

**Environmental,
Social &
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Research**



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“The Halo's Creed”

11
2010

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Throughout this report we use share prices as of 2 November 2010 unless otherwise stated. We use Bloomberg's ESG data as per October 20 2010.

We would like to thank all UniCredit European Equity Research analysts and strategists for their contributions to this report .

Introduction

The world financial crisis and resulting global austerity measures have recently raised questions about the ability of the current market economy to deliver sustainable long-term growth. However, to address the sustainability of finance, a United Nations-backed initiative (Principles for Responsible Investment Initiative - PRI) was initiated as early as 2005. This network of international investors reflects the view that environmental, social and corporate governance (ESG) issues can affect the performance of financial markets and thus investment portfolios and must, therefore, be given appropriate consideration if investors are to fulfil their fiduciary duties. With UNPRI assets accounting for 7.0% of actively managed assets worldwide (USD 6.8trn 2009¹), and European Sustainable and Responsible Investment (SRI) assets continuing to post extraordinary growth (7Y CAGR of 47.1% to EUR 5trn in 2009²), it seems clear that ESG issues are entering the financial mainstream.

The relevance of ESG analysis

Environmental issues (e.g. oil spills), social issues (use of 'sweatshops', for instance) and governance issues (deliberate accounting distortions, for example) remind us that traditionally classified non-financial issues can have significant financial impacts for companies. Furthermore, macro-thematic environmental (climate change), social (demographics) and governance (corruption) issues are pressuring companies to incorporate ESG analysis in their strategic thinking to better anticipate future operating environments, including potential related costs or burdens to their existing business model. With data providers such as Bloomberg and Thomson Reuters now delivering company-specific ESG data, we believe that money managers and financial analysts who can interpret ESG factors and relate them to a company's future prospects may develop a competitive advantage should others fail to recognize the same risks or opportunities related to those factors.³

The capitalisation of ESG issues

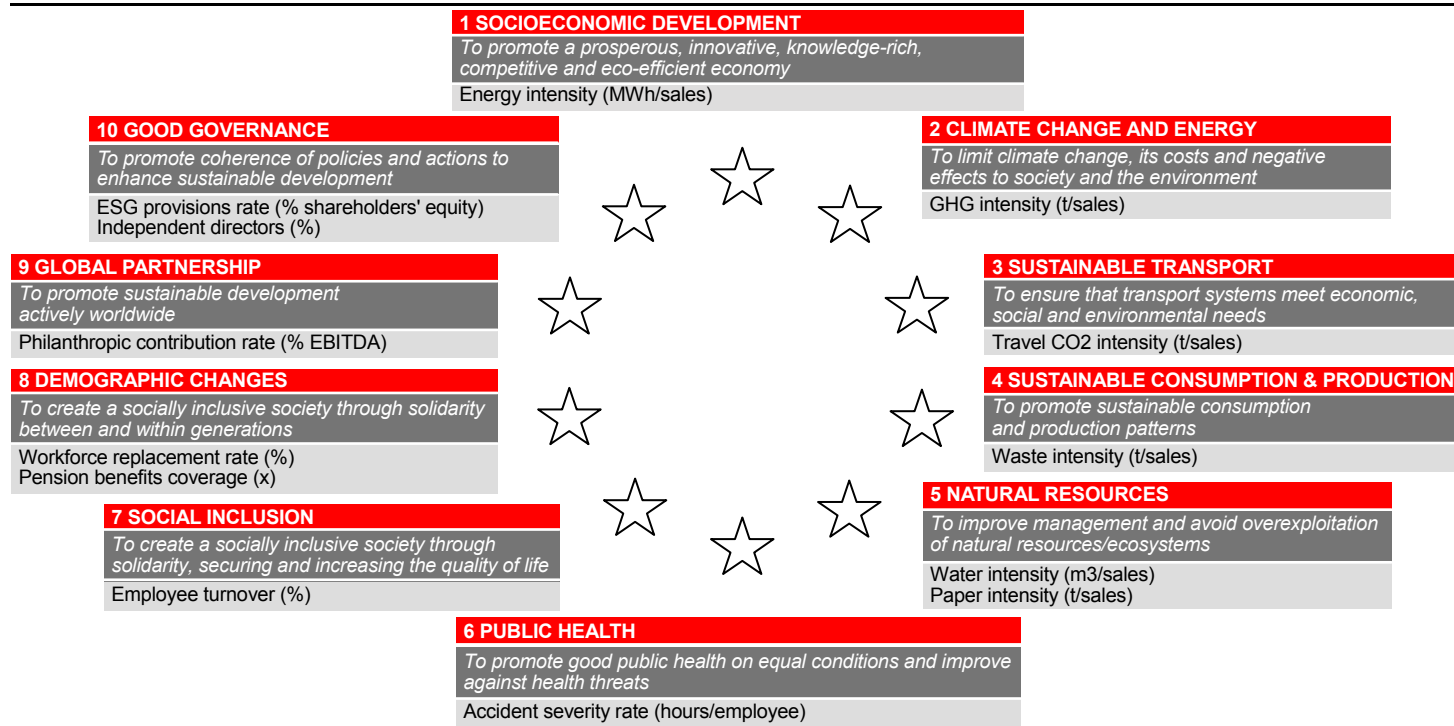
Investment decisions are generally taken based on the comparison of a stock's expected return and an investor's required return. This implies that for ESG analysis to be fully integrated into the mainstream, ESG issues must be both forecasted and capitalised to evaluate their effect on a security's expected return. We seek to capitalise ESG issues through disaggregating traditional internal accounts to show costs and benefits relating specifically to ESG performance. This enables us to build forecasts and identify costs/benefits relating to ESG Key Performance Indicators (KPIs), which we base on the thematic framework of the European Sustainable Development Strategy. To determine the final valuation impact of ESG issues, we incorporate our cost/benefit analysis into a traditional two-stage earnings discount model.

Key findings

Our analysis concludes that full integration of ESG issues into traditional financial analysis can sometimes pose a significant challenge to fundamental views held by the current market consensus. Based on industry averages, we estimate that ESG analysis could impact stock valuations in the range from +22.8% to -13.6% (which may or may not be in analysts' estimates already) with some intra-sector ranges portraying even greater deviations. With an expected increase of 17.0% (2009-12E) in the market's total ESG costs, we believe some 45.5% of companies under our coverage are likely to improve their stock value through considering ESG issues and 54.5% are likely to face significant ESG-related price pressures in the years ahead.

With 66% of UNPRI asset owners putting specific ESG considerations into their mandates with asset managers, our ESG-focused model portfolio represents at the very least the beginning of a proposal for full integration of ESG issues into the portfolio construction process. We compliment this proposal by focusing on 13 headline ESG KPIs that can be calculated on a portfolio level, allowing a portfolio's sustainable development characteristics to be benchmarked against peers. In addition, we select some stocks by sector that appear to offer a beneficial ESG angle, as well as appearing sensibly priced on conventional grounds (BASF, Total, Vodafone and GDF Suez).

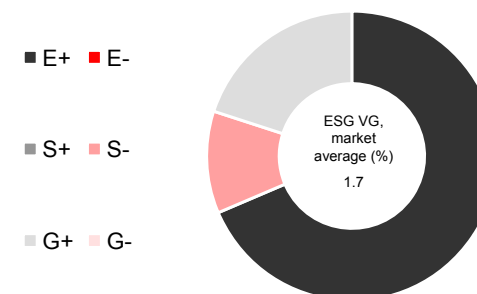
The Halo's Creed



Source: European Union, Bloomberg, UniCredit Research

- **The Halo's Creed.** The Halo's Creed is an investment philosophy based on maximising both shareholder and broader stakeholder returns. It is based on the ten thematic principles of the European Sustainable Development Strategy and aims to incorporate the effects of environmental, social & governance (ESG) issues into stock valuation and selection processes.
- **We present three new sustainability-based financial ratios.** First, the "ESG cost yield" represents a company's historic and estimated ESG-related costs, expressed as a percentage of revenues. Second, "ESG Value Generated (ESG VG)" represents the percentage change in a stock's fundamental value derived from adjusting expected earnings flows for ESG impacts. Third, the "Sustainable Development Impact Ratio" (reward-to-sustainability ratio) is a measure of a portfolio's excess return per unit of ESG cost.
- **We initiate ESG coverage on 66 stocks.** Each company assessment includes forecasts of over 45 ESG Key Performance Indicators (KPIs), one sector-specific KPI, one key sector thematic score and a 5-year ESG event study analysis. We present the conclusions of our ESG valuations in the framework of our ESG Focus model portfolio (Bloomberg ticker: UCRESG Index), which is optimised to maximise shareholder returns (12M upside to target prices), stakeholder returns (ESG VG) and to minimise risk (portfolio variance).

THE HALO'S CREED CHART



We represent stock valuation impacts of our ESG analysis using company-specific halo charts. Each segment's size represents the relative positive (grey scale) or negative (red scale) valuation impact contribution (ESG VG) by environmental, social or governance issues.

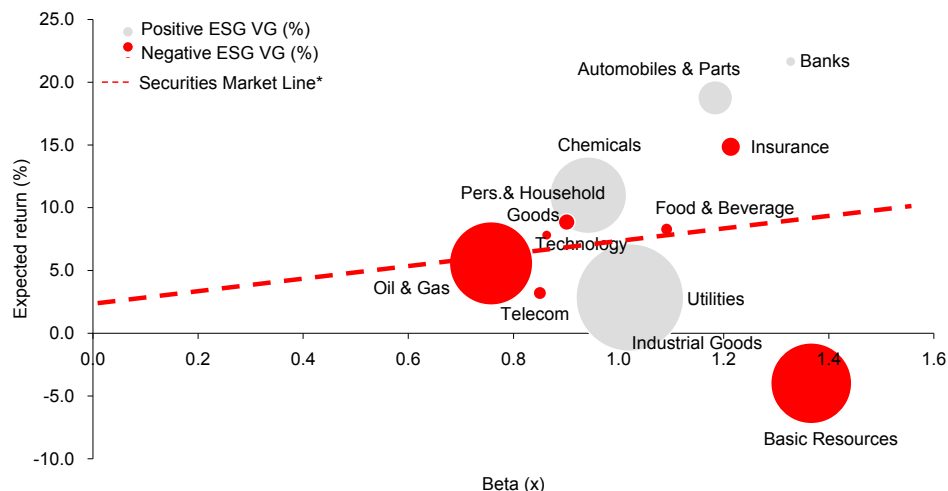
ESG FOCUS PORTFOLIO – TOP SECTOR PICKS

Company name (reco)	Active weight (%)	Expected return, 12M (%)	ESG VG (%)
Automobiles & Parts (N)			
Fiat (Buy)	0.0	22.4	5.9
Banks (UW)			
HSBC (Buy)	2.4	33.9	0.6
Basic Resources (UW)			
Tenaris (Hold)	-0.1	-20.2	-10.9
Chemicals (OW)			
BASF SE (Buy)	0.7	23.8	21.3
Food & Beverage (N)			
Nestlé (Buy)	3.9	10.5	-0.8
Industrial Goods & Services (N)			
Deutsche Post DHL (Buy)	3.5	19.1	-2.8
Insurance (N)			
Allianz (Buy)	0.3	21.3	-1.3
Oil & Gas (OW)			
Total (Buy)	13.8	25.5	13.3
Pers. & Household Goods (N)			
L'Oréal (Buy)	1.2	7.6	-0.1
Technology (N)			
SAP (Buy)	2.2	15.2	0.5
Telecommunications (OW)			
Vodafone (Buy)	2.3	7.1	0.1
Utilities (OW)			
GDF Suez	3.1	4.0	85.8

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EXECUTIVE SUMMARY – Towards sustainable capitalism

TOWARDS A MORE SUSTAINABLE SECURITIES MARKET



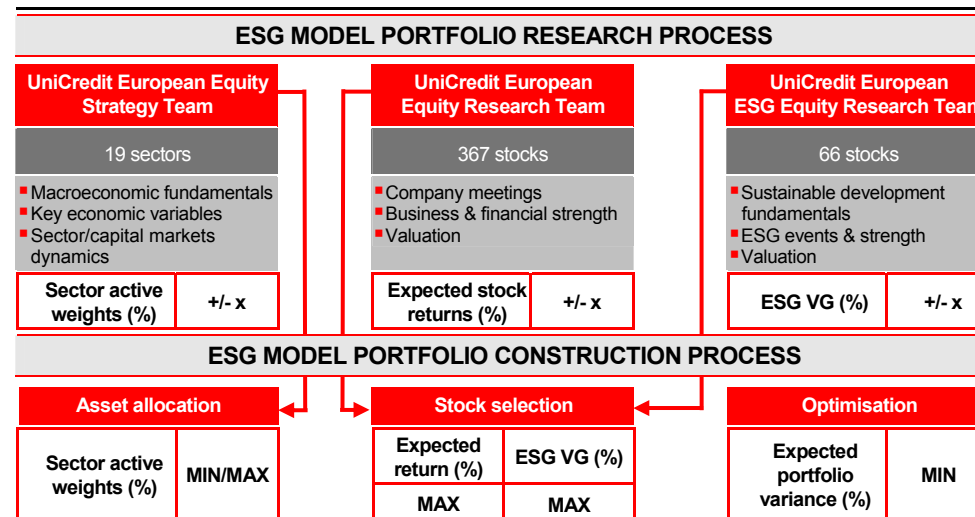
Source: Bloomberg, UniCredit Research

■ **Towards a more sustainable securities market.** Event study analysis indicates that the efficient-market hypothesis remains extremely weak with regards to information integration of ESG issues. We believe the efficiency of capital asset pricing models can be improved by adding a sustainability dimension, given our expectations that capitalised ESG issues can affect stock valuations by 1.7% on average.

■ **Towards a more sustainable modern portfolio theory.** We bet that through on-going mainstreaming of ESG information, stock prices will gradually reflect ESG-related capital flows. To exploit this trend, we present a mean-variance portfolio construction process, which integrates sustainability valuation impacts as an optimisation factor.

■ **ESG Focus portfolio tilted towards defensives and high dividend yields.** We highlight our core overweights in Chemicals (BASF SE, Buy, TP EUR 67, 23.8% upside), Oil & Gas (Total, Buy, EUR 50, 25.5% upside), Telecommunications (Vodafone, Buy, TP GBp 185, 7.1% upside) and Utilities (GDF Suez, Buy, TP EUR 29.9, 4.0% upside). Our top picks per sector are based both on maximising shareholder returns as well as stakeholder returns. Within our sector reviews, we highlight stocks with attractive valuation and sustainability characteristics.

TOWARDS A MORE SUSTAINABLE MODERN PORTFOLIO THEORY



Source: UniCredit Research

ESG FOCUS PORTFOLIO – HIGHEST ACTIVE WEIGHTS BY SUPERSECTOR

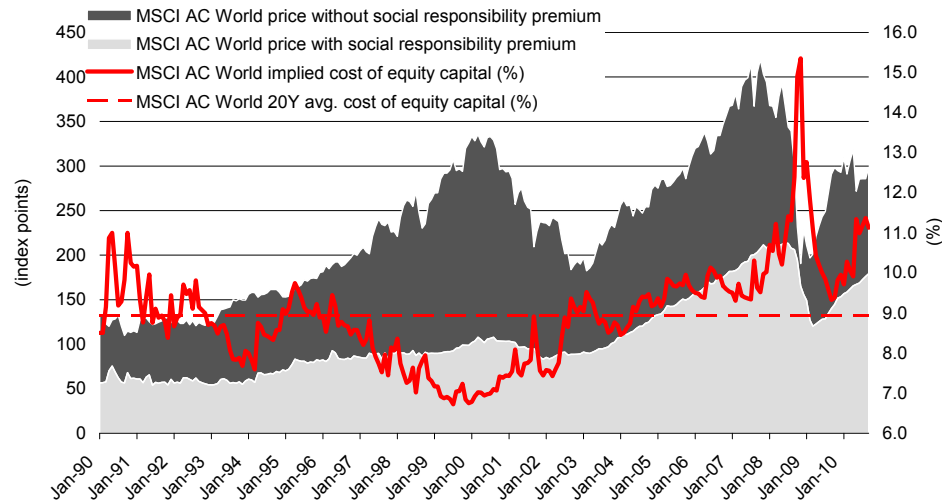
Supersector (reco)	Company name (reco)	Active weight (%)	Expected return, 12M (%)	ESG VG (%)
Overweight sectors				
Chemicals (OW)	BASF SE (Buy)	0.7	23.8	21.3
Oil & Gas (OW)	Total (Buy)	13.8	25.5	13.3
Telecommunications (OW)	Vodafone (Buy)	2.3	7.1	0.1
Utilities (OW)	GDF Suez (Buy)	3.1	4.0	85.8
Neutral sectors				
Automobiles & Parts (N)	Fiat (Buy)	0.0	22.4	5.9
Food & Beverage (N)	Nestlé (Buy)	3.9	10.5	-0.8
Industrial Gds. & S. (N)	Deutsche Post DHL (Buy)	3.5	19.1	-2.8
Insurance (N)	Allianz (Buy)	0.3	21.3	-1.3
Pers. & Household Gds. (N)	L'Oréal (Buy)	1.2	7.6	-0.1
Technology (N)	SAP (Buy)	2.2	15.2	0.5
Underweight sectors				
Banks (UW)	HSBC (Buy)	2.4	33.9	0.6
Basic resources (UW)	Tenaris (Hold)	-0.1	-20.2	-10.9

Source: UniCredit Research

Section 1 – ESG Equity Research Methodology Overview

The cost of capital(ism)

THE VALUE OF SOCIAL RESPONSIBILITY TO WORLD CAPITAL MARKETS



*Long-term growth rate = 2.6% (avg. annual world real GDP growth rate 1990-2009), Source: World Bank, Bloomberg, Thomson ONE, UniCredit Research

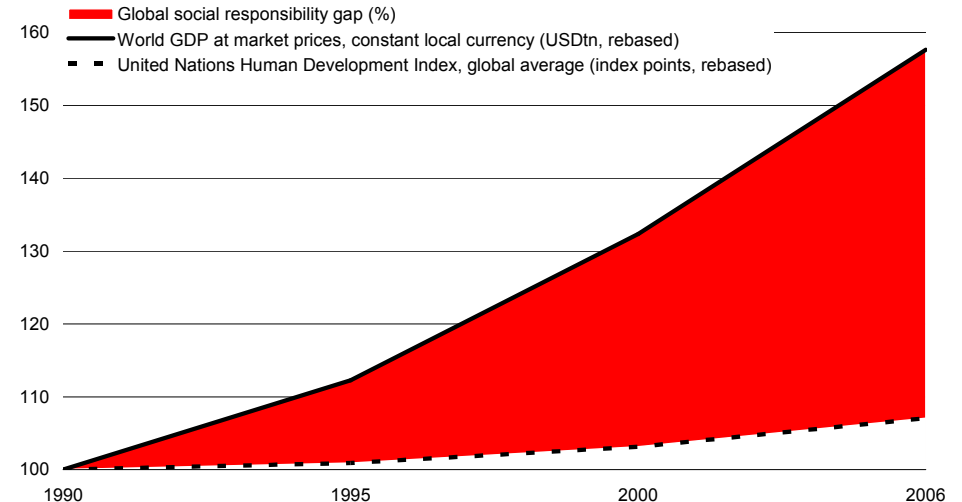
■ **Social responsibility core to capital market's functionality.** An example of the market impact of socially irresponsible behaviour might be the subprime mortgage crisis. Lending to those incapable of repaying eventually led to a huge rise in the cost of equity (1.7 times the historical norm) as consequential defaults proliferated. In other words, socially responsible behaviour is highly integral both to the level and volatility of the global equity market.

■ **Socio-economic development at 32.1% discount to economic development.** Despite significant economic growth (World GDP +57.7% 1990-2006) through capitalism's advance, socio-economic development as measured by the United Nations Human Development Index* (UN HDI) has been relatively neglected (+7.1% 1990-2006).

■ **Ecological leverage at 1.5x.** We are currently consuming 1.5x times (2007) more resources than Earth can regenerate to support our economic growth, as measured by the Global Footprint Network's ecological footprint**. The UNEP estimates that 50% of the MSCI AC World Index earnings could be at risk from environmental costs⁴.

*pls see appendix 1 for HDI details; **pls see appendix 2 for Ecological Footprint details

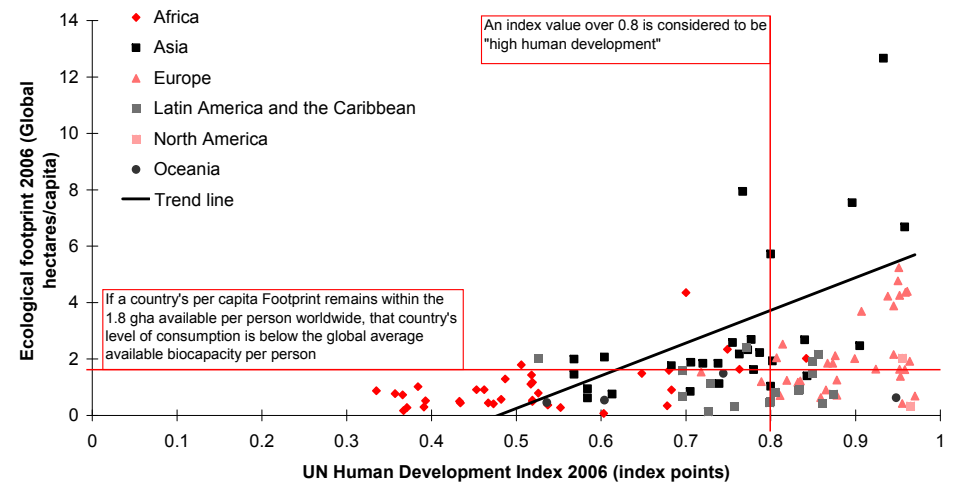
THE GLOBAL SOCIAL RESPONSIBILITY GAP



Source: World Bank, United Nations, UniCredit Research

Source: World Bank, United Nations, UniCredit Research

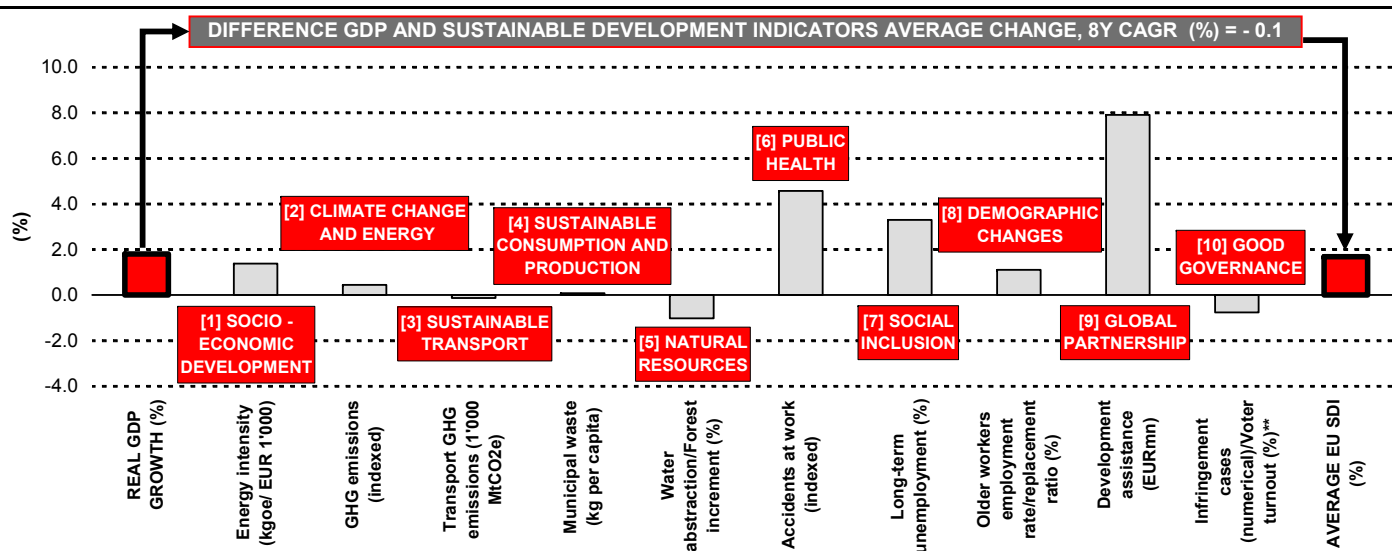
HIGH HUMAN DEVELOPMENT PUSHING ECOLOGICAL LEVERAGE



Source: United Nations, Global Footprint Network, UniCredit Research

Beyond GDP

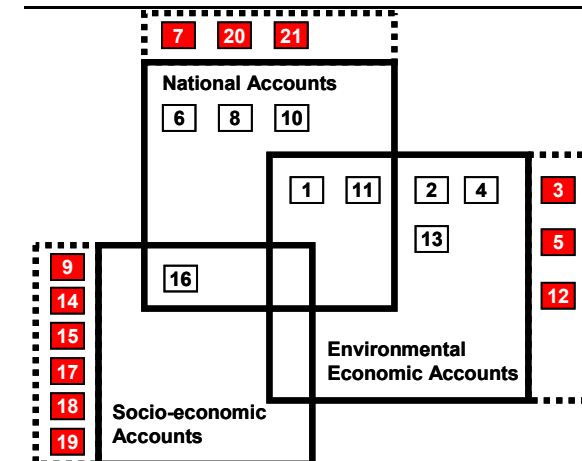
THE EU SDS 10 THEMES AND SELECTED SDIS GROWTH COMPARISON TO GDP*



*SDIs rebased from 2000, time series until 2008, excl. theme 5 (2007) & theme 6 (2006) Source: Eurostat, UniCredit Research

- The market economy's fundamental flaw.** According to the UNEP⁵, traditional measures of economic value such as GDP treat resources as current income instead of capital depreciation, not accounting fully for the effects of current consumption, emissions and waste sinks on future capital stocks and consumption. Failure to maintain natural capital can undermine economic growth.
- The economic integration of social and environmental issues.** Growing recognition of complementing GDP with data and indicators that address environmental and social sustainability has triggered the European Commission's call for a review of the international System of National Accounts and the European System of Accounts⁶. EU members such as Germany portray an already significant integration of indicators from their environmental-economic and socio-economic accounting sets.
- The EU Sustainable Development Strategy's (SDS) set of Sustainable Development Indicators (SDIs).** Following the 1992 Rio Earth Summit, the EU's Eurostat worked closely with the UN to develop a set of sustainable development indicators (SDIs) for measuring sustainable development. The current set of over 100 SDIs has been organised within a 10 theme-oriented framework, which includes: socioeconomic development, climate change and energy, sustainable transport, sustainable consumption and production, natural resources, public health, social inclusion, demographic changes, global partnership and good governance*. Current comparisons between selective EU SDIs and GDP indicate a slight growth advantage (0.1% 8Y CAGR 2000-2008) for economic development relative to sustainable development.

INTEGRATION OF GERMAN SUSTAINABILITY INDICATORS INTO THE NATIONAL ACCOUNTING SET

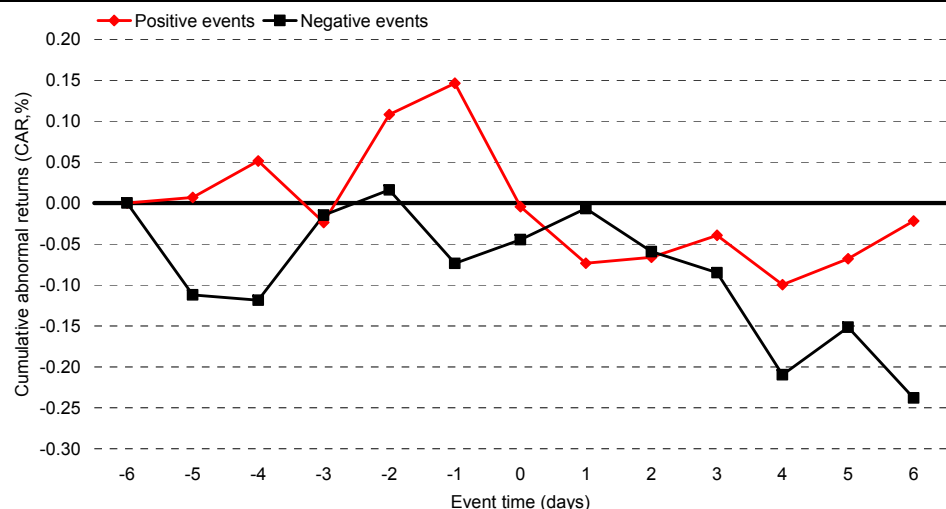


- Productivity of energy and raw materials
 - Increase in land use for housing and transport
 - The proportion of renewable energy sources in overall energy consumption
 - Emissions of greenhouse gases
 - Development of stocks of specified animal species
 - Balance of public sector financing
 - Private- and public-sector expenditure on research and development
 - Capital-outlay ratio
 - Educational outcomes for 25-year-olds and number of new students
 - Gross domestic product
 - Transport intensity and share of the railways in providing transport
 - Proportion of ecological agriculture and general statement on nitrogen surplus
 - Air pollution
 - Satisfaction with health
 - Number of burglaries
 - Labour force participation rate
 - Full time children care facilities
 - Relationship between male and female gross annual earnings
 - Number of foreign school-leavers who have not completed secondary school
 - Expenditure on development collaboration
 - EU imports from developing countries
- indicators in red are under preparation

* pls see appendix 3 for more information regarding the EU SDS & SDIs Source: Federal Statistical Office Germany, UniCredit Research

Sustainability analytics: relevance

ESG INFORMATION NOT FULLY PRICED IN BY CAPITAL MARKETS?



*event study analysis period covers Jan 2006 - Oct 2010 Source: Factiva, Bloomberg, UniCredit Research

■ **ESG market inefficiency.** We have applied event study analysis* to evaluate stock price effects of over 3,500 ESG-related news items, which have been positively/negatively classified according to the UN Global Compact framework**. On average, capital markets do not seem to fully incorporate ESG information, with cumulative abnormal returns being negative for both positive (-0.07%) and negative events (-0.15%).

■ **Sustainability analysis can change earnings expectations.** The analysis of some ESG-related issues, i.e. eco-efficiency, may have a significant impact on operating leverage and earnings expectations. With ESG stock price information entering the mainstream, traditional financial analysis may be enhanced with sustainability data.

■ **Sustainability analysis as long-term value driver.** Based on the GGM valuation methodology, long-term earnings per share after FY3 represent most of the MSCI AC World companies' market value (85.6% avg. 1990-2010). A 1% sustainability derived EPS revision can therefore trigger an implied 85.6bps change in valuations levels.

FUNDAMENTAL SUSTAINABILITY ANALYSIS CAN INFLUENCE EPS EXPECTATIONS*

ORIGINAL INFORMATION						
(EUR mn)	2007	2008	2009	2010E	2011E	2012E
Total revenues	500	650	750	800	900	950
Energy expense	10	16	23	?	?	?

TRADITIONAL ANALYSIS						
(EUR mn)	2007	2008	2009	2010E	2011E	2012E
Total revenues	500	650	750	800	900	950
Energy expense	10	16	23	30	42	56
Energy expense as % of revenues	2.0	2.5	3.0	3.8	4.7	5.9

Forecast driver 1	Average yoy change (%)	25.0
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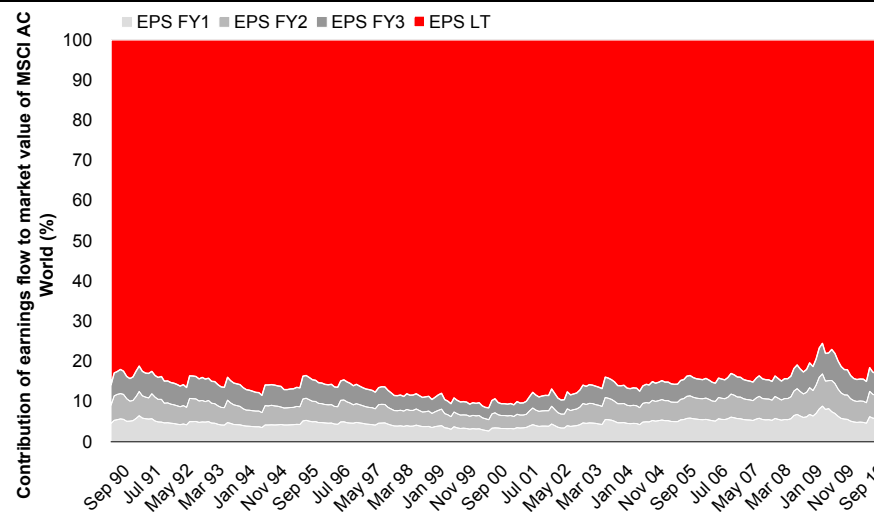
SUSTAINABILITY ANALYSIS						
(EUR mn)	2007	2008	2009	2010E	2011E	2012E
Total revenues	500	650	750	800	900	950
Energy expense	10	16	23	20	18	14
Energy consumption (Mwh '000)	250	295	321	284	252	196
Energy cost (EUR/Mwh)	40.0	55.0	70.0	70.1	70.1	70.2
Energy consumption (Mwh '000) / mn	0.50	0.45	0.43	0.35	0.28	0.21

Forecast driver 1 Traditional	Annual energy price inflation (%)	5.0
Forecast driver 2 Sustainability	Eco-efficiency change (%), 2Y CAGR	-7.4

Difference in energy expense forecasts (as % of revenues)	1.3	2.7	4.4
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*illustrative example Source: UniCredit Research

LONG-TERM EPS ESTIMATES CRUCIAL FOR DISCOUNTED EARNINGS VALUATIONS



Source: Thomson ONE, UniCredit Research

*pls see appendix 4 for details regarding our event study methodology; **pls see appendix 5 for details regarding the UN Global Compact

BEYOND EPS: The creation of sustainable-economic accounting sets

FROM MACRO TO MICRO-ECONOMIC STRUCTURAL ACCOUNTING ADJUSTMENTS

MACRO INDICATOR (SDI)	MICRO INDICATOR (KPI)	PRICING FACTOR	INCOME STATEMENT
EU SDS THEME 1: SOCIOECONOMIC DEVELOPMENT			
Energy intensity of the economy (kgoe/ EUR 1'000)	→ Energy intensity (MWh/sales)	x Electricity price (EUR/MWh)	Net revenue X Miscellaneous income X Total revenue and other income X Costs of goods sold (X)
EU SDS THEME 2: CLIMATE CHANGE AND ENERGY			
Greenhouse gas emissions (indexed)	→ GHG intensity (t/sales)	x CO2 price (EUR/t)	Gross profit X Costs of goods sold (X) Selling, general and administrative expenses (X) Energy expense (X) Waste expense (X) Rehiring costs (X) Water expense (X) Paper expense (X) Sick pay (X) Employee turnover costs (X) Unusual income item X
EU SDS THEME 3: SUSTAINABLE TRANSPORT			
GHG emissions by transport mode (1'000 MtCO2e)	→ Travel CO2 intensity (t/sales)	x CO2 price (EUR/t)	ESG provisions costs (X) Non-independent board comp. expense (X) CO2 compliance costs (X)
EU SDS THEME 4: SUSTAINABLE CONSUMPTION AND PRODUCTION			
Municipal waste generated (kg per capita)	→ Waste intensity (t/sales)	x Waste price (EUR/t)	EBITDA X Depreciation and amortization (X)
EU SDS THEME 5: NATURAL RESOURCES			
Surface/groundwater abstraction (% of available resources)	→ Water intensity (m3/sales)	x Water price (EUR/m3)	EBIT X Interest expense (X) Financing expenses related to pensions (X)
Forest increment and fellings (%)	→ Paper intensity (t/sales)	x Paper price (EUR/t)	PBT X Provision for income taxes (X) Charitable tax benefit X
EU SDS THEME 6: PUBLIC HEALTH			
Serious accidents at work (indexed)	→ Accident severity rate (hours/employee)	x Employee salary (EUR/hour)	Income from continuing operations X Loss on discontinued operations (X) Extraordinary loss (X) Change in accounting for income taxes X
EU SDS THEME 7: SOCIAL INCLUSION			
Total long-term unemployment rate (%)	→ Employee turnover (%)	x Employee turnover cost (EUR/employee)	Net income X
EU SDS THEME 8: DEMOGRAPHIC CHANGES			
Employment rate of older workers (%)	→ Workforce replacement rate (%)	x Rehiring cost (EUR/employee)	
Aggregate replacement ratio (%)	→ Pension benefits coverage (x)	x Benefit obligation (EUR/employee)	
EU SDS THEME 9: GLOBAL PARTNERSHIP			
Official development assistance (EUR mn)	→ Philanthropic contribution rate (% EBITDA)	x Corporate donation tax benefit rate (%)	
EU SDS THEME 10: GOOD GOVERNANCE			
New infringement cases	→ ESG provisions rate (% shareholders' equity)	x ROE (%)	
Voter turnout in national and EU parliamentary elections (%)	→ Independent directors (%)	x Exec. board memb. comp. (EUR mn/year)	

→ = direct costs, → = externality costs, -- → = opportunity costs

Source: Eurostat, Bloomberg, UniCredit Research

■ **From traditional to sustainability accounting.** Traditional financial accounting only includes internal stocks and flows of financial value on the balance sheet and profit & loss account, respectively. Sustainability accounting disaggregates the internal accounts to show costs and benefits relating to environmental, social and governance performance. Information is extracted from existing accounting systems and represented to show the sustainability-related elements of current expenditure, which are linked with associated financial benefits (in terms of extra revenue or avoided costs) or costs incurred⁷. The integration of economic externalities, which are impacts on any party not directly involved in an economic decision, aims to offset shortcomings of the accrual accounting principle by recognising expenses (e.g. pollution costs) for the period to which they relate, not when later cash flows for actual mitigation take place.

■ **From macro to micro.** We have translated 13 macro SDIs from the EU SDS into thematically aligned micro-economic Key Performance Indicators (KPIs). In order to allow for monetary KPI conversion, we are applying pricing factors to enable integration into traditional profit & loss statements for all stocks under our ESG coverage. As per EU SDI level framework*, we provide an additional 24 support indicators and 10 policy indicators**. To provide further contextual background, 22 sector-specific KPIs and scores on 18 sector-specific sustainability themes have been developed***. We highlight that 69.2% of headline indicators translate into direct, 15.4% into opportunity, and 15.4% into externality cost impacts.

*pls see appendix 6 for framework conversion **for definitions of elements used in UniCredit's KPIs pls see appendix 7***for a list of sector KPIs, pls see appendix 8

THE ESG COST YIELD: The capitalisation of ESG issues

ESG CAPITALISATION - EMPLOYEE TURNOVER EXAMPLE*

EU SDS THEME 7 - SOCIAL INCLUSION							
EUR mn	2006	2007	2008	2009	2010E	2011E	2012E
SDI 7.1	ACCESS TO LABOUR MARKET						
Employees leaving (#/year)	8,063	9,194	9,660	8,791	9,103	9,424	9,756
Employees (#)	106,000	106,200	108,600	108,400	109,400	110,400	111,400
Employee turnover (%)	7.6	8.7	8.9	8.1	8.3	8.5	8.8
Employee turnover cost (EUR '000/employee)	17.6	19.2	19.6	20.4	20.9	21.5	22.2
Total employee turnover cost	142	176	189	179	190	203	216
Total employee turnover cost - constant scenario	-	-	-	-	185	193	200
Employee turnover – earnings impact	-	-	-	-	-4.8	-10.1	-16.0

* for a detailed company profile pls refer to appendix 9, for forecasting methodology appendix 10

- **Data availability no longer a deal-breaker.** Lack of available ESG data for mainstream investors has been remedied by mainstream financial data providers gathering and commoditising publicly-available ESG data. For example, Bloomberg currently provides ESG data for over 4,000 global companies.
- **Disclosure no longer a deal-breaker.** Despite desirable improvements in corporate ESG data disclosure (average Bloomberg ESG disclosure score** of 43.7 out of 100, for our covered universe), enough companies are providing data to create KPI value ranges from the subsector to industry level. Where companies provide limited historical information, we use subsector/industry trends to approximate KPIs.
- **Data forecasting core to value expectations.** The combination of financial and sustainability data in the form of ESG KPIs represents the core of our forecasting methodology. They provide the comparative base to evaluate trends in a company's sustainable development strategies relative to the market. We forecast KPIs based on historical trends, support/policy indicators, operating leverage capabilities and corporate citizenship profile.

Scores range from 0 for companies that do not disclose ESG data to 100 that disclose every data point collected by Bloomberg * for pricing factor details and application pls see the "Thematic analysis" section of this report

THE ESG COST YIELD – CALCULATION BREAKDOWN*

ESG COST ANALYSIS (EUR mn)							
	2006	2007	2008	2009E	2010E	2011E	2012E
ENVIRONMENTAL COSTS							
Energy intensity	1120.7	1453.4	1296.5	946.3	1193.6	1268.0	1323.5
GHG intensity	34.2	112.0	66.5	60.5	77.6	76.1	89.9
Travel CO2 intensity	1.3	4.4	6.4	5.1	7.1	7.6	9.8
Waste intensity	83.5	122.8	153.2	69.5	73.9	76.6	78.3
Water intensity	773.8	881.5	927.7	907.0	966.0	979.1	986.8
Paper intensity	4.5	4.7	4.6	4.2	5.1	5.6	6.1
Total environmental costs	2018.0	2578.8	2454.8	1992.6	2323.3	2413.1	2494.4
SOCIAL COSTS							
Accident severity	5.0	4.1	3.9	4.8	5.9	7.2	8.9
Employee turnover	142.2	176.3	188.9	179.2	190.1	202.7	216.1
Workforce replacement	49.6	51.9	54.1	58.2	60.0	62.2	64.5
Pensions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Philanthropic contribution	-3.3	-0.5	-4.5	-3.9	-4.6	-5.1	-5.3
Total social costs	193.5	231.8	242.4	238.3	251.4	267.0	284.3
GOVERNANCE COSTS							
ESG provisioning	31.1	37.0	31.4	20.4	35.7	38.9	44.6
Board independence	29.3	29.4	21.3	22.6	15.0	13.8	8.3
Total governance costs	60.4	66.4	52.7	43.0	50.7	52.6	52.9
ESG COST YIELD							
Total ESG costs	2,271.9	2,877.0	2,750.0	2,273.9	2,625.4	2,732.7	2,831.5
Effective tax rate (%)	22.9	3.2	27.0	27.3	28.6	32.0	32.0
Total ESG costs, net	1,751.0	2,784.3	2,007.6	1,652.6	1,874.7	1,858.3	1,925.4
Total revenues	28,956	32,385	32,918	31,162	34,031	35,692	36,930
ESG cost yield (%)	7.8	8.9	8.4	7.3	7.7	7.7	7.7

Source: Bloomberg, company data, UniCredit Research

- **ESG capitalisation.** In order to analyse the financial impact of ESG issues, sustainability information needs to be priced to allow integration into traditional cost/benefit analysis. We capitalise ESG issues by converting ESG-related flows such as employees leaving the company (social issue) into financial/capital flows by applying pricing factors such as the average turnover cost per employee***.
- **The ESG cost yield.** We express the total costs derived from the conversion of ESG flows into financial flows as a percentage of total revenues, i.e. the company's ESG cost yield*. The cost yield provides a quick overview of the financial ESG cost impact a company has compared to others listed on the market.
- **ESG earnings impact.** Our methodology focuses on the ESG earnings impact (ESG EI) that a company provides in the future. We calculate ESG EI through first determining ESG costs under the assumption that there are no changes in the management of ESG issue, i.e. KPIs remain constant. We then subtract the ESG costs derived from our forecasted KPIs to determine any ESG EI from implied cost reductions/benefits.

ESG VALUE GENERATED: Sustainable Development stress testing

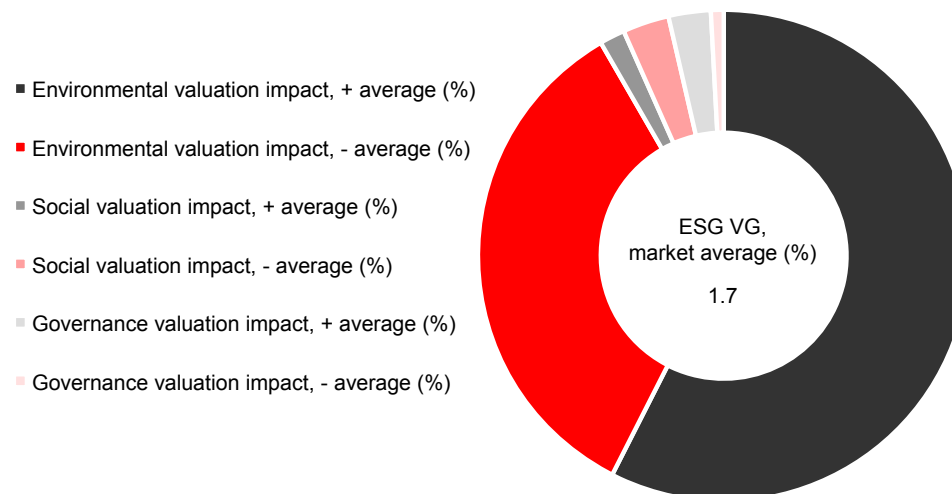
ESG VALUE GENERATED – CALCULATION BREAKDOWN

ENVIRONMENTAL, SOCIAL & GOVERNANCE EARNINGS IMPACT (ESG EI)			
(EUR mn)	2010E	2011E	2012E
ENVIRONMENTAL ISSUES EARNINGS IMPACT	99.6	210.8	332.6
XXX	xxx	xxx	xxx
SOCIAL ISSUES EARNINGS IMPACT	-5.8	-12.4	-19.8
XXX	xxx	xxx	xxx
Employee turnover	-4.8	-10.1	-16.0
XXX	xxx	xxx	xxx
GOVERNANCE ISSUES EARNINGS IMPACT	3.0	6.9	14.3
ENVIRONMENTAL, SOCIAL & GOVERNANCE EARNINGS IMPACT (ESG EI)			
ESG EI (EUR)	96.8	205.4	327.1
ESG EI per share (EUR)	0.1	0.2	0.4
ESG EI per share, tax adjusted (ESG EIPS, EUR)	0.1	0.2	0.3
EPS (EUR)	2.9	3.2	3.9
EPS + ESG EIPS (EUR)	3.0	3.4	4.1
ESG EIPS (% of EPS)	2.9	5.2	7.0
ESG VALUATION MODEL			
COE (%)			7.5
g (%)			2.0
Gordon Growth Model fundamental value (EPS)			67.4
Gordon Growth Model fundamental value (EPS + ESG EIPS)			71.9
ESG Value Generated (%)			6.7

*segments represent average value impact of positive/negative ESG trends for our covered universe

- **ESG materiality remains stock specific.** An equally deteriorating KPI trend can yield a significantly different valuation impact depending on the respective company's P&L and balance sheet structure. We therefore believe that ESG valuations need to remain stock specific as opposed to sector-based approaches for example, and that relative ESG cost efficiency is more important than absolute ESG values.
- **ESG Value Generated (ESG VG).** We conduct a "Sustainable Development Stress Test" on equities to value the impact of our ESG forecasts. Our methodology implies adjusting analysts' forecasted earnings (EPS) for our calculated ESG earnings impact per share (ESG EIPS). To streamline valuation approaches across industries, we use a two-stage earnings discount model framework across the board. Our ESG Value Generated (ESG VG) represents the percentage difference of the fundamental stock value derived from ESG-adjusted earnings (EPS + ESG EIPS) and the fundamental stock value derived from analysts' forecasted earnings flow (EPS).
- **The Halo's Creed chart.** We represent valuation impacts of our ESG analysis through company-specific halo charts. Each segment's size represents the relative positive (grey scale) or negative (red scale) contribution by environmental, social or governance issues to the overall ESG VG. We expect an overall positive contribution from ESG trends to stock valuations in the range of +1.7% but highlight significant deviations from the mean across securities.
- **Limitations of our methodology.** We use a simple valuation framework with which observers may quibble. We also highlight that some ESG valuation impacts are fully externalised by companies (i.e. passed on to society more broadly such as pollution costs), passed through cost-push driven price inflation (resource price increases) or limited by morally hazardous government intervention (bail-outs). Furthermore, our methodology does not take into account possible financing costs for decreasing ESG impacts. Clearly, given ongoing informational weaknesses and our core assumption that highlighted ESG trends are not captured by current conventional analysis, the entire approach needs careful handling and we would view our approach as preliminary in nature.

THE HALO'S CREED CHART – THE VALUATION IMPACT OF ESG ISSUES*



Source: UniCredit Research

Sustainability analytics: significance

ESG VALUATION IMPACTS DIFFER SIGNIFICANTLY ACROSS SECTORS AND ESG ISSUES*

INDUSTRY	ENVIRONMENTAL VG (%)	SOCIAL VG (%)	GOVERNANCE VG (%)
Chemicals	8.8	0.2	1.2
Basic Resources	-13.2	0.8	0.0
Automobiles & Parts	2.0	-0.3	0.0
Food & Beverage	0.5	-0.6	0.3
Pers. & Household Goods	-0.4	-0.4	0.2
Banks	-0.2	-0.3	0.4
Insurance	0.0	-0.5	0.1
Industrial Goods & Services	2.0	-2.0	1.0
Oil & Gas	-7.0	0.0	0.2
Technology	0.0	-0.4	0.8
Telecommunications	-0.8	0.1	0.3
Utilities	9.9	0.3	0.0

	Quintile 1 (best)		Quintile 4
	Quintile 2		Quintile 5 (worst)
	Quintile 3		

*arithmetic averages Source: UniCredit Research

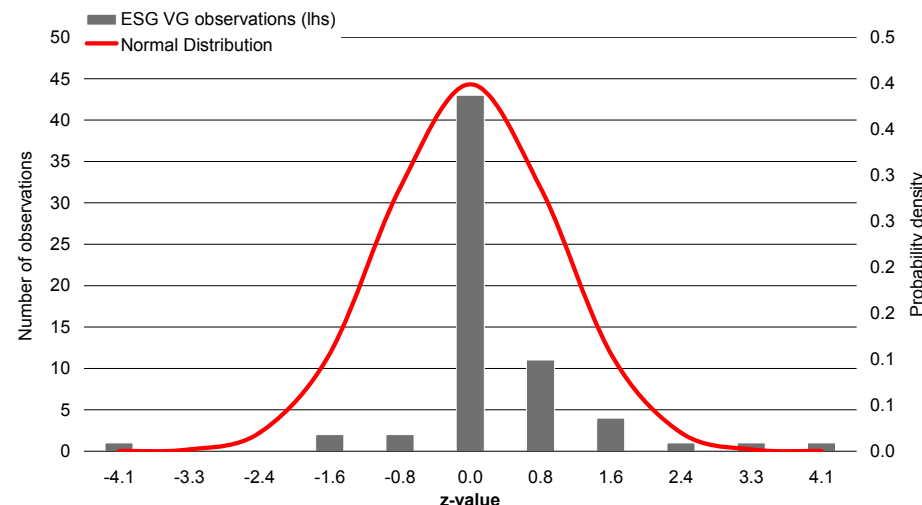
■ **Cross-sector ESG valuation impacts reveal significant variances:** Environmental issues reveal the highest valuation impact across stocks (avg. 1.5%) but given significant variances across sectors and ESG categories, we reiterate that stock-specific ESG analysis should take priority over broad analytical approaches.

■ **The black swans of sustainable development.** Although the added value from ESG analysis from a purely financial perspective might seem limited based on mean value analysis (Market ESG VG = 1.7%), we highlight significant ESG VG dispersion (STDEV=22.4%) across stocks. Furthermore, we highlight that there is a relatively small, but frequent, upside above the mean and a large, but less frequent downside (Skew*=0.1). Most importantly, we highlight the higher probability of extreme movements in either direction than a normal distribution would suggest (Kurtosis*=7.6).

■ **The fundamental change implied by sustainability analytics.** Relaxing our methodology's limitations and assuming that no ESG information is reflected in current target prices, we would highlight that 13.6% of our covered stocks would face a change in fundamental recommendations given full ESG VG feed through.

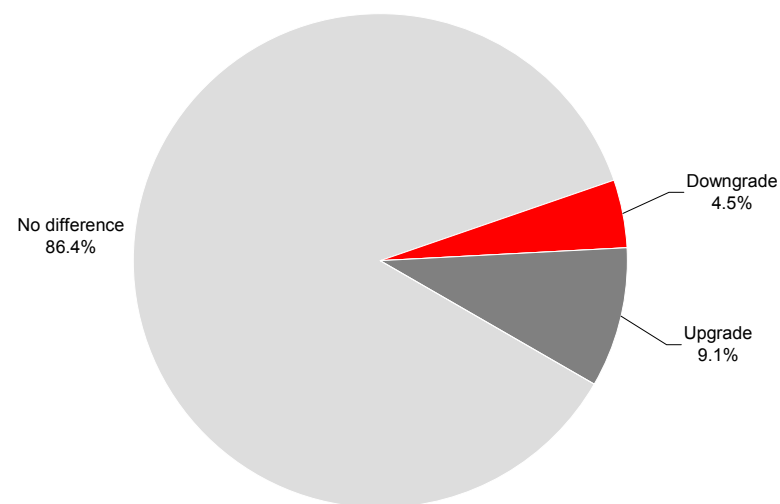
*based on Microsoft Excel definitions **Upgrade/Downgrade represents a change in financial rating (i.e. from Buy to Hold)

ESG VG DISTRIBUTION ANALYSIS REVEALS NEGATIVE SKEWNESS AND FAT TAILS



Source: UniCredit Research

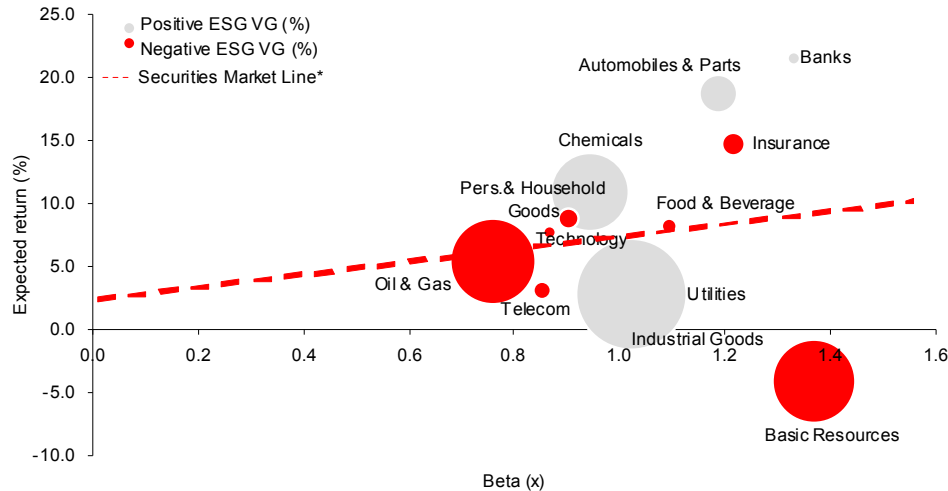
FULL ESG VG FEED THROUGH COULD TRIGGER CHANGES IN STOCK RECOMMENDATIONS**



Source: UniCredit Research

THE SUSTAINABLE DEVELOPMENT IMPACT RATIO: Towards a more sustainable capital market

TOWARDS A MORE SUSTAINABLE CAPITAL PRICING MODEL

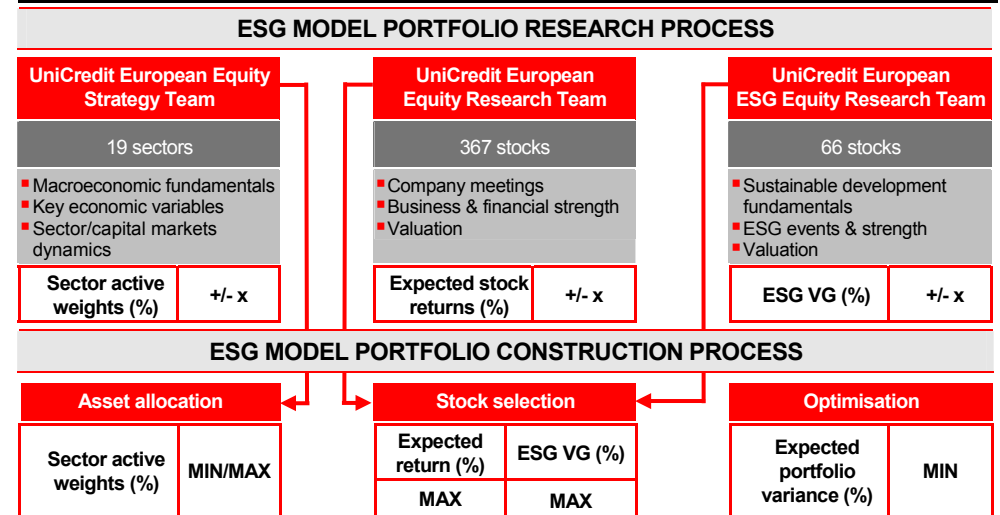


*ESG VG/Expected returns Mcap weighted; 2Y betas based on STOXX 600 supersector aggregates (30/09/2010), relative to STOXX 600; risk-free rate=2.5% Source: Bloomberg, UniCredit Research

- **Modern financial theories do not normally have a sustainability factor.** The Great Crunch has tested accepted financial knowledge such as the Efficient Market Hypothesis, Modern Portfolio Theory and the Capital Asset Pricing Model to the brink. Even so, these models remain fundamental to market functionality but do not fully include economised ESG expectations in their core variables.
- **A more sustainable portfolio theory.** We add the dimension of sustainability to a mean-variance portfolio construction process through the integration of the ESG VG variable. We highlight that expected financial returns take priority in our optimisation process given our assumption of only gradual integration of ESG information into market prices. Indifference curves/utility levels remain adjustable within our framework*.
- **The Sustainable Development Impact ratio.** Backtesting our portfolio strategy based on ESG cost yield minimisation signals a 5.0% outperformance (14bps annualised) relative to our benchmark with most attribution (7.3%) being stock-selection specific. We further highlight that our strategy's Sustainable Development Impact ratio (reward-to-sustainability ratio), which is a measure of excess return per unit of ESG cost, is 0.3 times higher than our benchmark, delivering relative higher returns at lower ESG costs.

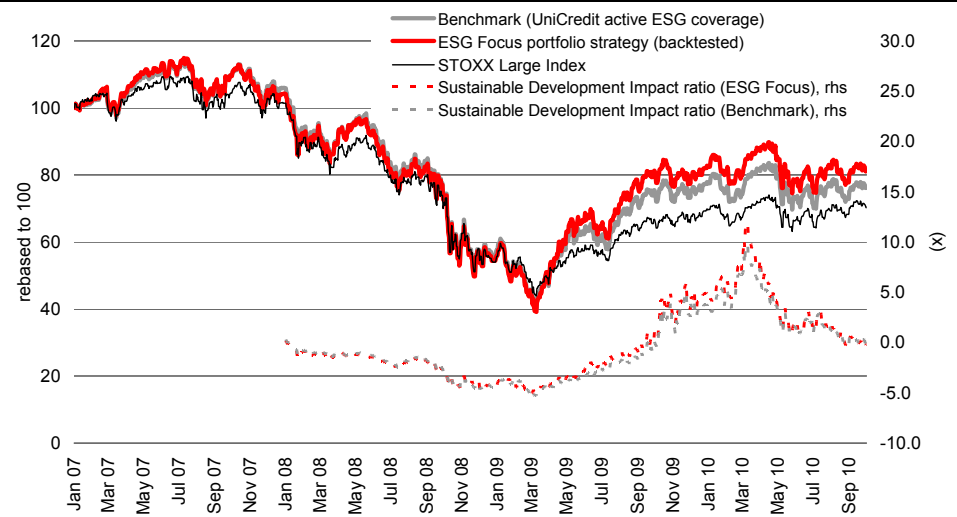
*pls see appendix 11 for more details regarding our portfolio construction and backtesting process

TOWARDS A MORE SUSTAINABLE CAPITAL ALLOCATION MODEL*



Source: UniCredit Research

BACKTEST REVEALS RELATIVE AND SUSTAINABILITY-ADJUSTED OUTPERFORMANCE



Source: Bloomberg, UniCredit Research

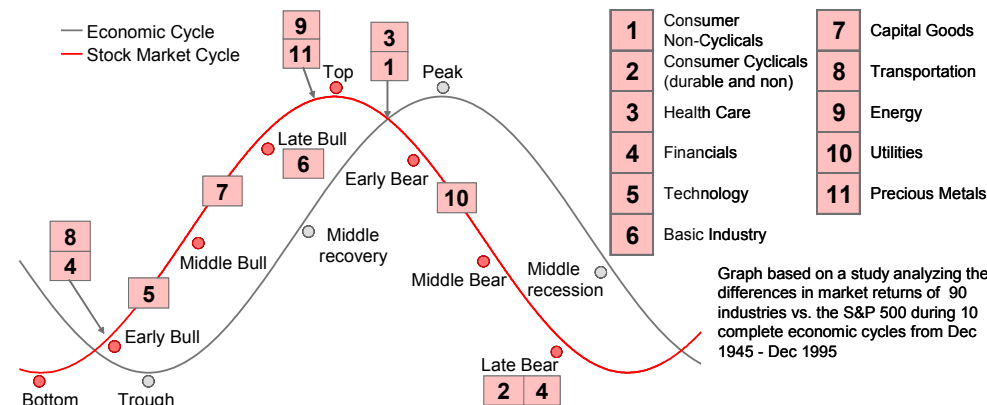
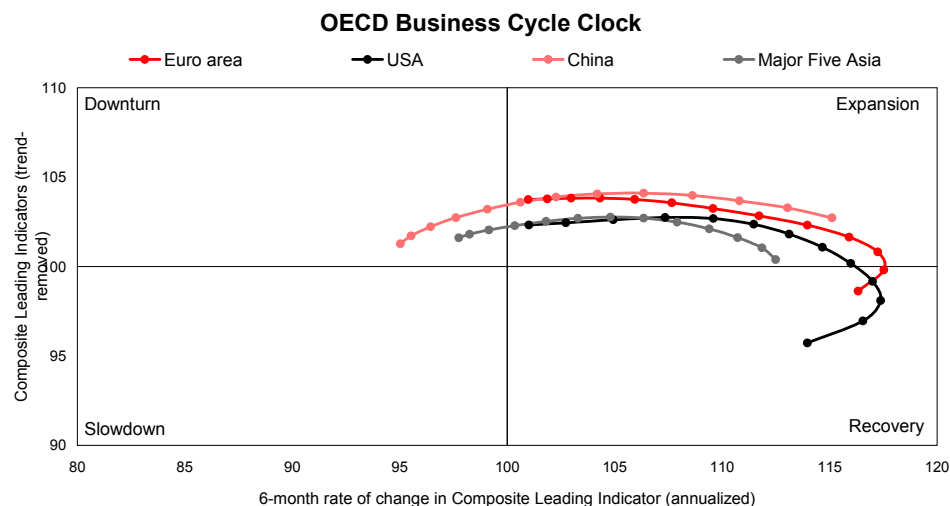
Section 2: Asset allocation & stock selection

In this section we integrate UCG's strategic sector positioning, with specific stock highlights based on our ESG analysis. We highlight our stock preferences (some buys, other holds) based on first ESG criteria, then conventional analysis metrics. This enables those investors keen to skew their portfolios on ESG grounds to select conventionally attractive and sensibly valued names as part of their ESG portfolios. Sometimes, of course, the ESG and conventionally preferred stock is the same.

Asset allocation & stock selection overview

GLOBAL LEADING INDICATORS ARE SIGNALLING GROWTH SLOWDOWN IN 2011... *

...SUGGESTING ROTATION INTO LESS CYCLICAL AND DEFENSIVE PLAYS



*dots represent monthly observations (last observation 08/2010), pls see appendix 12 for chart details Source: OECD, UniCredit Research

Source: 2000 Standard and Poor's, a division of McGraw-Hill companies

■ **"Synchronised" economic growth slowdown expected for 2011.** With Europe, USA and Asia's leading indicators currently near their cyclical highs or having already surpassed them, we see an increased risk of a "synchronised" economic slowdown in 2011. Slowing growth rates for the euro zone's M1 money supply and the peak of earnings revision dynamics represent indicators to support our strategic view.

■ **Stay defensive.** We see the recent rally by cyclical stocks as an opportunity to switch into defensive sectors that offer high dividend yields on risk/reward considerations. Our expectations of weakening cyclical impulses, at-best sideways industrial production growth, softening export demand from Asia, cyclicals' earnings peak, and an EMU-tensions derived volatility increase point towards a more defensive positioning.

■ **Avoid cyclicals:** Cyclical sectors are not expected to see a clear decline in earnings for 4Q10 either, even though the negative earnings revisions should clearly predominate. For 1H11, we expect the negative earnings revisions to accelerate given still falling leading indicators around the globe. The higher earnings stability of defensives versus cyclicals combined with a higher dividend yield will be the decisive "added value" for a sustained outperformance by defensives into 2011.

ESG FOCUS PORTFOLIO – HIGHEST ACTIVE WEIGHTS BY SUPERSECTOR*

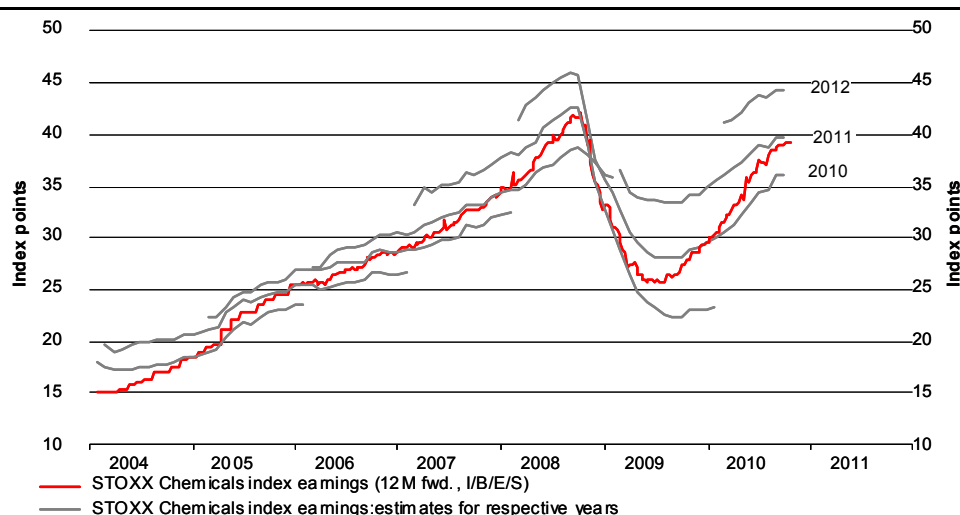
Supersector (reco)	Company name (reco)	Active weight (%)	Expected return, 12M (%)	ESG VG (%)
Overweight sectors				
Chemicals (OW)	BASF SE (Buy)	0.7	23.8	21.3
Oil & Gas (OW)	Total (Buy)	13.8	25.5	13.3
Telecommunications (OW)	Vodafone (Buy)	2.3	7.1	0.1
Utilities (OW)	GDF Suez (Buy)	3.1	4.0	85.8
Neutral sectors				
Automobiles & Parts (N)	Fiat (Buy)	0.0	22.4	5.9
Food & Beverage (N)	Nestlé (Buy)	3.9	10.5	-0.8
Industrial Gds. & S. (N)	Deutsche Post DHL (Buy)	3.5	19.1	-2.8
Insurance (N)	Allianz (Buy)	0.3	21.3	-1.3
Pers. & Household Gds. (N)	L'Oréal (Buy)	1.2	7.6	-0.1
Technology (N)	SAP (Buy)	2.2	15.2	0.5
Underweight sectors				
Banks (UW)	HSBC (Buy)	2.4	33.9	0.6
Basic resources (UW)	Tenaris (Hold)	-0.1	-20.2	-10.9

*For UniCredit's ESG Focus Portfolio exposure and sustainability characteristics overview, pls see appendix 13, for holdings specific investment highlights & triggers, please refer to appendix 14

Source: UniCredit Research

BASIC MATERIALS - Chemicals (OW) – BASF focuses strongly on Environmental Management Systems

CHEMICALS DISPLAY STABLE EARNINGS TREND



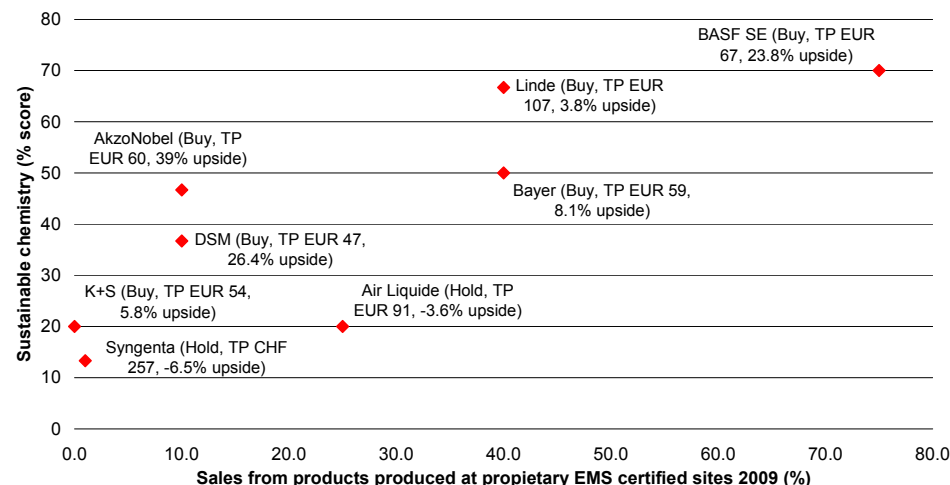
Source: Reuters, Thomson Datastream, UniCredit Research

■ **We overweight Chemicals:** Chemicals is the only cyclical sector where we remain overweight. The fact that export demand remains strong, that capacity utilisation is back at pre-crisis level, margins are (partially) higher than in 2007/08, and that Chemicals is displaying the most stable earnings trend among cyclicals are the key factors for our unchanged positive sector expectation.

■ **BASF (Buy, TP EUR 67, 23.8% upside) sets the standard.** Environmental Management System (EMS) standards assist companies in reducing negative environmental impacts, which is especially relevant regarding hazardous materials. With 75% of sales coming from products at EMS certified sites, BASF leads the sector envisioning a 2020 goal of assessing the product safety risk of 99% of products being sold in quantities above one metric ton p.a.

■ **AkzoNobel (Buy, TP EUR 60.0, 39.0% upside) market share leader.** We expect an upwards revision trend for 2010E/11E earnings estimates with the business environment for Decorative Paints improving and investment cycles restarting. Even on doubling the stock's equity risk premium (10.4%), our DCF derived TP offers significant upside.

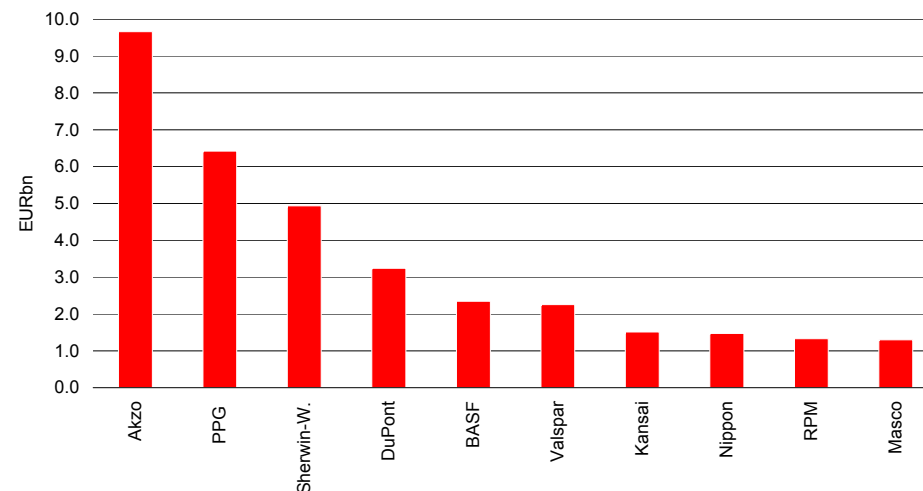
MAJORITY OF BASF PRODUCT SALES DERIVED FROM EMS CERTIFIED SITES*



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

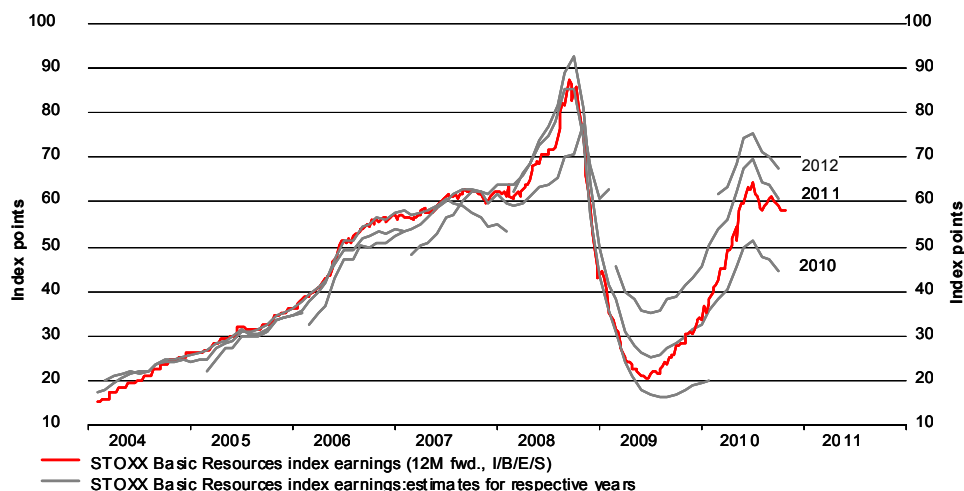
GLOBAL COATING MARKET SHARE 2010E: FRAGMENTATION TO OFFER M&A MOMENTUM



Source: Company data, UniCredit Research

BASIC MATERIALS - Basic Resources (UW) – Tenaris keeps natural resource impact in check

WE EXPECT FURTHER NEGATIVE EARNINGS REVISIONS AHEAD FOR BASIC RESOURCES



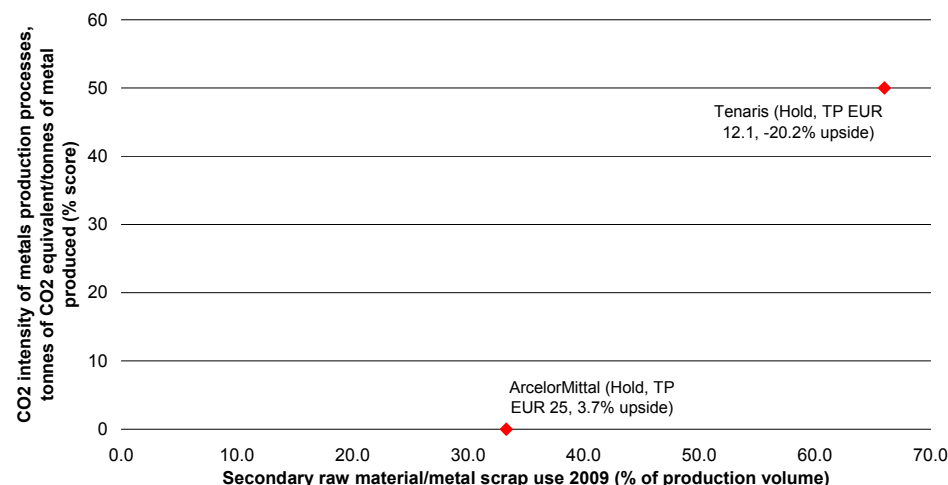
Source: Reuters, Thomson Datastream, UniCredit Research

■ **We overweight Basic Resources:** We expect growing risks concerning the further development of the economic recovery. The number of indicators pointing to an impending slowdown in the demand dynamic for industrial metals is increasing. Given the extreme dependence of earnings on the demand dynamic, we expect further negative revisions ahead. Underperformance looks set to continue in the coming months.

■ **Tenaris (Hold, TP EUR 12.1, -20.2% upside) leads recycling efforts.** Use of recycled steel (scrap) as a raw material saves natural resources and energy, resulting in lower CO2 emissions. With a focus on scrap metal driven electric arc furnace production processes, Tenaris leads its sector with 66% recycled steel usage in 2009 compared to the average recycled steel usage in global steel production of 40% in 2006⁸.

■ **Margin recovery for ArcelorMittal (Hold, TP EUR 25, 3.7% upside).** We expect ArcelorMittal to keep trading around our long-term average steel P/E of 10x on a 12M forward basis, supported by high capacity utilization and an increasing share of revenues from growth regions. Production CO2 intensity (tonnes of CO2/tonnes of steel produced) growth of 2.8% in 2009 and limited volume recovery remain a concern.

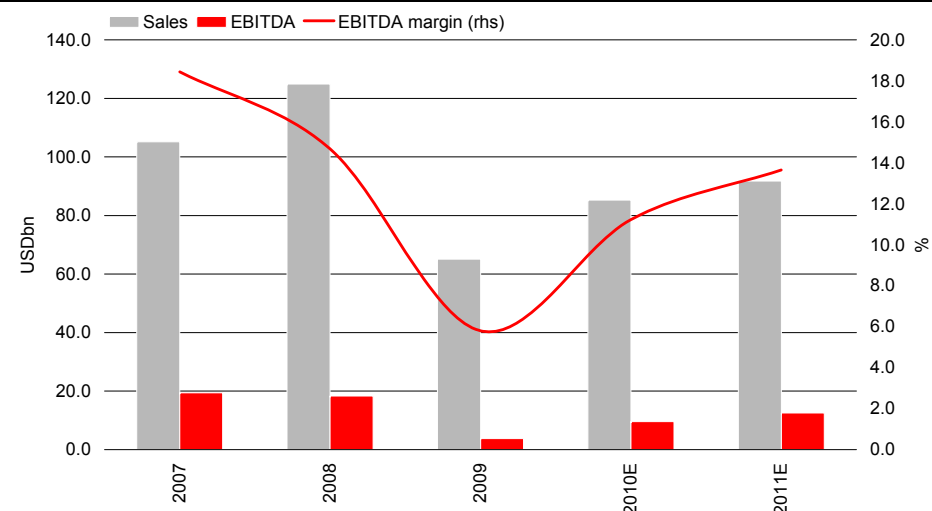
TENARIS LEADS IN LIMITING ENVIRONMENTAL IMPACT OF PRODUCTION PROCESSES*



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

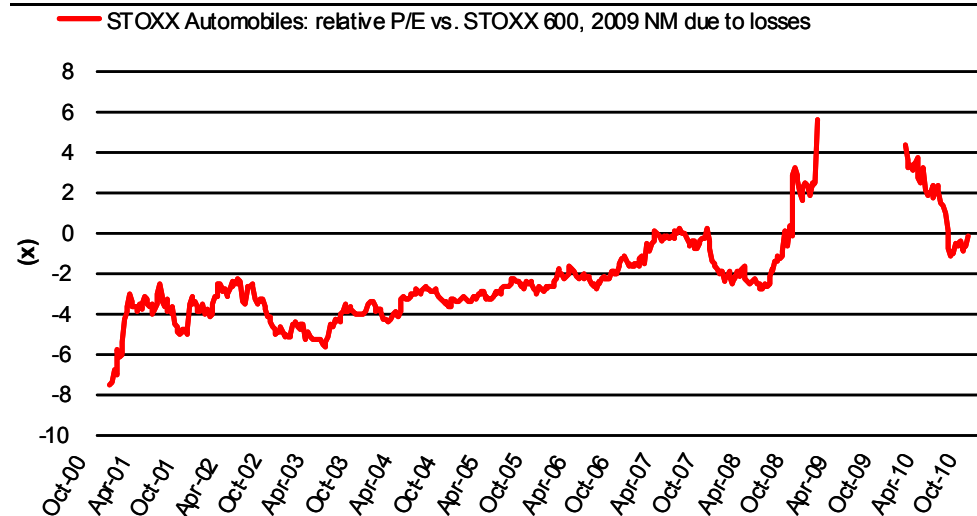
WE EXPECT SIGNIFICANT EBITDA MARGIN RECOVERY BY 2011E FOR ARCELORMITTAL



Source: Company data, UniCredit Research

CONSUMER GOODS - Automobiles & Parts (N) – Fiat well positioned to face emission standards

WE DO NOT EXPECT FURTHER OUTPERFORMANCE GIVEN SECTOR'S RELATIVELY HIGH P/E



Source: Reuters, Thomson Datastream, UniCredit Research

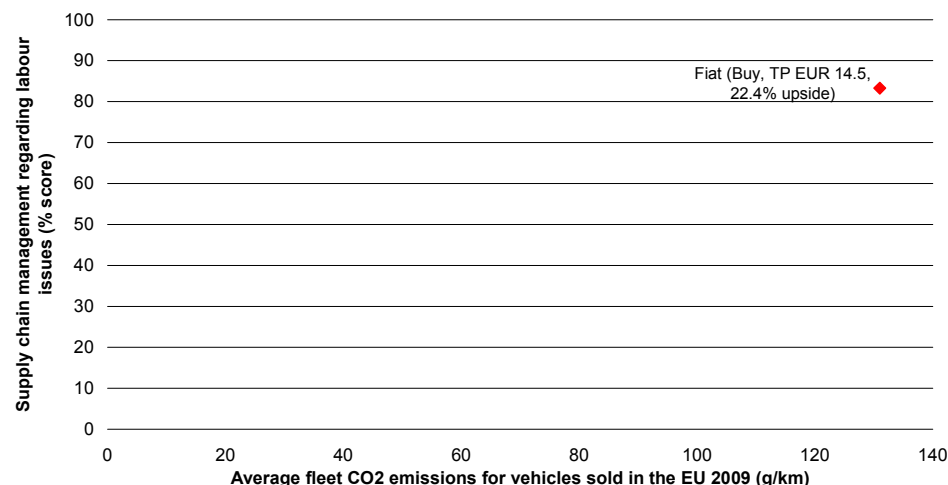
■ **Remaining neutral on Automobiles & Parts:** For the last 10 years, the average P/E difference between Automobiles and overall market has been around minus two. Given the fact that Automobiles is a very cyclical sector and our expectation that recent economic growth should at least see a slowdown, we do not expect further outperformance given the sector's relatively high valuation levels (P/E 2011E 10.0, STOX 600 2011E 10.7)

■ **Fiat's earnings face lowest CO2 compliance cost shock.** EU legislation will phase in penalties (EUR 5-95 per g/km of exceedance) from 2012-2019 on car manufacturers whose fleet average CO2 emissions exceed 130g/km, with 95g/km being 2020's target⁹. Fiat's fleet remains best positioned in Europe at an average 131g/km in 2009, showing an impressive 22% drop in emissions from 1995-2008 through its fuel economy focus.

■ **Triggers expected for Fiat (Buy, TP EUR 14.5, 22.4% upside).** Upward consensus revisions after 52.2% beating Q310 results, a positive re-rating from the Fiat Auto/Industrial de-merger plan and synergies (EUR 1.5bn by 2014) through the Fiat/Chrysler alliance represent our core performance triggers despite ongoing trade union disputes.

Source: Company data, UniCredit Research

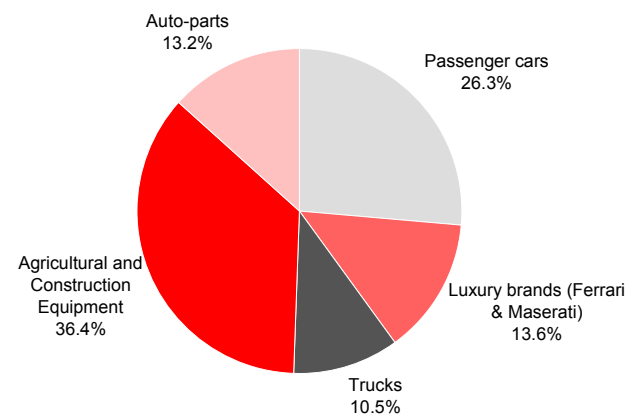
FIAT LEADING ENVIRONMENTAL COMMITMENT WITH LOW CO2 EMITTING FLEET*



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

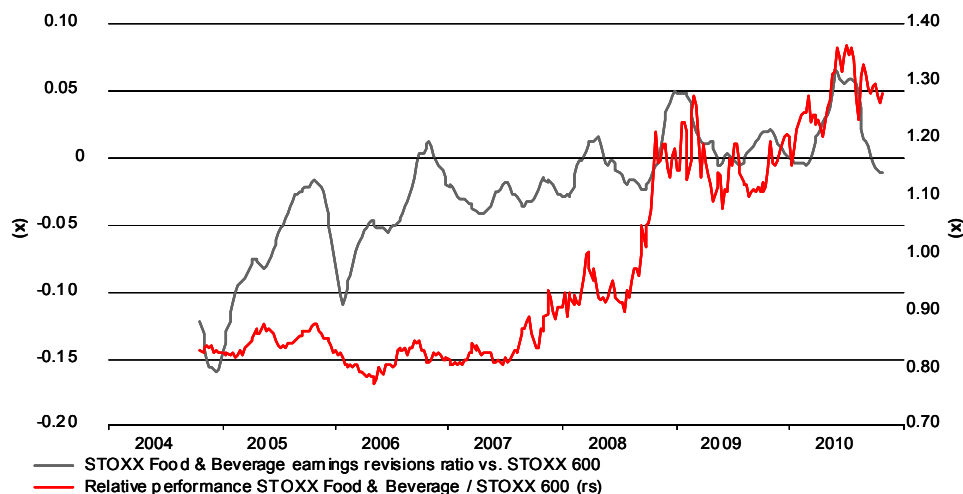
FIAT'S 2010E TRADING PROFIT BREAKDOWN HIGHLIGHTS RISK DIVERSIFICATION



Source: UniCredit Research

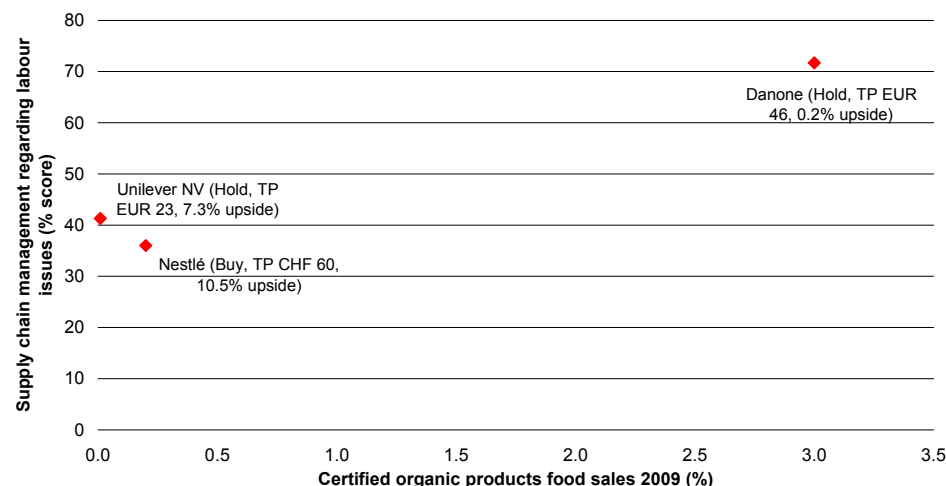
CONSUMER GOODS - Food & Beverage (N) – Danone leads on green food trend

FOOD & BEVERAGE SHOWS OUTPERFORMANCE IN PHASES OF ECONOMIC DOWNTURN



Source: Reuters, Thomson Datastream, UniCredit Research

DANONE BETS STRONGEST ON ORGANIC FOODS MARKET*



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

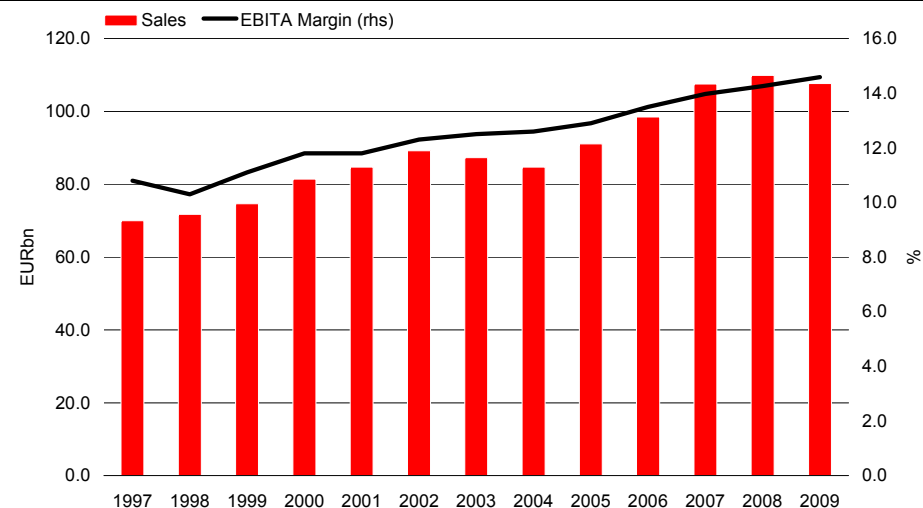
■ **Neutral stance on Food & Beverage:** Food & Beverage is historically the most defensive sector, showing an outperformance only in phases of an economic downturn. Currently we do not expect a strong downturn of the economy, but a slowing of growth. On growing signs of economic weakness, we would consider overweighting the sector.

■ **Danone (Hold, TP EUR 46.0, 0.2% upside) offers best organic food exposure.** US organic foods sales have soared 26% p.a. from 1993 to 2008. Despite a significant crisis-induced drop to 1.8% in 2009, growth rate forecasts (20% p.a. 2010-12)¹⁰ remain strongly above those of the general food market¹¹. The biggest trend exposure (3.0% of sales 2009) is offered by Danone with its subsidiary Storyfield Farm being the world's largest organic yogurt company.

■ **Nestlé (Buy, TP CHF 60, 10.5% upside) offers organic growth.** We believe that Nestlé's visible peer-beating 1H 2010 EBITA growth of 11%, coupled with potential EPS upgrades coming from announced cash returns, warrants a premium to peers based on P/E and EV/IC to ROIC/WACC multiples with Nestlé's food & beverage assets trading at parity to peers.

Source: Company data, UniCredit Research

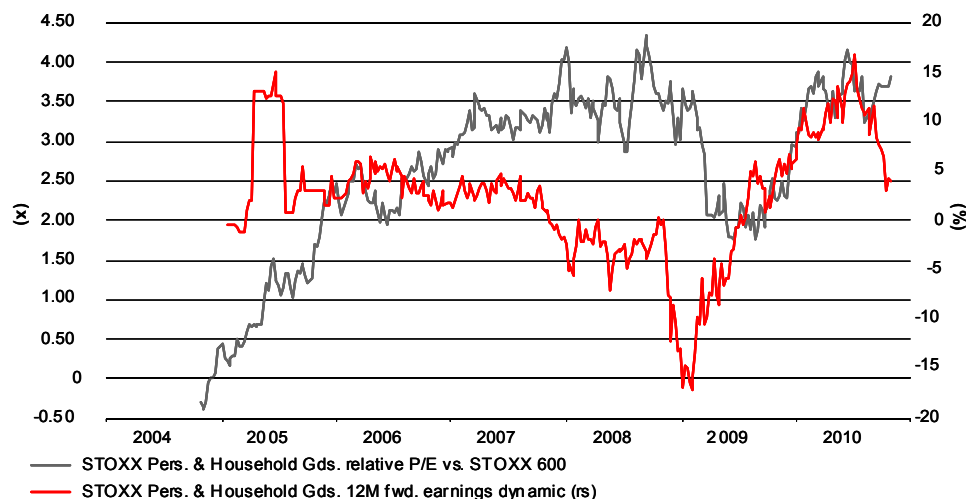
NESTLE EXPECTED TO CONTINUE DELIVERING STRONG ORGANIC EBITA GROWTH



Source: UniCredit Research

CONSUMER GOODS - Personal & Household Goods (N) – L'Oréal leads eco-product sales

SECTOR IS DEFENSIVE PLAY, BUT CURRENT VALUATIONS ARE AT HISTORIC HIGHS



Source: Reuters, Thomson Datastream, UniCredit Research

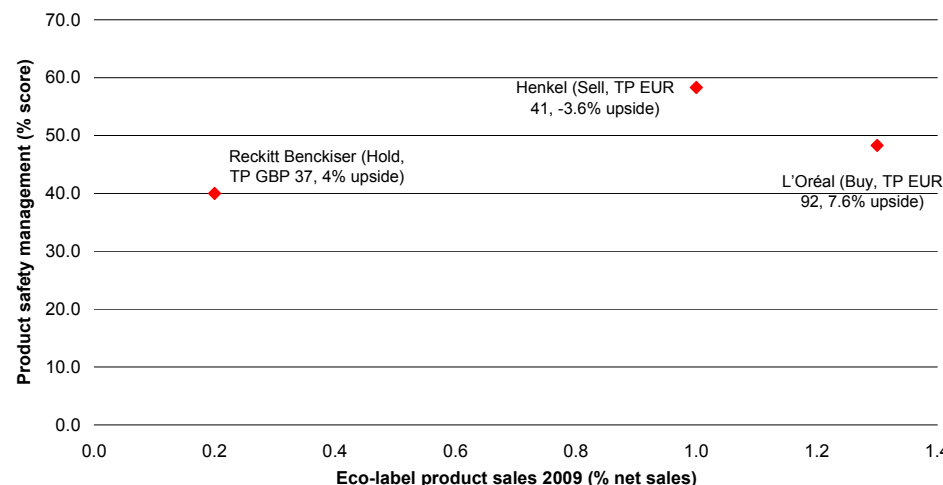
■ **We remain neutral on Pers. & Household Goods.** The sector represents a defensive play due to the high dependence on personal demand, which is normally much less volatile than industrial demand. Therefore, our general expectation for the sector is positive. However, relative to the overall market, the current valuation is in the area of its historic highs. This limits the further potential of the sector.

■ **L'Oréal (Buy, TP EUR 92, 7.6% upside) leads on product ecology.** With 33.3% of US consumers willing to pay price premiums for eco-friendly products¹², companies can benefit from retail price premiums ranging between 50%-200%¹³. L'Oréal continues to push this product palette (1.3% sales 2009) by reducing ecotoxic properties of hair care and applying green chemistry principles (biodegradable agents) to shower gel products.

■ **Philips (Buy, TP EUR 29.0, 30.7% upside) at attractive valuations.** With the company's "Vision 2015" targeting Philips' market growth to outpace nominal global GDP by 2%, we highlight the stock's attractive valuation relative to the sector (forward P/E of 11.3x vs. sector's 13.4x), especially in terms of dividend yield (4.5% vs. sector of 2.4%).

Source: Company data, UniCredit Research

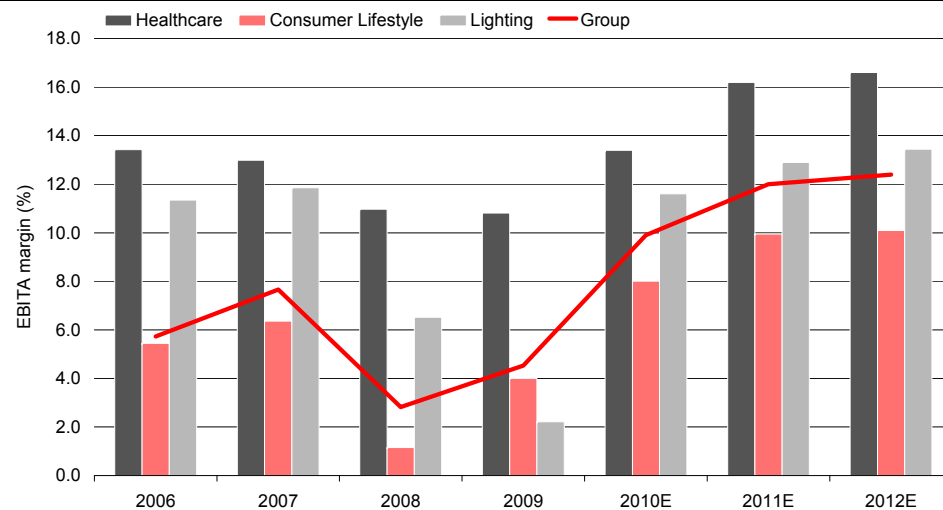
L'ORÉAL OFFERS HIGHEST SALES EXPOSURE TO GREEN PRODUCTS' HIGHER MARGINS



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

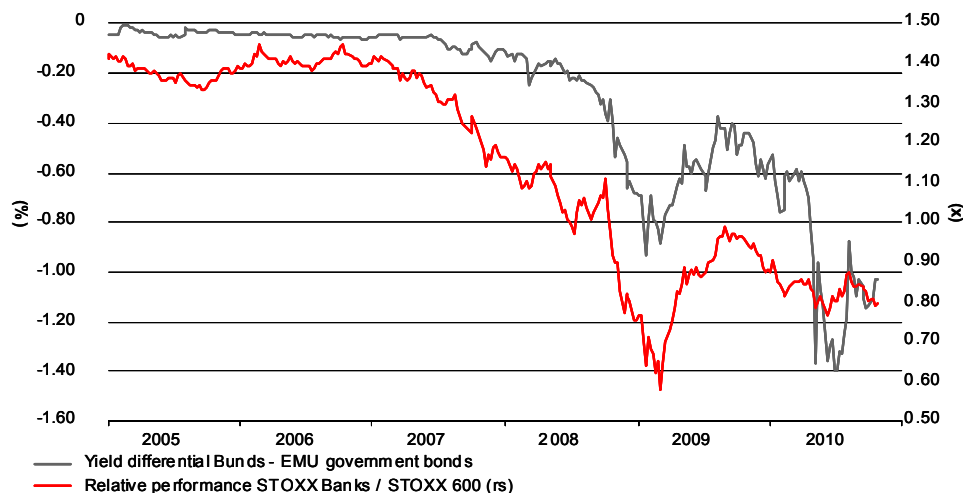
PHILLIPS RESTRUCTURING COMPLETE WITH NEW EMPHASIS ON HEALTHCARE/LIGHTING



Source: UniCredit Research

FINANCIALS – Banks (UW) – Intesa Sanpaolo offering highest exposure to growing SRI market

SOVEREIGN RISK COULD STILL CAUSE SETBACKS FOR BANKS SECTOR



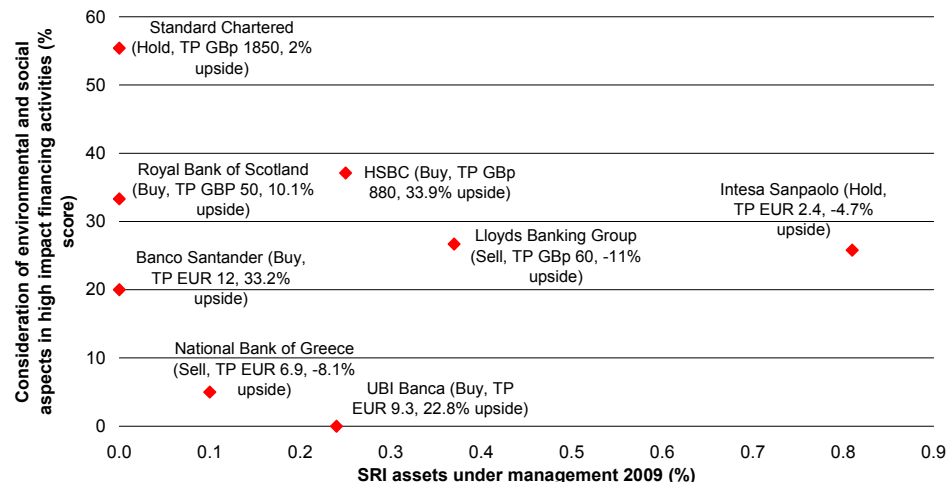
Source: Reuters, Thomson Datastream, UniCredit Research

■ **We underweight Banks:** Two risk categories (in addition to the regulatory risk) remain the focus for Banks. First, credit risk for banks remains high because of government austerity measures in Europe and resulting growth risks. Second, the consolidation of government finances has only just begun and the risk of setbacks, i.e. sovereign risk, remains significant as a result of probable asymmetric growth in Europe.

■ **Intesa Sanpaolo (Hold, TP EUR 2.4, -4.7% upside) leads SRI assets build-up.** The United Nations Principles for Responsible Investment (UNPRI) is a USD 22.0tn strong asset owner/manager initiative for ESG integration. Intesa, with 0.8% of third party assets managed under an SRI mandate in 2009, offers the highest exposure to a market that has seen a growth rate of 89.1% in terms of UNPRI signatories' assets from 2008-09¹⁴.

■ **Re-rating expected for HSBC (Buy, TP GBp 880, 33.9% upside).** With the US run-off diminishing in significance, we believe that HSBC, with its sector leading liquidity, will enjoy a re-rating as markets reappraise its growth potential. The bank's backing of sustainable financing principles such as the Equator Principles remains a positive.

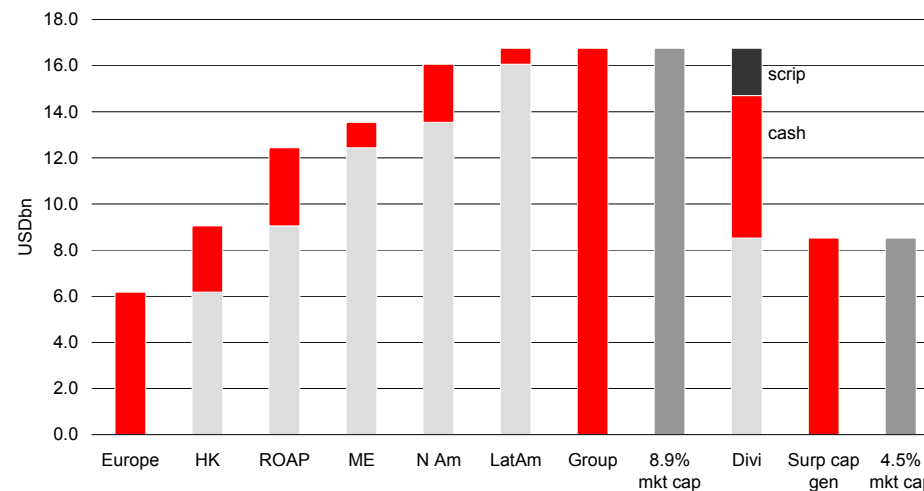
INTESA SANPAOLO LEADING PUSH FOR MORE SOCIALLY RESPONSIBLE INVESTMENTS



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

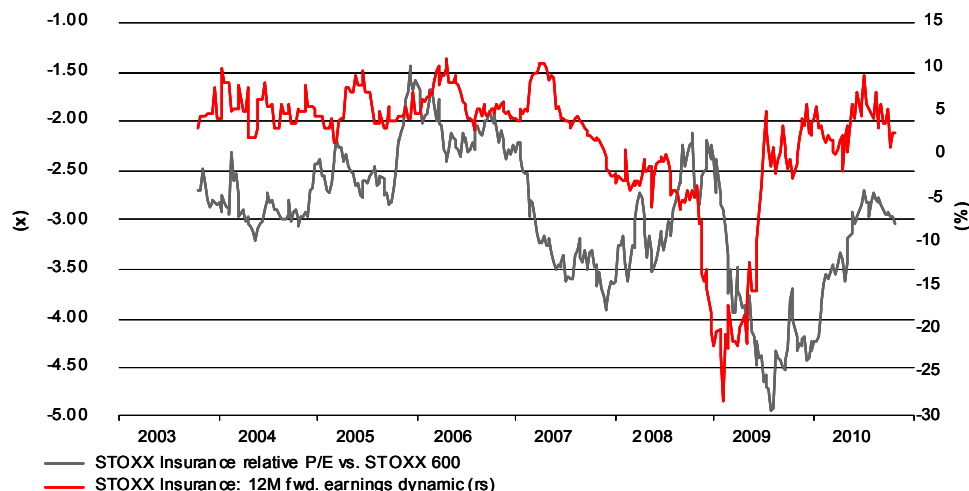
HSBC REGIONAL CAPITAL GENERATION 2012E TO REACH 8.9% OF CURRENT MARKET CAP



Source: Company data, UniCredit Research

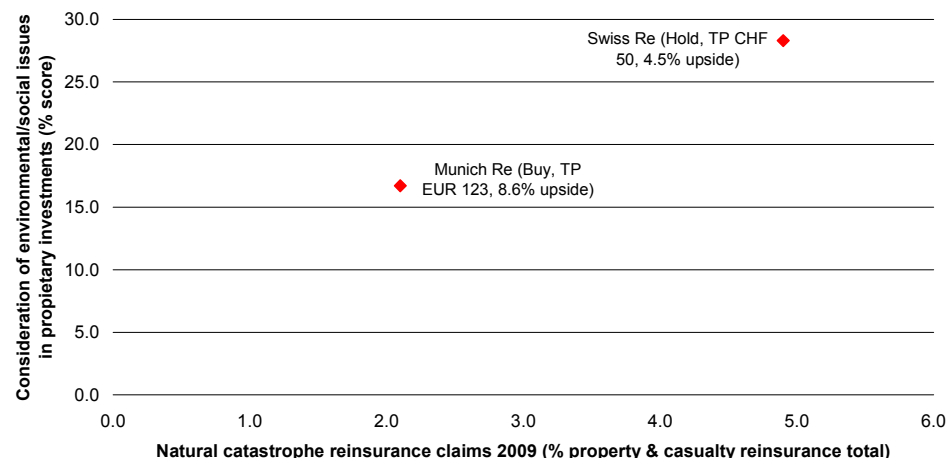
FINANCIALS – Insurance (N) – Munich Re portrays climate change risk mitigating characteristics

DEPRECIATION AND LOW INTEREST RATES REMAIN A BURDEN FOR THE SECTOR



Source: Reuters, Thomson Datastream, UniCredit Research

MUNICH RE LESS EXPOSED TO NATURAL CATASTROPHE CLAIMS



*Pls check company profiles for KPI/score details

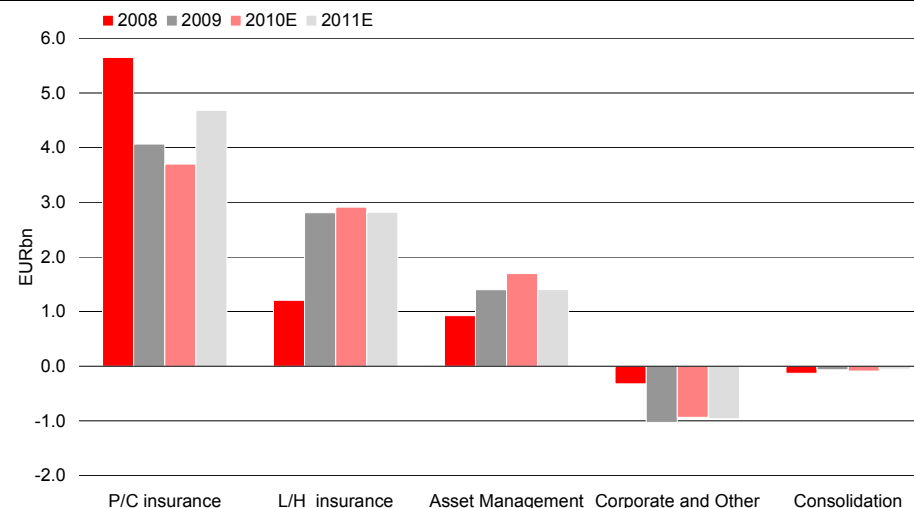
Source: oekom research, UniCredit Research

■ **Neutral view on Insurance:** The relative valuation of the Insurance sector is in line with its historical average compared to the overall market. The sector's operating margin development is constructive, but the risk of ongoing depreciations (due to the sovereign risk problematic) brings uncertainty and constitutes a burden for the sector. Additionally, low interest rate levels constitute a difficulty to reach targets of the investment policies.

■ **Munich Re (Buy, TP EUR 123, 8.6% upside) less exposed to climate risk.** Increasing losses from climate catastrophes require larger capital/premium income coverage but offer revenue potential through climate change related insurance products/services and risk assessment¹⁵. With Munich Re's lower catastrophe insurance exposure (2.1% 2009), its specialised climate change research seems risk mitigating.

■ **Allianz (Buy, TP EUR 110, 21.3% upside) trading at discount.** Allianz' 12M forward P/E of 7.7x offers a discount to both the current sector (7.9x) and historical average P/E of 8.7x since 2002. We see the discount as unjustified after a strong dividend backing set of FY09 results and strong performance/inflows into asset management in 1H10. The natural catastrophes burdened P/C insurance segment should improve in FY11.

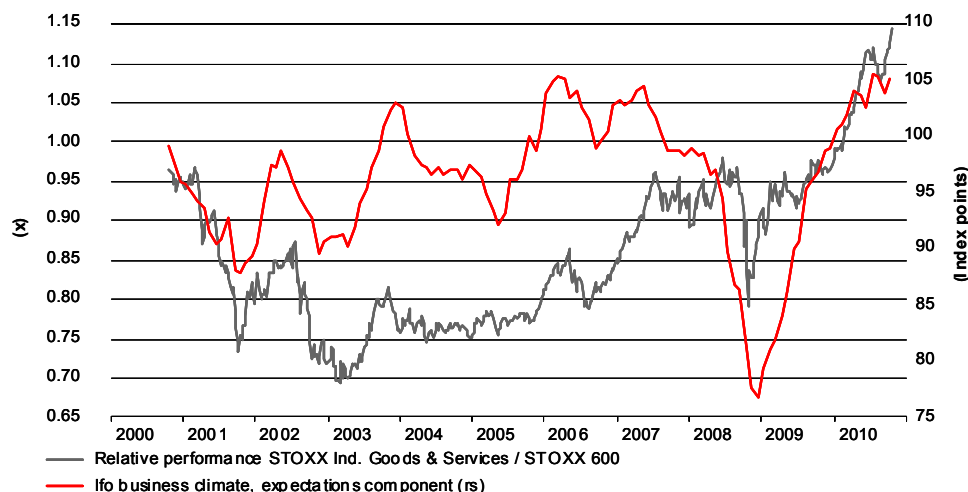
WE EXPECT A 9.8% RECOVERY IN ALLIANZ' PRETAX OPERATING PROFITS 2009-11E



Source: Company data, UniCredit Research

INDUSTRIALS (N) – Siemens scores high with its broad climate change risk mitigation strategy

INDUSTRIALS EXPECTED EARNINGS GROWTH IN LINE WITH OVERALL MARKET



Source: Reuters, Thomson Datastream, UniCredit Research

■ **We are neutral on Industrial Goods & Services:** 2011 expected earnings growth is in line with overall market, but the valuation is higher (STOXX Industrial Goods & Services P/E 2011E 13.4. STOXX 600 10.7). Given the expectation of weaker export demand, from the US and Asia in particular, we do not expect further outperformance. In the event of growing signs of economic weakness, we would consider downgrading the sector to underweight.

■ **Siemens (Hold, TP EUR 85, 2.5% upside) scores high on climate change strategy.** Siemens' environmental portfolio consists of products and systems addressing energy efficiency, renewable energy and cleaner water/air. The strategy is further backed by concrete targets such as achieving EUR 25bn of environmental portfolio revenues by 2011 and reducing customer GHG emissions by 300mn tonnes p.a. by 2011.

■ **Finmeccanica's (Buy, TP EUR 11.2, 12.0% upside) positive growth outlook.** Despite tough momentum in the defence industry, we keep a positive stance on Finmeccanica given its cheap valuation (2011E P/E of 9.3x vs. competitors 10.3x), potential new emerging markets orders and a possible successful bid for Italian high speed train contracts.

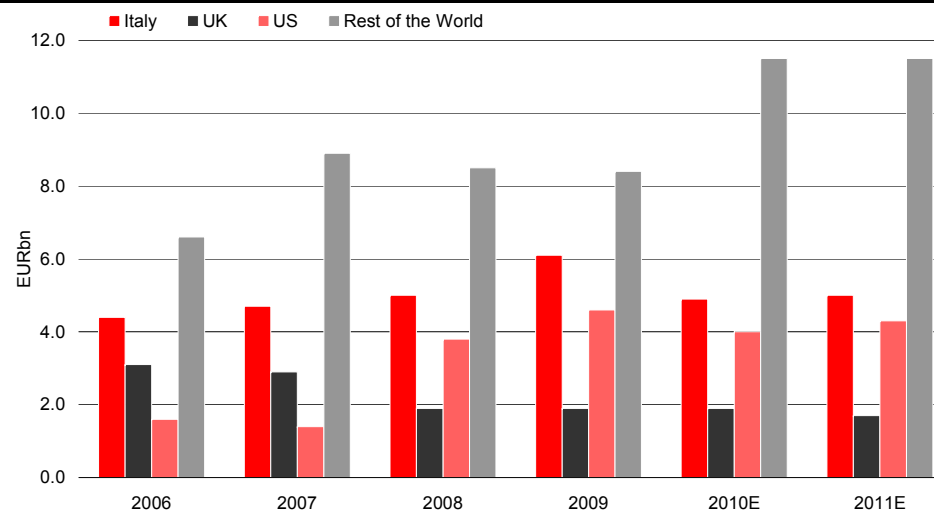
INDUSTRIAL STOCKS FACE A DIVERSITY OF SUSTAINABILITY ISSUES

Company	Sector Key Performance Indicator	2009	Sector Key Thematic Score	% score
Deutsche Post DHL (Buy, TP EUR 16, 19.1 % upside)	Fleet powered by renewable/alternative fuels (%)	0.9	Transport Efficiency	21.1
EADS (Hold, TP EUR 18, -6.5% upside)	CO2 emissions / seat produced	2.0	Business ethics	52.8
Finmeccanica (Buy, TP EUR 11.2, 12% upside)	Investments to improve environmental performance (% sales)	0.0	Business ethics	50
MAN SE (Hold, TP EUR 80, -0.2% upside)	Investments to improve environmental performance (% sales)	0.0	Strategy for addressing climate change and related risks	39.7
Siemens (Hold, TP EUR 85, 2.5% upside)	Environmental product portfolio sales (% sales)	0.2	Strategy for addressing climate change and related risks	76.3
ThyssenKrupp (Sell, TP EUR 16.5, -38.2% upside)	Secondary raw material/metal scrap use (% production volume)	11.0	CO2 intensity of metals production processes, tonnes of CO2 equivalent/tonnes of metal produced (% score)	16.7

*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

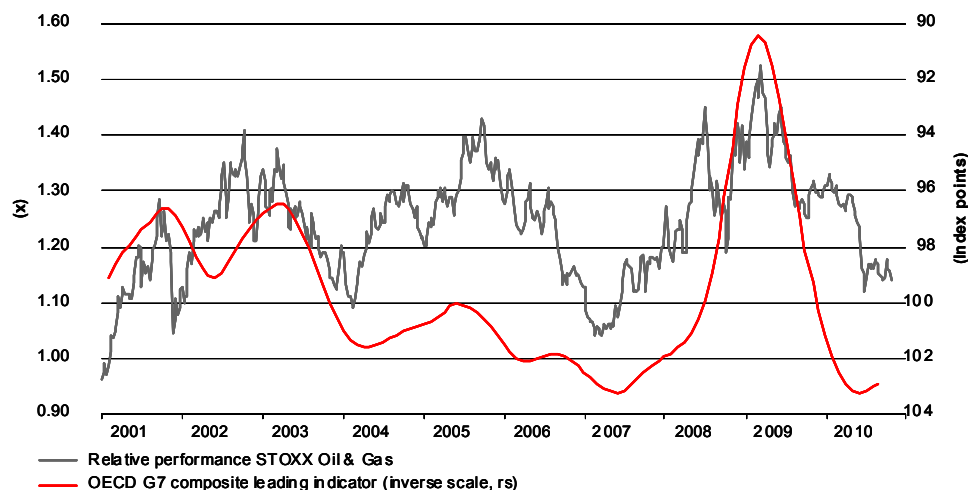
FINMECCANICA'S NEW ORDERS CONTINUE GEARING UP TO EMERGING MARKETS GROWTH



Source: UniCredit Research

OIL & GAS (OW) - Shell leads climate change risk mitigating production through cleaner fossil fuel focus

OIL & GAS REGULARLY OUTPERFORMS IN PHASES OF FALLING LEADING INDICATORS



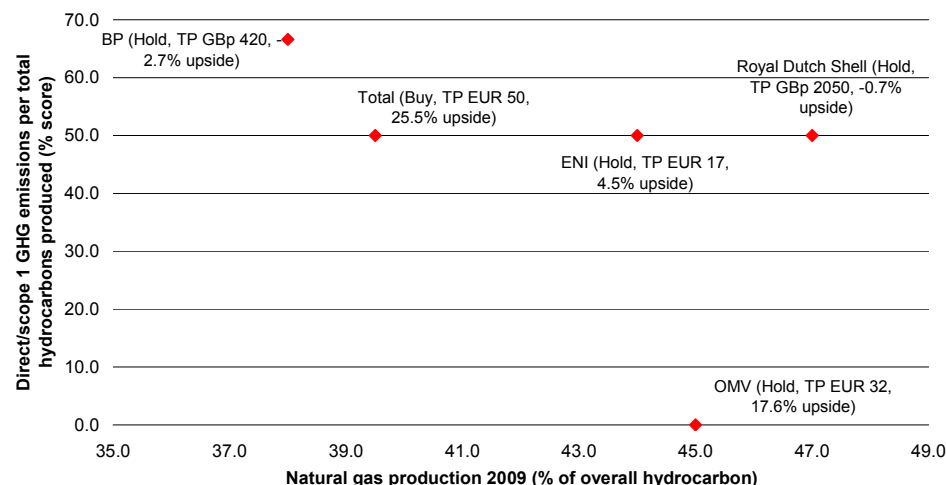
Source: Reuters, Thomson Datastream, UniCredit Research

■ **Overweight in Oil & Gas:** Oil & Gas must be considered a strongly defensive commodity sector. In phases of falling leading indicators, the oil sector regularly outperforms. The backdrop to this outperformance is that while demand for energy slows in economic downswing phases, as a result of the high share in demand from households and transportation, demand for energy is considerably more stable than the level of demand in the economy as a whole.

■ **Shell (Hold, TP GBp 2050, -0.7% upside) leads low-CO2 hydrocarbon production.** CO2 emissions from natural gas combustion (0.35t CO2/MWh) are 63.2% and 45.3% lower than from lignite coal (0.95t CO2/MWh) and crude oil (0.64t CO2/MWh). With regulatory pressure on, low-CO2 energy providers will likely benefit in the long term, with Shell planning to produce more gas than oil by 2012 (47.0% natural gas production 2009).

■ **TOTAL's (Buy, TP EUR 50, 25.5% upside) valuation undemanding.** With a reiterated 2% CAGR production guidance for 2009-14, 9M10 FCF neutrality of 60USD/bbl, an attractive dividend yield in excess of 6% and a 2010 EV/DACF (5.6x) standing at a 10% discount to its 5-year average of 6.4x, we see the current valuation as undemanding.

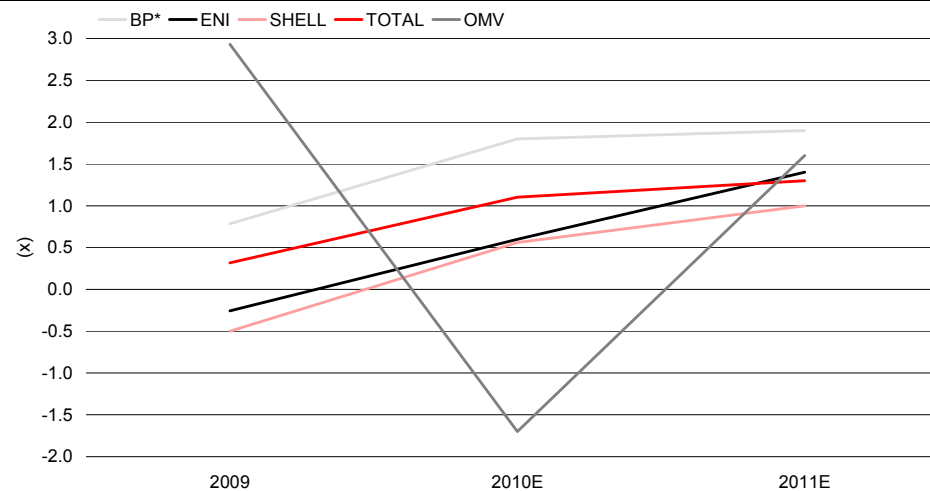
SHELL LEADS HYDROCARBON PRODUCTION SHIFT TO CLEANER FUELS



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

TOTAL'S FREE CASH FLOW DIVIDENDS COVER RATIO REMAINS RELATIVELY ATTRACTIVE

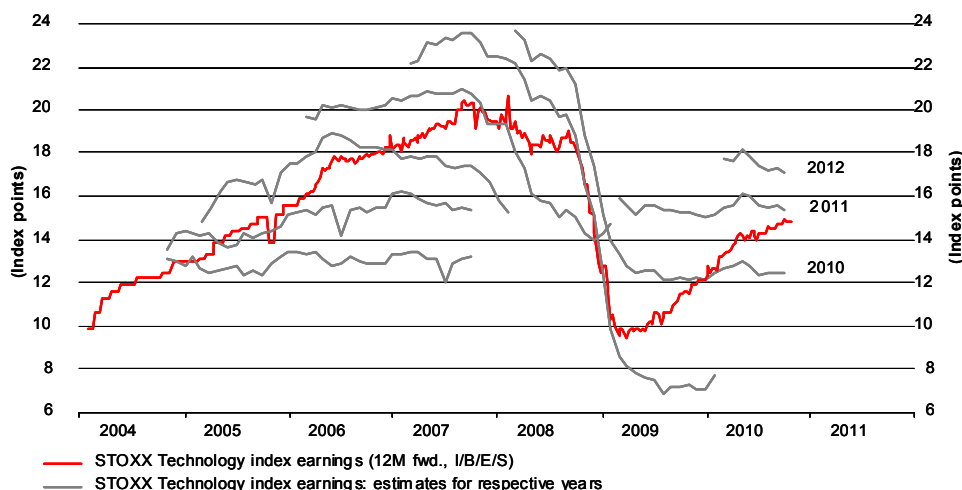


*normalised

Source: Company data, UniCredit Research

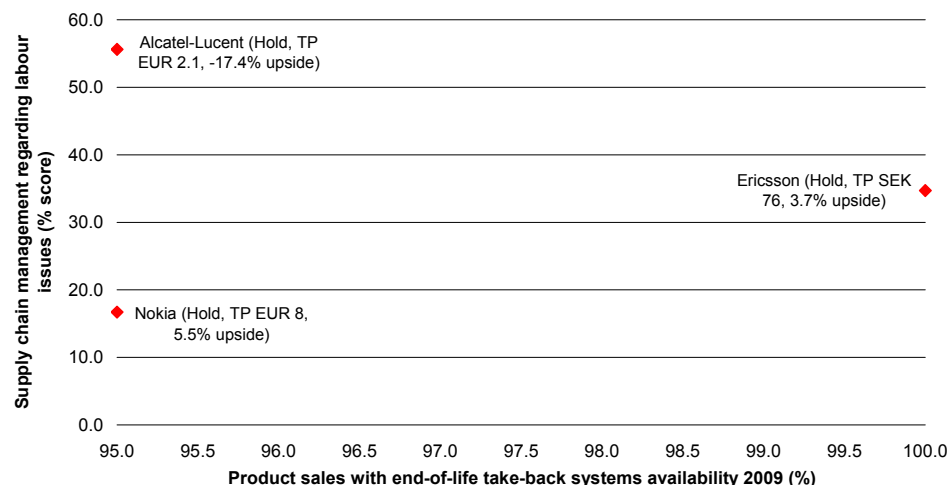
TECHNOLOGY (N) – Ericsson scores high through global e-waste tackling Ecology Management Program

WE EXPECT PERIOD OF ABOVE-AVERAGE EARNINGS GROWTH TO BE OVER



Source: Reuters, Thomson Datastream, UniCredit Research

ERICSSON'S EQUIPMENT TAKE-BACK SERVICE APPLIES TO ALL ITS PRODUCTS



*pls check company profiles for KPI/score details

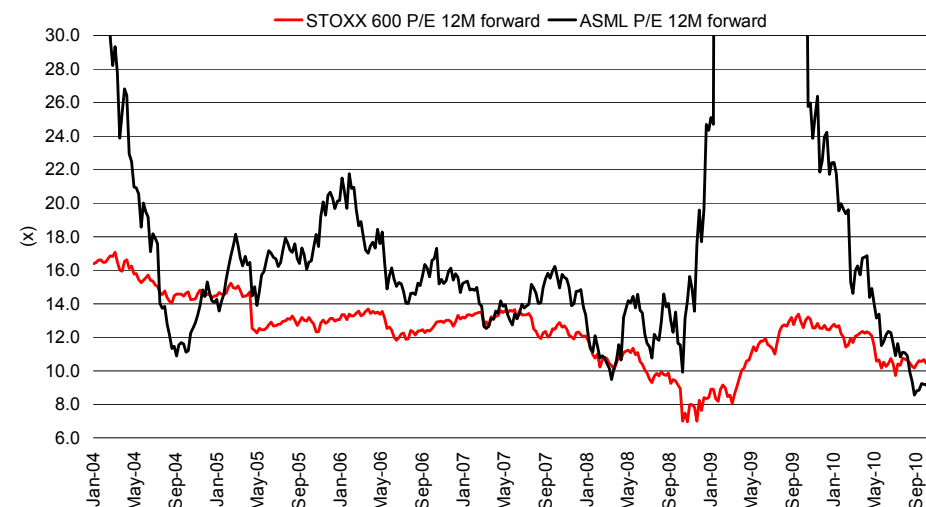
Source: oekom research, UniCredit Research

■ **Neutral on Technology:** Technology is a classical early cycle cyclical sector with high swings in earnings growth during the course of the economic cycle. Therefore, the period of above-average earnings growth for the sector is over with slowing leading indicators ahead. At best, we expect a neutral performance in the months ahead.

■ **Ericsson (Hold, TP SEK 76, 3.7% upside) leads e-waste recovery.** Discarded electronic equipment provides materials that if extracted and recycled can be reused and sold again, generating significant life-cycle cost savings. Ericsson's global application of the EU e-waste Directive through offering free take-back of decommissioned equipment in all of its 175 operating countries and above minimum required waste recovery rates (75% vs. 95% in 2009) gives the stock pole position in e-waste recovery efforts.

■ **ASML (Buy, TP EUR 27.0, 11.9% upside) at attractive P/E.** ASML's 3Q10 EPS beat of 9% confirmed our scenario for a relatively seamless transition of order receipts from DRAM to the foundry, IDM and NAND segments. With ASML's expectations-beating order momentum to continue, we see the stock's current low P/E of 9.5x as an attractive entry point relative to the 12MF trough P/E of 11.5x from October 2008.

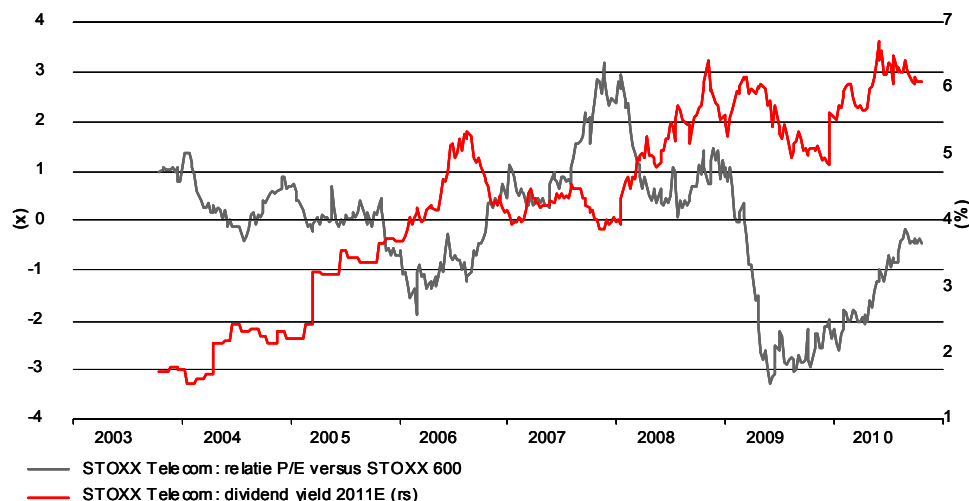
ASML'S IMPROVED EARNINGS VISIBILITY AVAILABLE AT LOW MULTIPLES



Source: UniCredit Research

TELECOMMUNICATIONS (OW) – Telecom Italia limiting radiation hazard of mobile phones offering

NON-DEMANDING VALUATION TO BACK HISTORIC OUTPERFORMANCE TREND



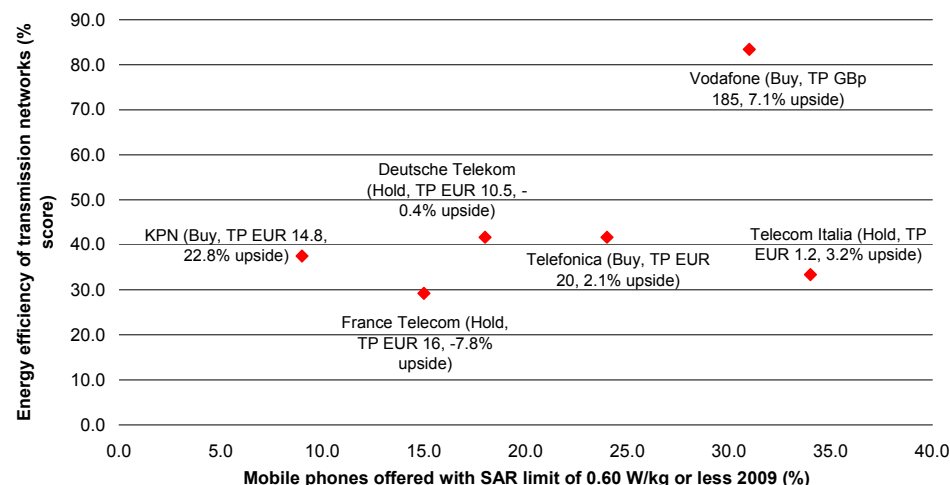
Source: Reuters, Thomson Datastream, UniCredit Research

■ **We overweight Telecoms:** Historically, the Telecom sector outperforms in the second half of a year (in 12 of the past 15 years). Additionally the P/E valuation is in line with overall market, which is low in historic terms for such a strongly defensive sector. The expected high dividend yield of 6.1% provides additional support.

■ **Telecom Italia (Hold, TP EUR 1.2, 3.2% upside) keeping it safe.** To safeguard population health, EU legislation has established Specific Absorption Rate (SAR) thresholds, which limit the electromagnetic power emitted from electronic devices that are absorbed by the body's tissue. Possible future litigation risk remains lowest for Telecom Italia, with 34% of Italian mobile phones offered in 2009 below the threshold of 0.6 Watt/kg recommended by the German Federal Office for Radiation Protection.

■ **Telefonica (Buy, TP EUR 20.0, 2.1% upside) offers strong earnings recovery.** After a strong 2Q earnings beat (EBITDA 5.0%/revenues 4.0%), we expect ongoing upwards revisions of consensus estimates. The full integration of Telefonica's stake in Portugal Telecom's Vivo in consensus estimates is likely going to trigger positive price momentum given our assumed 2% EPS mid-term accretion from derived synergies.

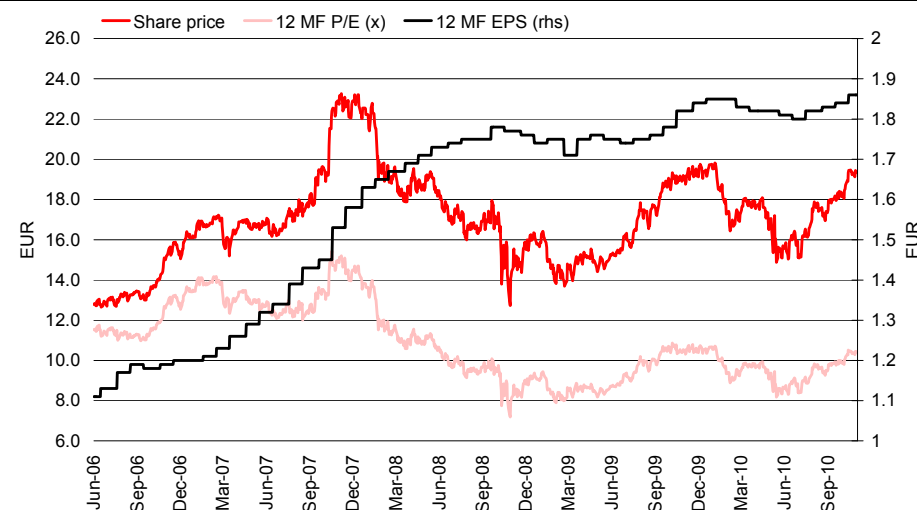
TELECOM ITALIA'S MOBILE PHONE OFFER MOST COMPLIANT WITH SAR GUIDELINES



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

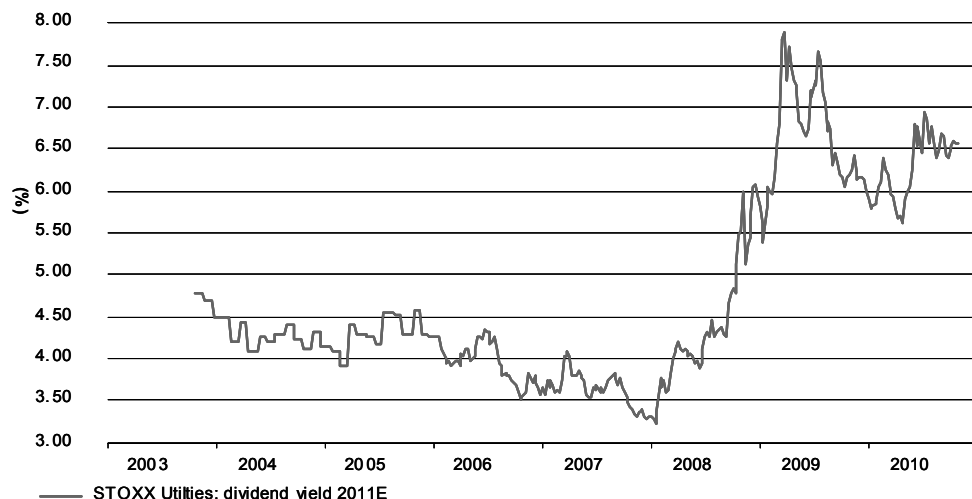
TELEFONICA'S 12MF EPS TRENDING UPWARDS



Source: Company data, UniCredit Research

UTILITIES (OW) – EDP has started to generate around half of electricity from renewable sources

HIGH DIVIDEND YIELD EXPECTED TO SUPPORT SECTOR GIVEN ECONOMIC UNCERTAINTY



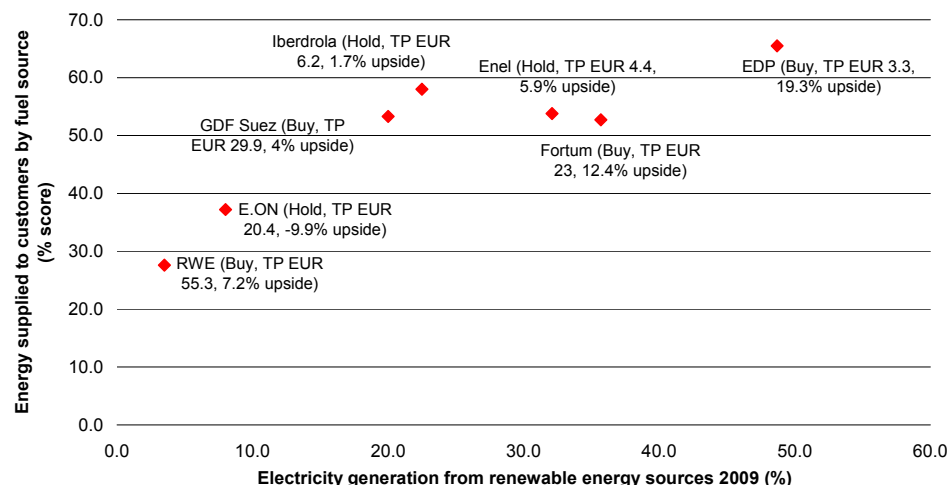
Source: Reuters, Thomson Datastream, UniCredit Research

■ **Overweight in Utilities:** The risk of new state regulations or additional charges should already be largely priced in following the 2Q10 announcement of major consolidation measures in European countries. The expected high dividend yield of 6.5% is attractive and supports the sector in times of growing economic uncertainty.

■ **EDP (Buy, TP EUR 3.3, 19.3% upside) keeps it clean.** The shift from fossil fuel to renewable energy driven electricity generation is one of the most important factors for climate change risk mitigation. With EDP generating almost half (48.7% 2009) of its electricity from renewable energy sources, the company continues well down its target path of 70% CO2 emissions reduction by 2020 from its 2008 levels.

■ **Fortum (Buy, TP EUR 23, 12.4% upside) offers safe haven.** With July's Finnish budget proposal not including any provisions for a nuclear tax, we still consider Fortum a relative safe haven from regulatory intervention. Global power demand recovery, attractive Russian growth prospects and management's commitment to maintain a 50%-60% dividend payout ratio should continue to support the stock price.

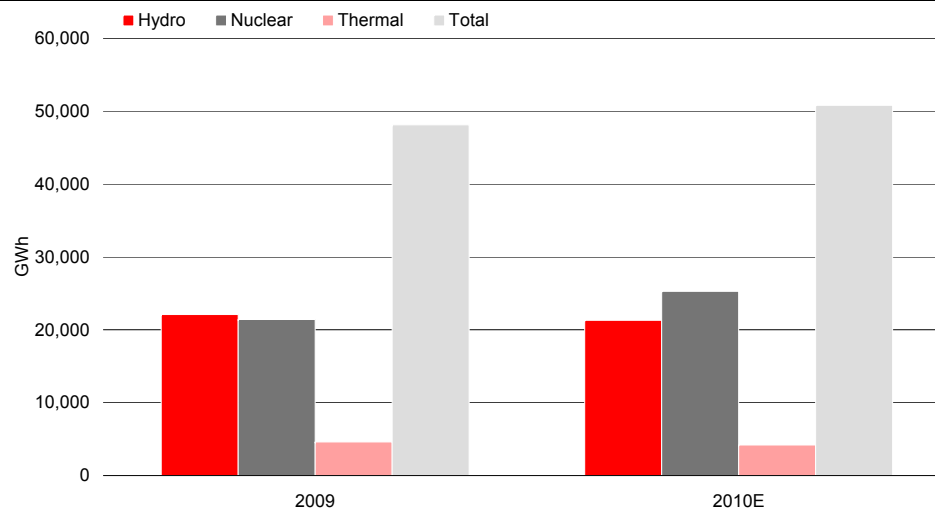
EDP LEADS THE EFFORT FOR CLEANER ELECTRICITY GENERATION



*pls check company profiles for KPI/score details

Source: oekom research, UniCredit Research

FORTUM'S GENERATION BREAKDOWN SIGNALS EXPOSURE TO LOW CO2 EMISSIONS

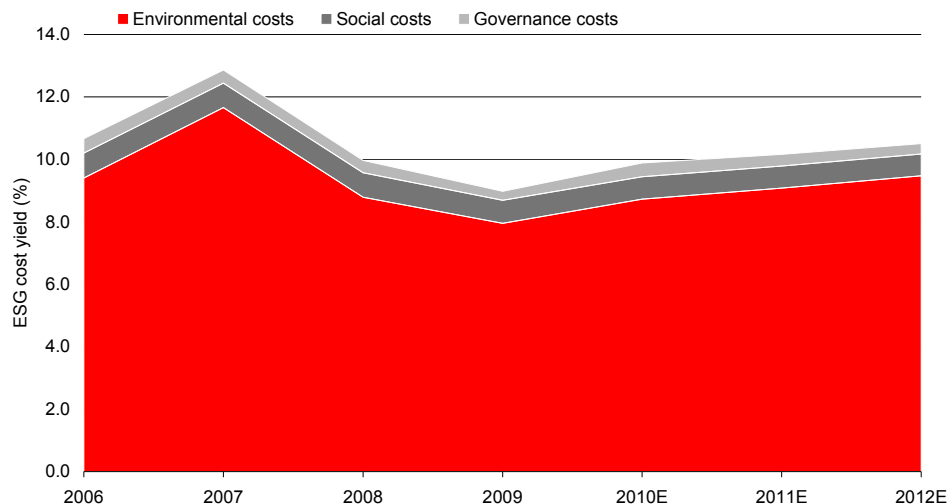


Source: Company data, UniCredit Research

Section 3 – Thematic analysis overview

Thematic analysis overview

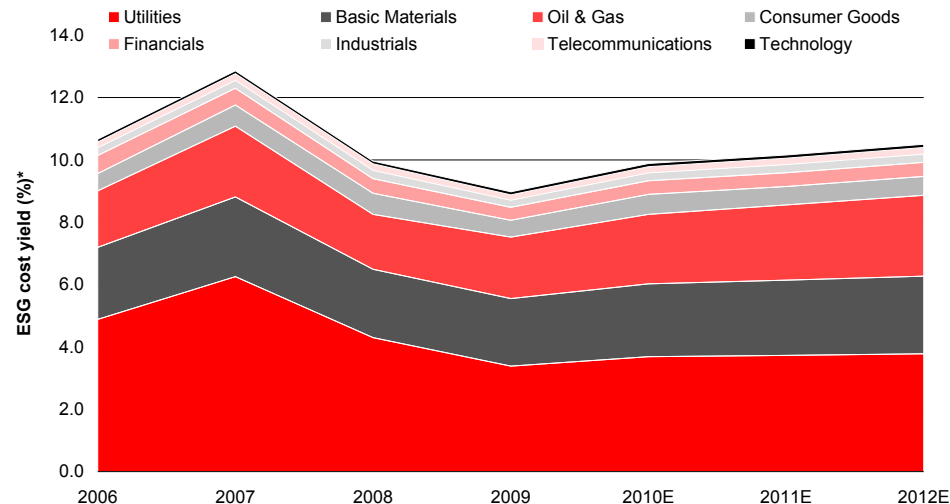
ENVIRONMENTAL ISSUES REPRESENT 88.5% OF ESG COSTS IN 2009*



* weighted by market capitalisation, UniCredit ESG coverage only Source: Bloomberg, UniCredit Research

- Environmental issues represent the bulk of total ESG costs.** Environmental issues represent the lion's share (88.5% 2009) in our ESG cost analysis breakdown led by energy expenses (75.3% of total environmental cost 2009), followed by water (13.0%) and greenhouse gas emissions (5.9%) related costs. We expect rising environmental costs (19.2% 2009-12E) due to higher economic recovery-driven energy intensity levels.
- Social issues rank second in ESG cost breakdown.** Social issues' costs rank second (9.9% 2009) with employee turnover related costs representing highest expenditures (65.1% of total social cost 2009), followed by demographics-driven pension deficit compensations (19.0%) and ageing-workforce rehiring costs (16.4%). Our expected decrease in social costs (-5.8% 2009-12E) is mainly supported by a post-financial crisis improvement in market-return driven pension deficits.
- Governance issues rank third.** Governance costs (3.2% 2009) remain mainly influenced by ESG-related corporate provisioning (83.0% of total governance cost 2009) followed by non-independent board expenditures (17.0%). We expect rising governance costs (+15.6% 2009-12E) given heightened financial concerns after the credit crunch.

HEAVY INDUSTRIES MAKE UP 83.8% OF THE MARKET'S ESG COST YIELD IN 2009*

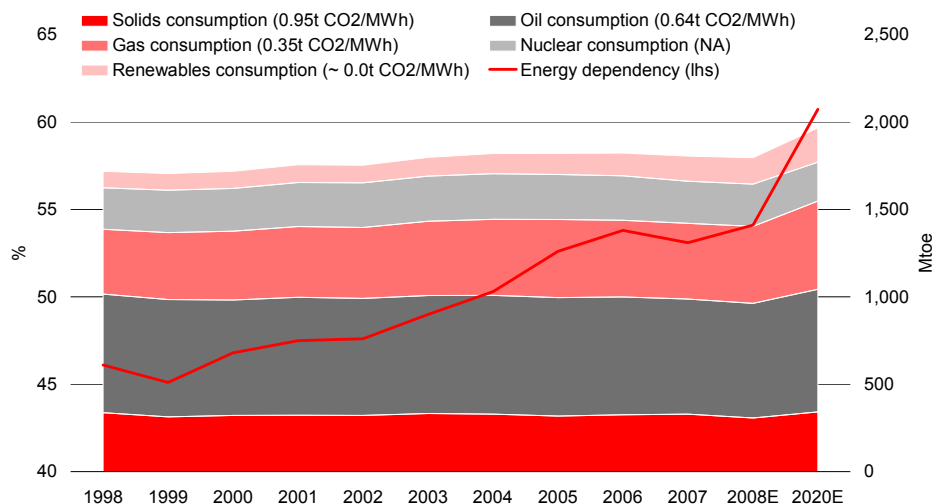


* weighted by market capitalisation, UniCredit ESG coverage only Source: Bloomberg, UniCredit Research

- ESG costs to rise by 17.0%.** With a significant ESG cost decrease of 15.8% from 2006-09 driven mainly by lower environmental impacts due to subdued economic activity, we believe a fragile global economic recovery outlook will see the market average ESG cost yield rise from 9.0% in 2009 to 10.5% by 2012E.
- ESG cost breakdown varies strongly across industries.** Reflective of their contribution to the market's total ESG costs, heavy industries such Utilities, Basic Materials and Oil & Gas accounted for 92.2% of the market's environmental costs 2009. Dominant social cost contributors are Financials, Consumer Goods and Industrials (64.4% of total social costs 2009) while governance costs are driven by Financials, Telcos and Consumer Goods (68.8% of total governance costs 2009).
- Varied ESG-driven valuation effects.** Combining our ESG cost expectations with our ESG VG methodology, we highlight positive expected ESG-driven valuation pressure for Utilities (+22.8%) Basic Materials (+5.9%) and Financials (+0.1%) with a more cautious stance on Oil & Gas (-13.7%), Telecommunications (-0.4%) and Consumer Goods (-0.2%).

Theme 1: Socioeconomic development - Eco-efficiency (Macro view)

EU 27 FACE INCREASING ENERGY SECURITY RISKS THROUGH RISING ENERGY DEPENDENCY



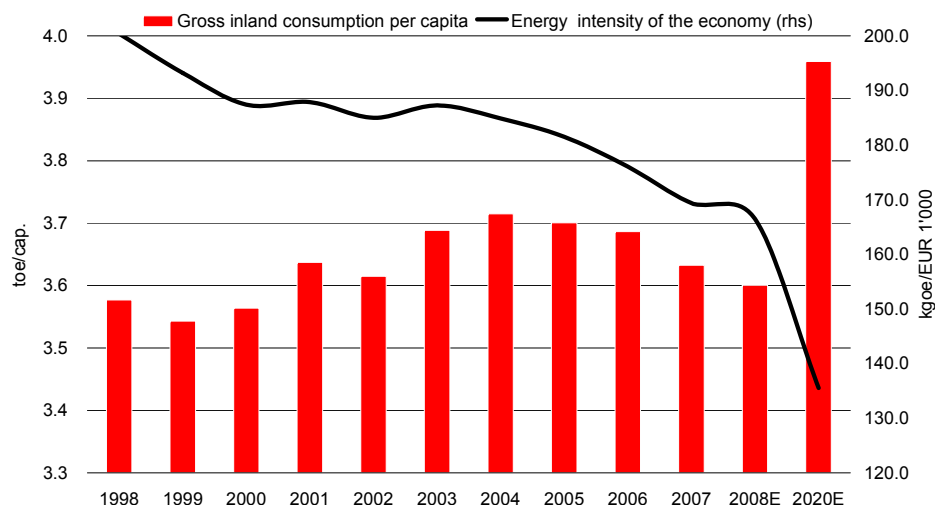
■ **Energy security core to EU growth.** Energy security remains core to the EU economic growth story with more than half (53.1% 2007) of the economy relying on imports to meet its energy demands. Geopolitical risks, highlighted through the potential 25%¹⁶ loss of the EU's natural gas supply due to the Russia/Ukraine natural gas disputes, are driving the policy agenda towards decreasing the energy dependency ratio.

■ **No energy independence without more efficiency gains.** Despite a modest 2% energy mix shift to more independent sources (renewables), energy dependency has been increasing at a higher rate (+5.5%) than gross inland consumption (+3.0%) from 2002-07. Decreasing EU primary energy production is driving this trend pushed by exhaustion of raw material supplies and the increasingly uneconomic exploitation of limited resources.

■ **Energy efficiency reduces environmental impact.** With 78.1% of gross inland energy consumption coming from GHG intensive sources, energy efficiency also represents a path to decouple economic growth from environmental degradation, allowing for decreasing the EU's 2008 average 0.48t of CO₂ emitted per MWh of energy consumed.

Source: Eurostat, EC Directorate-General for Energy (DG ENER), EC Directorate-General for Mobility and Transport (DG MOVE), International Energy Agency (IEA), UniCredit Research

EU 27 ENERGY INTENSITY DECREASING, LONG-TERM SUPPLY RISKS ARE NOT



■ **Energy intensity chosen as macro eco-efficiency indicator.** Energy intensity is the ratio between gross inland consumption of energy and GDP. The goal of the indicator is to measure the decoupling between energy consumption and economic growth.

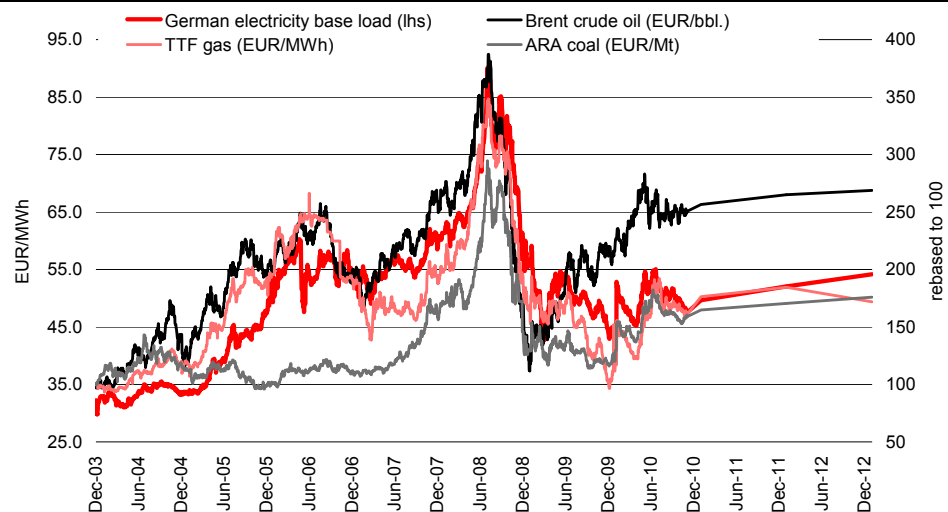
■ **European Commission's (EC) intensity targets to keep efficiency pressure on.** The EC's 1998 indicative target of reducing energy intensity by an average 1% p.a. has been met (actual -1.8% p.a. 1998-07) thanks to structural economic changes towards services/lighter industries. Further expressed commitments such as saving 20% of the EU's energy consumption compared to 2020 projections are likely to reinforce the trend.

■ **Energy intensity reductions unlikely to curb long-term supply risks.** Green components of the EU's 2009 fiscal stimulus packages (63.7% of EUR 38.8bn¹⁷) will continue to drive efficiency improvements but worries remain. According to the EU's energy and transport directorate, GDP will outpace energy intensive industrial growth (2.2% vs. 0.6% p.a. 2010E-20E) but this will not be sufficient to curb rising dependency (+7.6%) from 2007-20E unless more efficiency gains are implemented.

Source: Eurostat, European Commission Directorate-General for Energy and Transport, UniCredit Research

Theme 1: Socioeconomic development - Eco-efficiency (Micro view)

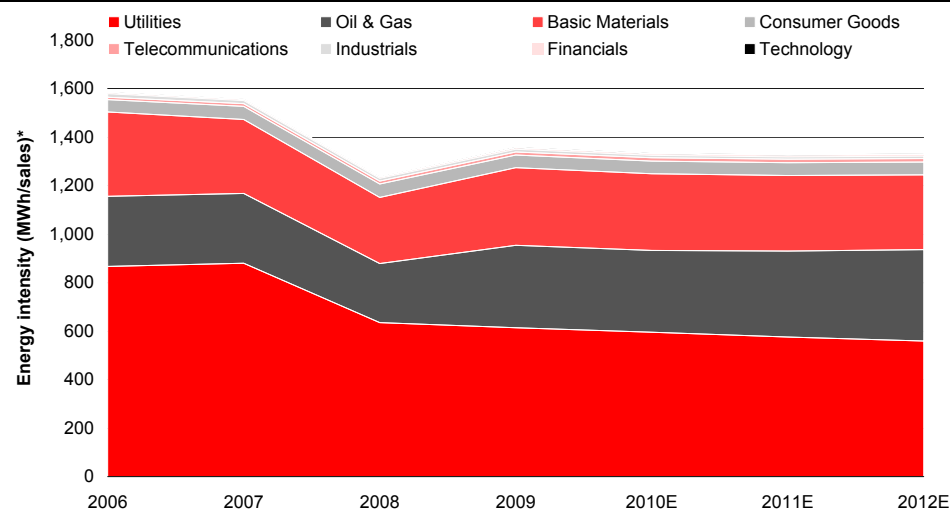
FORWARD FUEL AND ELECTRICITY PRICES TO KEEP MOSTLY UPWARD TREND



Source: Bloomberg, UniCredit Research

- **Electricity price chosen as eco-efficiency pricing factor.** EU energy dependence dynamics are likely to keep upward pressure on fuel and electricity prices. Sensitivity analysis on new entry costs for electricity generation reveals that a 10% increase in fuel prices can average a 4.0%-6.6% increase in electricity prices.
- **We expect rising fuel prices.** Flattening energy forward curves are expected to remain mostly in contango with rising costs for oil (+18.5%), gas (+46.8%) and coal (+35.6%) from 2009-12E. An expected decrease in OPEC's high crude stockpiles/free production capacity coupled with strategic reserve building from a PMI improving China and commodity-price supporting potential currency wars point to long-term price pressure.
- **Electricity prices to increase by 22.9% from 2009-12E.** The economic crisis has reduced power demand but recovery can be observed in 2010 (avg. +4.0% yoy 1H 2010) driven by industrial demand recovery. Although EU 27 demand is unlikely to reach 2008 levels (2,855 TWh) in the medium term, we expect electricity prices to reach 54.2 EUR/MWh in 2012 (+22.9% 2009-12E), mainly driven by underlying fuel cost rises.

ENERGY INTENSITY DECREASE DRIVEN BY BASIC MATERIALS AND UTILITY STOCKS



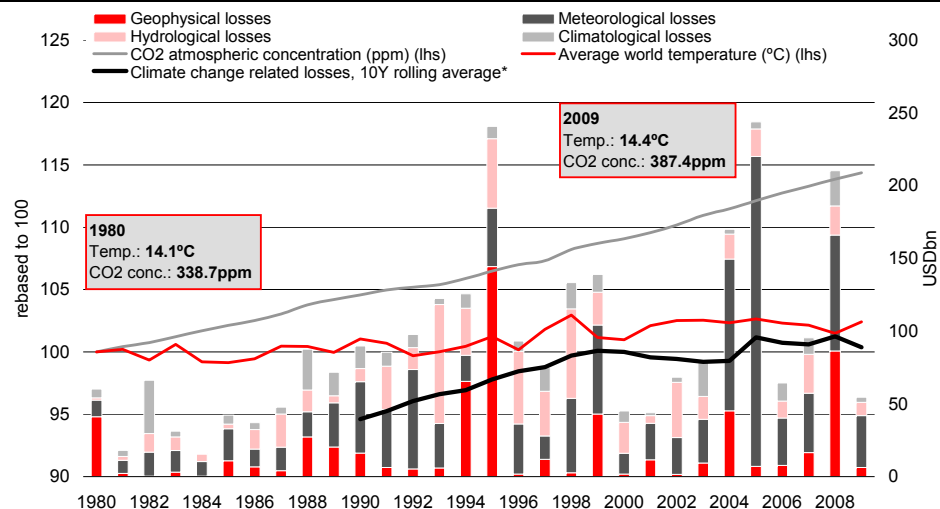
*weighted by market capitalisation, UniCredit ESG coverage only

Source: Bloomberg, UniCredit Research

- **Energy intensity chosen as micro eco-efficiency indicator.** Energy intensity is the ratio between energy consumption (MWhs) and revenues (EUR mn). Energy expense represents a direct cost item, influenced by operational eco-efficiency and energy prices. We multiply energy consumption by energy prices for costing purposes.
- **Energy intensity expected to decrease by 2.0% 2009-12E.** We expect intensity levels to drop by 2.0% 2009-12E (1,332 MWh/sales 2012E) with basic materials reducing (-4.1%) through chemical stocks' optimisation of energy data collection systems and recycling technologies (cogeneration). Utilities portray the highest intensity levels (5,671 MWh/sales 2009) given elevated primary energy consumption for electricity generation.
- **Energy intensity trend to impact valuations by 1.0%.** We expect eco-efficiency gains to translate into valuation upsides of 1.0%. Strong upside is expected in the Basic Materials industry (+6.5%) with basic resource stocks showing growing rollout of scrap driven electric arc furnace routes for steel production. We highlight downside risk in the Oil & Gas industry (-12.0%) with gains from new field management/extraction techniques strongly offset by higher energy needs for harder to reach resources from ageing fields.

Theme 2: Climate change and energy – Climate change (Macro view)

NATURAL CATASTROPHES' ECONOMIC LOSSES INDICATING RISING IMPACT OF CLIMATE CHANGE RELATED EVENTS



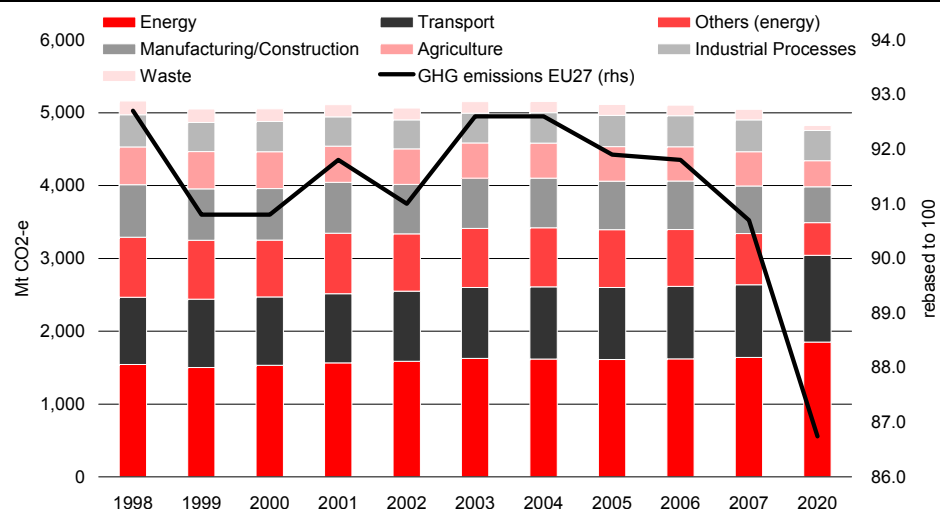
■ **Climate change could cripple global growth.** The Intergovernmental Panel on Climate Change (IPCC) expects global warming in the range of 1.1-6.4°C for this century, largely driven by human activity related greenhouse gas (GHG) emissions. A climate change above 2.0°C (approx. >400 ppm atmospheric CO₂e¹⁸) could generate damage worth 5%-20% of world GDP p.a.¹⁹

■ **Climate change related costs are on the rise.** Despite climate science scepticism (Climategate e-mail scandal), we estimate that climate change related economic losses have grown by 368.4% from 1980s levels (USD 19.0bn), reaching a 10Y average annual insurance loss of USD 89.0bn in 2008 based on Munich RE collected data.

■ **Climate change risk mitigation momentum continues.** The 2009 Copenhagen Accord fell short of delivering legally binding GHG emissions reduction targets but with the US (19.2% of 2008 global emissions²⁰) still trying to push forward energy/climate legislation (Kerry-Lieberman bill) and China (21.5% of 2008 global emissions²¹) making record clean energy investments (USD 34.6bn or 0.7% of GDP in 2009²²), mitigation momentum is likely set to continue.

*incl. climatological, meteorological and hydrological losses; Source: © 2010 Münchener Rückversicherungs-Gesellschaft, Geo Risks Research, NatCatSERVICE, NOAA/ESRL, UniCredit Research

EU 2020 CLIMATE STRATEGY TO KEEP REGULATORY MOMENTUM



■ **GHG emissions chosen as macro climate change indicator.** Goal of the indicator is to show trends in man-made emissions of the six GHGs regulated by the Kyoto Protocol. The indicator presents annual total emissions rebased to 1990, excluding land use.

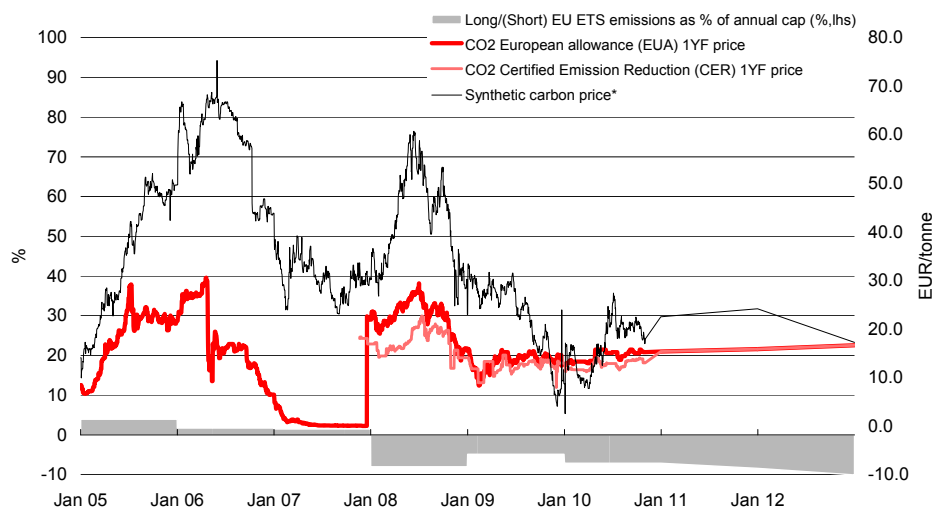
■ **EU likely to fulfil 2012 Kyoto targets.** According to European Environment Agency (EEA) projections, the EU15 are likely to reach the Kyoto agreed GHG reduction target of 8.0% by 2012 from 1990 levels. Economic restructuring and fuel switching have already delivered 5% reduction levels in 2007, signalling effective policy implementation.

■ **EU 2020 climate strategy to keep momentum.** New EU 20-20-20 targets for 2020 (20% reduction GHG/projected energy consumption, 20% consumption from renewables) are likely to provide a decade long momentum in the fight against climate change. Nevertheless, we estimate a 6.7% shortfall in GHG targets given unequal evolution of expected emissions across member states (Poland +13.3% vs. Germany -0.4% 2005-20E²³) and strong resistance in pending regulation for targeted 10% reduction in non EU Emissions Trading System (ETS) sectors (55.1% of 2005 EU27 emissions²⁴).

Source: Eurostat, European Directorate-General for the Environment (DG ENV), UniCredit Research

Theme 2: Climate change and energy – Climate change (Micro view)

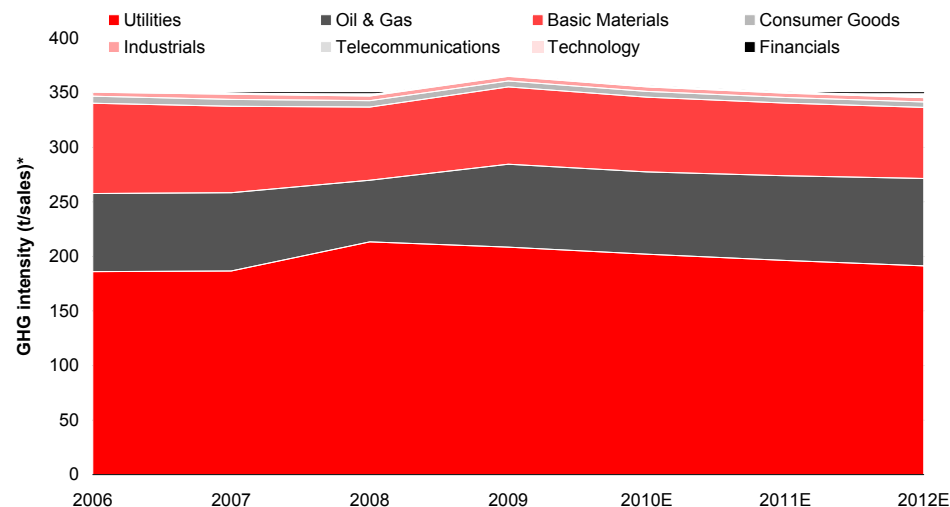
CO2 PRICES TO REMAIN STABLE UP TO 2012



* cost of saving one tonne of CO2 through fuel switching (coal to gas); Source: Bloomberg, UniCredit Research

- **Carbon dioxide (CO2) price chosen as climate change pricing factor.** The EU ETS is an emissions trading scheme enabling companies to buy allowances that exceed emissions caps set by National Allocation Plans (NAPs). Certificates from financing emission reduction projects outside the EU (JI ERUs, CDM CERs) form part of the ETS.
- **Carbon price to remain stable in the long term.** ETS Phase 3 (2013) plans to enlarge sector/gas scope to cover 50% of EU emissions and phase out free allowances (60%-100% auctioning 2013-27). Allowance shortages (-10.1% 2012E) are likely to be covered through CERs with China's minimum price of EUR 8-12/t providing a stable price floor.
- **CO2 price to increase by 30.9% from 2009-12E.** Phase 3 capping of industrial emissions at 21% below 2005 levels by 2020 coupled with allowance cuts of 1.74% p.a. should support a CO2 price increase to EUR 16.7/t in 2012. Low internal abatement incentives (synthetic carbon price of EUR 17.3/t 2012E), other several non-ETS EU policy measures and EC estimates of a EUR 16/t carbon price in 2020 with a 20% GHG reduction target (EUR 30/t with 30%) will likely remain an upside price cap.

UTILITY AND BASIC MATERIALS STOCKS ARE PUSHING EMISSIONS REDUCTIONS



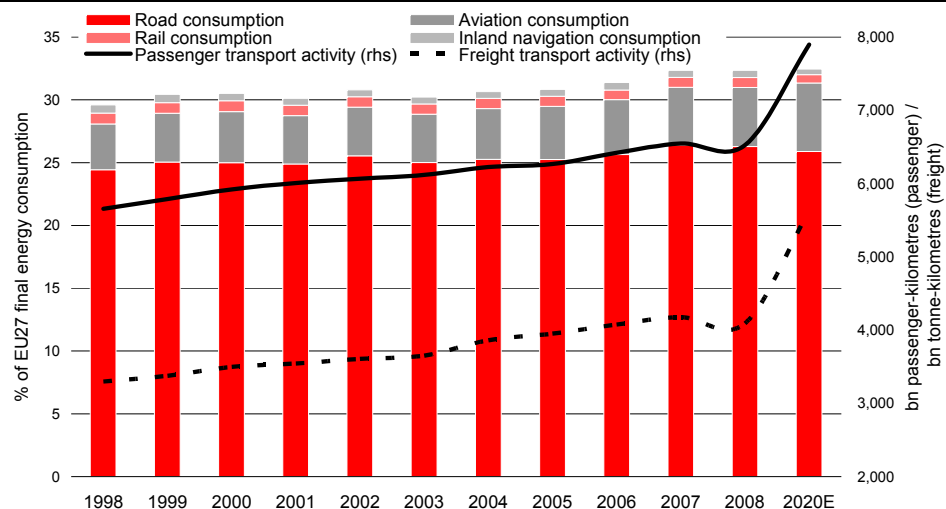
*weighted by market capitalisation, UniCredit ESG coverage only

Source: Bloomberg, UniCredit Research

- **GHG intensity chosen as micro climate change indicator.** GHG intensity is the ratio between direct corporate GHG emissions (tonnes of CO2 equivalent) and revenues (EUR mn). Carbon costs represent mostly indirect expenses through higher administrative (regulatory adjustments) or operational cost (energy price feed through). We multiply GHG emissions by CO2 prices for costing purposes.
- **GHG intensity expected to decrease by 5.3% 2009-12E.** We expect GHG intensity to reach 346.6 t/sales in 2012E (-5.3% 2009-12E) with Utilities representing the biggest market emitter (1,926 t/sales 2009) through fossil fuel burning. We expect significant Basic Materials lead reductions (-8.1% 2009-12E) with cleaner fuel (gas) driven metallic charge production (basic resources) and improvements in nitrous oxide decomposers (chemicals).
- **GHG intensity trend to impact valuations by an average 0.19%.** Despite its significant contribution to overall emissions, the Utilities industry valuation is expected to benefit most (+1.6%) given on-going emissions reduction schemes. We expect most negative valuation surprises for Oil & Gas stocks (-0.5%), with flaring and venting emissions reductions still posing challenges in exploration and production areas.

Theme 3: Sustainable transport – Transport impacts (Macro view)

INCREASING TRANSPORT VOLUMES TO AGGRAVATE SECTOR'S ENERGY CONSUMPTION AND GHG EMISSIONS TRENDS



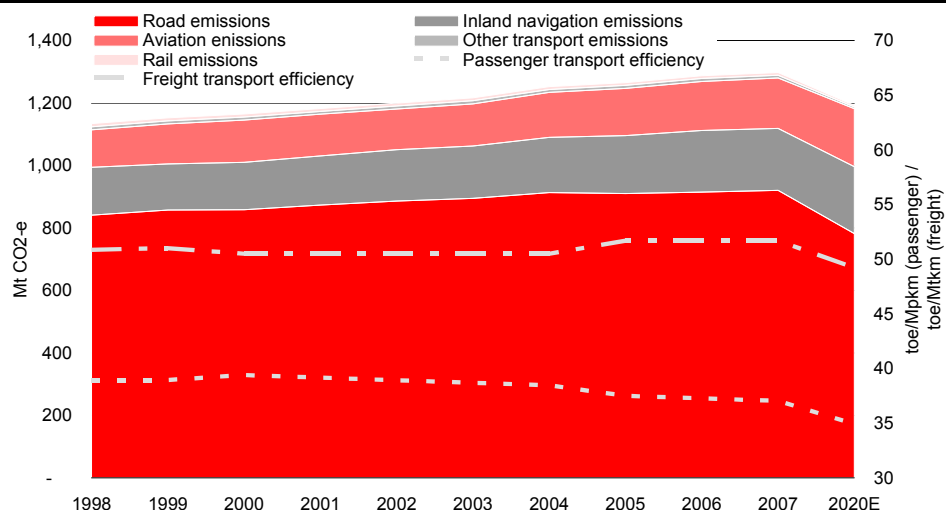
■ **Transport energy consumption out of control.** Transport's energy consumption growth rate (17.2% 1997-2008) has outpaced all other economic sectors' (5.6% EU27 average). With a mostly oil driven 32.0% lion's share of EU27 final energy consumption 2008, oil price hikes (USD 145.7/bbl high 2006) remain shockwaves for economic energy security.

■ **Transport GHG emissions out of control.** With transport accounting for 72% of the EU-27's 2006 total oil products consumption and oil being its primary fuel type (96.7% 2006²⁵), a high EU-enlargement trading linked degree of GDP elasticity (0.90 1990-2005²⁶) has made it the only sector with increasing GHG emissions (+35.7% 1990-2007).

■ **Problem expected to get worse.** Transport infrastructure investments' growth rates in new EU states (Poland CAGR 33.9% 1999-2008²⁷) are likely going to be supported by general infrastructure needs of USD 80bn for Emerging Europe in 2013. Further EU market integration and rising real incomes are expected to drive transport volumes to new highs for passenger (21.0% growth 2008-2020E) and freight (37.6%) activities with transport's energy consumption to continue rising to 32.5% of EU27's total by 2020E²⁸.

Source: Eurostat, DG ENER, DG MOVE, UniCredit Research

EU27 GHG REDUCTION TARGETS NOT TO BE MET IN TRANSPORT SECTOR



■ **Transport GHG emissions chosen as macro transport impact indicator.** Goal of the indicator is to show trends in the GHG emissions from transport by mode of transport. Each GHG (CO2, methane and nitrous oxide) is weighted by its global warming potential, aggregated and expressed in terms of CO2 equivalents.

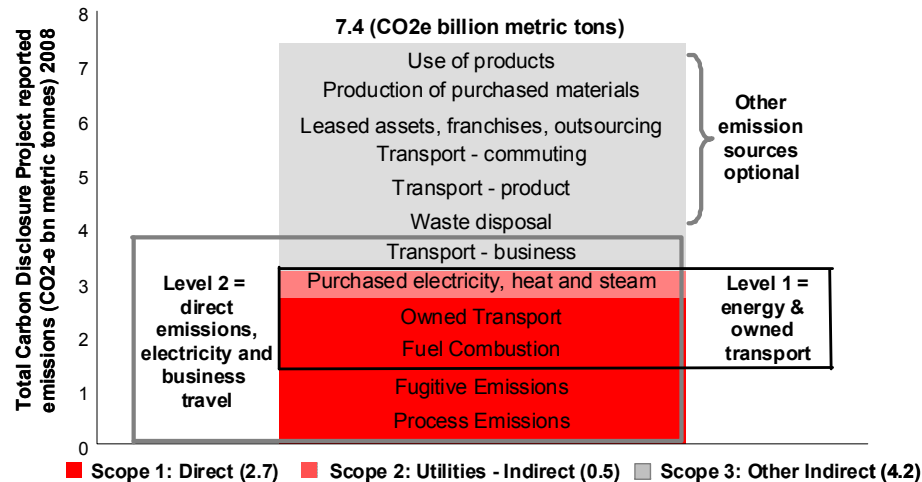
■ **Expected GHG reduction but far off target.** Past efficiency gains in passenger/freight transport (avg. +1.6% 1998-2007) are expected to improve (+5.3% 2007-20E) but given the sector's high carbon intensity factor (2.9t CO2/toe, 41.5% premium to EU27 industrial avg.²⁹), we only expect modest regulation/efficiency driven GHG reductions (-8.1% 2007-20E), which is 44.7% short of EU 2020 targets.

■ **Regulation is kicking in.** With regulation directly hitting the biggest GHG emitter (road transportation, 70.9% 2007) by capping new passenger cars' emissions to 130g CO2/km from 2012-2015 and also hitting the fastest growing emitter (aviation, 3.4% GHG CAGR 1998-2007) by EU ETS integration (cap of 95% 2004-06 average emissions in 2013), regulatory momentum will likely spread to other transportation segments.

Source: European Environment Agency (EEA), DG MOVE, DG ENER, UniCredit Research

Theme 3: Sustainable transport – Transport impacts (Micro view)

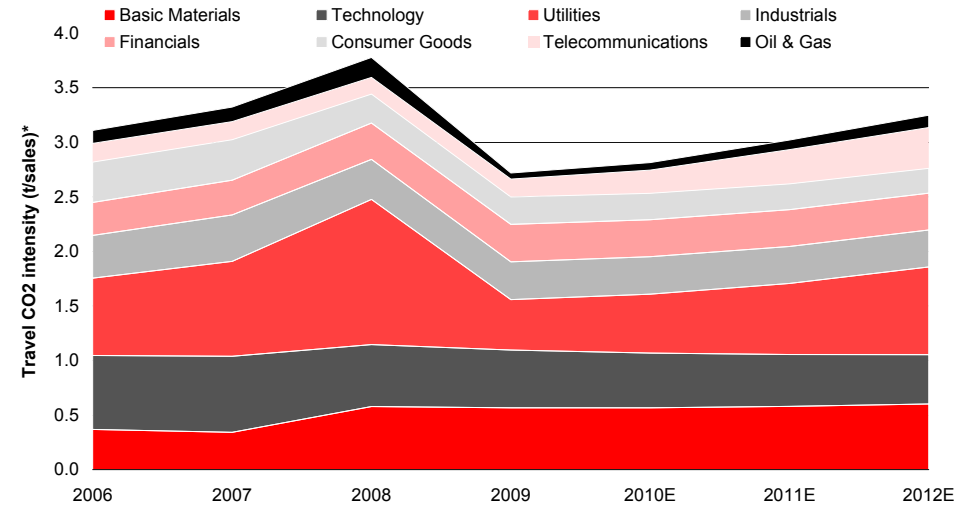
CORPORATE TRANSPORT IMPACT DISCLOSURE REMAINS OPAQUE



Source: Carbon Trust, Carbon Disclosure Project, UniCredit Research

- **CO2 price chosen as transport impact pricing factor.** Surface transport is included in NAPs with few projects present in the CDM (2MtCO2e abatement by 2012). With aviation forming part of ETS policy, the EU has recommended to include shipping emissions if no agreement is reached through the International Maritime Organization (IMO) by 2011.
- **Aviation sector to have limited impact on CO2 prices.** Representing 3.0% of total EU27 GHG emissions 2007, aviation inclusion is expected to increase allowance demand by 10-12Mt CO2 p.a. (Phase 2), which is expected to be met through JI credits (Russia/Ukraine), likely offsetting CO2 price increases. Losses due to EC's expected passenger demand declines of 1.0-4.5% (2010-18, carbon price range EUR 10-50/t³⁰), could be passed on to consumers, further diminishing buying pressure on allowances.
- **Corporate transport carbon disclosure remains opaque.** The full impact of a company's travel related emissions remains difficult to determine. Despite relatively good disclosure of owned transport emissions (Scope 1) through the Carbon Disclosure Project (CDP) initiative, a company's wider array of transport emissions, i.e. through outsourced supply chain elements (Scope 3), remains less disclosed.

EMISSIONS FROM EMPLOYEE TRAVEL EXPECTED TO RISE DURING ECONOMIC RECOVERY



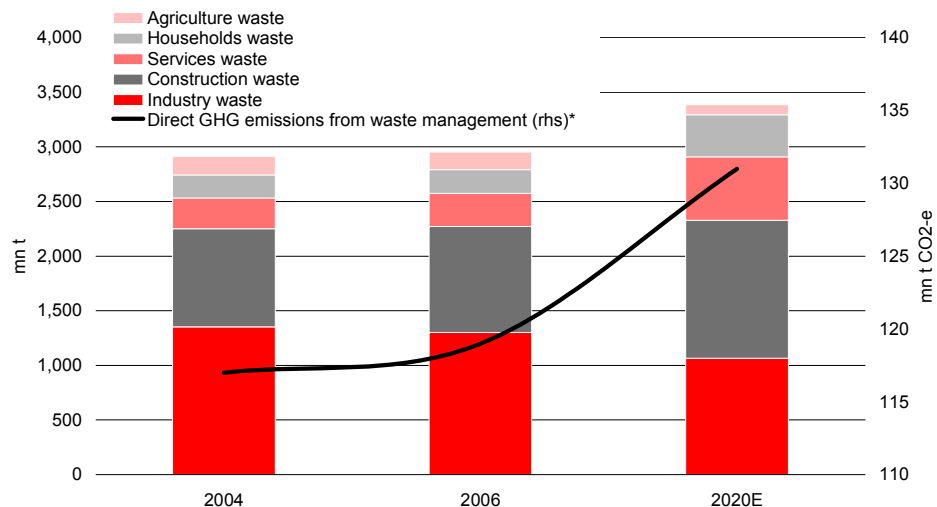
*weighted by market capitalisation, UniCredit ESG coverage only

Source: Bloomberg, UniCredit Research

- **Travel CO2 intensity chosen as micro transport impact indicator.** The indicator represents the ratio between employee travel emissions (tonnes) and revenues (EUR mn). Related costs are indirect expenses through travel tariff increases driven by regulatory changes and affecting indirectly administrative expense accounts. We multiply CO2 travel emissions by CO2 prices for costing purposes.
- **Travel CO2 intensity expected to increase by 19.5% 2009-12E.** We expect intensity to increase by 19.5% 2009-12E (3.3 t/sales 2012E) with only few stocks such as Industrial expected to post decreases (-1.6%) by capping emissions for company cars, promoting company-wide tele/ video/webinar conferencing systems and requesting CO2 data from travel partners. Technology stocks show the highest travel intensity levels (10.6 t/sales 2009).
- **Travel CO2 intensity trend to impact valuations by -1.0bp.** We do not expect a significant impact to valuations from travel CO2 intensity (-1.0bp). Despite their low valuation impact we would still highlight the highest travel emissions related costs for the Utilities industry (1.2bp of revenues 2012E) with best-in-cost leaders being Oil & Gas stocks (0.1bp of revenues 2012E) though significant disclosure issues remain.

Theme 4: Sustainable consumption and production – Resource use and waste (Macro view)

GROWTH OF EU27 WASTE VOLUMES EXPECTED TO INCREASE ENVIRONMENTAL PRESSURES



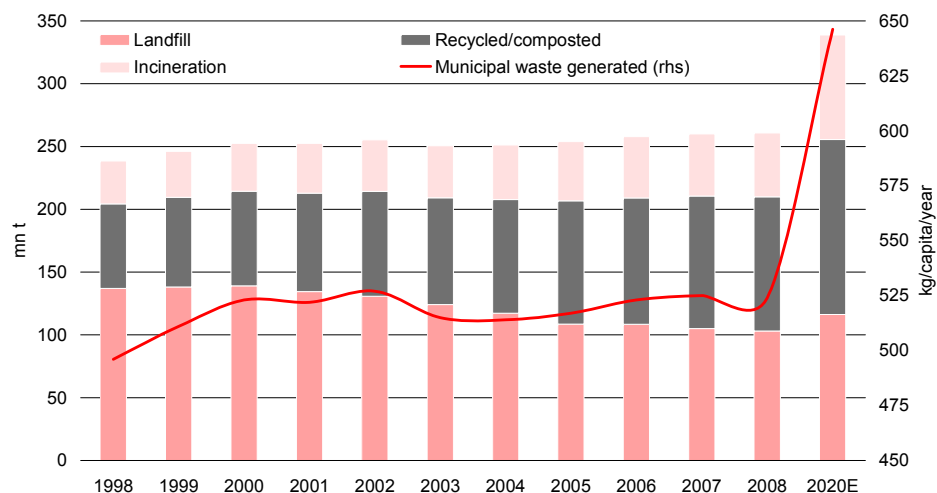
■ **Waste management faces increasing challenges.** Strong EU27 industrial production growth (13.5% 1996-2008) coupled with household expenditure growth (19.6%) has driven forward municipal waste volumes (12.5%) with industry waste (44.1% of 2006 total) topping concerns regarding disposal (decreasing landfill sites), elimination (toxins from incineration) and other side effects (contamination from hazardous waste).

■ **Waste treatment raises environmental concerns.** Scarcity/demand driven price pressure on raw materials (137.7% increase DJ-AIG commodity index 1998-2007) has boosted recycling in the waste treatment mix (28.4% to 39.3% 1998-2007) but landfill and related air/water/soil pollution continues to dominate (40.8% 2007) with incineration (19.9%) still creating concerns regarding hazardous gaseous emissions (Dioxin/furan).

■ **Waste sector a climate change policy target.** Waste management contributed 2.8% to EU27 2007 GHG emissions making it a climate change policy target with focus on methane emissions from agricultural/landfill operations. Energy derived GHG emissions from waste collection, treatment and manufacturing represent another policy overlap.

* EU27 (excl. Cyprus, Norway; incl. Switzerland) Source: Eurostat, EEA, UniCredit Research

EU27 MUNICIPAL WASTE TREATMENT SHOWS ENVIRONMENTAL PROGRESS BUT VOLUMES STILL GROWING



■ **Municipal waste generated chosen as macro resource use and waste indicator.** The indicator measures waste collected by or on behalf municipal authorities and disposed through the waste management system. It is expressed on a per-capita basis.

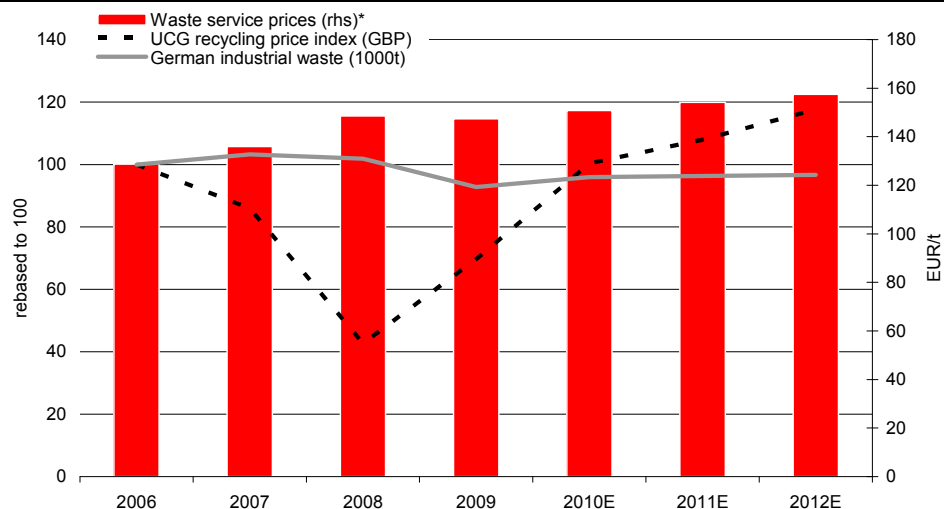
■ **Ongoing increase in waste volumes expected.** Municipal waste (8.7% of total waste 2006) highlights unfavourable production and consumption patterns with a 2008 10Y CAGR of 0.6% in EU27 per-capita volumes. The EEA expects this trend to worsen (CAGR 1.8% 2008-20) due to new EU members' consumption patterns convergence and a non-homogenous EU waste organization system with uneven waste stream splits.

■ **Regulation mostly affecting treatment, not yet volumes.** The 2008 reviewed EU Waste Framework Directive is expected to continue driving recycling (41.2% in total treatment mix 2020) and waste-to-energy (WtE) supported incineration (24.5%) with landfill losing ground (34.3%) due to increasing tax burdens. With waste volumes still growing, we expect further focus on resource efficiency (Industrial Emissions Directive) and tightness on producer specific directives (packaging, end-of-life processes).

Source: European Environment Agency (EEA), Eurostat, UniCredit Research

Theme 4: Sustainable consumption and production – Resource use and waste (Micro view)

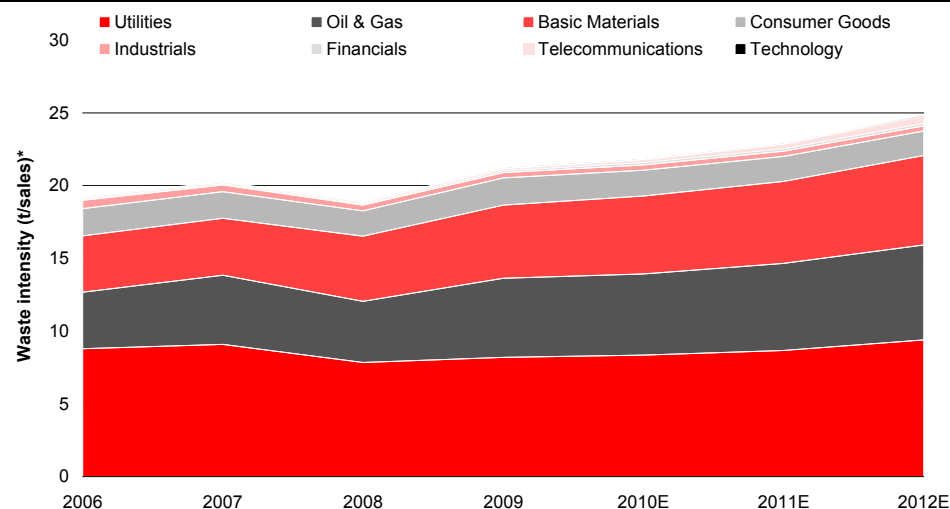
ECONOMIC SLOWDOWN TO DAMPEN PAST WASTE PRICE GROWTH PACE



* estimate throughout 2006-12; Source: Bloomberg, Veolia Environment, Suez Environment, Destatis, Letsrecycle.com, UniCredit Research

- Waste service prices chosen as resource use and waste pricing factor.** EU directives are increasing public-private waste management partnerships due to capital intensity of high-technology waste stream recovery plants, which are more economically competitive (~EUR 40-50/t) in the long term than direct waste elimination (>EUR 60)³¹.
- Economic slowdown has dampened waste price growth.** Waste prices are expected to be hit slightly in the short term with slowing industrial production (EU27 -10.0% 2007-Aug 2010) dampening waste volumes (-1.3% yoy German industrial waste 2008) and subdued GDP growth (EU27 -3.9% 2007- 1H 2010) having crushed commodity-linked recycling prices (-81.3% UCG recycling price index peak-trough 2008-10).
- Waste price to increase by 6.9% over 2009-12E.** Landfill tax boosts (UK +150% 2008-15³²) will continue the long-term push for energy price (electricity price +22.9% 2009-12E) linked WtE incineration processes and recycling for which we expect a strong price bounce-back from post credit-crunch lows driven mainly by recovery in plastic (+12.1%) and steel (+10.1%) as expected per 1Y-forward future markets' price signals. We expect a 6.9% 2009-12E increase in waste prices to a level of 157.5 EUR/t in 2012.

HEAVY INDUSTRIES CONTINUE NEGATIVE ENVIRONMENTAL IMPACT TREND ON WASTE

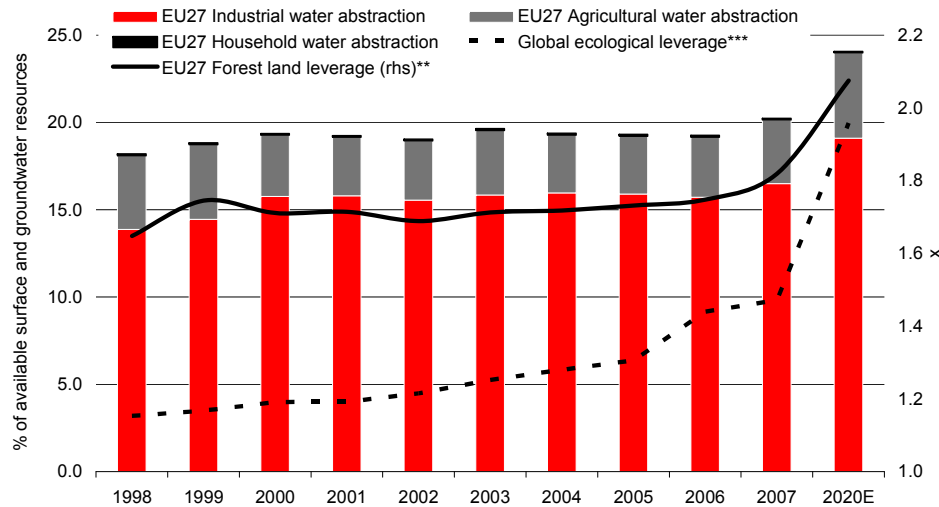


*weighted by market capitalisation, UniCredit ESG coverage only Source: Bloomberg, UniCredit Research

- Waste intensity chosen as micro indicator.** Waste intensity is the ratio between total amount of waste a company discards (tonnes) and revenues (EUR mn). Waste costs are a direct expense (raw material and disposal costs), influenced by waste prices and resource efficiency of operational processes. We multiply waste volumes by waste prices for costing purposes.
- Waste intensity expected to increase by 17.3% 2009-12E.** We see waste intensity rising to 24.9 t/sales in 2012E (17.3% 2009-12E) with Utilities the strongest waste discarder at 75.7t/sales in 2009 driven by ash/gypsum from coal-fired power plants and spent fuel rods. Consumer Goods stocks show the strongest decrease (-9.9% 2009-12E) supported by products' collective recycling infrastructures such as e-scrap initiatives.
- Waste intensity trend to impact valuations by -0.4%.** Waste management improvements in the Consumer Goods industry are expected to yield benefits (0.2%) relative to the market (-0.4%) supported by food surplus valorisation measures. We expect most negative valuation surprises for Utilities (-1.4%) and Basic Materials (-1.4%), with the latter facing challenges regarding waste rock, tailings and smelting slag.

Theme 5: Natural resources – Freshwater resources/land use (Macro view)

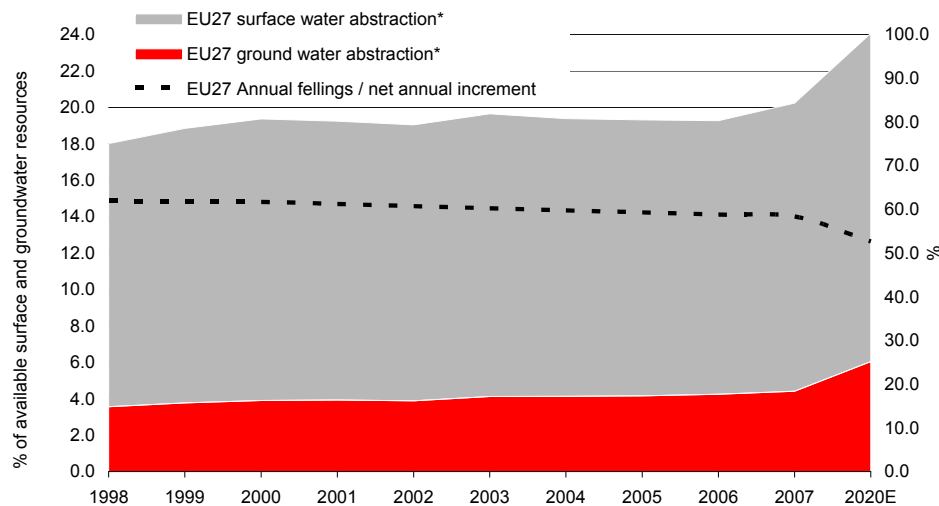
LONG-TERM ECONOMIC GROWTH RATES SEEM UNSUSTAINABLE GIVEN INCREASING ECOLOGICAL LEVERAGE



*excluding HU,MT; **excluding CZ,LU,SK,MT; 2006E/07E ***Leverage = Ratio of ecological footprint to biocapacity (in global hectares per person) Source: Eurostat, EEA, Global Footprint Network, UniCredit Research

- Ecological leverage threatens long-term economic growth.** As mentioned, humanity is demanding nature's resources at a rate 51.3% faster than nature's capacity to regenerate. Current long-term economic growth rate estimates of 4.6%³³ remain unrealistic given an increasing ecological leverage trend (10Y CAGR 2.7% 2007).
- Water crisis growing.** With less than 1% of the world's water being accessible fresh water³⁴, the global drop of 8.3% in renewable internal freshwater resources per capita from 2002-08³⁵ highlights significant pressures from increasing population, urbanisation, per-capita demand and pollution damage to supplies. By 2025, an expected 22.5% of the world will face water scarcity (<500 m³/cap./yr) and 33% water stress (>500<1'000)³⁶.
- Sustainable forestry under pressure.** Growing demand for timber and agricultural commodities is costing 13mn hectares of tropical deforestation each year causing 18% of global GHG emissions³⁷. Price increases for beef (10Y CAGR +3.2%), soy (+10.0%), palm oil (+14.8%) biofuels (+7.8%) and timber (+2.7%) are pushing global deforestation further with the EU27 having experienced a 13.2% increase in its forest land leverage from 1998 to 2005.

EU27 FACING WATER SCARCITY, FORESTRY REMAINS SUSTAINABLE

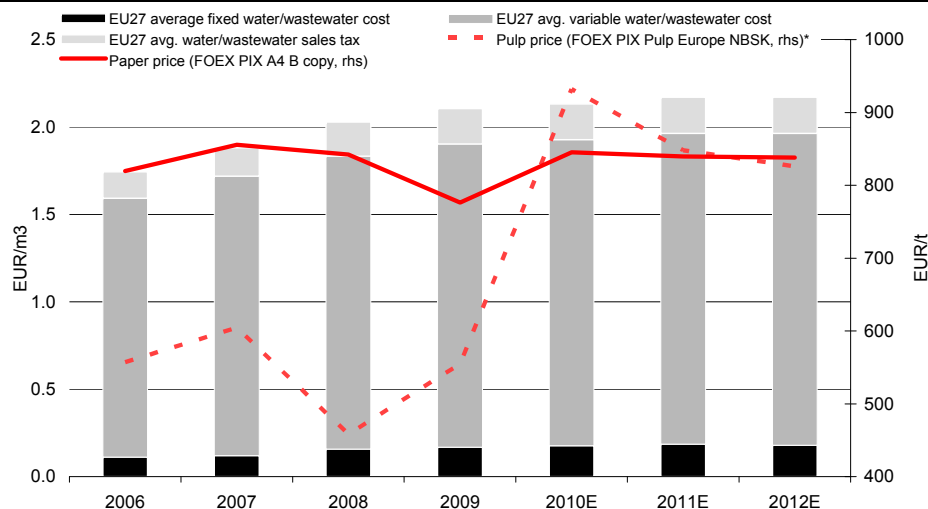


- Water abstraction and forest fellings/increment chosen as macro indicator.** Water abstraction is expressed as a percentage of the long-term annual average of renewable available water resources, separated into groundwater and surface water. The forest indicator is defined as the ratio of annual fellings of wood over net annual increment.
- Water stress increasing.** We expect the EU27's total abstraction per year as % of long-term renewable sources to breach water scarcity threshold levels of 20%, as defined by the EEA Water Exploitation Index, before 2020. In 2007, nine countries were considered water stressed with the UK (WEI 0.22%) highlighting typical supply pressures due to growth in urbanization (CAGR 0.51% 2005-20E)³⁸ and population (CAGR 0.41%)³⁹.
- Forestry on sustainable trend.** Despite increasing industrial pressure on forests (EU27 roundwood production +32.4% 2005-2008)⁴⁰, strategic preservation initiatives such as the EU Forest Action Plan have seen a 1.6% increase in EU27 forest/other wooded land area from 2000 to 2005⁴¹. With decreasing fellings to net annual increments (-2.4% 2000-05), we expect a further positive downward trend in this indicator (52.6% in 2020).

Source: European Environment Agency (EEA), Eurostat, UniCredit Research

Theme 5: Natural resources – Freshwater resources/land use (Micro view)

REGULATORY PRESSURE ON WATER PRICES, MODEST PRICE INCREASES FOR PAPER

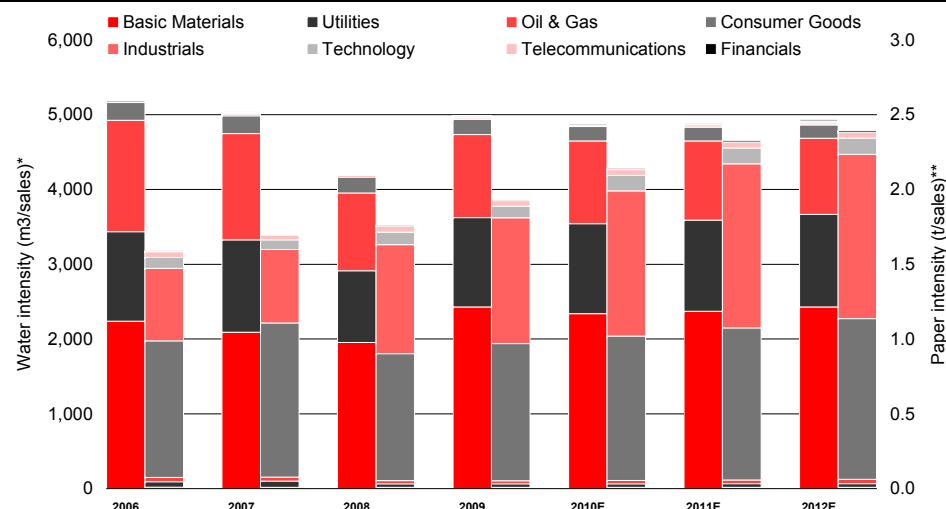


* Pulp price in EUR/100t

Source: Bloomberg, Global Water Intelligence, UniCredit Research

- Water and paper prices chosen as natural resources pricing factors.** Static freshwater supply and increasing global population should support long-term water price increases. Despite being fundamentally linked to wood supply, paper prices remain mostly sensitive to economic growth (advertising/packaging) and capacity management.
- Water prices to increase by 6.6% 2009-12E.** Increasing competition and political pressure is stressing EU water tariffs (-31% to -0.6% 2009/10)⁴². We expect EU27 water prices to increase modestly to 2.21 EUR/m3/year by 2012 (6.6% 2009-12E) with increasing fixed charges (electricity prices +22.9% 2009-12E) and variable costs (EUR 350bn EU water infrastructure spending 2010-25)⁴³ underpinning upward price momentum.
- Paper prices to increase by 6.4% 2009-12E.** Supply-disruption driven price rallies such as observed this year after February's Chilean earthquake (Pulp +24.8%, Paper 11.1% YTD) remain unlikely. We expect world pulp inventory days to remain around 27.1 days by 2012 (0.4% 2009-12E) backed by long-term Chinese demand⁴⁴, which should still support a paper price around 838.0 EUR/tonne in 2012 (+8.0% 2009-12E).

INDUSTRIAL AND BASIC MATERIALS PRESSURE ON NATURAL RESOURCES

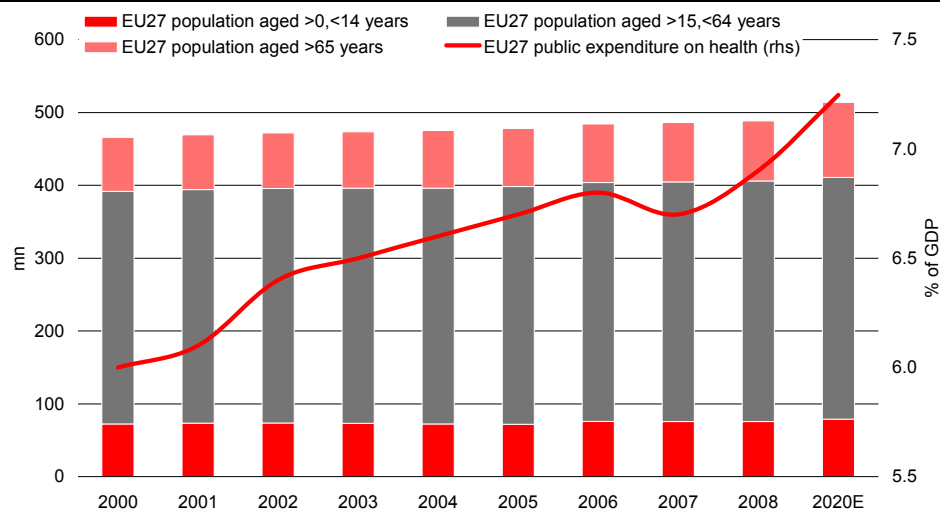


*weighted by mcap, UniCredit ESG coverage only **2nd column from left ,rhs)Source: Bloomberg, UniCredit Research

- Water and paper intensity chosen as micro indicator.** Water/paper intensity is the ratio between the total amount of water/paper (m3/tonnes) consumed and revenues (EUR mn). Both related costs are direct expenses (operational/administrative), influenced by underlying commodity prices and resource efficiency of operational processes. We multiply water/paper volumes by water/paper prices for costing purposes.
- Water intensity to have limited valuation impact.** We expect water intensity to decrease by 1.1% during 2009-12E to 4,933 m3/sales in 2012E, which does not result in a significant average valuation impact (-5bps). Basic material stocks portray highest water intensity levels (24,549 m3/sales) and are facing valuation pressures (-0.9%) driven by cooling processes requirements and solvent/reaction medium usage.
- Paper intensity trend to impact valuations by -0.3%.** We expect a negative impact to valuations (-0.3%) from rising paper intensity (23.9% 2009-12E, 2.4 t/sales 2012E). Industrial stock valuations are expected to get hit worst (-4.2%) due to a 30.6% 2009-2012E increase in paper intensity levels (19.2 t/sales 2012) driven by limited re-usage of packaging including cardboard boxes for deliveries.

Theme 6: Public health – Determinants of health (Macro view)

RISING HEALTHCARE COSTS ARE CLASHING WITH EU AUSTERITY MEASURES



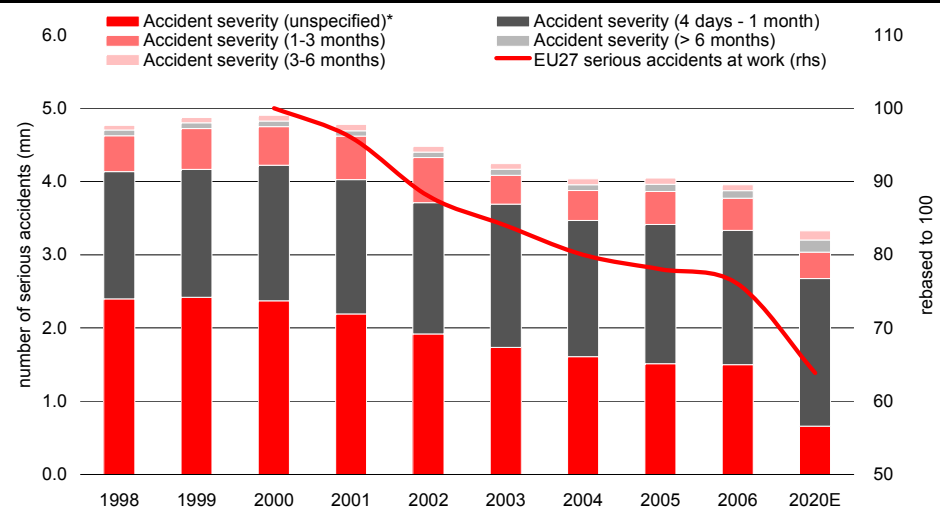
■ **Healthcare represents second biggest EU social expenditure.** Healthcare represents the second biggest EU27 social benefit expenditure (29.1% of total social benefits 2007) after pensions (54.3%) and has steadily been growing relative to GDP over the years (+0.9% of GDP 2000-08). Public provisions (regional/national health services) and comprehensive healthcare insurance are the most widespread EU systems.

■ **Healthcare costs to continue rising.** The combined impact of demand side factors such as ageing (median EU age 40.4 years 2008 vs. 47.9 years 2060)⁴⁵ and national income increases (EU27 GDP per capita +1.0% 2007-60)⁴⁶ are expected to increase EU average healthcare expenditure by 1.5% of GDP until 2060⁴⁷. Increases in supply side factors such as wages and investments in technologies could push this figure further up.

■ **Austerity measures could damage long-term well-being.** Despite a groundbreaking USD 940bn US healthcare bill, EU austerity measures could cause long-term damage to health systems with the UK already facing required efficiency savings of 19.2% of its 2010/11 national health service budget to cope with rising demand⁴⁸.

Source: Eurostat, EC Directorate-General for Economic and Financial Affairs (DG ECFIN), UniCredit Research

REDUCTION OF EU27 SERIOUS ACCIDENTS TO EASE HEALTHCARE COST PRESSURES



■ **Serious accidents at work chosen as macro indicator.** The indicator shows the evolution of the incidence rate (number of accidents per 100,000 persons in employment) of serious (more than 3 days' absence) accidents at work with 2000 as base year.

■ **Structural economic changes reducing accident rates.** The decline of heavy industry in the EU (-0.6% EMU16 industrial Gross Value Added vs. +15.1% services 2000-09) and the increasing use of automation have helped reduce serious accident rates in the EU27 (-24% from 2000-06) but severity has increased 11.5% from 1998-2006 (average EU15 absence per accident 1.3 months 2006) with 4.0mn accidents in 2006 still representing one accident for 2.3% of EU15 employed persons in that year.

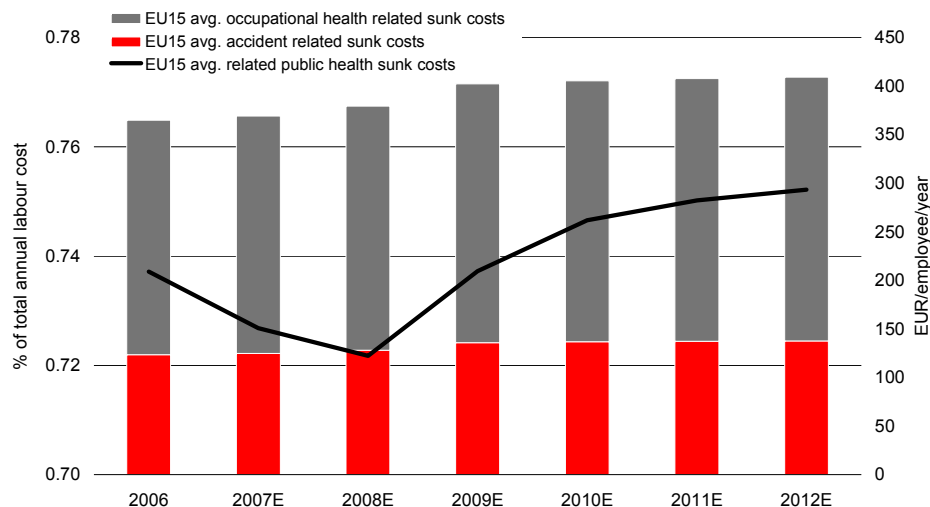
■ **Easing accident rates to dampen cost increases.** The EC strategy on health and safety at work aims to reduce the total incidence rate in the EU27 by 25% between 2007-12 given the Lisbon consensus that guaranteeing quality and productivity at work can play a major contribution in promoting economic growth and employment while reducing healthcare costs. We expect goal achievement with a total reduction of 36% by 2020.

*Severities stated for EU15 + Norway

Source: Eurostat, UniCredit Research

Theme 6: Public health – Determinants of health (Micro view)

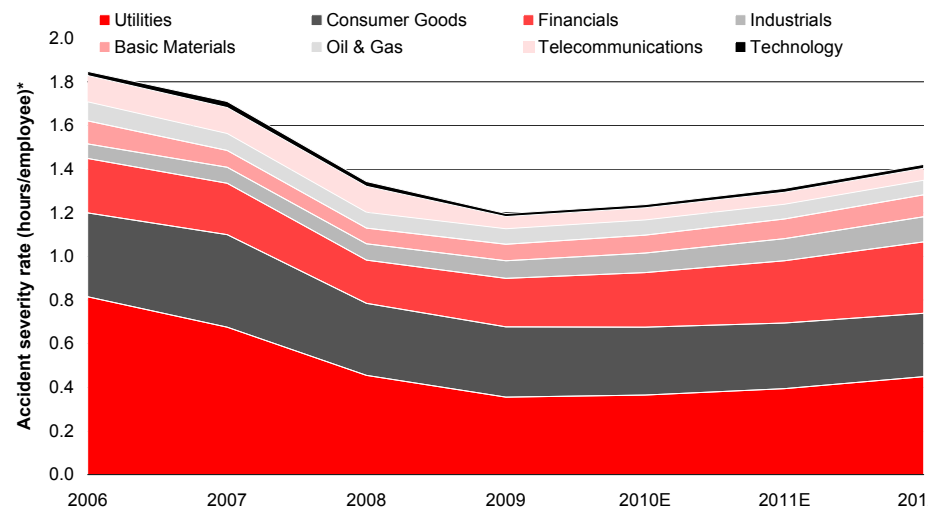
ACCIDENT COSTS LIKELY TO INCREASE DUE TO LONGER DURATION



Source: EC DG Employment, Social Affairs and Equal Opportunities, Eurostat, UniCredit Research

- **Sick pay chosen as public health pricing factor.** In 2005, more than 141mn days were lost due to work accidents in the EU15⁴⁹, representing 0.4% of total labour costs with most workers reporting accidents in the construction (5.5% of EU27 workers) and manufacturing (4.5%) sectors in 2007⁵⁰. Additional work-related stress costs of EUR 20bn p.a. (EU15)⁵¹ highlight the economic significance of health/safety policies at work.
- **Accident-related sunk costs estimated at EUR 136.7 per employee in 2010E.** We estimate EU15 accident derived costs of EUR 136.7 p.a. per employee in 2010E based on EUR 9.2tn labour costs (82.4% of GDP), an unemployment rate of 10.3% and 3.2mn accidents with an average duration of 1.4 months per accident. We highlight that for valuation purposes, company specific accident and payroll data is used.
- **We expect accident costs to increase by 11.6% from 2006-2012E.** Despite an ongoing reduction in accident numbers (-7.2%) we expect costs to increase (11.6%) driven mainly by longer accident duration (8.9%) and labour cost inflation (15.2%) during 2006-12E. Increasing health-related costs (+12.4%) could push accident costs further up.

UTILITIES PORTRAY LOWER SAFETY RECORD WITH CONSUMER GOODS IMPROVING



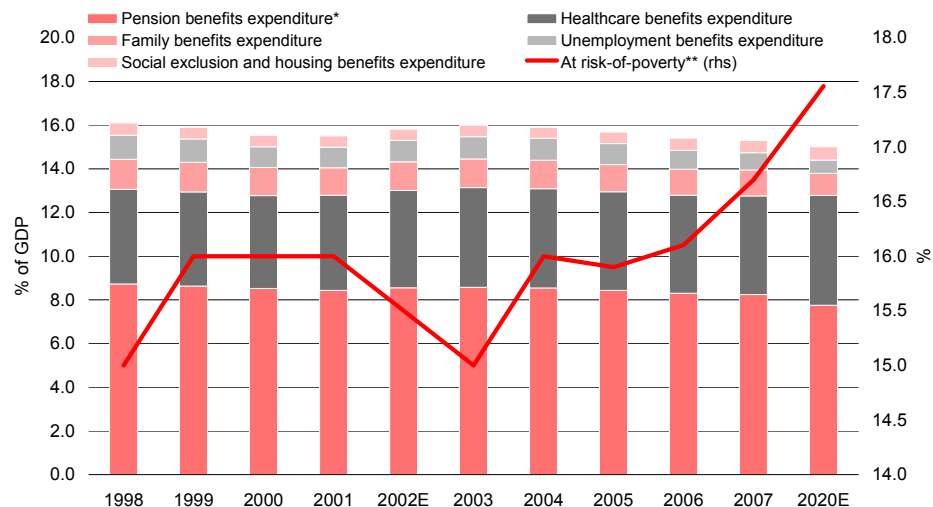
*weighted by market capitalisation, UniCredit ESG coverage only

Source: Bloomberg, UniCredit Research

- **Accident severity chosen as micro determinants of health indicator.** The indicator represents lost accident related employment time (hours) per employee. Costs are part of payroll expense but do not offer marginal company revenues due to employees' absence. We multiply hours lost by average hourly salary for costing purposes.
- **Accident severity expected to increase by 18.8% 2009-12E.** We expect severity to rise to 1.4 hours/employee in 2012E (18.8% 2009-12E) with Basic Materials showing a 34.4% 2009-12E increase with serious accidents at production supporting coal mines still an issue. Utilities portray the lowest workforce safety record at 3.3 hours/employee highlighted by a diversity of accidents such as electric shocks or falling from heights.
- **Accident severity trend to impact valuations by -1.0bp.** We do not see a significant valuation fallout from rising accident rates (-1.0bp) Despite the low valuation effect, we highlight the most negative impact on the Industrials sector (-0.2%) with vehicle accident rates still a significant hazard. Gains from lower accidents are expected in the Consumer Goods sector (1.0bp) which shows improvements through introduction of Safety Weeks, increased accident reporting and training on personal protective equipment.

Theme 7: Social inclusion – Access to labour market (Macro view)

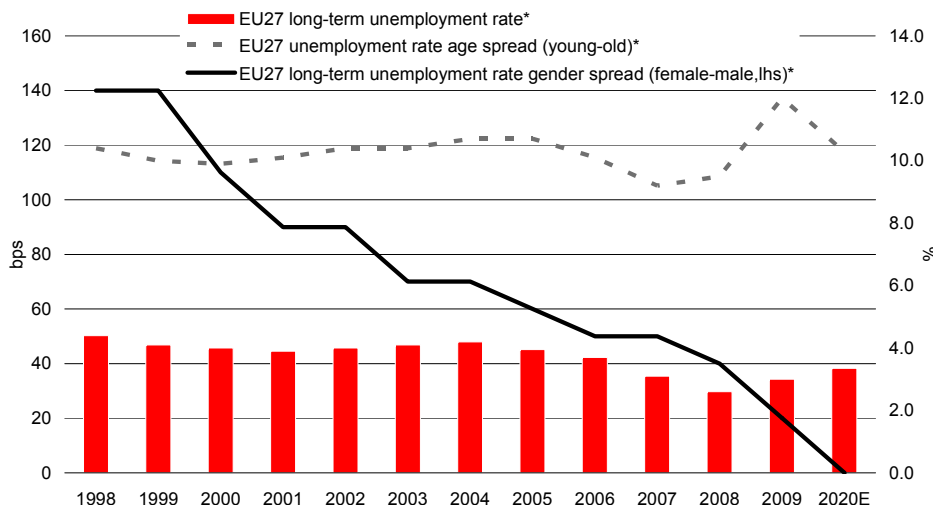
SOCIAL EXCLUSION EXPENSES LIKELY GOING TO INCREASE GIVEN DEVELOPING SKILLS GAP



*Benefits data 1998-99=EU15; 2000-04=EU25 **2002E

Source: Eurostat, UniCredit Research

STRUCTURAL REDUCTIONS IN LONG-TERM UNEMPLOYMENT ACHIEVED BUT GENDER DIFFERENTIALS REMAIN



*1998-99=EU25, 2005E

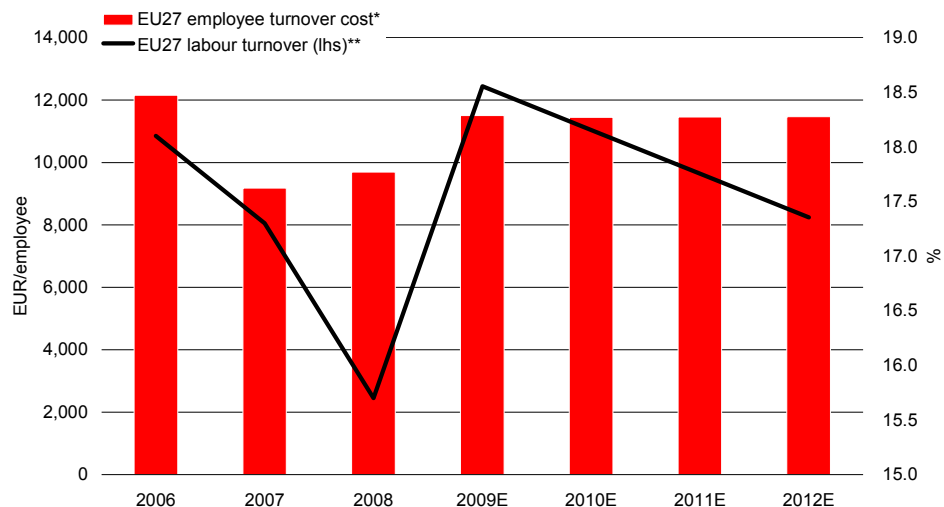
Source: Eurostat, UniCredit Research

- Poverty constrains economic growth.** In 2007, 16% of the EU27 population was assessed to be at-risk-of-poverty, which translates into the share of persons that had an equivalised household disposable income below 60% of the respective national median income. In the absence of social transfers (excluding pensions), the rate is estimated at 25%⁵², which would significantly worsen the economic output capacity per capita.
- Social exclusion expenditures are rising.** Housing and social exclusion benefits, which include income support, rehabilitation of alcohol and drug abusers, remain a relative small part of total EU27 social benefits expenditures (3.6% 2007) but have been the fastest growing categories over the past five years (5Y CAGR +1.8% 2007).
- Higher education expense likely to fill skills gap.** Labour market participation is an important factor for social inclusion with the gap in employment rates between high and low skilled workers being 35%⁵³. With 33% of EU population aged 25-64 having no/low formal qualifications and only 25% having high level qualifications, EU27 education expense (4.96% of GDP 2007) will likely have to increase to lower poverty risk.

- Long-term unemployment rate chosen as macro indicator.** The indicator, which can lead to high risks of poverty/social exclusion, represents long-term (12 months or longer) unemployed persons as share of the total number of active persons in the labour market. Long-term unemployment is monitored separately due to affected persons facing more difficulties for re-employment implying a higher risk of social exclusion.
- Structural reduction of long-term unemployment achieved.** Comparing 2001 to 2008 values, which represent minimum levels reached in an economic cycle, suggests that the level of long-term unemployment has structurally decreased by 1.3%, from 3.9% to 2.6%.
- Females more affected by long-term unemployment.** The economic crisis has created more unemployment for men than women (9.8% vs. 9.3% 1Q10 EU27)⁵⁴ but long-term unemployment still affects more women (3.1% 2009 EU27) than men (2.9%), with the gender pay gap (17.8% 2008 EU27) further underlining differentials. Despite crisis related increases in long-term unemployment rates (+0.35% 2009-20E) we expect decreases in differentials due to higher female labour participation rates (+22bps 2007-60)⁵⁵.

Theme 7: Social inclusion – Access to labour market (Micro view)

EMPLOYEE TURNOVER EXPECTED TO INCREASE GIVEN ECONOMIC CRISIS FALLOUT

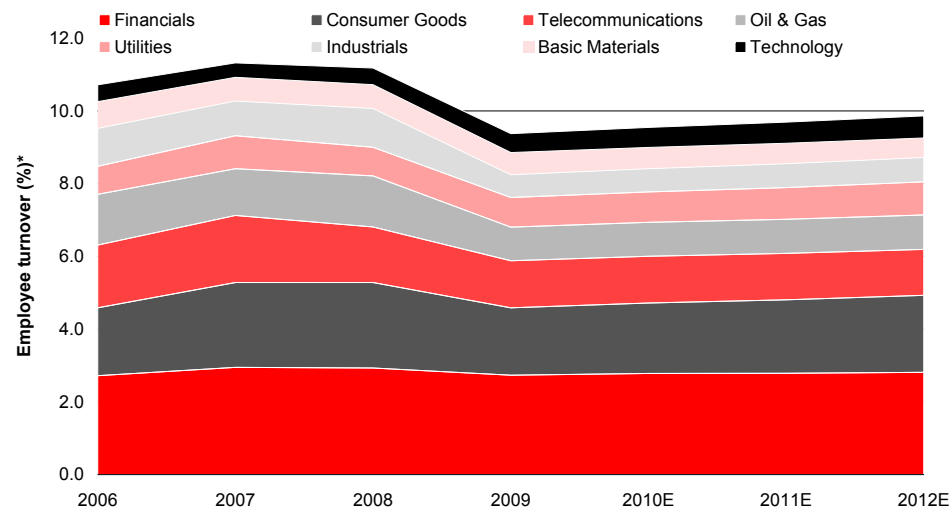


*2006-12 are estimates **benchmarked to UK

Source: CIPD, Eurostat, UniCredit Research

- **Employee turnover costs chosen as pricing factor.** Despite a general decrease in labour strikes across selective EU states (median -14.3% 2000-08), 1.9%⁵⁶ of EU27 workers were still involved in labour disputes in 2007, which resulted in lost corporate productivity (37 working days lost per 1,000 workers). Fluctuations around historical turnover rates result from various sources, a major one being labour strikes, which signal employee dissatisfaction that could result in employees' departures.
- **Employee turnover costs estimated at EUR 11,448 per employee.** High labour turnover represents a loss of knowledge and skills while threatening a company's ability to meet business objectives. According to recent surveys⁵⁷, a majority of turnover is voluntarily, with total implied costs estimated at 26.9% of median gross salary based on a 5Y average⁵⁸, which translates into EUR 11,448 per EU27 affected employee in 2010E.
- **Turnover costs expected to increase by 18.3%.** Only a small portion of 2008 turnover was redundancy related (0.5%)⁵⁹ but economic crisis feed-through is expected (+1.7% 2008-2012E in turnover rate). Increasing labour cost inflation (+7.8% in EU27 labour cost index 2008-12E) and vacancy duration (average +1.5 weeks to fill vacancies during 2004-08)⁶⁰ is expected to trigger 18.3% increase in turnover costs from 2008-12E.

CREDIT-CRUNCHED FINANCIALS FACING UNPRECEDENTED TURNOVER LEVELS



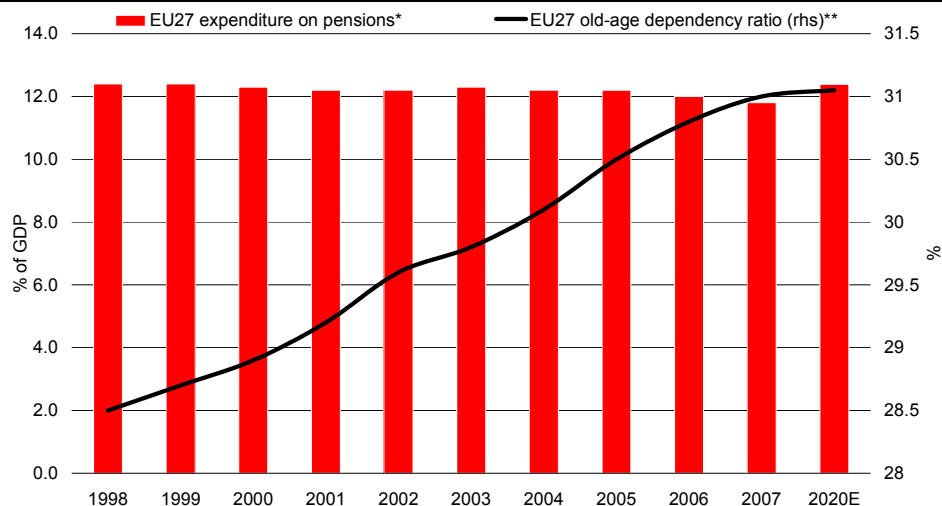
*weighted by market capitalisation, UniCredit ESG coverage only

Source: Bloomberg, UniCredit Research

- **Employee turnover chosen as micro indicator.** The indicator represents the number of employees leaving the company p.a., expressed as a percentage of total employees. Associated costs represent direct admin/payroll expenses. We multiply number of employees leaving p.a. by average employee turnover cost for costing purposes.
- **Employee turnover expected to increase by 5.2% 2009-12E.** Market turnover levels are expected to increase by 5.2% 2009-12E (9.9% 2012E). The Financials sector remains the hardest hit at 12.5% turnover in 2009 (+2.8% 2009-12E) given unprecedented labour dynamics stimulated by the financial crisis in 2007/08. We expect significant improvements in the Telecommunications industry (-2.8% 2009-12E) with a significant slowdown in consolidations and restructurings.
- **Employee turnover increase to impact valuations by -0.2%.** We expect increased labour turnover to negatively affect valuations by -0.2%. We expect Technology stocks to be hit hardest (-0.7%) followed by Industrial stocks (-0.6%) with both industries facing significant labour sensitivity derived from intense wage competition, especially in markets characterised by a lack of local labour law enforcement.

Theme 8: Demographic changes – Old-age income adequacy (Macro view)

EU'S AGEING POPULATION TO PUT PRESSURE ON PUBLIC EXPENDITURE



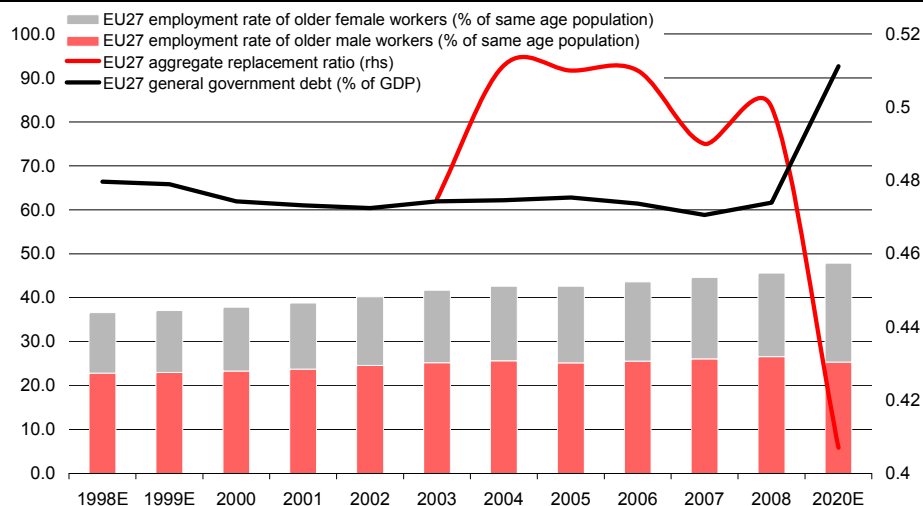
■ **EU facing significant demographic changes.** The combination of an only modest recovery (7.9% 2008-60E) in low fertility rates (1.52 births per woman in 2008), an increasing life expectancy (from 76 to 84.5 years) and decelerating inward net migration (from 0.33% to 0.16% of EU population) from 2008-60E, translates into a EU population structure increasingly dominated by the old rather than young⁶¹.

■ **Ageing population to drive public expenditure higher.** Despite increasing labour participation rates (+3.5%), labour supply is expected to decline by 9.4% from 2007-60. With labour productivity growth expected to remain relatively stable (+1.7% p.a.), the EU is facing increased age-related government expenditure in the range of an additional 4.7% of GDP p.a. by 2060.

■ **EU pushing for structural change.** The expected increase in the EU27's old-age dependency ratio (from 37% to 72%) will call for increased public pension scheme funding (+2.4% of GDP p.a.) over 2007-60, which has already triggered the EC to seek to counteract rising costs by pushing for higher retirement ages across the EU and proposals to raise the funding requirements of companies supporting pension schemes⁶².

Source: Eurostat, EC Directorate-General for Economic and Financial Affairs (DG ECFIN), UniCredit Research

PUBLIC FINANCE SUSTAINABILITY WILL REQUIRE SIGNIFICANT STRUCTURAL ADJUSTMENTS



■ **Employment rate of older workers and aggregate replacement ratio chosen as macro indicators.** Participation of older workers indicates the adaptability of the EU labour market to ageing conditions, with the aggregate replacement ratio reflecting the level of pensions relative to income in the decade before retirement.

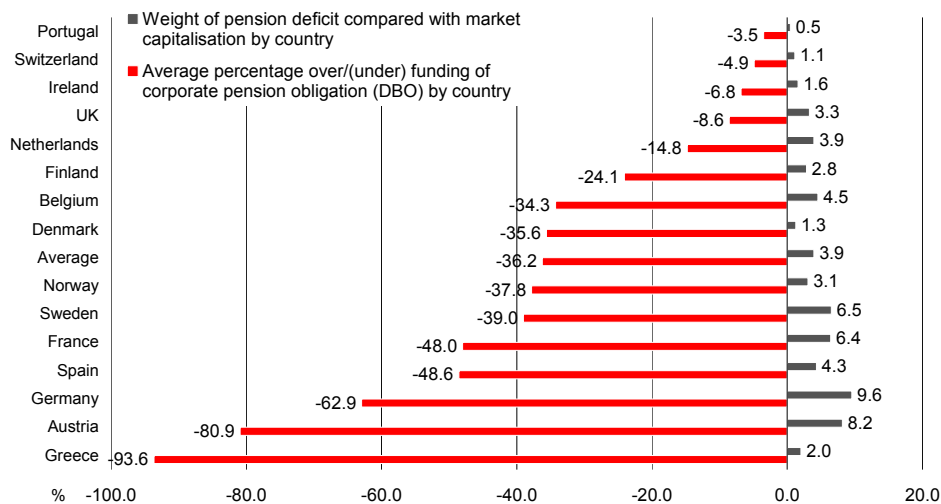
■ **More structural reforms needed.** We do not expect the EU27's target of 50% employment of older workers to be met in the medium term (47.9% 2020E) given pending structural labour market and pension reforms across member states. Aggregate replacement ratio trends (-18.6% 2008-20E) continue to highlight deteriorating standards.

■ **Public finance sustainability under scrutiny.** Given the EU27's reference value of 60% government debt as % of GDP⁶³, the health of public finances, which is essential for not compromising welfare expenditure, remains under scrutiny (73.6% in 2009). EU states such as France (retirement age increase by 2 years), Greece (pension pay-out cuts) and Spain (freezing of state pensions) are taking countermeasures⁶⁴ but the required 2009 13.6% of GDP debt reduction is calling for more significant structural adjustments.

Source: Eurostat, IMF, DG ECFIN, UniCredit Research

Theme 8: Demographic changes – Old-age income adequacy (Micro view)

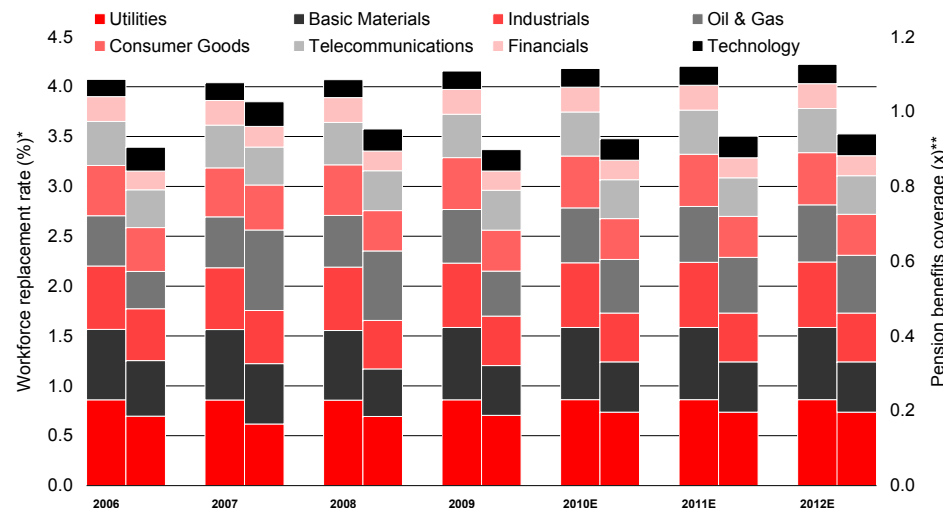
CORPORATE PENSION SCHEMES REMAIN UNDERFUNDED ACROSS THE EU



Source: OECD, UniCredit Research

- Pension deficit and retiring workforce replacement costs chosen as demographic change pricing factors.** Despite post credit crunch rebounds in equity prices, OECD company pension deficits have suffered with assets 9% below 2007 levels⁶⁵. Increasing age-related employee turnover poses new labour challenges to maintain productivity.
- Corporate pension deficit cost estimated at 3.9% of market cap.** The average EU company pension fund remains underfunded at -36.2% in 2007. With defined benefit obligations representing an average 15.2% of company market cap, deficit elimination costs have been estimated at an average 3.9% of market cap in 2007. We highlight that for valuation purposes, company specific defined benefit pension data is used.
- Workforce replacement costs estimated at EUR 7,239 per retiring employee.** An ageing workforce (+4.7 years median EU27 age 2009-30)⁶⁶ represents higher employee replacement costs to maintain equal labour productivity. We estimate recruitment costs, which includes advertising/agency/search fees, at 17.0%⁶⁷ of average employee salary implying EUR 7,239 per employee based on 2010E median EU27 salaries.

WORKFORCE AGEING PRESSURE DEVELOPING SLOWLY BUT PENSION DEFICITS REMAIN

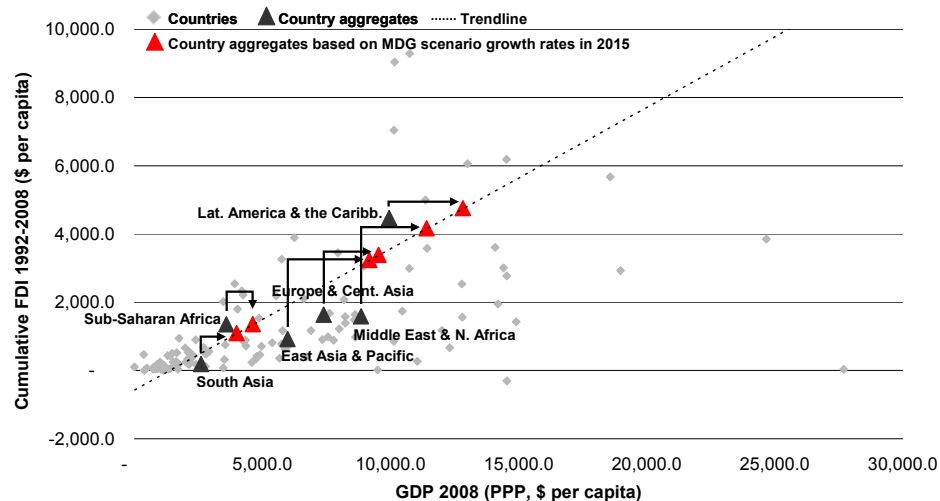


*weighted by mcap, UniCredit ESG coverage only **2nd column from left ,rhs Source: Bloomberg, UniCredit Research

- Pension benefits coverage ratio and retiring workforce replacement rate chosen as micro indicators.** The pensions indicator reflects the over/under funded status of the company's defined benefit plans. The workforce replacement rate represents the percentage of employees implied to retire next year. Benefit obligation shortfalls represent financial expenses, while rehiring falls into payroll/administrative ones. We multiply number of employees retiring p.a. by pension benefit obligation shortfall per employee and by rehiring cost per employee for costing purposes.
- Workforce replacement rate to impact valuations by -1.5bp.** We do not see a significant valuation impact (-1.5bp) given a moderate increase in the market's workforce replacement rate of 1.6% from 2009-12E to an average 4.2%. We expect pressures for Technology stocks (-0.1%) despite growing outsourcing to face existing skill gaps.
- Pension benefits coverage ratio to hit valuations by 2.4bp.** Improvements in average market coverage ratios (0.90x 2009 to 0.94x 2012E) will not cause any surprises on valuations (2.4bp) but we highlight that stocks from the Oil & Gas and Consumer Goods industry face long-term funding challenges with 2012E ratios falling short at 0.76x and 0.83x, aggravated by employee led lawsuits regarding saving plans in some cases.

Theme 9: Global partnership – Financing for sustainable development (Macro view)

FIGHTING POVERTY CAN YIELD HIGHER LONG-TERM INVESTMENT RETURNS

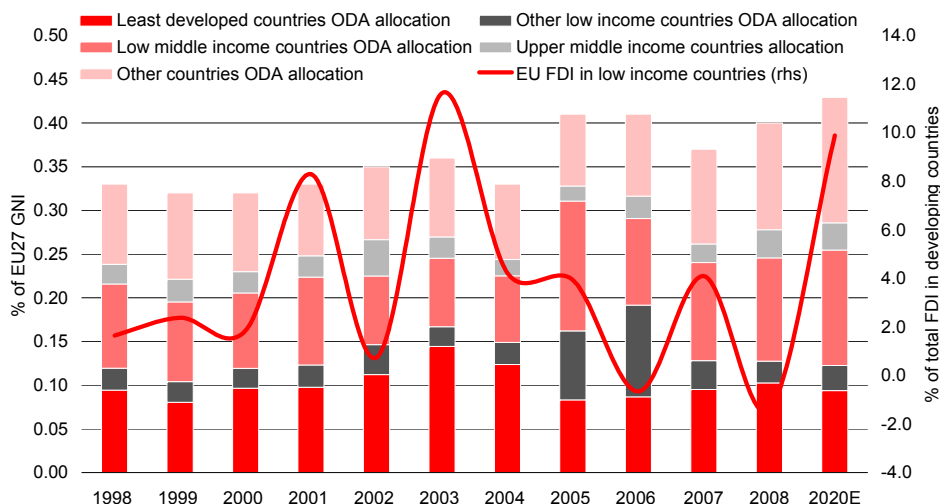


- **Global poverty remains widespread.** Despite capitalism's increasing globalisation, 48.6% of the world's population in 2005 remained at the bottom of the economic pyramid (living on less than USD 2.5 per day) with 13.6% living in extreme poverty (< USD 1.0).
- **Globalisation offers long-term economic wealth.** Despite globalisation's discontents, countries with higher rates of cumulative foreign direct investments (FDIs) per capita tend to show higher GNI per capita⁶⁸ and indicative GDP per capita (R2=0.3).
- **Aid and trade can pay off.** The EU supported UN Millennium Development Goals (MDGs)* requires 0.7% of EU27 GNI in official development assistance (ODA) by 2015 to break poverty traps and eradicate extreme poverty⁶⁹. Meeting MDG scenarios would translate into an additional 16.7% increase in aid recipient countries' GDP per capita from 2005-15 on average⁷⁰. Based on regression analysis, this would imply a marginal increase of 14.8% in respective trade volumes, which would benefit donor nations' returns on FDIs with developing markets (MSCI Emerging Markets) portraying a return premium of 4.4% p.a. to developed markets (MSCI World) over the past two decades.

* pls see appendix 15 for details regarding the UN MDGs

Source: OECD, UN, World Bank, IMF, UniCredit Research

DEVELOPING COUNTRIES' AID AND TRADE MOMENTUM IS ON HOLD

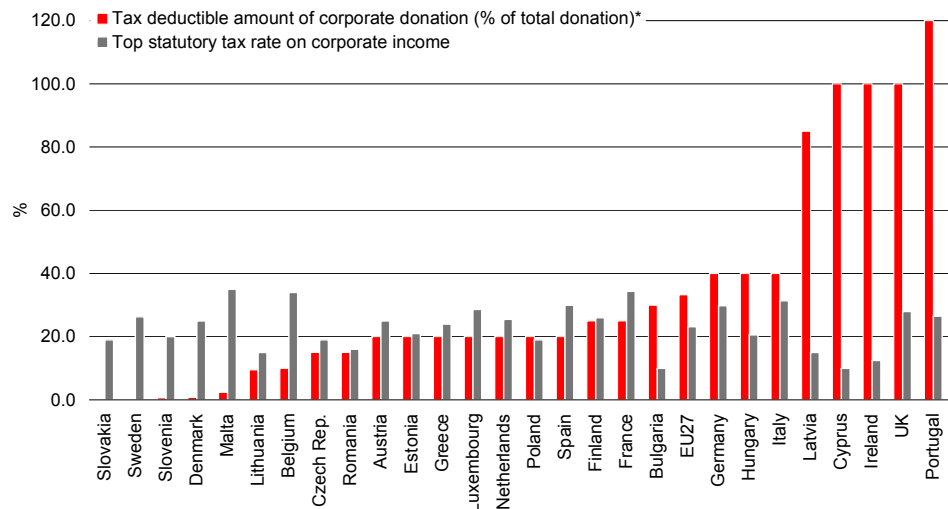


- **Official development assistance chosen as macro indicator.** The indicator is defined as net disbursements for ODA to Development Assistance Committee (DAC) countries as a percentage of GNI with the purpose of measuring funds aimed at directly supporting development in developing countries.
- **EU is failing global partnership commitments.** Despite an increase in ODA per EU15 inhabitant to EUR 114.3 (CAGR 6.7% 2000-07, inflation for period at 2.2%), which resulted in a related increase to EUR 8.5 ODA per inhabitant of recipient countries (CAGR 5.9%), the EU is not likely to achieve either its mid-term target of spending 0.56% of GNI by 2010 or 0.7% by 2015 with 2008 values being 0.09% below linear targets.
- **Millennium Development goals at risk.** Despite record ODA rates in 2005/06 (0.41%) aid momentum looks to worsen with the G8 recently dropping their USD 50bn aid increase pledge from the 2005 Gleneagles Summit⁷¹. With EU FDIs to low income developing countries having turned negative in 2008 (EUR -0.7bn) and decade-long stagnated WTO trade-liberalization negotiations (Doha Round), the MDGs are at risk.

Source: Eurostat, UniCredit Research

Theme 9: Global partnership – Financing for sustainable development (Micro view)

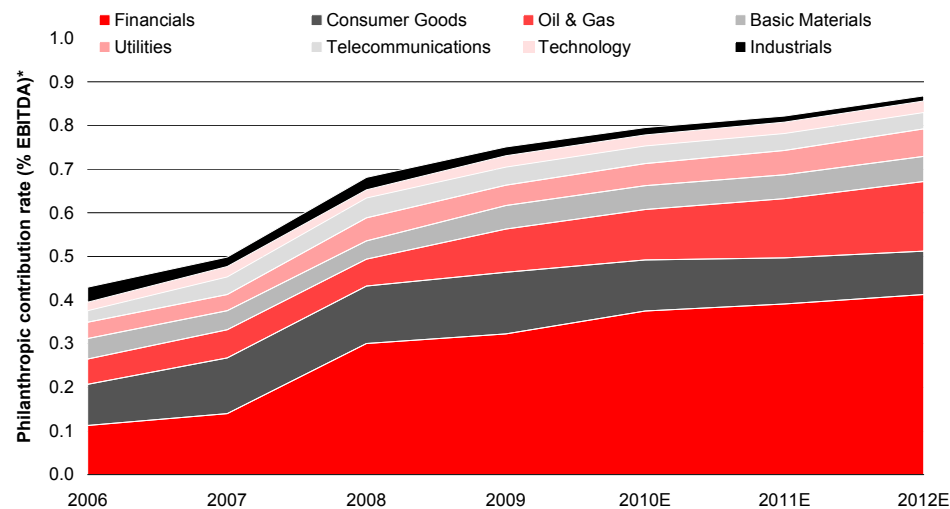
CHARITABLE DONATIONS OFFER LIMITED CORPORATE TAX RELIEF



*Calculations based on 5mn turnover, 200k profits and 100k donation (in EUR), limits apply Source: Eurostat, EFC, UniCredit Research

- **Corporate donation tax benefit rate chosen as pricing factor.** Charitable spending remains one of the easiest Corporate Social Responsibility (CSR) contributions. With pro-market heavyweights such as Bill Clinton, Warren Buffet or Bill Gates leading up to USD 600bn heavy charity challenges⁷², philanthropy remains on the corporate agenda.
- **Corporate donation tax benefit rate estimated at 7.7%.** EU corporations are eligible for charitable donation tax deductions rather than credits. With a generalised EU27 33.3% tax deduction rate on donations coupled with a corporate income tax (CIT) at 23.2% in 2010, we estimate the corporate donation tax benefit rate at 7.7% of amount donated. We highlight that for valuation purposes company specific tax rates are used.
- **Tax benefits could decrease by 0.6%.** Despite a boom in charitable foundations over the past decade (creation of 28%-40% of all EU foundations)⁷³ and continuing creation of charitable tax deduction schemes (Austria 2009)⁷⁴, the financial incentive for donations is diminishing through decreasing CITs (EU27 -8.7% 2000-10) with some EU members reacting with further cuts (-1.7%, 0.6% effect on benefits) in face of the current crisis⁷⁵.

FINANCIALS ARE PUSHING CORPORATE SOCIAL CONTRIBUTIONS FURTHER AFTER CRISIS

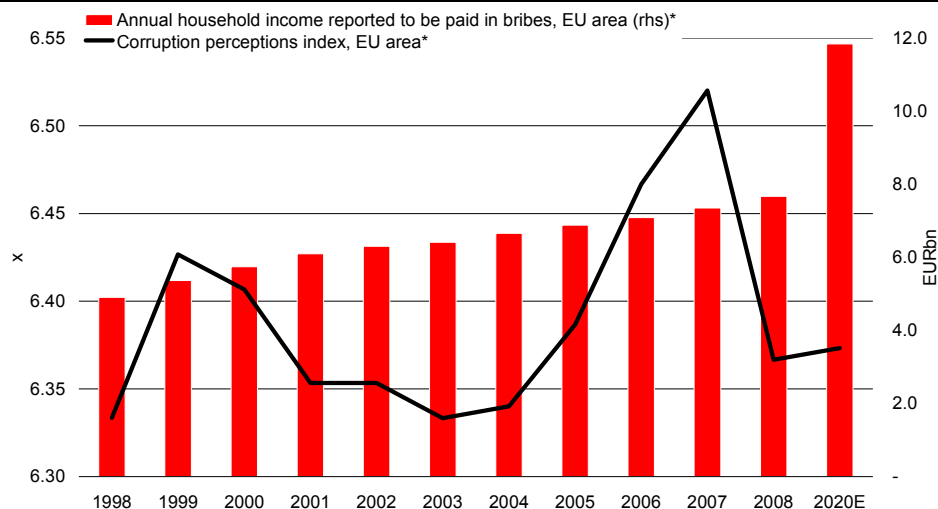


Source: Bloomberg, UniCredit Research

- **Philanthropic contribution rate chosen as micro indicator.** The indicator represents the amount of money spent on community-building activities, including charitable donations, as a percentage of EBITDA. Focus lies on tax benefits impact on net income. We multiply contributions by the effective tax savings rate for costing purposes.
- **Philanthropic contribution rate to increase by 15.6% 2009-12E.** We expect an increased focus on community spending (from 0.75% of EBITDA 2009 to 0.87% 2012E) with Financial stocks being biggest contributors at 1.5% showing leadership through business skills/microfinancing oriented foundations. Telecommunication stocks show the lowest contribution rates (0.3% 2009) with limited examples of phone recycling charities.
- **Philanthropic contributions to impact valuations by 2bp.** We do not see a significant impact on valuations (2bp) from corporate donation tax benefits. We highlight the highest positive valuation impacts for Oil & Gas stocks (8bp) given almost a doubling in expected contribution rates (from 0.6% to 0.9% 2009-12E) through local support initiatives. We expect negative valuation impacts (-2bp) for Industrials with strong contribution drops (-41.3% 2009-12E) despite new scientific education oriented charities.

Theme 10: Good governance – Policy coherence/effectiveness; Openness/participation (Macro view)

CORRUPTION EXPENSES ON THE RISE IN EU AREA

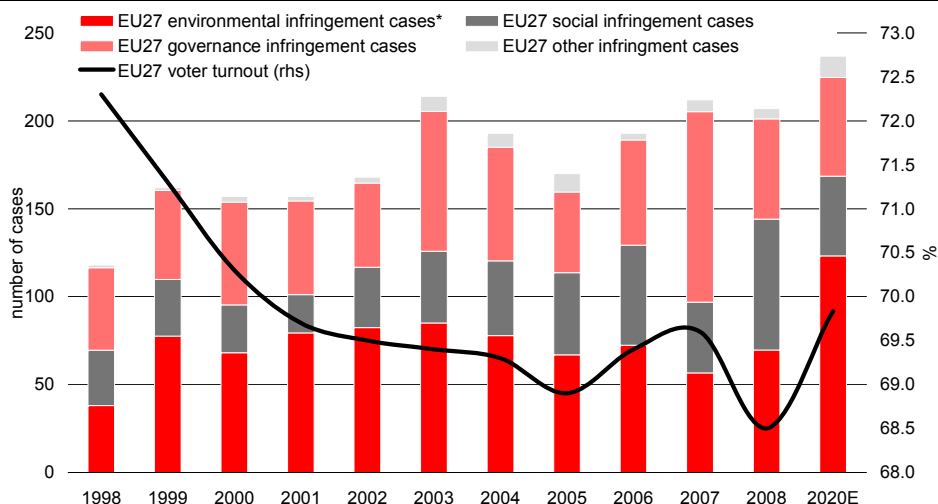


- **Apparent association between democracy and capitalism.** The direction of causality between democracy and economic development remains debateable but there is an apparent association between the level of development (income per head) and level of democracy with the Economist's Democracy Index 2008 portraying a correlation of 0.6 with GDP per head (at PPP USD) in 2007 for 167 countries covered.
- **Good governance core to economic development.** The perceived abuse of governance power in the management of economic/social resources shows a slight increase in the EU (-0.8% decrease in EU countries' corruption perceptions index 2000-09), diminishing the effectiveness of democratic and economic development⁷⁶.
- **Corruption levels can have significant economic effects.** Corruption index analysis suggest that improvements in governance (one standard deviation in index value) can boost investment rates by more than 4% and annual growth rates of GDP per capita by more than 0.5%⁷⁷. We estimate total amount of household income reported to be paid in bribes at EUR 7.7bn in 2008 for selected EU countries (10bps of household income).

*Lower index value = higher corruption levels; EU area= AT, BG, CZ, DK, FI, EL, HU, LT, LU, NL, PL, PT, RO, ES, UK

Source: Transparency International, Eurostat, UniCredit Research

EU DEMOCRATIC FOUNDATIONS ARE NOT IMPROVING



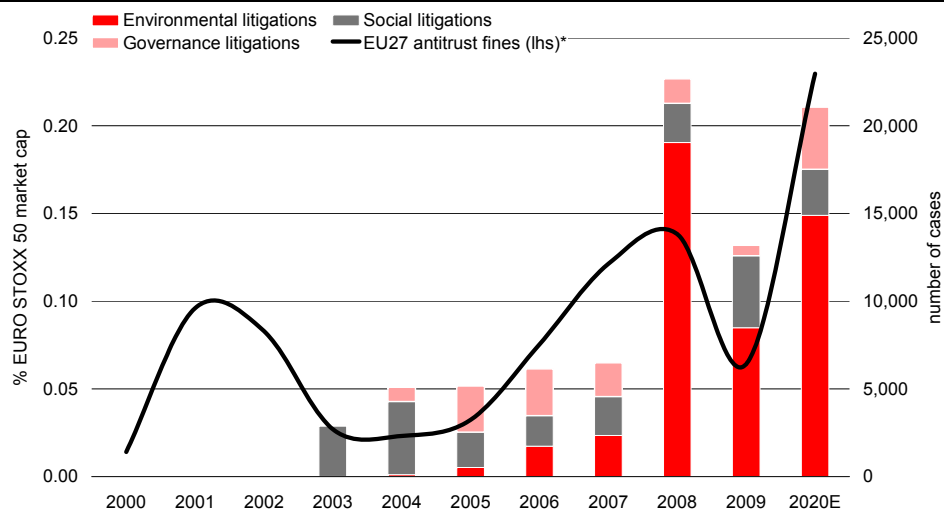
- **Infringement cases and voter turnout chosen as macro indicator.** Infringements represent actions brought before the EU Court of Justice for member state failures to fulfil their obligations and measures law enactment. Voter turnout is key for democracies.
- **EU law enactment deteriorating.** EU25 infringement cases have grown by 21.8% from 2005-08 with the three out of eleven areas representing 72% of all actions for failure (internal market -34%; environment/health/consumer protection -23%; justice and home affairs -15%). We expect matters to worsen (+14.4% infringement cases 2008-20E) with the EU's environmental 20-20-20 strategy likely to create more future environmental related disputes.
- **EU democratic confidence decreasing.** Participation in national EU27 parliamentary elections has been decreasing from 2000-08 by an annual average rate of 0.3% with the French and Dutch EU constitutional ratification rejections in 2005 unlikely to have helped. Despite the 2007 Lisbon Treaty and the creation of the European Council presidency in 2009, the level of citizens' confidence in EU institutions, which expresses the share of citizens' positive opinions, has not passed the 50% mark since 2004 on average.

*1998-2004=EU15, 2005-06=EU25

Source: Eurostat, EU Court of Justice, UniCredit Research

Theme 10: Good governance – Policy coherence/effectiveness; Openness/participation (Micro view)

ANTITRUST FINES AND LITIGATIONS ON THE RISE FOR EURO STOXX 50

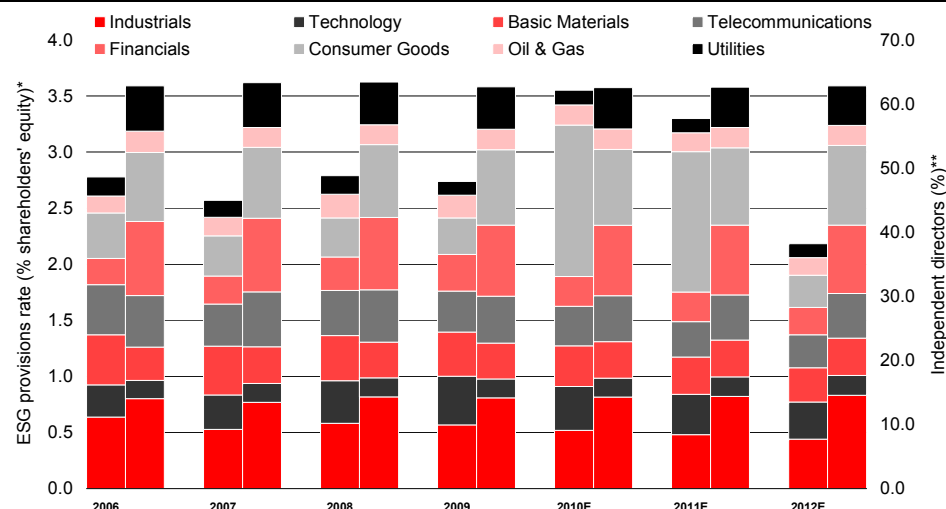


*Data 2000-04=EU25; market cap based on 2009 constituents

Source: EC, Bloomberg, UniCredit Research

- **Executive board compensation and ROE chosen as pricing factor.** High profile securities fraud fines (USD 0.6bn, Goldman Sachs vs. SEC), record ESG related provisions (USD 20bn, BP oil spill) and questionable compensation schemes (18.7% of US TARP used for bonus payments) may suggest need for a general corporate governance review.
- **Governance related fines estimated at 6.75bp of EURO STOXX 50 market cap.** EU antitrust fines have grown an average 67.5% p.a. 2000-09 to an average annual value of EUR 1.3bn⁷⁸, representing 6.8bp of EURO STOXX 50 market cap. ESG litigations in the US for index constituents also continue an upward trend having increased by 347.2% from 2003-2009, with environmental litigations holding a 64.4% lion's share in 2009.
- **Board independence increase could improve ROA by 2.0% in long term.** UK listed companies that adopted the 1992 Cadbury Committee board independence recommendations⁷⁹, showed a significant 1.95% improvement in ROA from 1989 to 1996 compared to 0.12 for those that were already compliant⁸⁰. We see increases in non-independent directors as a capital sunk cost given the incompatibility with corporate governance best practices.

ESG PROVISIONING LIKELY TO SHOW IMPROVEMENTS, BOARD INDEPENDENCE STATIC



Source: Bloomberg, UniCredit Research

- **ESG provisions rate and independent directors chosen as micro indicator.** ESG provisions rate is the amount of ESG issues related provisions, expressed as percentage of shareholders' equity while independent directors is expressed as a percentage of total supervisory board members. ESG provisions represent capital not earning required returns while increasing non-independent directors represents capital sunk costs. We multiply provisions by ROE (%) and number of independent directors by average board member salary for costing purposes.
- **ESG provisions to impact valuations by 0.3%.** ESG related provisioning is expected to decrease by 20.3% to an average 2.2% of shareholder's equity in 2012E, affecting valuations upward by 0.3%. Industrial stocks remain the most burdened (7.6% 2009) yet expected to benefit most in valuation terms (+1.3%) from diminishing provisions relating to fraud, bribery, insider trading and antitrust charges.
- **No significant valuation impact from independent directors.** Static board independence levels (62.7% to 62.8% 2009-2012E) will not trigger significant valuation impacts (-0.1bp). We highlight positive valuation impact for Consumer Goods stocks (8bp) where board restructuring to fill scientific needs can be observed.

Appendices

Appendix 1 – The United Nations Human Development Index

The Human Development Index (HDI)

The HDI is a summary composite index that measures a country's average achievements in three basic aspects of human development: health, knowledge, and a decent standard of living. Health is measured by life expectancy at birth (calculated using a minimum value for life expectancy of 25 years and maximum value of 85 years); knowledge is measured by a combination of the adult literacy rate and the combined primary, secondary, and tertiary gross enrolment weighted to give adult literacy more significance; and standard of living by GDP per capita (PPP USD) the goalpost for minimum income being USD 100 (PPP) and the maximum USD 40,000 (PPP). The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GDP. The scores for the three HDI components are then averaged in an overall index

The breakthrough for the HDI was the creation of a single statistic which was to serve as a frame of reference for both social and economic development. The HDI sets a minimum and a maximum for each dimension, called goalposts, and then shows where each country stands in relation to these goalposts, expressed as a value between 0 and 1. The HDI facilitates instructive comparisons of the experiences within and between different countries.

Methodology

The formula defining the HDI is promulgated by the United Nations Development Programme (UNDP). In general, to transform a raw variable, say X, into a unit-free index between 0 and 1 (which allows different indices to be added together), the following formula is used:

$$\chi - index = \frac{\chi - \min(\chi)}{\max(\chi) - \min(\chi)}$$

where $\min(\chi)$ and $\max(\chi)$ are the lowest and highest values the variable χ can attain, respectively.

The Human Development Index (HDI) then represents the uniformly weighted sum with $\frac{1}{3}$ contributed by each of the following factor indices:

$$\blacksquare \text{ Life Expectancy Index} = \frac{LE - 25}{85 - 25}$$

$$\blacksquare \text{ Education Index} = \frac{2}{3} \times ALI + \frac{1}{3} \times GEI$$

$$- \text{ Adult Literacy Index (ALI)} = \frac{ALR - 0}{100 - 0}$$

$$- \text{ Gross Enrolment Index (GEI)} = \frac{CGER - 0}{100 - 0}$$

$$\blacksquare \text{ GDP} = \frac{\log(GDPpc) - \log(100)}{\log(40000) - \log(100)}$$

Source: United Nations

Appendix 2 - The Ecological Footprint

Global Footprint Network's core research calculates the Ecological Footprint, demand on nature/bioproductivity and capacity to meet this demand of more than 200 countries. Results, updated annually, as well as the calculations are shown in the Network's National Footprint Accounts. The 2009 National Footprint Accounts use over 5,400 data points for each country, each year, derived from internationally recognized sources to determine the area required to produce the biological resources a country uses and to absorb its wastes, and to compare this with the area available. This area is reported in global hectares (global acres), hectares (acres) with world-average productivity, for each year from 1961 through 2006.

The Ecological Footprint uses yields of primary products (from cropland, forest, grazing land and fisheries) to calculate the area necessary to support a given activity. Bioproductivity is measured by calculating the amount of biologically productive land and sea area available to provide the resources a population consumes and to absorb its wastes, given current technology and management practices. Countries differ in the productivity of their ecosystems, and this is reflected in the accounts.

A nation's consumption is calculated by adding imports to and subtracting exports from its national production. Results from this analysis shed light on a country's ecological impact. For example, the National Footprint Accounts identify whether or not a country's Ecological Footprint exceeds its bioproductivity. A country has an ecological reserve if its Footprint is smaller than its bioproductivity; otherwise it is operating with an ecological deficit. The former are often referred to as ecological creditors, and the latter ecological debtors.

Today, most countries, and the world as a whole, are running ecological deficits. The world's ecological deficit is referred to as global ecological overshoot.

Footprint and Bioproductivity Calculations

The Ecological Footprint measures appropriated bioproductivity, expressed in global average bioproductive hectares, across five distinct land use types, in addition to one category of indirect demand for bioproductivity in the form of absorptive capacity for carbon dioxide emissions. The Ecological Footprint of production, EFP, represents primary demand for bioproductivity and is calculated as:

$$EF = \frac{P}{Y_N} \cdot YF \cdot EQF$$

where P is the amount of a product harvested or waste emitted, Y_N is the national average yield for P , and YF and EQF are the yield factor and equivalence factor, respectively, for the land use type in question.

A country's bioproductivity BC for any land use type is calculated as follows:

$$BC = A \cdot YF \cdot EQF$$

where A is the area available for a given land use type and YF and EQF are the yield factor and equivalence factor, respectively, for the country, year, and land use type in question.

Source: Global Footprint Network

Appendix 3- The European Sustainable Development Strategy (SDS) and Indicators (SDIs)

Sustainable Development

Sustainable development is a fundamental and overarching objective of the European Union, aiming to continuously improve the quality of life and wellbeing for present and future generations, by linking economic development, protection of the environment and social justice.

The 2006 EU Sustainable Development Strategy (EU SDS) sets out a single, coherent strategy on how the EU will more effectively meet the challenges of sustainable development. It reaffirms the overall aim of achieving a continuous improvement in the quality of life of citizens through sustainable communities that manage and use resources efficiently and tap the ecological and social innovation potential of the economy, ensuring prosperity, environmental protection and social cohesion.

Measuring progress towards sustainable development is an integral part of the EU SDS, and it is Eurostat's task to produce a monitoring report every two years based on the EU set of sustainable development indicators (EU SDIs).

The SDS defines objectives and targets intended to put the European Union on a path towards sustainable development.

The thematic framework

The set of EU SDIs has been organised within a theme-oriented framework, in order to provide a clear and easily communicable structure and relevance to political decision-making. The framework is based on priority policy issues, but is flexible enough to adjust to possible changes in these priorities and objectives, bearing in mind that new issues and priorities emerge from time to time. The ten themes are:

- socioeconomic development,
- climate change and energy,
- sustainable transport,
- sustainable consumption and production,
- natural resources,
- public health,
- social inclusion,
- demographic changes,
- global partnership,
- good governance.

Each theme is further divided into sub-themes to organise the set in a way that reflects the operational objectives and actions of the EU SDS.

The different kinds of indicators of the EU SDI set

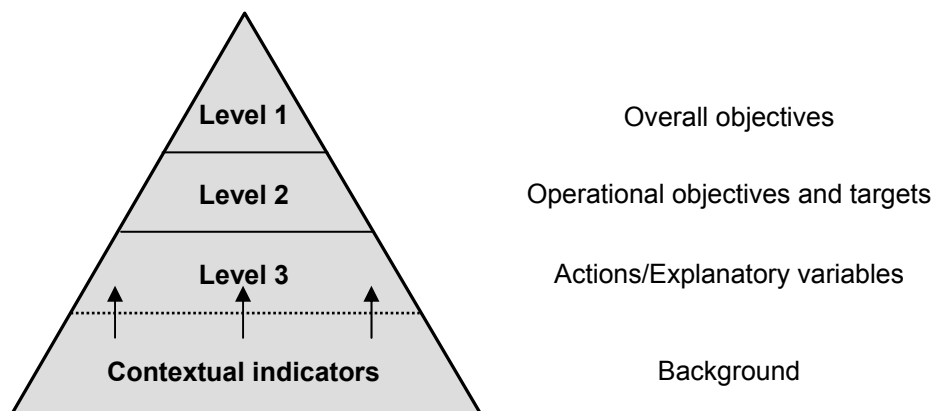
Compiling indicators and communicating efficiently about an issue as complex as sustainable development remains a challenge at all levels (EU, national, local). This is due not only to the wide range of issues to be addressed, but also to the requirement for new data, or a new approach to existing data, stemming from diverse sources.

In order to address this challenge, the EU SDI set is structured as a three-storey pyramid, distinguishing between three levels of indicators. This approach not only reflects the structure of the EU SDS (overall objectives, operational objectives, actions), but also responds to different kinds of user needs. The three-level pyramid is complemented with contextual indicators, as illustrated below:

- **Headline (or level-1) indicators are at the top of the pyramid, monitoring the 'overall objectives' related to the seven key challenges of the EU SDS.** On the whole they are widely used indicators with a high communicative and educational value. They are robust and available for most EU member states, generally for a period of at least five years.

- **The second level of the pyramid consists in most cases of indicators related to the ‘operational objectives’ of the strategy.** They are the lead indicators in their respective sub-themes. They are robust and available for most EU member states for a period of at least three years.
- **The third level consists of indicators related to actions described in the Strategy or to other issues which are useful for analysing progress towards the strategy’s objectives.** Breakdowns of higher level indicators, e.g. by gender or income group, are usually also found at level 3.
- **Contextual indicators are part of the SDI set, but either do not monitor directly a particular SDS objective, or they are not policy responsive.** Generally, they are difficult to interpret in a normative way. However, they provide valuable background information on issues having direct relevance for sustainable development policies and are useful for the analysis.

THE EU SDI PYRAMID



Source: Eurostat

The following table lists the complete set of EU SDIs (Source: Eurostat)

Theme 1: Socioeconomic Development		Key SDS objective: Economic prosperity		
Level 1	Level 2	Level 3		
1. Growth rate of real GDP per capita	Sub-theme: ECONOMIC DEVELOPMENT			
	2. Total investment	5. Dispersion of regional GDP per inhabitant		
	3. Government investment	6. Net national income		
	4. Business investment	7. Household saving rate		
	Sub-theme: INNOVATION, COMPETITIVENESS AND ECO-EFFICIENCY			
8. Growth of labour productivity per hour worked	9. Total R&D expenditure	12. Effects of innovation on material and energy efficiency		
	10. Real effective exchange rate	13. Energy intensity of the economy		
	11. Turnover from innovation	14. Effects of innovation on reduced environmental impacts or improved health and safety		
	Sub-theme: EMPLOYMENT			
15. Total employment rate	16. Employment rate, by gender	19. Unemployment rate, by gender		
	17. Employment rate, by highest level of education attained	Unemployment rate, by age group		
	18. Dispersion of regional employment rates, by gender			
Theme 2: Sustainable Consumption and Production		Key SDS challenges: Sustainable consumption and production; Conservation and management of natural resources		
Level 1	Level 2	Level 3		
1. Resource Productivity	Sub-theme: RESOURCE USE AND WASTE			
	2. Municipal waste generated	3. Components of domestic material consumption	7. Emissions of acidifying substances by source sector	
		4. Domestic material consumption by material	8. Emissions of ozone precursors by source sector	
		5. Municipal waste treatment, by type of treatment method	9. Emissions of particulate matter by source sector	
		6. Generation of hazardous waste, by economic activity		
	Sub-theme: CONSUMPTION PATTERNS			
10. Electricity consumption of households	11. Final energy consumption by sector	13. Motorisation rate		
	12. Consumption of certain foodstuffs per inhabitant			
	Sub-theme: PRODUCTION PATTERNS			
14. Organisations with an environmental management system	15. Eco-label awards	17. Area under organic farming		
	16. Area under agri-environmental commitment	18. Livestock density index		
Contextual indicators	- Number of households - Household expenditure per inhabitant, by category			
Theme 3: Social Inclusion		Key challenge: Social inclusion, demography and migration		
Level 1	Level 2	Level 3		
1. At-risk-of-poverty rate, by gender	Sub-theme: MONETARY POVERTY AND LIVING CONDITIONS			
	2. Persistent-at-risk-of-poverty rate	3. At-risk-of-poverty rate, by age group	5. Relative median at-risk-of-poverty gap	
		4. At-risk-of-poverty rate, by household type	6. Inequality of income distribution	
		7. People living in jobless households, by age group	8. In-work poverty	10. Gender pay gap in unadjusted form
		9. Total long-term unemployment rate		
	Sub-theme: EDUCATION			
11. Early school leavers	12. At-risk-of-poverty rate, by highest level of education attained	15. Low reading literacy performance of pupils		
	13. Persons with low educational attainment, by age group	16. Individuals' level of computer skills		
	14. Life-long learning	17. Individuals' level of internet skills		
Contextual indicator	- Public expenditure on education (for sub-theme Education)			
Theme 4 : Demographic Changes		Key challenge: Social inclusion, demography and migration		
Level 1	Level 2	Level 3		
1. Employment rate of older workers	Sub-theme: DEMOGRAPHY			
	2. Life expectancy at age 65, by gender	3. Total fertility rate	4. Crude rate of net migration plus adjustment	
	Sub-theme: OLD-AGE INCOME ADEQUACY			
	5. Aggregate replacement ratio	6. At-risk-of-poverty rate of elderly people		
	Sub-theme: PUBLIC FINANCE SUSTAINABILITY			
7. General government debt	8. Average exit age from the labour market			
Contextual indicators	- Old-age dependency ratio (for sub-theme Demography) - Projected old age dependency ratio (for sub-theme Demography) - Pension expenditure projections (baseline scenario) (for sub-theme Public finance sustainability) - Expenditure on care for the elderly (for sub-theme Public finance sustainability)			

Theme 5: Public Health		Key challenge: Public health	
Level 1	Level 2	Level 3	
1. Healthy life years and life expectancy at birth, by gender	Sub-theme: HEALTH AND HEALTH INEQUALITIES	3. Healthy life years and life expectancy at age 65, by gender	6. Suicide death rate, females by age group
	2. Death rate due to chronic diseases, by gender	4. Suicide death rate, total by age group	7. Self reported unmet need for medical examination or treatment, by income quintile
	Sub-theme: DETERMINANTS OF HEALTH	5. Suicide death rate, males by age group	8. Dispersion of regional death rates
	9. Index of production of toxic chemicals, by toxicity class	10. Urban population exposure to air pollution by particulate matter	12. Proportion of population living in households considering that they suffer from noise
		11. Urban population exposure to air pollution by ozone	13. Serious accidents at work
Theme 6: Climate Change and Energy		Key challenge: Climate change and clean energy	
Level 1	Level 2	Level 3	
1. Greenhouse gas emissions	Sub-theme: CLIMATE CHANGE	4. Greenhouse gas emissions intensity of energy consumption	6. Global surface average temperature
	3. Greenhouse gas emissions by sector (including sinks)	5. Projections of greenhouse gas emissions	
2. Share of renewables in gross inland energy consumption	Sub-theme: ENERGY	8. Gross inland energy consumption by fuel	11. Combined heat and power generation
	7. Energy dependency	9. Electricity generated from renewable sources	12. Implicit tax rate on energy
		10. Share of biofuels in fuel consumption of transport	
Theme 7: Sustainable Transport		Key challenge: Sustainable transport	
Level 1	Level 2	Level 3	
1. Energy consumption of transport relative to GDP	Sub-theme: TRANSPORT AND MOBILITY	4. Volume of freight transport relative to GDP	5. Volume of passenger transport relative to GDP
	2. Modal split of passenger transport	6. Energy consumption by transport mode	7. Investment in transport infrastructure by mode
	3. Modal split of freight transport		
	Sub-theme: TRANSPORT IMPACTS	8. Greenhouse gas emissions by transport mode	10. Emissions of ozone precursors from transport
	8. Greenhouse gas emissions by transport mode	9. People killed in road accidents	11. Emissions of particulate matter from transport
	9. People killed in road accidents		12. Average CO2 emissions per km from new passenger cars
	Contextual indicator		
	- Price indices for transport		
Theme 8: Natural Resources		Key challenge: Conservation and management of natural resources	
Level 1	Level 2	Level 3	
1. Common bird index	Sub-theme: BIODIVERSITY	4. Deadwood	
	3. Sufficiency of sites designated under the EU Habitats directive		
	Sub-theme: FRESH WATER RESOURCES		
	5. Surface- and groundwater abstraction as a share of available resources	6. Population connected to urban waste water treatment with at least secondary treatment	7. Biochemical oxygen demand in rivers
2. Fish catches taken from stocks outside safe biological limits	Sub-theme: MARINE ECOSYSTEMS		
	8. Concentration of mercury in fish and shellfish (not yet available)	9. Size of fishing fleet	
	Sub-theme: LAND USE		
	10. Build-up areas	12. Forest trees damaged by defoliation	
	11. Forest increment and fellings	13. Land at risk of soil erosion	
Theme 9: Global partnership		Key challenge: Global poverty and sustainable development	
Level 1	Level 2	Level 3	
1. Official Development Assistance as share of gross national income	Sub-theme: GLOBALISATION OF TRADE	3. EU imports from developing countries by group of products	5. Aggregated measurement of support for agriculture
	2. EU imports from developing countries, by income group	4. EU imports from least-developed countries by group of products	
	Sub-theme: FINANCING FOR SUSTAINABLE DEVELOPMENT		
	6. Total EU financing for developing countries, by type	7. Foreign direct investment in developing countries, by income group	9. Untied official development assistance
		8. Official development assistance, by income group	10. Bilateral official development assistance by category
	Sub-theme: GLOBAL RESOURCE MANAGEMENT		
	11. CO ₂ emissions per inhabitant in the EU and in developing countries		
	- Population living on less than 1USD a day (for sub-theme Financing for SD)		
	- Official development assistance per inhabitant (for sub-theme Financing for SD)		
	- Population with sustainable access to an improved water source (for sub-theme Global Resource Management)		
Contextual indicators			
Theme 10: Good governance		Key challenge: Policy coherence and governance	
Level 1	Level 2	Level 3	
1. Official Development Assistance as share of gross national income	Sub-theme: POLICY COHERENCE AND EFFECTIVENESS	2. Transposition of Community law, by policy area	
	1. New infringement cases		
	Sub-theme: OPENNESS AND PARTICIPATION		
	3. Voter turnout in national and EU parliamentary elections	4. E-government on-line availability	5. E-government usage by individuals
	Sub-theme: ECONOMIC INSTRUMENTS		
	6. Shares of environmental and labour taxes in total tax revenues		
	- Level of citizens' confidence in EU institutions (for sub-theme Policy coherence and effectiveness)		
Contextual indicator			

Appendix 4 – Event study methodology

Event study methodology overview

The event study methodology is designed to investigate the effect of an event on a specific dependant variable, which in our analysis is a security's stock price. We therefore study the changes in stock price beyond expectation (abnormal returns) over a period of time (event window), attributing the abnormal returns to the effects of the event. The goal is to determine whether there is an abnormal stock price effect associated with an event.

The key assumption of an event study methodology is that the market must be efficient. Given an efficient market, the effects of the event will be reflected immediately in the stock prices of the company. This allows for observation of the economic effect of the event over a relatively short period.

We conduct the following 5 steps for our event study:

1. Identifying the event
2. Identifying estimation, event and post-event windows
3. Estimating parameters using data in estimation window
4. Measuring abnormal returns in the event window
5. Aggregating abnormal returns

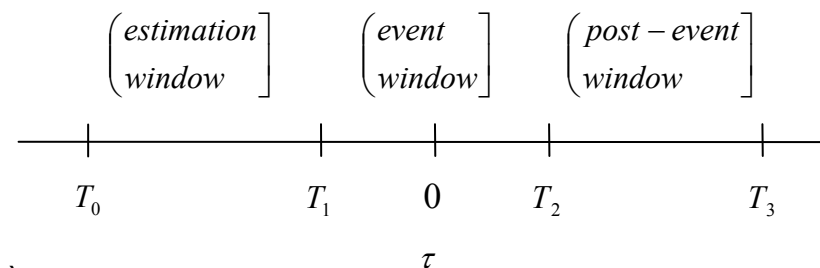
Step 1 – Identifying the event

We categorise events according to news flow relating to the principles of the United Nations Global compact (pls see appendix 5 for details). Events that breach a principle are classified as negative. Events that support a principle are classified as positive.

Step 2 - Identifying estimation, event and post-event windows.

Our sample includes all stocks within our ESG Equity Research covered universe. Our event window encompasses a period of 5 days before and after the news event is released to the market. Our estimation window is based on 120 days.

Time sequence:



Returns will be indexed in event time using τ . Defining $\tau=0$ as the event date, $\tau=T_1+1$ to $\tau=T_2$ represents the event window, and $\tau=T_0+1$ to $\tau=T_1$ constitutes the estimation window. Let $L_1=T_1-T_0$ and $L_2=T_2-T_1$ be the length of the estimation window and the event window respectively. The post-event window will be from $\tau=T_2+1$ to $\tau=T_3$ and of length $L_3=T_3-T_2$.

Step 3- Estimating parameters using data in estimation window

We use the market model to determine the expected returns on each of the event days:

For security i the market model is:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

$$E(\varepsilon_{it} = 0) \quad \text{var}(\varepsilon_{it}) = \sigma_{\varepsilon_i}^2$$

where R_{it} and R_{mt} are the period- t returns on security i and the market portfolio, respectively, and ε_{it} is the zero mean disturbance term. α_i , β_i , and $\sigma_{\varepsilon_i}^2$ are the parameters of the market model.

We use the STOXX Large index as proxy for the market portfolio.

Step 4 – Measuring abnormal returns in the event window:

We subsequently subtract the actual return to get the abnormal return on each day of the event window.

$$\hat{AR}_{i\tau} = R_{i\tau} - \hat{\alpha} - \hat{\beta}_i R_{m\tau}$$

where: $\hat{AR}_{i\tau}$, $\tau = T_1 + 1, \dots, T_2$, be the sample of L_2 abnormal returns for firm i in the event window.

Step 5 - Aggregating abnormal returns

We then multiply the abnormal returns over the entire period of time to get the cumulative abnormal return.

$$\hat{CAR}_i(\tau_1, \tau_2) = \prod_{\tau=\tau_1}^{\tau_2} \hat{AR}_{i\tau}$$

where we define $\hat{CAR}_i(\tau_1, \tau_2)$ as the sample cumulative abnormal return (CAR) from τ_1 to τ_2 where $T_1 < \tau_1 \leq \tau_2 \leq T_2$. The CAR from τ_1 to τ_2 is the product of the included abnormal returns.

Appendix 5 – The United Nations Global Compact

What is the Global Compact?

The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

The Ten Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights
- The International Labour Organization's Declaration on Fundamental Principles and Rights at Work
- The Rio Declaration on Environment and Development
- The United Nations Convention Against Corruption

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure they are not complicit in human rights abuses.

Labour

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** the elimination of all forms of forced and compulsory labour;
- **Principle 5:** the effective abolition of child labour; and
- **Principle 6:** the elimination of discrimination with respect to employment and occupation.

Environment

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

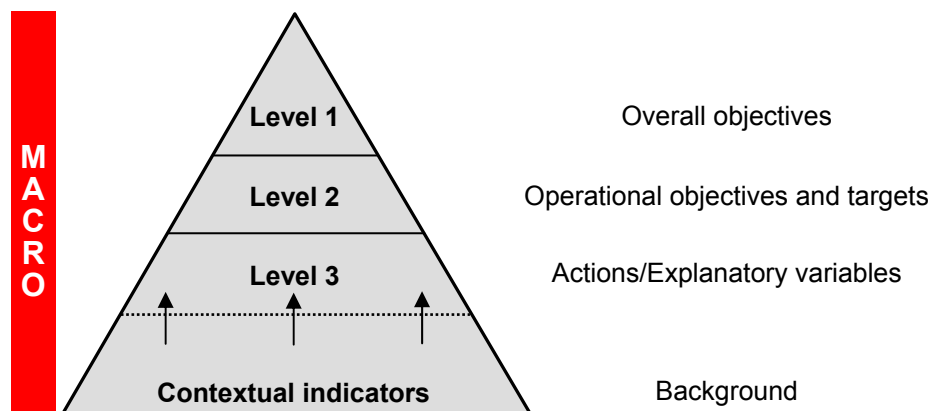
- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations

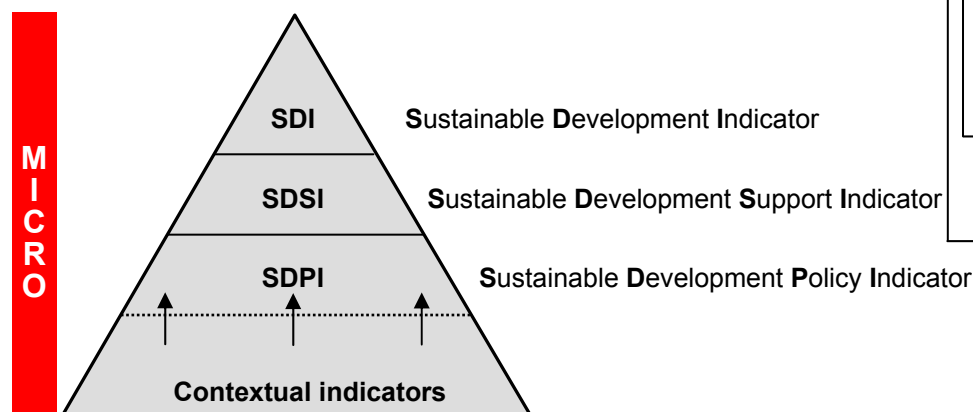
Appendix 6 – The European Union's & UniCredit's Sustainable Development Indicators

UniCredit's Environmental, Social & Governance Key Performance Indicators' EU SDS mapping process

EU SUSTAINABLE DEVELOPMENT STRATEGY (EU SDS) INDICATOR PYRAMID



UNICREDIT ESG KEY PERFORMANCE INDICATOR LAYOUT



THEME 6: CLIMATE CHANGE AND ENERGY (2007)	
LEVEL 1	
1. Greenhouse gas emissions (index 1990 = 100)	82
2. Share of renewables in gross inland energy consumption (%)	2.1
LEVEL 2	
3. Greenhouse gas emissions by sector (million MtCO ₂ e)	636.7
7. Energy dependency (%)	20.1
LEVEL 3	
4. Greenhouse gas emissions intensity of energy consumption (index 2000 = 100)	102.1
5. Projections of greenhouse gas emissions	ext. link
6. Global surface average temperature	ext. link
8. Gross inland energy consumption by fuel (1'000 toe)	221,092
9. Electricity generated from renewable sources (%)	5.1
10. Share of biofuels in fuel consumption of transport (%)	0.83
11. Combined heat and power generation (%)	6.4
12. Implicit tax rate on energy (EUR/toe)	218
CONTEXTUAL INDICATORS	
NA	NA

THEME 6: CLIMATE CHANGE AND ENERGY (2007)	
SDI	
6.1 Total direct GHG emissions (tonnes/EUR mn)	X
SDSI	
6.1 Percent of emissions disclosure (%)	X
6.2 Energy consumed from renewable sources (%)	X
SDPI	
6. Climate change related policies (%)	X

Source: Eurostat, UniCredit Research

UniCredit's ESG research KPIs aim to be aligned in a thematic framework to the EU SDS SDIs different levels of indicators. UniCredit's SDIs are the core drivers for rendering ESG issues in financial and valuation terms and are prioritised when estimating future trends. UniCredit's SDSIs represent support indicators to determine if the overall trend observed in SDIs is sustainable or requires adjustments to our forecasts. SDPIs serve the same functionality as SDSIs but are given less weight in our forecasting methodology. Contextual Indicators (Sector Key Performance Indicators & Sector Key Thematic Score) provide general background information regarding specific SDI areas and are not directly used in our forecasting methodology.

Appendix 7 – Key definitions for UniCredit's ESG KPIs

Environmental Indicators

1. Socioeconomic Development	
SDI	
Total Energy Consumption (MWh)	Total amount of energy used by the company, both on and off-site, in thousands of megawatt hours (MWh).
SDPI	
Energy Efficiency Policy	Indicates if the company has a policy on the efficient use of energy.
2. Climate Change And Energy	
SDI	
GHG Scope 1	Greenhouse gas (GHG) emissions from direct operations, whether from direct energy production on-site or other industrial activity in thousands of metric tons. If not disclosed, amount of carbon dioxide emitted through operations directly performed by the company, or total global amount of scope 1 emissions emitted by the company (Scope 1 emissions are direct GHG emissions from sources that are owned or operated by the company), can be taken as a proxy.
SDSI	
Percent of Disclosure	Percentage of operations covered in disclosures on emissions. A blank in this field indicates 100% of operations are covered.
Renewable Energy Use (MWh)	Amount of energy consumed that was generated by a renewable energy source, in thousands of megawatt hours (MWh).
SDPI	
Emissions Reduction Initiatives	Indicates whether the company has a policy on efforts to reduce emissions output.
New Products - Climate Change	Indicates whether the company has developed products in response to climate change.
Climate Change Policy	Indicates whether company has announced how it is responding to climate change. 'N' indicates the company has not explicitly disclosed this policy in its most recent Annual or Company Responsibility Reports.
3. Sustainable Transport	
SDI	
Travel Emissions	Carbon dioxide emissions from air and vehicle travel by company employees, in thousands of metric tons. If not disclosed, Emissions from Business Travel or Greenhouse gas (GHG) emissions from the company's supply chain operations, employee travel and other indirect sources should be taken as proxy
SDPI	
Same as Climate Change and Energy theme	
4. Sustainable Consumption And Production	
SDI	
Total Waste	Total amount of waste the company discards, both hazardous and non-hazardous, in thousands of metric tons.
SDSI	
Waste Recycled	Total amount of waste the company recycles, in thousands of metric tons.
Hazardous Waste	Amount of hazardous waste the company discards, in thousands of metric tons.
SDPI	
Environmental Supply Chain Management	Indicates whether the company has a policy to address environmental supply chain management.
Green Building Policy	Indicates whether the company has a policy regarding its efforts to use environmentally friendly procedures in the design and construction of its buildings.
Waste Reduction Policy	Indicates whether the company has a policy on reducing the waste emitted by its operations.
Sustainable Packaging	Indicates whether the company has a policy regarding its efforts to use environmentally friendly packaging for its products.
Environmental Quality Management Policy	Indicates whether the company has a policy to achieve a high level of environmental quality in its operations.
Training Policy	Indicates whether the company has established policies to train new and existing employees on career development, education or skills.

5. Natural Resources

SDI	
Water Consumption	Amount of water consumed by the company, in thousands of cubic meters.
Paper Consumption	Paper used by the company for printing, packaging, office use, etc., in thousands of metric tons.
SDSI	
% Water Recycled	Percentage of water usage from recycled sources.
Discharges to Water	Amount of discharges to water that influence the biophysical or chemical quality of the water, in thousands of cubic meters.
Paper Recycled	Total amount of paper the company recycles, in thousands of metric tons.
SDPI	
Biodiversity Policy	Indicates whether the company has a policy for protecting biodiversity, such as trees and vegetation as well as wildlife and endangered species.

Social Indicators

6. Public Health

SDI	
Lost Time from Accidents	Total number of hours out of work by employees who suffered accidents.
SDSI	
Workforce Accidents - Employees	Number of accidents at the company resulting in harm to employees during the reporting period.
Fatalities - Total	Total fatalities reported, both employee and contractor. If not disclosed, number of employee fatalities/number of contractor fatalities used as a proxy.
SDPI	
Health and Society Policy	Indicates whether the company has a policy regarding employee health and safety in the workplace.

7. Social Inclusion

SDI 7.1	
Employee Turnover %	Employees to have left within the past year as percentage of the average total number of employees. High employee turnover may indicate employee dissatisfaction with their work at the company, compensation, or unsafe/unhealthy conditions.
SDSI	
Employee Training Cost	Amount the company spent on employee training during the reporting period.
SDPI	
Human rights Policy	Indicates whether the company has a policy to protect the rights of all people it works with.

8. Demographic Changes

SDI	
Employee Average Age	Average age of company employees.
Projected Benefit Obligation	Actuarial present value of total cost of all employees vested/non-vested pension benefits attributed by the pension benefit formula to services performed by employees at the end of the period.
Overfunded (underfunded) Pension	The funded status of the pension plan. Represents the difference between the fair value of the plan's assets less the projected benefit obligation. The plan is overfunded if assets exceed the projected benefit obligation and is underfunded if assets are less than the projected benefit obligation. Available for all industry types.
SDSI	
% Women in Workforce	Number of women employed as a percentage of total employees. If not disclosed, Percentage of women employed in management positions taken as proxy.
% Minorities in Workforce	Number of ethnic minorities employed at the company expressed as a percentage of the total number of employees. If not disclosed, percentage of minorities in management taken as proxy.
% Disabled in Workforce	Number of employees with disabilities at the company as a percentage of the total number of company employees.
SDPI	
Equal Opportunity Policy	Indicates whether the company has a policy to hire and promote on merit.

Governance Indicators

9. Global Partnership

SDI

Community Spending Amount of money spent by the company on community building activities, in millions.

SDSI

Number of Awards Received Number of awards the company has received for its corporate responsibility initiatives.

SDPI

UN Global Compact Signatory Indicates whether the company is a signatory of the United Nations Global Compact.

10. Good Governance

SDI

ESG provisions Provisions related to environmental, social & governance issues

% Independent Directors Independent directors as a percentage of total board membership.

SDSI

Board compensation Includes director fees, stock options and the value of all amounts earned during the fiscal year pursuant to non-equity incentive.

Board Duration (Years) Length of a board member's term, in years. For boards which allow renewal of terms, it is the length of a single term prior to renewals.

Number of Board Meetings for the Year Total number of corporate board meetings held in the past year.

Political Donations Amount of corporate donations to political groups, parties, or individuals, in millions.

Environmental Fines (Amount) Total amount of environmental fines paid by the company in the period, in millions.

Auditor Expense - Non Audit This is the Auditor Expense - Non Audit figure as reported by the company.

Total Fees Paid to Audit Firms This is the Total Fees Paid To Audit Firms figure as reported by the company.

Stock Based Compensation This is the Stock Based Compensation figure as reported by the company.

Voting Right Parity Voting Right Parity: Normally 1. If a company has multiple free float classes of shares, weighted average is taken

SDPI

Fair Remuneration Policy Indicates whether the company has established a consolidated group wide policy regarding fairness in compensation of employees. Policy includes foreign subsidiaries under consolidated group company.

Business Ethics Policy Indicates whether the company has established ethical guidelines for employees in the conduct of company business.

GRI Criteria Compliance Indicates whether the company is in compliance with Global Reporting Initiative (GRI) criteria.

Verification Type Indicates whether the company's environmental policies were subject to an independent assessment for the reporting period.

Employee CSR Training Discloses whether the company conducts training courses for employees on Corporate Social Responsibility (CSR).

CEO Duality Indicates whether the company's Chief Executive Officer is also Chairman of the Board.

Source: Bloomberg, UniCredit Research

Appendix 8 – Sector specific Key Performance Indicators & Key Thematic Scores

Sector specific KPIs and thematic scores by sub-sector

Sub-sector	Sector Key Performance Indicator (KPI)	Sector Key Theme
Automobiles & Parts		
Automobiles	Average fleet CO2 emissions for vehicles sold in the EU (g/km)	Supply chain management regarding labour issues (% score)
Tires	Tire models achieving fuel efficiency class A or B according to EU Regulation on tire labelling (% total)	Supply chain management regarding labour issues (% score)
Banks		
Banks	SRI assets under management (%)	CO2 intensity of metals production processes, tonnes of CO2 equivalent/tonnes of metal produced (% score) Consideration of environmental and social aspects in high impact financing activities (% score)
Basic Resources		
Iron & Steel	Secondary raw material/metal scrap use (% of production volume)	CO2 intensity of metals production processes, tonnes of CO2 equivalent/tonnes of metal produced (% score)
Chemicals		
Commodity Chemicals	Sales from products produced at proprietary EMS certified sites (%)	Sustainable chemistry (% score)
Speciality Chemicals	Sales from products produced at proprietary EMS certified sites (%)	Sustainable chemistry (% score)
Food & Beverage		
Food Products	Certified organic products food sales (%)	Supply chain management regarding labour issues (% score)
Industrial Goods & Services		
Aerospace	CO2 emissions / seat produced	Business ethics (% score)
Commercial Vehicles & Trucks	Investments to improve environmental performance (% sales)	Strategy for addressing climate change and related risks (% score)
Defence	Investments to improve environmental performance (% sales)	Business ethics (% score)
Delivery Services	Fleet powered by renewable/alternative fuels (%)	Transport Efficiency (% score)
Diversified Industrials	Environmental product portfolio sales (% sales)	Strategy for addressing climate change and related risks (% score)
	Secondary raw material/metal scrap use (% of production volume)	CO2 intensity of metals production processes, tonnes of CO2 equivalent/tonnes of metal produced (% score)
Insurance		
Full Line Insurance	SRI assets under management (%)	Consideration of environmental/social issues in proprietary investments (% score)
Reinsurance	Natural catastrophe reinsurance claims (% property & casualty reinsurance total)	Consideration of environmental/social issues in proprietary investments (% score)
Oil & Gas		
Integrated Oil & Gas	Natural gas production (% of overall hydrocarbon)	Direct/scope 1 GHG emissions per total hydrocarbons produced, tCO2-e/kboe (% score)
Oil Equipment, Services & Dist	Sales generated with renewable energies infrastructure (%)	Health and safety management (% score)

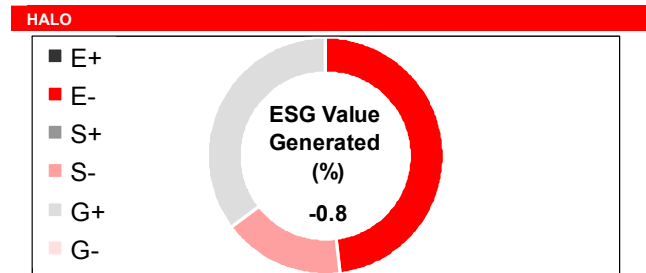
Sub-sector	Sector Key Performance Indicator (KPI)	Sector Key Theme
Personal & Household Goods		
Consumer Electronics	Product sales with end-of-life take-back systems availability (%)	Supply chain management regarding labour issues (% score)
Footwear	Sales from products produced at proprietary/supplier/subcontractor EMS certified sites (%)	Supply chain management regarding labour issues (% score)
Nondurable Household Products	Eco-label product sales (% net sales)	Product safety management (% score)
Personal Products	Eco-label product sales (% net sales)	Product safety management (% score)
Retail		
Food Retailers & Wholesalers	Certified organic products food sales (%)	Supply chain management regarding labour issues (% score)
Technology		
Computer Services	Sales covered by an information security management system (ISMS) certified to an international standard, e.g. ISO 27001 (%)	Energy efficiency of data centres (% score)
Semiconductors	CO2 emissions per Petabyte memory (1'000t CO2-e/mn Gigabytes)	Sustainable engineering (% score)
Software	Sales covered by an information security management system (ISMS) certified to an international standard, e.g. ISO 27001 (%)	Energy efficiency of data centres (% score)
Telecommunications Equipment	Product sales with end-of-life take-back systems availability (%)	Supply chain management regarding labour issues (% score)
Telecommunications		
Fixed Line Telecommunications	Mobile phones offered with SAR limit of 0.60 W/kg or less (%)	Energy efficiency of transmission networks (% score)
Mobile Telecommunications	Mobile phones offered with SAR limit of 0.60 W/kg or less (%)	Energy efficiency of transmission networks (% score)
Utilities		
Alternative Electricity	Electricity generation from renewable energy sources (%)	Energy supplied to customers by fuel source (% score)
Conventional Electricity	Electricity generation from renewable energy sources (%)	Energy supplied to customers by fuel source (% score)
Gas Distribution	Natural gas losses (% volume natural gas transported)	Eco-Efficiency (% score)
Multi-utilities	Electricity generation from renewable energy sources (%)	Energy supplied to customers by fuel source (% score)
Water	Water distribution network efficiency (%)	Measures to ensure sustainable water withdrawal (% score)

Source: oekom research, Bloomberg, UniCredit Research

Appendix 9 – Company profile

Nestlé	Recommendation	Buy	
	Target Price (EUR)	60.0	
	Upside/Downside (%)	10.5	
SUSTAINABLE DEVELOPMENT INDICATORS			
EUR mn	2010E	2011E	2012E
ENVIRONMENTAL INDICATORS			
SOCIOECONOMIC DEVELOPMENT			
Energy intensity (MWh/sales)	634.9	643.5	652.1
Energy efficiency policies (%)	100.0	100.0	100.0
CLIMATE CHANGE AND ENERGY			
GHG intensity (t/sales)	59.0	58.2	57.5
Emissions disclosed (%)	100.0	100.0	100.0
Energy consumed from renewable sources (%)	15.6	19.8	25.3
Climate change policies (%)	100.0	100.0	100.0
SUSTAINABLE TRANSPORT			
Travel CO2 intensity (t/sales)	0.0	0.0	0.0
Sustainable transport policies (%)	100.0	100.0	100.0
SUSTAINABLE CONSUMPTION AND PRODUCTION			
Waste intensity (t/sales)	7.1	7.4	7.6
Waste recycled (%)	69.0	59.3	51.0
Hazardous waste (%)	1.2	1.8	2.7
Sustainable consumption and production policies (%)	83.3	83.3	83.3
NATURAL RESOURCES			
Water intensity (m3/sales)	2,046.7	1,952.0	1,861.7
Paper intensity (t/sales)	9.6	10.1	10.6
Water recycled (%)	50.0	50.0	50.0
Discharges to water (%)	48.8	49.2	49.5
Paper recycled (%)	78.7	72.3	66.4
PPE turnover (x)	4.5	4.4	4.4
Natural resources policies (%)	100.0	100.0	100.0
SOCIAL INDICATORS			
PUBLIC HEALTH			
Accident severity rate (hours/employee)	3.1	3.0	2.9
Workforce accidents (% employees)	1.0	0.9	0.8
Fatalities (% employees, bp)	0.1	0.1	0.0
Public health policies (%)	100.0	100.0	100.0
SOCIAL INCLUSION			
Employee turnover (%)	14.7	15.3	15.9
Executive board memb. compensation/avg. employee salary ratio (x)	66.1	65.4	64.8
Employee salary growth / dividend yield ratio (x)	3.5	0.3	0.3
Training and qualification expenses (% sales)	0.1	0.1	0.1
Social inclusion policies (%)	100.0	100.0	100.0
DEMOGRAPHIC CHANGES			
Workforce replacement rate (%)	4.2	4.2	4.3
Pension benefits coverage (x)	0.8	0.8	0.8
Women in workforce (%)	28.2	29.4	30.7
Minorities in workforce (%)	39.8	39.1	38.5
Disabled in workforce (%)	1.8	1.7	1.7
Equal opportunity policies (%)	100.0	100.0	100.0
GOVERNANCE INDICATORS			
GLOBAL PARTNERSHIP			
Philanthropic contribution rate (% EBITDA)**	0.4	0.3	0.2
CSR awards (#)	5.0	5.0	5.0
Global partnership policies (%)	100.0	100.0	100.0
GOOD GOVERNANCE			
ESG provisions rate (% shareholders' equity)	4.1	4.1	3.8
Independent directors (%)	80.4	77.6	74.8
Share price / executive board compensation growth (x)	4.2	0.0	0.0
Board duration / board meetings p.a. (x)	8.0	8.0	8.0
Political donations (% of EBITDA, bp)**	0.1	0.2	0.2
Environmental fines (% of EBITDA, bp)**	0.1	0.1	0.1
Non-audit fees (% total audit fees)	18.8	18.8	18.8
Stock compensation (% salary)	1.8	1.8	1.7
Free float voting rights (% total voting rights)	100.0	100.0	100.0
Corporate governance policies (%)	50.0	50.0	50.0

ESG VALUATION ANALYSIS				
EUR mn	2010E	2011E	2012E	
ESG COST ANALYSIS				
Energy intensity	2,413.5	2,649.4	2,933.4	
GHG intensity	69.3	73.0	79.5	
Travel CO2 intensity	0.0	0.0	0.0	
Waste intensity	81.8	90.4	99.8	
Water intensity	331.9	332.1	340.5	
Paper intensity	618.2	669.1	740.1	
Total environmental costs	3,514.7	3,814.0	4,193.3	
Accident severity	19.6	19.0	18.4	
Employee turnover	475.4	498.8	523.4	
Workforce replacement	85.3	87.0	88.6	
Pensions	183.1	184.8	186.5	
Philanthropic contribution	-1.6	-3.0	-2.1	
Total social costs	761.8	786.5	814.9	
ESG provisioning	1,249.8	335.9	350.3	
Board independence	5.7	8.5	8.5	
Total governance costs	1,255.5	344.5	358.9	
Total ESG costs	5,532.1	4,945.0	5,367.0	
ESG cost yield (%)	7.2	6.3	6.5	
ESG VALUATION ANALYSIS				
Environmental issues earnings impact	-47.8	-107.4	-177.6	
Social issues earnings impact	-18.6	-40.8	-62.2	
Governance issues earnings impact	306.1	80.6	121.0	
ESG earnings impact (ESG EI)	239.7	-67.6	-118.8	
ESG EI per share, tax adjusted - ESG EIPS (EUR)	0.06	-0.02	-0.03	
ESG EIPS (% of EPS)	0.71	-0.61	-0.95	
EPS (EUR)	9.0	2.5	2.9	
COE (%)	4.6			
g (%)	2.0			
Fundamental value per share, EPS (EUR)	110.7			
Fundamental value per share, EPS + ESG EIPS (EUR)	109.8			
ESG Value Generated (%)	-0.8			
COST ASSUMPTIONS				
Electricity price (EUR/MWh)	49.7	52.1	54.2	
CO2 price (EUR/t)	15.4	15.9	16.7	
Waste price (EUR/tonne)	150.7	154.1	157.5	
Water price (EUR/m3)	2.12	2.15	2.20	
Paper price (EUR/t)	845	840	838	
Employee salary (EUR/hour)	22.4	22.7	22.9	
Employee turnover cost (EUR/employee)	11,589	11,704	11,821	
Rehiring cost (EUR/employee)	7,324	7,397	7,471	
Benefit obligation (EUR/employee)	63,564	63,564	63,564	
Corporate donation tax benefit rate (%)	3.0	8.4	8.3	
ROE (%)	63.2	17.0	17.7	
Executive board member salary (EUR mn/year)	2.8	2.8	2.8	
UNITED NATIONS GLOBAL COMPACT EVENT STUDY ANALYSIS				
	Total events (#)		CAR 5D (% 5Y avg.)	
	positive	negative	positive	negative
HUMAN RIGHTS	7	2	1.5	0.3
LABOUR STANDARDS				
	2	21	-0.3	2.6
ENVIRONMENT	23	8	-3.5	1.0
ANTI-CORRUPTION				
	0	6	NA	-0.8
TOTAL	32	37	-0.7	0.8
MORALLY RESPONSIBLE INVESTMENT PROFILE				
ESTIMATED % OF REVENUES				
Alcohol	0		Military	0
Tobacco	0		Nuclear Power	0
Gambling	0		GMO	5-10
Pornography	0		Right to Life	0



ESG RESEARCH HIGHLIGHTS

KEY ESG STRENGTHS

1. Reasonable measures to promote sustainable water management
2. Reasonable policy on health and nutrition issues of products
3. Reasonable measures regarding the implementation of concrete strategies and formal systems to address climate change

KEY ESG WEAKNESSES

1. No global policy on genetic engineering with regard to the non-use of (ingredients derived from) genetically modified raw materials
2. Controversies relating to freedom of association at company locations
3. Major controversies regarding business ethics in recent years, e.g. Related to antitrust violations

SECTOR KEY PERFORMANCE INDICATOR

Description	2006	2007	2008	2009
Certified organic products food sales (%)	0.20	0.20	0.20	0.20

Comment
Nestlé offers organic varieties in its infant nutrition segment (e.g. Gerber, Alete). In other segments, further products are certified organic (e.g. Maggi soups). Products certified to e.g. The Rainforest Alliance (such as Nespresso) were not taken into account as requirements are less strict. Data was estimated based on publicly available information.

SECTOR KEY THEMATIC SCORE*

Supply chain management regarding labour issues (% score): **36.0**

Comment
Nestlé has a binding supplier/subcontractor standard that covers various labour / health and safety issues. Only little information is available on measures to check compliance of key suppliers with the standard. Information on support / training measures of suppliers and on issues regarding fair trade is provided. Research revealed suppliers' involvement in social controversies in recent years (especially child labour in the company's cocoa supply chain).

* figure represents % of total criteria met to achieve top score within oekom research guidelines as per last revision date; ** If EBITDA <0 then absolute value

Source: Bloomberg, oekom research, company data, UniCredit Research

Appendix 10 – UniCredit ESG Equity research methodology

SUSTAINABLE DEVELOPMENT INDICATORS FORECASTING METHODOLOGY OVERVIEW

SOCIAL INCLUSION								Sustainable impact trend	Sustainable impact support score
EUR mn	2006	2007	2008	2009	2010E	2011E	2012E		
Sustainable Development Indicator (SDI)									
ACCESS TO LABOUR MARKET									
Employees leaving (#/year)	8,063	9,194	9,660	8,791	9,103	9,424	9,756		
Employees (#)	106,000	106,200	108,600	108,400	109,400	110,400	111,400		
Employee turnover (%)	7.6	8.7	8.9	8.1	8.3	8.5	8.8	+/-	NA
Employee turnover cost (EUR '000/employee)	17.6	19.2	19.6	20.4	20.9	21.5	22.2		
Total employee turnover cost	142	176	189	179	190	203	216		
Total employee turnover cost - constant scenario					185	193	200		
Employee turnover – earnings impact					-4.8	-10.1	-16.0		
Sustainable Development Support Indicator (SDSI)									
Executive board member compensation, average (EUR'000)	2,660	3,679	2,668	3,224	2,500	2,750	2,750		
Employee salary, average (EUR '000)	66	71	73	76	78	80	82		
Executive board member compensation / average employee salary ratio (x)	40.6	51.6	36.7	42.5	32.2	34.4	33.4	+/-	(1)-1
Sustainable Development Support Indicator (SDSI)									
Employee salary growth p.a., average (%)		8.7	2.0	4.2	2.4	3.0	3.0		
Dividend yield (%)	2.72	2.6	2.7	3.2	2.7	3.1	3.5		
Employee salary growth / dividend yield ratio (x)		3.4	0.7	1.3	0.9	1.0	0.9	+/-	(1)-1
Sustainable Development Support Indicator (SDSI)									
Expenses on training and qualification	146	151	202	226	279	296	306		
Sales	28,956	32,385	32,918	31,162	34,031	35,692	36,930		
Training and qualification expenses (% sales)	0.5	0.5	0.6	0.7	0.8	0.8	0.8	+/-	(1)-1
Sustainable Development Policy Indicator (SDPI)									
Human rights policy	1	1	1	1	1	1	1	+/-	(1)-1
Total social inclusion related policies applied	1	1	1	1	1	1	1		
Total social inclusion related policies available	1	1	1	1	1	1	1		
Social inclusion policies (%)	100.00	100.00	100.00	100.00	100.00	100.00	100.00		

Source: Bloomberg, UniCredit Research

SDI TREND ANALYSIS	
Long-term growth rate (%)	x
Short-term growth rate (%)	x
Average growth rate (%)	x

SDSI & SDPI support	Corporate citizenship override
POSITIVE/NEGATIVE	MIN/MAX
SDI cost structure	SDI value range
ABSOLUTE/RELATIVE	MIN/MAX

We conduct the following steps to forecast Sustainable Development Indicators:

- 1) SDIs are calculated based on defined numerators and denominators. If calculation variables are not disclosed by company, sub/supersector smoothed average SDIs are applied.
- 2) In case of non-disclosure of SDI variables, average SDIs obtained through step 1) allow for interpolation of missing variables. Financial related figures are always provided by UniCredit's Equity Research analysts.
- 3) Trend analysis is conducted on SDIs by determining long-term, short-term and average growth rates to provide an overview of a company's ESG issues management quality. The growth rate to be carried forward will be influenced and adjusted by the following steps 4) to 10).
- 4) Sustainable Development Support Indicators (SDSIs) are established applying steps 1) and 2), with forecasts based on average historic growth rates. We highlight that some indicators are forecasted by analysts using their own methodology.
- 5) Sustainable Development Policy Indicators (SDPIs) are not forecasted and last observations are carried forward.
- 6) Given our SDSI and SDPI historic trend analysis, we evaluate the trend by direction (improving/deteriorating = +/-) based on the EU SDS goals and assign support scores ranging from -1 (negative trend) to +1 (positive trend) to evaluate sustainable development impact trends.
- 7) The resulting sum of SDSIs and SDPIs sustainable impact trend scores (POSITIVE/NEGATIVE) influences directly our growth rate expectations for headline SDIs. Negative scores will exercise downward/negative pressure on SDI forecasts while positive scores will exercise upward/positive pressure on our SDI forecasts.
- 8) The fixed cost element of some ESG issues can make up the majority of costs either due to their nature or due to a company's inability to exercise operating leverage, leaving the variable operational cost component at low/non-existing levels. We take cost structure issues into account by determining on a company-specific level if relevant SDIs should be analysed from an absolute or relative value perspective.
- 9) We see limited ESG data disclosure as a negative example of corporate citizenship, which can be defined as a firm's sense of responsibility towards the community and environment (both ecological and social) in which it operates, and draws resources and sustenance from*. If companies do not provide enough information (i.e. minimum 2Y historic data) for a specific SDI, respective forecasts will generally default to a worst case scenario growth rate (MIN/MAX historic growth, depending on SDI nature). Exceptions are applied.
- 10) To limit the volatility in our forecasts, we determine supersector-specific upper and lower boundaries for our SDI forecasts.

* www.businessdictionary.com

Appendix 11 – UniCredit ESG Focus portfolio

UniCredit's ESG Focus portfolio construction process

Mean variance efficient portfolios provide efficient points that have the highest expected return for a given level of risk.

Our model portfolio contains the following three constraints:

- Weights of the holdings in different assets (w_i) must add up to 100%.
- Holdings are restricted to actively covered stocks with a buy recommendation only, with ratings as defined per UniCredit Research methodology. In case of no available Buy recommendations Hold/Sell stocks might be selected to follow strategic sector weight constraints.
- Upon rebalancing, portfolio supersector weights cannot exceed relative overweight (OW), underweight (UW) or neutral (N) active weight guidelines as provided by UniCredit Research European Equity Strategy team.

We use the following three key formulas for our model portfolio consolidation process

■ Portfolio Return: $E(r_p) = \sum w_i E(r_i)$

where:

w_i = weights of the holdings in different stocks (w_i)

$E(r_i)$ = the expected 12-month return for the i th stock as per UniCredit's Equity Research analysts estimates.

■ Portfolio variance: $Var(r_p) = \sigma_p^2 = \sum \sum w_i w_j cov(i, j)$

where:

$cov(i, i) = \sigma_i^2$

σ_i = the expected risk (12-month forward Black-Scholes Option Pricing Model implied standard deviation of returns) for the i th stock.

$cov(i, j)$ = the variance-covariance matrix of the stock.

■ Portfolio ESG Value Generated: $E(ESGVG_p) = \sum w_i E(ESGVG_i)$

where:

w_i = weights of the holdings in different stocks (w_i)

$E(ESGVG_i)$ = the expected environmental, social & governance value generated for the i th stock as per UniCredit's ESG Equity Research analysts estimates.

We determine target weights by imposing the following criteria (in order of appearance):

$E(r_p) = \max$

$E(ESGVG_p) = \max$

$Var(r_p) = \min$

Rebalancing and optimisation is run on a monthly basis. UniCredit ESG research team reserves the right to override certain model defined stock positions on ad-hoc basis.

Performance Attribution

To determine the value-added return of our model portfolio, we use the following framework for performance attribution analysis:

$$R_V = \underbrace{\sum_{j=1}^S (w_{P,j} - w_{B,j})(R_{B,j} - R_B)}_{\text{pure sector allocation}} + \underbrace{\sum_{j=1}^S (w_{P,j} - w_{B,j})(R_{P,j} - R_{B,j})}_{\text{allocation/ selection interaction}} + \underbrace{\sum_{j=1}^S w_{B,j}(R_{P,j} - R_{B,j})}_{\text{within-sector selection}}$$

where:

R_V = the value-added return

$w_{P,j}$ = portfolio weight of sector j

$w_{B,j}$ = benchmark weight of sector j

$R_{P,j}$ = portfolio return of sector j

$R_{B,j}$ = benchmark return of sector j

R_B = return on the portfolio's benchmark

S = number of supersectors

For sustainability related performance analysis, we have developed the Sustainable Development Impact (SDI) ratio, which is a measure of a portfolio's excess per unit of ESG cost:

$$SDI_p = \frac{R - R_f}{ESGY_p} = \frac{E[R - R_f]}{ESGY_p}$$

where:

SDI_p = the Sustainable Development Impact ratio of the portfolio

R = the portfolio return

R_f = return on the benchmark asset, to which we apply the risk free rate of return

$E[R - R_f]$ = expected value of the excess of the portfolio return over the benchmark return

$ESGY_p$ = the ESG cost yield of the portfolio

Our benchmark is a customised market capitalization weighted index, based on the last trade prices of shares in EUR of all companies covered by UniCredit's ESG Research Team. Our ESG Focus Portfolio is quoted in EUR.

Backtest methodology

We evaluate our ESG model portfolio construction process using historical recommendations, expected returns and standard deviations sourced from Bloomberg. Our backtest stock universe is set equal to our current ESG initiation universe. We highlight that our backtest exchanges ESG VG for a company's 12M trailing ESG cost yield, providing an indication if companies that are actively decreasing their ESG costs provide added value to portfolio performance. Portfolio construction follows exact methodology as described in our general portfolio construction process above. We highlight the following performance and Sustainable Development Impact ratio results:

	2007	2008	2009	2010*	Since inception	Since inception (annualised)
Performance (%)						
Benchmark	5.9	-45.6	34.7	-1.8	-23.9	-2.3
ESG Focus	4.2	-46.2	47.2	-1.6	-18.9	-2.2
Rel. to benchmark	-1.7	-0.6	12.6	0.2	5.0	0.14
Sustainable Impact ratio (x)**						
Benchmark	-	-4.4	3.4	-0.1	-0.5	-
ESG Focus	-	-4.3	4.5	-0.2	-0.2	-
Rel. to benchmark	-	0.0	1.1	-0.1	0.3	-

*30/09/2010 **year-end, Rf=2%, pls note that we use 12M trailing values for SDI ratio calculations

Source: Bloomberg, UniCredit Research

Methodology adapted from Advanced Modelling in Finance Using Excel and VBA by *Mary Jackson* and *Mike Stuart*

Performance Attribution adapted from Evaluating Portfolio and Performance by *Jeffrey V. Bailey*, *Thomas M. Richards*, and *David E. Tierney*

Appendix 12 – The OECD Business Cycle Clock

Interpreting the Business Cycle Clock

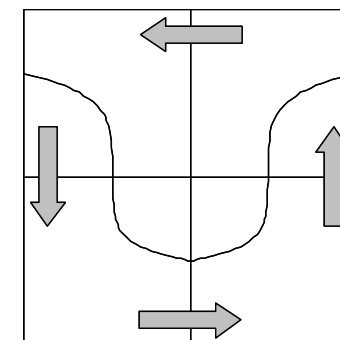
The OECD Business Cycle Clock has been designed to better visualize business cycles - fluctuations of economic activity around their long-term potential level - and how some key economic indicators interact with the business cycle. In the OECD's framework, the industrial production series represent the business cycle for each country. The Business Cycle Clock is a dynamic tool which allows users to perceive the leading, coincident or lagging behaviour of the indicators presented.

4 quadrants for 4 stages of the economic cycle

The quadrants on the graph represent four distinct stages of the economic cycle. As the indicators are presented in their trend-removed form, values above 100 (upper half of the graph) represent an economic activity above long-term average or long-term potential. The horizontal axis captures the dynamic aspect of the cycles; series in the right half of the graph are in an increasing phase. As a result the four quadrants represent four stages of the economic cycle:

- Expansion – series is increasing and above 100;
- Downturn – series is decreasing but above 100;
- Slowdown – series is decreasing and below 100;
- Recovery – series is increasing but below 100.

<p>Downturn The series is decreasing but above 100. - Level > 100 (Vertical) - Growth < 100 (Horizontal)</p>	<p>Expansion The series is increasing and above 100. - Level > 100 (Vertical) - Growth > 100 (Horizontal)</p>
<p>Slowdown The series is decreasing and below 100. - Level < 100 (Vertical) - Growth < 100 (Horizontal)</p>	<p>Recovery The series is increasing but below 100. - Level < 100 (Vertical) - Growth > 100 (Horizontal)</p>



The “counterclockwise” movement

The typical behaviour of a series on the graph is a counterclockwise movement. When a series approaches and crosses the vertical axis, it marks a peak (if the crossing occurs in the upper half) or a trough (if the crossing occurs in the lower half) in the business cycle. If a key economic indicator has a tendency to signal a turning point (cross the vertical axis) earlier than the industrial production series, the series is considered a leading indicator.

Source: OECD

Appendix 13 – UniCredit ESG Focus Portfolio

UniCredit ESG Focus Portfolio exposure and sustainability characteristics overview as of 3 November 2010

Name	Up/ downside (%)	Portfolio weight (%)	Benchmark weight (%)	Active weight (%)	ENVIRONMENTAL INDICATORS 2011E						SOCIAL INDICATORS 2011E					GOVERNANCE INDICATORS 2011E		FINANCIAL INDICATORS 2011E			
					Energy intensity (MWh/sales)	GHG intensity (t/sales)	Travel CO2 intensity (t/sales)	Waste intensity (t/sales)	Water intensity (m3/sales)	Paper intensity (t/sales)	Accident severity rate (hours/employee)	Employee turnover (%)	Workforce replacement rate (%)	Pension benefits coverage (x)	Philanthropic contribution rate (% EBITDA)**	ESG provisions rate (% shareholders' equity)	Independent directors (%)	P/E 2011 (x)	EPS growth 2011 (%)	ROE 2011 (%)	Div. yield 2011 (%)
BASIC MATERIALS	12.1	9.84	9.95	-0.10	2,603	618	6.2	55.1	26,048	0.1	1.0	5.4	4.5	1.0	0.5	3.7	51.1	12.0	19.0	14.7	3.5
Basic resources	-4.0	2.09	2.32	-0.22	7,291	1,706	1.7	172.9	52,798	0.0	0.3	8.2	5.2	0.5	1.1	0.1	56.8	12.2	34.2	10.4	2.5
Chemicals	16.4	7.75	7.63	0.12	1,337	323	7.4	23.3	18,823	0.1	1.2	4.7	4.3	1.1	0.4	4.7	49.6	12.0	14.9	15.9	3.7
CONSUMER GOODS	11.9	15.92	16.02	-0.10	429	40	1.2	7.4	1,256	6.3	1.9	11.8	4.1	0.8	0.5	2.8	69.7	15.9	-29.9	16.0	3.2
Automobiles & Parts	18.7	0.98	0.98	0.00	274	25	2.7	19.8	573	0.1	0.6	4.9	4.3	0.5	0.5	0.0	73.3	14.1	80.3	9.3	2.1
Food & Beverage	10.5	9.57	9.68	-0.11	643	58	0.0	7.4	1,952	10.1	3.0	15.3	4.2	0.8	0.3	4.1	77.6	15.8	-67.8	17.0	3.4
Pers. & Household Gds.	13.1	5.36	5.36	0.00	74	9	3.1	5.2	138	0.6	0.0	6.8	3.8	0.9	1.0	0.9	55.1	16.5	17.6	15.5	3.0
FINANCIALS	31.2	21.67	21.81	-0.15	25	1	1.5	0.9	103	0.6	1.3	14.2	3.9	0.9	1.5	2.6	65.1	10.4	27.4	15.0	4.5
Banks	33.5	18.57	18.71	-0.13	27	1	1.5	1.0	116	0.6	1.2	13.7	3.7	1.0	1.5	2.7	65.2	10.8	28.3	15.4	4.3
Insurance	16.9	3.09	3.11	-0.01	12	1	1.7	0.3	21	0.2	1.6	17.2	4.8	0.6	1.5	2.3	64.1	7.9	21.7	12.4	5.8
INDUSTRIALS	17.2	5.64	5.66	-0.01	73	101	3.4	2.8	181	2.2	4.3	11.8	4.3	0.6	0.5	0.3	70.7	9.8	19.2	13.1	4.4
Industrial Gds. & S.	17.2	5.64	5.66	-0.01	73	101	3.4	2.8	181	2.2	4.3	11.8	4.3	0.6	0.5	0.3	70.7	9.8	19.2	13.1	4.4
OIL & GAS	25.5	17.60	17.34	0.26	1,202	403	0.3	34.9	1,118	0.1	0.5	5.3	4.2	0.8	1.5	1.0	66.0	9.3	4.6	16.9	6.3
Oil & Gas	25.5	17.60	17.34	0.26	1,202	403	0.3	34.9	1,118	0.1	0.5	5.3	4.2	0.8	1.5	1.0	66.0	9.3	4.6	16.9	6.3
TECHNOLOGY	14.6	5.03	5.02	0.01	101	12	12.9	0.4	459	0.2	0.0	11.7	3.7	1.5	0.1	1.4	59.2	14.7	19.2	23.9	1.7
Technology	14.6	5.03	5.02	0.01	101	12	12.9	0.4	459	0.2	0.0	11.7	3.7	1.5	0.1	1.4	59.2	14.7	19.2	23.9	1.7
TELECOMMUNICATIONS	6.4	13.45	13.43	0.02	94	4	2.5	2.7	107	0.2	0.4	10.1	4.0	1.7	0.3	2.9	54.4	10.5	2.9	24.2	6.5
Telecommunications	6.4	13.45	13.43	0.02	94	4	2.5	2.7	107	0.2	0.4	10.1	4.0	1.7	0.3	2.9	54.4	10.5	2.9	24.2	6.5
UTILITIES	7.3	10.85	10.78	0.07	5,079	1,841	9.8	98.2	15,826	0.2	4.8	7.6	4.9	0.9	0.3	1.9	66.5	11.3	5.9	13.6	6.0
Utilities	7.3	10.85	10.78	0.07	5,079	1,841	9.8	98.2	15,826	0.2	4.8	7.6	4.9	0.9	0.3	1.9	66.5	11.3	5.9	13.6	6.0

* Supersector and industry aggregates are portfolio weighted

Source: Bloomberg, UniCredit Research

Appendix 14 – UniCredit ESG Focus Portfolio holdings

We believe the investment highlights and stock triggers to be as follows:

Company	Investment Highlights	Stock Triggers
Adidas	<ul style="list-style-type: none"> ■ Margin recovery due to operating leverage ■ Accelerating momentum in the Reebok brand ■ Attractive valuation 	<ul style="list-style-type: none"> ■ Upgrade of FY10 guidance ■ Operating leverage in the retail business ■ Recovery in Chinese operations
AkzoNobel	<ul style="list-style-type: none"> ■ Late-cyclical business character of paints & coatings ■ Ambitious mid-term targets ■ High pension gap and top-up payments 	<ul style="list-style-type: none"> ■ Bottoming out of the European construction market ■ Raw material cost pressure should ease in 4Q10 ■ Performance Coatings Day on 2 December 2010
Allianz	<ul style="list-style-type: none"> ■ Strong upside potential from a valuation standpoint ■ Solid capital position maintained ■ 1Q results again demonstrate regained profitability 	<ul style="list-style-type: none"> ■ Improvement of market environment ■ Revaluation of the insurance sector
ArcelorMittal	<ul style="list-style-type: none"> ■ Balance sheet improvement ■ Reduction of fixed costs ■ Doubling of mining capacity 	<ul style="list-style-type: none"> ■ Economic growth expectations and risk perception ■ Increase of spot market prices ■ Earnings guidance for 4Q10
ASML	<ul style="list-style-type: none"> ■ Valuation discount (P/E) to STOXX600 ■ No direct currency exposure ■ Strong technology and market position 	<ul style="list-style-type: none"> ■ Demand for smartphones & tablets in holiday season ■ Announcement of a share buyback program ■ Price trend of memory chips (DRAM, NAND)
BBVA	<ul style="list-style-type: none"> ■ Strong Mexican business should drive upgrades ■ Solid capital ratio ■ Comfortable provision buffer in Spain 	<ul style="list-style-type: none"> ■ 4Q10 results – Jan/Feb 2010 ■ Potential acquisition of a stake in Garanti Bank
Banco Santander	<ul style="list-style-type: none"> ■ Strongest provision buffer in Spain ■ Brazil business should outperform other LatAm countries in 2010 	<ul style="list-style-type: none"> ■ 4Q10 results – Jan/Feb 2011 ■ IPO of 20%-25% of UK business – 1H11?
Barclays	<ul style="list-style-type: none"> ■ BarCap a top-tier investment bank ■ Barclays has the best liquidity of UK domestic banks 	<ul style="list-style-type: none"> ■ A more settled regulatory outlook (still some way off) ■ Some acquisition risk (wealth, Italian retail)
BASF SE	<ul style="list-style-type: none"> ■ Margin at industrial segments above that of peers ■ Cash generation should refinance Cognis quickly ■ Ambitious target for 2012 	<ul style="list-style-type: none"> ■ Update on Cognis integration with closing in Nov ■ Consensus estimates to go up again ■ Margin changes in core value chains
Bayer	<ul style="list-style-type: none"> ■ Pharma is in a low growth mode in 2010 and 2011 ■ CropScience earnings should rebound in 2011 ■ Promising clinical data for Xarelto 	<ul style="list-style-type: none"> ■ Xarelto newsflow ■ Volume and margin reversal at CropScience ■ Rising prices at MDI and polycarbonate
Deutsche Post DHL	<ul style="list-style-type: none"> ■ Group restructuring largely completed ■ Mail continues to feature strong margins ■ Broader global positioning of DHL 	<ul style="list-style-type: none"> ■ Turnaround of Express business ■ Rising profitability in all DHL segments ■ End of restructuring and writedowns
EDP	<ul style="list-style-type: none"> ■ Highly regulated generator in its home market ■ Significant exposure to Iberian distribution networks ■ Significant exposure to wind generation 	<ul style="list-style-type: none"> ■ Securitisation of tariff deficit (2010)

Company	Investment Highlights	Stock Triggers
Fiat	<ul style="list-style-type: none"> ■ Positive effects from the spin-off still not fully factored in ■ Positive performance YTD, but only thanks to CNH ■ The rest of the group implicitly underperformed its peers without specific reasons 	<ul style="list-style-type: none"> ■ Successful turnaround of Chrysler ■ r New partnership/deals after the spin-off
Fortum	<ul style="list-style-type: none"> ■ 90% of power output from hydro and nuclear ■ Russian exposure through TGC-10 and 255 in TGC-1 ■ Government controls 50.8% of the shares 	<ul style="list-style-type: none"> ■ High operational gearing for rise in power prices ■ Russia continuing to deliver on power reform ■ Beat target ratio 4 out of 5 times in last 5 years
Finmeccanica	<ul style="list-style-type: none"> ■ High discount to peers, even if short term triggers are still missing ■ 	<ul style="list-style-type: none"> ■ Cash-in from disposals ■ A successful bid for Italian high speed train contracts
GDF Suez	<ul style="list-style-type: none"> ■ One of the strongest balance sheets in the sector ■ International assets account for around 25% of earnings ■ French government controls 35% of the shares 	<ul style="list-style-type: none"> ■ International activities delivering on growth ■ Gas-to-oil spread narrowing ■ Formation of Belgium new coalition government
HSBC	<ul style="list-style-type: none"> ■ The most global bank in the world ■ Sector-leading liquidity 	<ul style="list-style-type: none"> ■ A greater focus on growth ■ Acquisitions
K+S	<ul style="list-style-type: none"> ■ Massive price increases in the US ■ Potash prices should spill over to other regions ■ Potash market might be tight in 4Q10 and 1Q11 	<ul style="list-style-type: none"> ■ Announcement of potash price increases in Brazil ■ US prices to be accepted with real volume ■ News about greenfield projects
DSM	<ul style="list-style-type: none"> ■ Nutrition with continuous earnings growth ■ High momentum at Engineering Plastics and Dyneema ■ Strong cash flow and high dividend yield 	<ul style="list-style-type: none"> ■ Disposal of non-core assets ■ Partner for Anti-Infectives and Pharmaceutical Products ■
KPN	<ul style="list-style-type: none"> ■ Buy opportunity following outcome of spectrum auction ■ Resilient EBITDA thanks to costs flexibility ■ Acceleration of buy-back scheme 	<ul style="list-style-type: none"> ■ Company exited spectrum auction with low expenses
Philips	<ul style="list-style-type: none"> ■ Disappointing 4Q guidance for Lighting ■ Healthcare recovery continues ■ Attractive valuation relative to sector 	<ul style="list-style-type: none"> ■ 4Q consumer demand trends ■ Recovery in mature market non-residential demand ■ New CEO (Frans van Houten) starts in April 2011
L'Oréal	<ul style="list-style-type: none"> ■ Invested in downturn, leading to sales accelerating faster than expected in 2010 ■ Recovery in margin back to pre-crisis level by 2012 ■ 2011 EPS 6% ahead of consensus, implying stock back at lowest PER in 20 years 	
Linde	<ul style="list-style-type: none"> ■ Late-cyclical business model ■ High emerging markets and cylinder exposure ■ Slow recovery due to contract structure 	<ul style="list-style-type: none"> ■ Further decreases in engineering backlog buffer ■ Starting price pressure in the cylinder business ■ End-customer insolvency risk at the cylinder division
Munich RE	<ul style="list-style-type: none"> ■ Strong capitalisation ■ Attractive dividend yield of ca. 6% ■ Disciplined underwriting and reserving 	<ul style="list-style-type: none"> ■ NatCat events, renewal indications ■ Renewed stress related to sovereign debt ■ Mid-year renewals with little changes

Company	Investment Highlights	Stock Triggers
Michelin	<ul style="list-style-type: none"> ■ Still at discount to peers ■ Potential benefits from restructuring actions ■ Aggressive expansion program to gain market share in emerging markets 	<ul style="list-style-type: none"> ■ Strong recovery in US market ■ Lower pressure from low cost producers due to new labelling regulation or import duties in the US
Nestlé	<ul style="list-style-type: none"> ■ Visible peer-beating EBITA growth of 7% ■ Premium to peers is justified ■ Potential use of cash result in EPS upgrades 	
Royal Bank of Scotland	<ul style="list-style-type: none"> ■ Major business and balance sheet restructuring ■ Some quality underlying businesses 	<ul style="list-style-type: none"> ■ Potential announcements on divestments ■ Possible part-sale of government holdings
RWE	<ul style="list-style-type: none"> ■ High operational gearing into power prices ■ Market already expects a dividend cut in 2011 ■ Power forward curve currently incl. no risk premium 	<ul style="list-style-type: none"> ■ Movements in power forward curve ■ Yield could be as high as 7%-8% if DPS cut avoided ■ Biblis reactors providing earnings boost
SAP	<ul style="list-style-type: none"> ■ Americas license rebound surprised positively while EMEA surprises negatively in 2Q10 ■ Relatively low comparables in 3Q10 ■ Mild operational trends 	<ul style="list-style-type: none"> ■ Close to trough valuation premium compared to ORCL
Telefonica	<ul style="list-style-type: none"> ■ Strongest positive surprise in last earnings season ■ Measures for revitalization of growth bear fruit ■ Operating momentum still underestimated by analysts 	<ul style="list-style-type: none"> ■ Reporting of continuing operating recovery ■ Reduced negativity against the footprint of Telefonica ■ Final closing/Integration of Vivo
Tenaris	<ul style="list-style-type: none"> ■ Market leader with global footprint ■ Strong balance sheet 	<ul style="list-style-type: none"> ■ Macroeconomic recovery ■ Recovery in oil and gas prices
Total	<ul style="list-style-type: none"> ■ Higher-than-average earnings resilience ■ Visible and profitable short-term production growth ■ Sound and flexible balance sheet 	<ul style="list-style-type: none"> ■ New FIDs in 2010 and 2011 ■ Strengthening of oil price and USD ■ Recovery in refining and chemical markets
UBI Banca	<ul style="list-style-type: none"> ■ Higher than peers capital position ■ Above peer group average ROTE 2012E 	<ul style="list-style-type: none"> ■ Italian economy deterioration ■ Increase in the EURIBOR 3M
Vodafone	<ul style="list-style-type: none"> ■ Improving operating trends ■ iPhone finally available in largest market ■ Significant value creation potential 	<ul style="list-style-type: none"> ■ Asset disposal and buyback potential fully factored in ■ Successes in cost-cutting program

Source: UniCredit Research

Appendix 15 – The United Nations Millennium Development Goals

What are the Millennium Development Goals?

The Millennium Development Goals (MDGs) are the most broadly supported, comprehensive and specific development goals the world has ever agreed upon. These eight time-bound goals provide concrete, numerical benchmarks for tackling extreme poverty in its many dimensions. They include goals and targets on income poverty, hunger, maternal and child mortality, disease, inadequate shelter, gender inequality, environmental degradation and the Global Partnership for Development.

Adopted by world leaders in the year 2000, and set to be achieved by 2015, the MDGs are both global and local, tailored by each country to suit specific development needs. They provide a framework for the entire international community to work together towards a common end – ensuring human development reaches everyone, everywhere. If these goals are achieved, world poverty will likely be cut by half, saving tens of millions of lives, and billions more people will have the opportunity to benefit from the global economy.

The eight MDGs break down into **21 quantifiable targets** that are measured by **60 indicators**.

Goal 1: Eradicate extreme poverty and hunger

Targets

Target 1a: Reduce by half the proportion of people living on less than a dollar a day

- Proportion of population below USD 1 (PPP) per day
- Poverty gap ratio
- Share of poorest quintile in national consumption

Target 1b: Achieve full and productive employment and decent work for all, including women and young people

- Growth rate of GDP per person employed
- Employment-to-population ratio
- Proportion of employed people living below USD 1 (PPP) per day
- Proportion of own-account and contributing family workers in total employment

Target 1c: Reduce by half the proportion of people who suffer from hunger

- Prevalence of underweight children under five years of age
- Proportion of population below the minimum level of dietary energy consumption

Goal 2: Achieve universal primary education

Targets

Target 2a: Ensure that all boys and girls complete a full course of primary schooling

- Net enrolment ratio in primary education
- Proportion of pupils starting grade 1 who reach the last grade of primary education
- Literacy rate of 15-24 year-olds, women and men

Goal 3: Promote gender equality and empower women

Targets

Target 3a: Eliminate gender disparity in primary and secondary education preferably by 2005 and at all levels by 2015

- Ratios of girls to boys in primary, secondary and tertiary education
- Share of women in wage employment in the non-agricultural sector
- Proportion of seats held by women in national parliament

Goal 4: Reduce child mortality

Targets

Target 4a: Reduce by two thirds the mortality rate among children under five

- Under five mortality rate
- Infant mortality rate
- Proportion of one year-old children immunised against measles

Goal 5: Improve maternal health

Indicators

Target 5a: Reduce by three quarters the maternal mortality ratio

- Maternal mortality ratio
- Proportion of births attended by skilled health personnel

Target 5b: Achieve, by 2015, universal access to reproductive health

- Contraceptive prevalence rate
- Adolescent birth rate
- Antenatal care coverage (between at least one visit and at least four visits)
- Unmet need for family planning

Goal 6: Combat HIV/AIDS, malaria and other diseases

Targets

Target 6a: Halt and begin to reverse the spread of HIV/AIDS

- HIV prevalence among population aged 15-24 years
- Condom use at last high-risk sex
- Proportion of population aged 15-24 years with comprehensive correct knowledge of HIV/AIDS
- Ratio of school attendance of orphans to school attendance of non-orphans aged 10-14 years

Target 6b: Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it

- Proportion of population with advanced HIV infection with access to antiretroviral drugs

Target 6c: Halt and begin to reverse the incidence of malaria and other major diseases

- Incidence and death rates associated with malaria
- Proportion of children under 5 sleeping under insecticide-treated bednets
- Proportion of children under 5 with fever who are treated with appropriate anti-malarial drugs
- Incidence, prevalence and death rates associated with tuberculosis
- Proportion of tuberculosis cases detected and cured under directly observed short course treatments

Goal 7: Ensure environmental sustainability

Targets

Target 7a: Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources

Target 7b: Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss

Target 7a and 7b Indicators:

- Proportion of land area covered by forest
- CO2 emissions, total, per capita and per USD 1 GDP (PPP)
- Consumption of ozone-depleting substances
- Proportion of fish stocks within safe biological limits
- Proportion of total water resources used
- Proportion of terrestrial and marine areas protected
- Proportion of species threatened with extinction

Target 7c: Reduce by half the proportion of people without sustainable access to safe drinking water and basic sanitation

- Proportion of population using an improved drinking water source
- Proportion of population using an improved sanitation facility

Target 7d: Achieve significant improvement in lives of at least 100 million slum dwellers, by 2020

- Proportion of urban population living in slums

Goal 8: A global partnership for development

Targets

Target 8a: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system

This includes a commitment to good governance, development and poverty reduction; both nationally and internationally

Target 8b: Address the special needs of the least developed countries

Includes tariff and quota free access for the least developed countries' exports; enhanced programme of debt relief for heavily indebted poor countries (HIPC) and the cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction

Target 8d: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term.

Indicators for Targets 8a, 8b, 8c and 8d:

Some of the indicators listed below are monitored separately for the least developed countries (LDCs), Africa, landlocked developing countries and small island developing States.

Official development assistance (ODA)

- Net ODA, total and to the least developed countries, as percentage of OECD/DAC donors; gross national income
- Proportion of total bilateral, sector-allocable ODA of OECD/DAC donors to basic social services (basic education, primary health care, nutrition, safe water and sanitation)
- Proportion of bilateral official development assistance of OECD/DAC donors that is untied
- ODA received in landlocked developing countries as a proportion of their gross national income
- ODA received in small island developing states as a proportion of their gross national incomes

Market access

- Proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty
- Average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries
- Agricultural support estimate for OECD countries as a percentage of their gross domestic product
- Proportion of ODA provided to help build trade capacity

Debt sustainability

- Total number of countries that have reached their HIPC decision points and number that have reached their HIPC completion points (cumulative)
- Debt relief committed under HIPC and MDRI Initiatives
- Debt service as a percentage of exports of goods and services

Target 8e: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

- Proportion of population with access to affordable essential drugs on a sustainable basis

Target 8f: In cooperation with the private sector, make the benefits of new technologies available, especially information and communication

- Telephone lines per 100 population
- Cellular subscribers per 100 population

Source: United Nations

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