A\$0.9	103	1.68	(4.14)	(3.78)	0.72	(0.28)	

Source: UBS estimates. Closing Prices: 30th Nov 2007

Alternative Energy Watch List Average Performance

Performance (Eur)				
Week	Month	3 mths	YTD	12 mths
1.30	(0.95)	18.79	43.49	45.39

Source: UBS estimates. Closing Price: 30th Nov 2007

Water Watch List

Company Name	Theme	Sector	Prices	MC(Eur)		Absolute Performance (Eur) (%)			
				(Mn)	Week	1M	3M	YTD	12M
AECOM Technology Corp.	Desalination	Heavy Construction	US\$29.1	1,831	9.16	(3.31)	1.92	NA	NA
Impregilo	Desalination	Heavy Construction	€4.8	1,911	7.03	1.28	(0.84)	13.76	14.82
Delek Group	Desalination	Industrial Diversified	NIS924.0	1,781	0.82	3.93	3.99	24.42	21.41
Consolidated Water Co Inc.	Desalination	Unclassified companies for DMART only	US\$30.1	254	(1.49)	(4.79)	(4.81)	8.62	9.05
Obrascon Huarte SA	Desalination	Heavy Construction	€27.7	2,483	1.13	(11.52)	7.69	18.50	25.76
Abengoa	Filtration/Treatment	Advanced Equipment Industrial	€22.9	2,072	(0.61)	(15.81)	(22.37)	(17.66)	(16.09)
Alfa Laval	Filtration/Treatment	Industrial Diversified	SKr400.0	4,619	(3.52)	(20.85)	2.98	24.42	38.24
Bio-Treat Technology	Filtration/Treatment	Water Utilities	S\$0.7	299	1.08	3.26	(21.63)	13.96	18.67
BWT	Filtration/Treatment	Pollution Control	€44.0	73	(1.01)	(6.18)	(6.78)	20.55	30.56
Christ Water Technology AG	Filtration/Treatment	Unclassified companies for DMART only	€11.2	200	(2.70)	(19.50)	(20.53)	(5.25)	(9.39)
General Electric Co.	Filtration/Treatment	Industrial Diversified	US\$37.2	261,182	(2.91)	(2.85)	(10.54)	(9.90)	(4.95)
Horiba	Filtration/Treatment	Advanced Equipment Industrial	¥4320.0	1,127	(2.11)	(2.68)	(8.41)	(4.17)	5.21
ITT Corp.	Filtration/Treatment	Industrial Diversified	US\$65.9	8,308	2.17	4.64	(2.58)	4.51	10.10
Kemira Oy	Filtration/Treatment	Chemicals, Specialty	€14.0	1,742	2.79	(8.91)	(17.97)	(17.73)	(14.26)
Kurita Water Industries	Filtration/Treatment	Factory Equipment	¥3320.0	2,712	3.41	5.43	(3.75)	26.40	22.52
Nalco Holding Company	Filtration/Treatment	Chemicals, Specialty	US\$24.0	2,336	(0.07)	5.01	(14.46)	5.55	4.52
Nitto Denko	Filtration/Treatment	Chemicals, Specialty	¥5920.0	6,327	2.22	6.30	6.83	(5.14)	(14.04)
Pall Corp.	Filtration/Treatment	Advanced Equipment Industrial	US\$39.8	3,382	3.95	5.81	2.38	3.79	3.33
Toyobo	Filtration/Treatment	Clothing & Fabrics	¥240.0	1,032	1.99	(2.17)	(8.95)	(35.67)	(29.45)
Sabesp	Filtration/Treatment	Water Utilities	R\$43.7	3,863	1.83	1.84	0.23	30.55	46.35
Sino-Environment Technology Group	Filtration/Treatment	Industrial Services	S\$2.2	361	2.96	(29.53)	(27.05)	(19.03)	23.82
Tianjin Capital Environment Protection H	Filtration/Treatment	Water Utilities	HK\$3.9	1,046	(1.04)	(9.07)	(21.32)	58.38	55.75
Toray	Filtration/Treatment	Clothing & Fabrics	¥910.0	7,844	1.45	8.69	4.42	(1.81)	(0.24)
Aguas de Barcelona	Infrastructure	Water Utilities	€27.6	4,014	0.00	0.22	4.19	(0.61)	1.14
American States Water Company	Infrastructure	Water Utilities	US\$41.5	488	(0.44)	(3.03)	(0.20)	(3.16)	(0.54)
Aqua America Inc	Infrastructure	Water Utilities	US\$22.6	2,054	1.70	1.77	(11.70)	(10.86)	(15.78)
Guangdong Investment Limited	Infrastructure	Water Utilities	HK\$4.4	2,346	(1.75)	(9.01)	(16.33)	12.52	14.26
Hyflux	Infrastructure	Water Utilities	S\$3.4	813	(4.15)	(5.88)	16.96	35.62	40.75
Inversiones Aguas Metropolitanas	Infrastructure	Water Utilities	P610.0	836	7.70	1.84	(5.45)	(10.29)	(12.08)
IVRCL	Infrastructure	Heavy Construction	Rs494.0	1,157	8.21	(3.15)	24.92	31.15	28.17
Jacobs Engineering Group, Inc.	Infrastructure	Heavy Construction	US\$94.1	7,522	12.14	13.08	35.20	107.80	103.11
Kelda Group	Infrastructure	Water Utilities	1,070p	4,091	(1.96)	15.10	18.65	(16.87)	(16.86)
Keppel Corporation	Infrastructure	Industrial Diversified	S\$13.3	9,956		(4.01)	0.36	42.55	43.13

Company Name	Theme	Sector	Prices	MC(Eur)		Absolute Performance (Eur) (%)				
				(Mn)	Week	1M	3M	YTD	12M	
						(1.19)				
Manila Water Company	Infrastructure	Water Utilities	P17.8	583	9.00	6.23	38.42	99.84	96.13	
Northumbrian Water Group	Infrastructure	Water Utilities	350p	2,503	(1.69)	13.76	2.18	6.69	6.04	
Pennon Group	Infrastructure	Water Utilities	664p	3,273	(2.99)	9.11	5.88	8.58	11.13	
Severn Trent	Infrastructure	Water Utilities	1,533p	4,930	(3.41)	9.28	9.67	(2.51)	(0.89)	
Suez	Infrastructure	Electric Utilities	€46.7	59,273	2.66	5.44	24.87	19.02	22.87	
United Utilities	Infrastructure	Water Utilities	766p	9,301	0.84	9.21	9.18	(8.20)	(7.35)	
Veolia Environnement	Infrastructure	Water Utilities	€65.7	26,777	3.93	5.29	20.72	12.41	28.35	
Geberit	Pumps and Valves	Building Materials	CHF158.4	3,922	1.79	(4.55)	0.62	(17.94)	(13.85)	
GUD Holdings Limited	Pumps and Valves	Auto Parts	A\$10.7	383	(3.47)	(6.74)	(1.77)	19.27	32.11	
Mueller Water Products Inc.	Pumps and Valves	Unclassified companies for DMART only	US\$10.6	170	1.28	13.63	(18.89)	(35.68)	(40.49)	
Rotork	Pumps and Valves	Industrial Diversified	1,010p	1,206	1.44	(6.97)	(3.27)	13.13	15.24	
Watts Water Technologies Inc.	Pumps and Valves	Unclassified companies for DMART only	US\$30.0	517	2.38	6.09	(18.13)	(34.28)	(36.77)	
Weir	Pumps and Valves	Industrial Diversified	821p	2,367	3.53	(9.83)	(4.35)	43.63	42.57	
Itron Inc.	Water Metering/Gauging	Advanced Equipment	Industrial	US\$84.3	1,727	8.59	4.41	(8.61)	46.51	54.93
Roper Industries Inc.	Water Metering/Gauging	Advanced Equipment	Industrial	US\$65.2	2,745	2.56	(1.08)	(2.07)	16.81	16.64
Techem Group	Water Metering/Gauging	Industrial Services		€60.3	1,487	0.42	0.84	36.65	8.56	10.17
Spirax-Sarco	Water Metering/Gauging	Industrial Diversified	908p	961	6.91	(16.72)	(15.36)	(15.12)	(12.70)	
Danaher Corporation	Water Quality Analysis	Industrial Diversified	US\$87.1	18,363	0.15	8.38	7.31	8.25	8.71	
PerkinElmer, Inc.	Water Quality Analysis	Advanced Equipment	Industrial	US\$26.5	2,344	(2.97)	(3.56)	(8.05)	7.39	8.21
Thermo Fisher Scientific Inc.	Water Quality Analysis	Advanced Equipment	Industrial	US\$57.9	16,159	0.25	1.64	1.37	15.07	15.65
Tetra Tech Inc.	Water Management	Unclassified companies for DMART only	US\$21.6	855	3.99	(6.40)	4.86	7.43	9.54	
Aboitiz Power	Hydro Power	Electric Utilities	P5.3	619	8.91	9.31	13.70	NA	NA	

Source: UBS estimates. Closing Price: 30th Nov 2007

Water Watch List Average Performance

Performance (Eur)				
Week	Month	3 mths	YTD	12 mths
(0.58)	0.25	(0.27)	2.11	6.35

Source: UBS estimates. Closing Price: 30th Nov 2007

Key dates

Date	Event	Venue	Comment
3-14 Dec-07	UNFCCC meetings	Nusa Dua, Bali, Indonesia	UNFCCC: Conference of the Parties (COP), Thirteenth session and Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (COP/MOP), Third session
7-Dec-07	International Conference on Corporate Social Responsibility (CSR)	Brussels	Johannesburg+5 Commitments to CSR
Feb-08	EC Australia High Level Environment Dialogue		Climate change, Chemicals, Waste, EU Australia cooperation
7-8 Feb2008	Climate Change Summit 2008	London, UK	Organized by Ethical Corp, the summit discusses key topics which include climate initiatives that achieve both environmental and business objectives... crafting climate change messages that grab your consumers' hearts and minds
19-Feb-08	3rd Anniversary of coming into force of Kyoto Protocol	NA	NA
20 - 22 Feb 2008	UNEP, Global Ministerial Environment Forum, tenth special session	Monaco	
5-7 May 2008	The Athens Summit 2008: Global Climate & Energy Security	Athens	This conference is designed to bring the various parties together for a detailed discussion of the current situation and prospects for the future - the primary personalities of the hydrocarbon industry together with the spokespersons of global warming and alternative energy
10-13 May-08	International Workshop on Evaluating Climate Change and Development	Alexandria, Egypt	Addresses both mitigation and adaptation

Source: UBS, websites of the relevant organisations, and press where cited

EPA: 2007 Compliance Highlights

Date	Entity	Event	Cost
13 th November 2007	Aspen Petroleum Products	Clean Air Act : Violations	\$25,000 penalty and halt the illegal blending of “drip gas” with gasoline
9 th October 2007	American Electric Power Service Corporation	Clean Air Act : Violations	\$15 million penalty, \$60 million on projects to mitigate the adverse effect of excess emissions.
28 th September 2007	Hunt Refining Company and hunt Southland Refining Company Settlements	Civil penalty and upgrade pollution controls at refineries.	\$4 million penalty, \$48.5 million in upgraded pollution controls at refineries.
20 th September 2007	East Kentucky Power Cooperatives Inc.	Clean Air Act : Violations	\$11.4 million penalty to resolve violations
16 th Augusts 2007	Texas Products Pipeline LLC	Clean Air Act : Violations	\$2.865 million penalty to resolve violations
16 th Augusts 2007	Valero(Premcor)	Clean Air Act : New upgraded pollution controls at refineries.	\$4.25m penalty, \$232m in upgraded pollution controls at refineries.
20th July 2007	E.I. du Pont de Nemours	Clean Air Act : reduce more than 13,000 tons of emissions from 4 sulfuric acid production plants	\$66m on air pollution controls and \$4.125m as civil penalty
18th July 2007	Equistar Chemicals	Consent decree to address a myriad of air, water waste violations at 7 petrochemical plants.	More than \$125m on pollution controls
10 th July 2007	Casper’s Electronics	Clean Air Act Violations	More than \$74,000 penalty
2 nd July 2007	East Kentucky Power Cooperative	Clean Air Act Violations: the plants will emit 50% less nitrogen oxides and 75% less SO ₂	\$650mn on pollution controls and a \$750,000 penalty
14 th June 2007	Animal Feeding Operations (AFO)	Air Quality Agreement: study of air emissions from poultry, dairy and swine (AFOs).	\$14.6 million study to measure gases from livestock facilities
31 st May 2007	Allegheny County Sanitary Authority (ALCOSAN)	Clean Water Act violation: sewage reduced by 22bn gallons per year.	\$1.2mn penalty, and \$3mn in environmental projects

Date	Entity	Event	Cost
21 st May 2007	Kinder Morgan	Clean Water Act, Oil Pollution act and Endangered Species Act	\$5.3mn to resolve liability
17 th May 2007	Kerr-McGee	Settlement under Clean Air Act to install pollution controls to reduce annual emissions.	\$18mn on pollution controls, plus a \$200k penalty and \$250mn on environmental projects.
9 th May 2007	KMart	Self-disclosed violations of clean water and waste regulations.	\$102,422 (if discovered through inspection)\$1.6mn
30 th April 2007	Total Petrochemicals	Clean Air Act Violations	\$2.9mn penalty, plus \$37mn upgrade to facilities

<http://cfpub1.epa.gov/compliance/resources/cases/civil/>

■ **Statement of Risk**

Socially responsible investment covers an enormous range of potential issues, and, over time, their importance fluctuates. At the time of writing, we believe the issues raised in this research to be relevant to investors, but this may change. Additionally, this research should not be read as a complete or definitive account of all relevant issues for firms. Although we attempt to address all significant or nascent issues, these may not always be apparent, and these may change over time. Finally, this document should not be interpreted to mean that all SRI issues have a financial impact; whether or not SRI issues have a financial impact remains an open question as there is no accepted financial model that can determine whether a given SRI issue is already reflected in share prices.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	29%
Sell	Sell	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES**UK and European Investment Fund ratings and definitions are :**

Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
FPL Group Inc. ^{2, 4, 5, 6a, 6b, 7, 16, 22}	FPL.N	Neutral	N/A	US\$71.23	10 Dec 2007

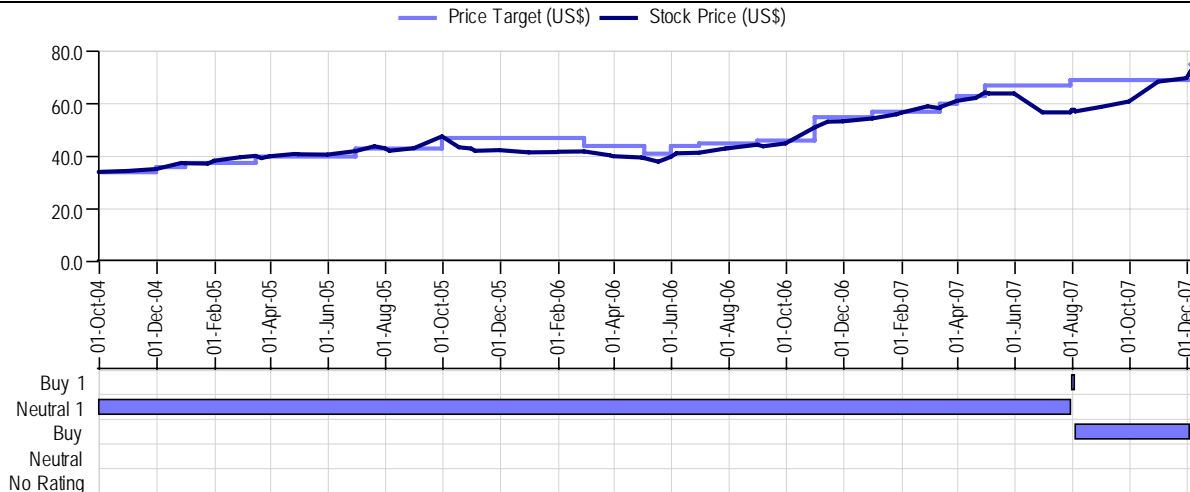
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

FPL Group Inc. (US\$)



Source: UBS; as of 10 Dec 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

Additional Prices: Abertis, €23.50 (10 Dec 2007); Acciona, €235.10 (10 Dec 2007); AGL Energy Limited, A\$13.30 (10 Dec 2007); APA Group, A\$3.63 (10 Dec 2007); BKW FMB Energy Ltd, CHF145.50 (10 Dec 2007); British Energy, 529p (10 Dec 2007); Centrica, 369p (10 Dec 2007); Cia. Energetica de Minas Gerais, R\$38.20 (10 Dec 2007); Cia. Energetica de Sao Paulo, R\$32.99 (10 Dec 2007); Datang International Power Generation, HK\$7.23 (10 Dec 2007); Drax Group, 696p (10 Dec 2007); EDF, €81.97 (10 Dec 2007); Electric Power Development (J-Power), ¥4,230 (10 Dec 2007); Empresas ICA, P72.46 (10 Dec 2007); Endesa, €37.72 (10 Dec 2007); Enel, €8.29 (10 Dec 2007); Energias de Portugal, €4.57 (10 Dec 2007); Equitable Resources, US\$54.94 (10 Dec 2007); Exelon Corp., US\$86.18 (10 Dec 2007); Fortum, €29.70 (10 Dec 2007); Glow Energy PCL, Bt36.25 (07 Dec 2007); Grupo Aeroportuario del Pacifico, P52.82 (10 Dec 2007); Huadian Power International, HK\$4.26 (10 Dec 2007); Iberdrola, €10.74 (10 Dec 2007); International Power, 466p (10 Dec 2007); Kyushu Electric Power, ¥3,090 (10 Dec 2007); Northumbrian Water Group, 345p (10 Dec 2007); Obrascon Huarte SA, €27.64 (10 Dec 2007); Otter Tail Corporation, US\$34.81 (10 Dec 2007); PNOG Energy Development Corp, P6.90 (10 Dec 2007); Public Service Enterprise Group, US\$98.93 (10 Dec 2007); Questar Corp, US\$55.89 (10 Dec 2007); Renewable Energy Corporation, Nkr269.00 (10 Dec 2007); RiverCity Motorway, A\$0.86 (10 Dec 2007); RWE, €97.19 (10 Dec 2007); Santos Brasil, R\$28.00 (10 Dec 2007); Scottish & Southern Energy, 1,630p (10 Dec 2007); Severn Trent, 1,520p (10 Dec 2007); Shikoku Electric Power, ¥3,200 (10 Dec 2007); Thermo Fisher Scientific Inc., US\$58.71 (10 Dec 2007); Tokyo Gas, ¥583 (10 Dec 2007); Transurban Group, A\$7.30 (10 Dec 2007); Union Fenosa, €46.39 (10 Dec 2007); Veolia Environnement, €64.31 (10 Dec 2007); Vestas Wind Systems, Dkr513.00 (10 Dec 2007); Vinci, €55.33 (10 Dec 2007); Wilson Sons, R\$21.79 (10 Dec 2007); Source: UBS. All prices as of local market close.

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