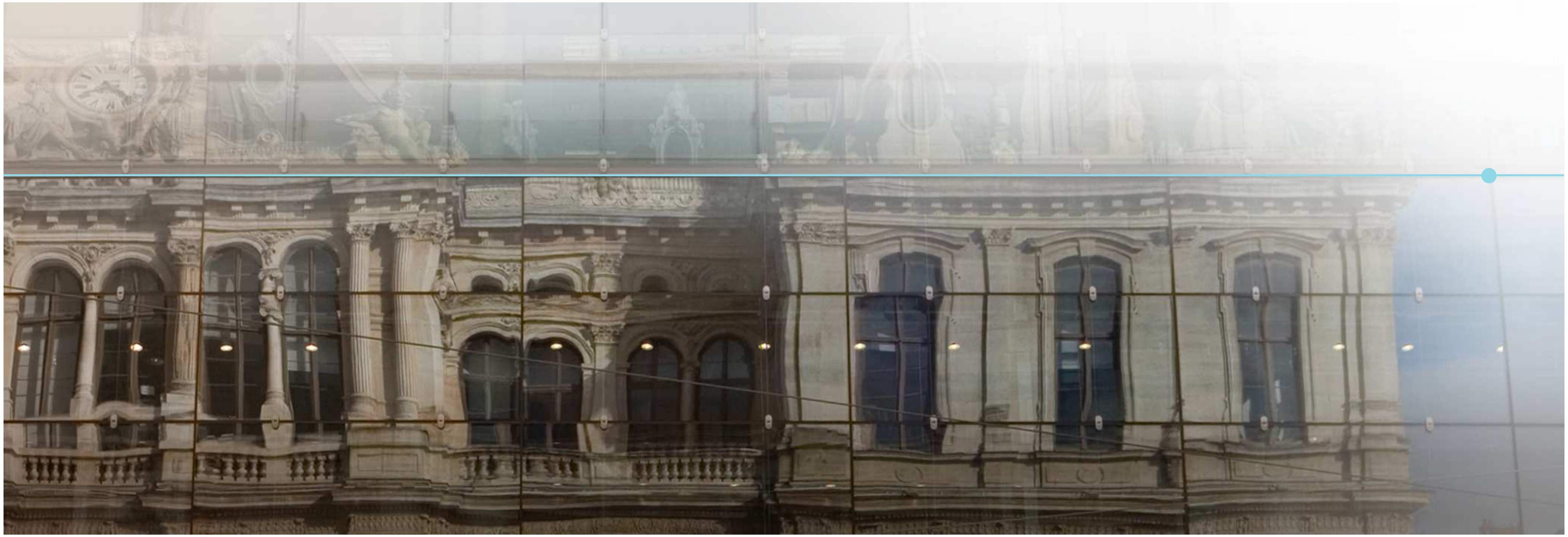
Utilities

No need to worry… so much



Stéphane Lacaze - Tel: 33-1 44 51 81 07 - E-mail: slacaze@oddo.fr
Julien Benhamou - Tel: 33-1 44 51 82 53 - E-mail: jbenhamou@oddo.fr

February 2010

ODDO SECURITIES

We still prefer German/French Utilities

Our sector hierarchy

Company	Reco / Target Price	Comments
GDF SUEZ	34 € / Buy (1)	▪ Best growth in 2010/2011 after negative oil price impact in 2009
RWE	72 € / Buy (1)	▪ Strong hedging positions – Defensive play – low CO2 price
IBERDROLA	7.0 € / Buy (1)	▪ Overestimated exposure to difficult Spanish market
EnBW	50 € / Buy (1)	▪ Now a growth story in one of the most defensive country
EDF	43 € / Add(2)	▪ High positive price effect in the coming years
Enel	4.7 € / Add(2)	▪ The highest dividend yield – catalyst of disposals
e.on	30 € / Add(2)	▪ Mixed exposure: defensive (Germany) vs growth (Spain, East Eur.)
suez	17.5 € / Add(2)	▪ A safe play of the industrial production recovery (Waste)
Verbund	36 € / Add(2)	▪ Valuation reflects depressed current electricity prices
IBERDROLA Renovables	3.4 € / Add(2)	▪ A free option for wind farms post 2012
E	3.4 € / Reduce(3)	▪ Enel's strategy not favourable to minority shareholders
VEOLIA ENVIRONNEMENT	24 € / Reduce(3)	▪ Still decreasing water profitability
Fortum	16 € / Reduce(3)	▪ Very high valuation – high risks of oversupply

ODDO

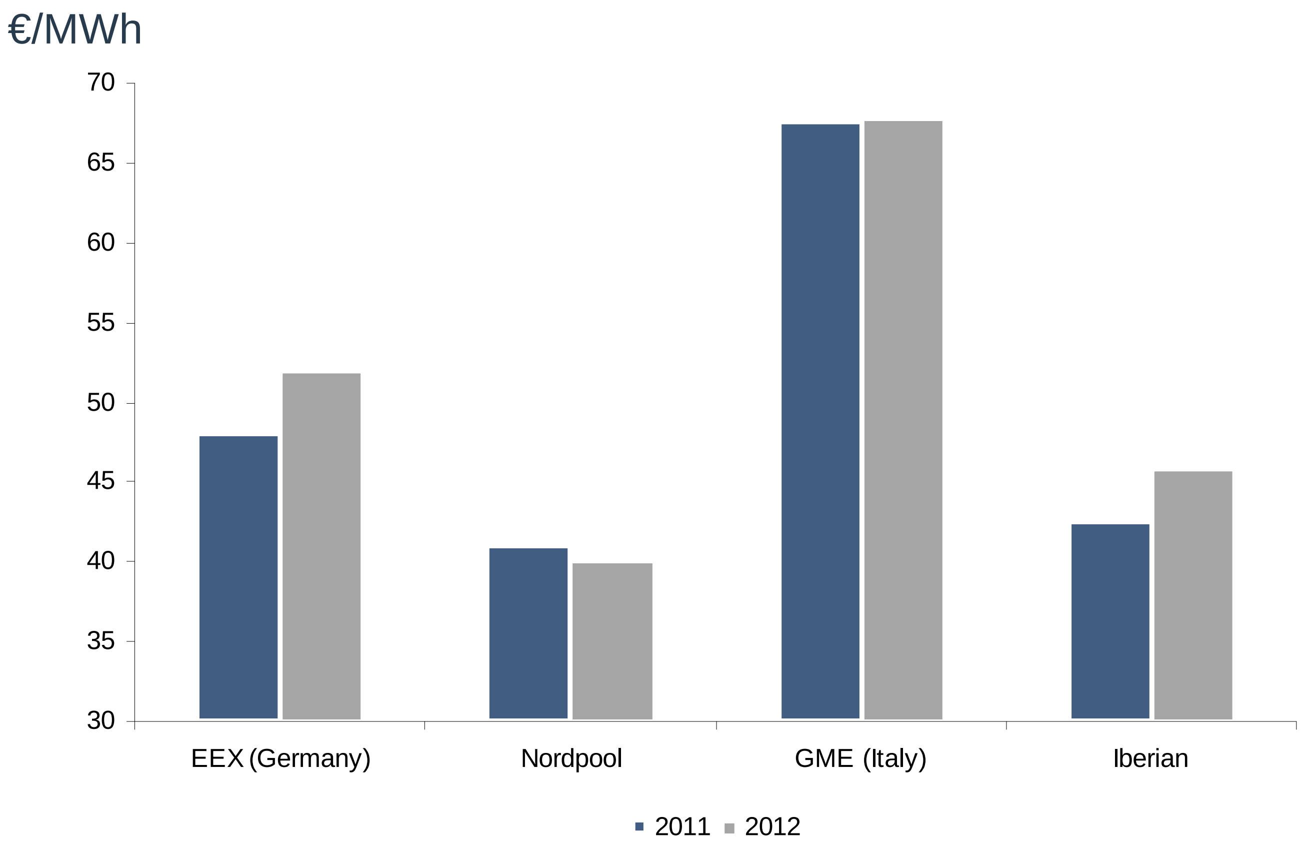
Valuation : no real premium for the sector

Company Name	Share Price (€/share)	Market Cap (m€)	target Price (€/share)	EV 2010 (m€)	EV / EBITDA 2010	EV / EBITDA 2011	EV / EBIT 2010	EV / EBIT 2011	PER 2010	PER 2011	Dividend Yield 2010	Dividend Yield 2011	Net Debt / EBITDA 2010	Net Debt / EBITDA 2011
EDF	38.3	70,765	43.0	145,819	8.0x	7.7x	14.1x	13.5x	18.2x	16.6x	3.0%	3.3%	2.6x	2.5x
Fortum	18.4	16,299	16.0	20,687	9.0x	9.4x	11.6x	12.4x	13.3x	14.0x	5.4%	5.4%	2.7x	3.0x
E.ON	26.3	49,911	30.0	84,450	5.7x	5.5x	8.1x	7.7x	8.8x	8.2x	6.1%	6.6%	1.9x	1.9x
EnBW	36.9	9,008	50.0	16,068	5.7x	5.2x	8.2x	7.2x	7.7x	6.4x	5.7%	6.9%	2.4x	2.3x
RWE	63.4	33,844	72.0	57,540	5.9x	5.6x	8.1x	7.5x	9.5x	8.4x	5.6%	6.5%	1.3x	1.3x
Verbund	29.7	9,154	36.0	12,377	10.5x	9.5x	12.7x	11.3x	16.0x	13.8x	3.1%	3.6%	3.8x	3.5x
Enel	3.8	35,942	n.a	103,184	6.4x	6.0x	9.9x	9.3x	8.4x	7.7x	7.2%	7.8%	3.3x	3.1x
Iberdrola	5.9	30,999	7.0	59,352	8.1x	7.7x	12.2x	11.8x	12.8x	12.3x	5.5%	5.5%	3.7x	3.6x
Endesa	21.3	22,498	n.a	45,372	6.5x	6.2x	8.8x	8.4x	9.6x	9.1x	5.2%	5.5%	1.6x	1.3x
GDF Suez	27.2	61,398	34.0	103,528	6.8x	6.2x	11.5x	10.2x	12.7x	11.1x	6.2%	6.9%	2.2x	2.0x
Average					***7.2x***	***6.9x***	***10.5x***	***9.9x***	***11.7x***	***10.8x***	***5.3%***	***5.8%***	***2.5x***	***2.5x***
Snam Rete Gas	3.4	6,642	4.5	13,410	8.3x	8.1x	12.1x	11.4x	10.7x	9.8x	7.5%	7.8%	4.5x	4.5x
Terna	2.9	5,765	2.7	9,830	10.3x	n/a	14.8x	n/a	20.5x	n/a	5.4%	n/a	4.1x	n/a
Iberdrola Renovables	3.1	13,090	3.4	19,700	11.6x	10.4x	19.2x	17.1x	25.7x	21.6x	1.0%	1.2%	3.4x	3.5x
EDF Energies Nouvelles	34.6	2,693	35.5	6,164	16.1x	15.3x	21.6x	19.9x	27.6x	23.0x	1.1%	1.3%	9.1x	9.5x
Suez Environnement	16.0	7,835	17.5	17,180	7.5x	6.7x	15.7x	13.3x	20.2x	16.6x	4.1%	4.5%	3.4x	3.1x
Veolia Environnement	23.7	11,718	24.0	31,364	7.6x	7.1x	14.1x	12.9x	17.0x	14.2x	5.1%	5.1%	4.1x	3.9x

Source: Oddo Securities – as of February 4, 2010

A real contango?

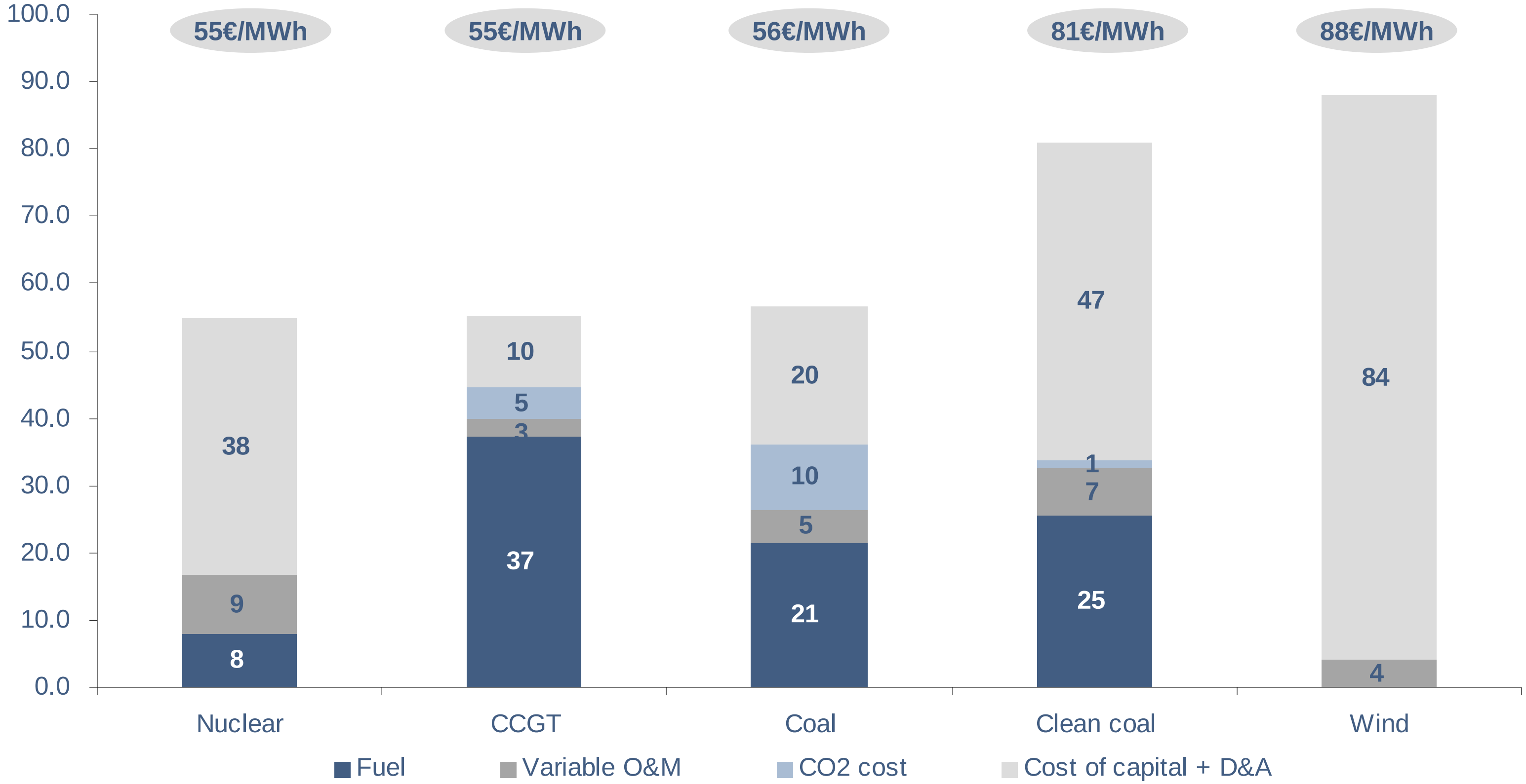
Forward electricity prices



Do current price reflect the overcapacity?

New entry cost

- CCGT costs reflect gas price based on long term contracts indexed on oil
- Forward prices after 2011 still reflect new entrant costs



Continental Europe

- We still prefer German/French Utilities
- RWE
- E.on
- Verbund
- EDF
- GDF-SUez

We still prefer German/French Utilities (1/2)

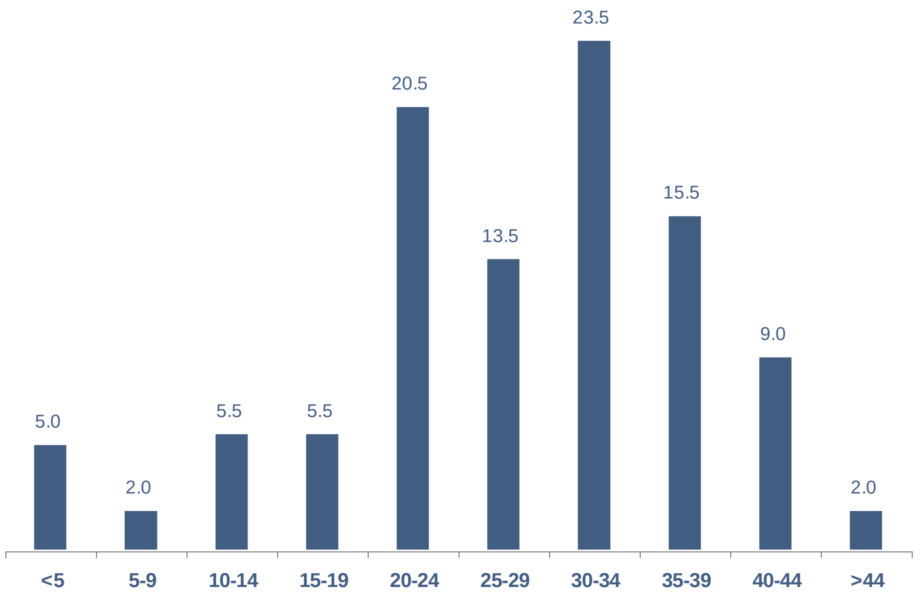
Electricity hedging

	RWE		E.on		Verbund		GDF Suez	
	% hedged	baseload price	% hedged	baseload price	% hedged	baseload price	% hedged	baseload price
2009	90.0%	61.6	90.0%	59.4	96.0%	61.8	90.0%	62.0
2010	90.0%	62.0	90.0%	61.7	44.0%	57.6	90.0%	62.0
2011	70.0%	59.3	70.0%	61.4	0.0%	0.0	70.0%	58.0
2012	40.0%	60.7	20.0%	56.0	0.0%	0.0	n.a	0.0

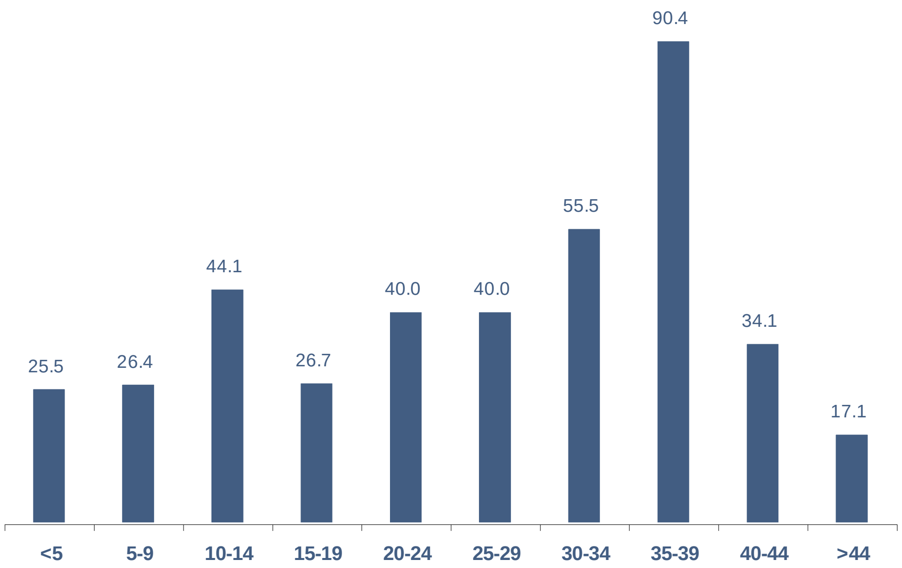
	Enel		Endesa		Iberdrola		Fortum	
	% hedged	baseload price	% hedged	baseload price	% hedged	baseload price	% hedged	baseload price
2009	100.0%	80.0	90.0%	60.0	90.0%	55.0	93.0%	49.7
2010	80.0%	75.0	45.0%	53.0	50.0%	>50.0	65.0%	44.0
2011	15.0%	77.0	n.a	0.0	n.a	0.0	35.0%	42.0
2012	n.a	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0

We still prefer German Utilities (2/2)

German Thermal plants (GW) by age in 2007



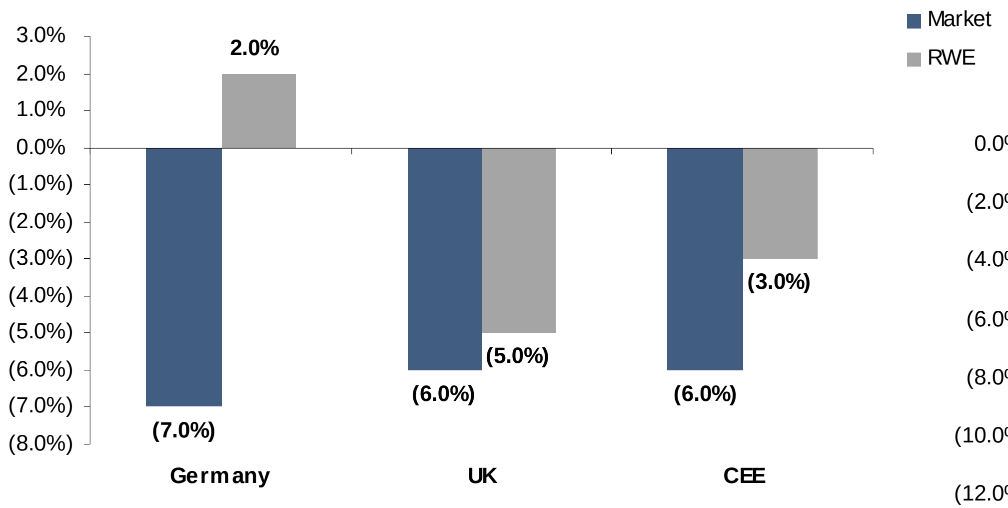
European Thermal plants (GW) by age in 2007



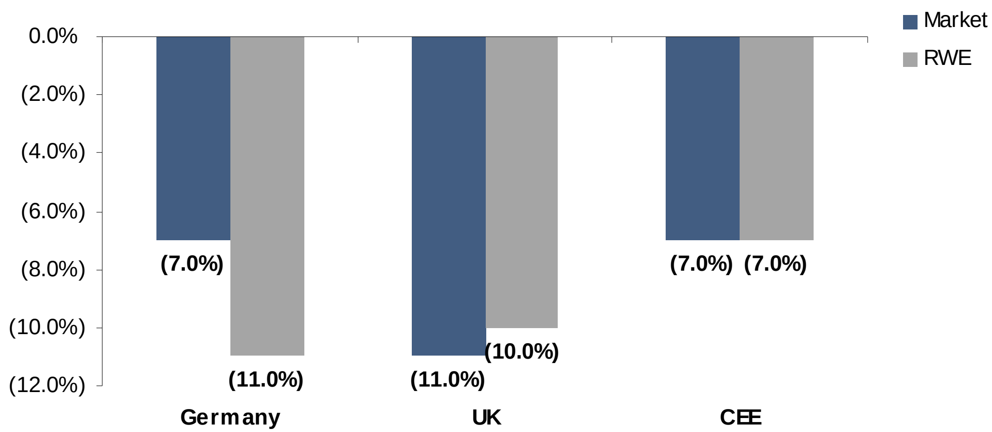
Source: Oddo Securities

RWE: no real catalyst in the short term

Electricity market



Gas market

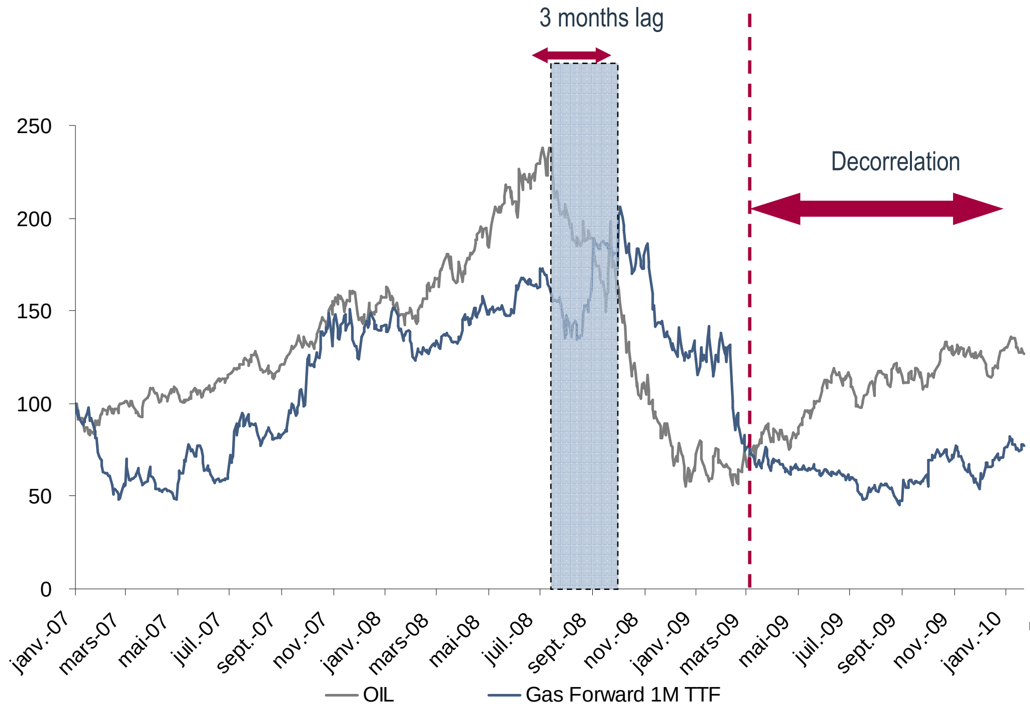


- RWE is less affected than other Utilities by the decreased in consumption (electricity and gas)
- Volumes are secured via take-or-pay contracts
- Still a positive price effect thanks to solid hedging positions
- 50% to 60% of the EBIT is generated in Germany – Benelux area

E.On: a slow recovery on gas business

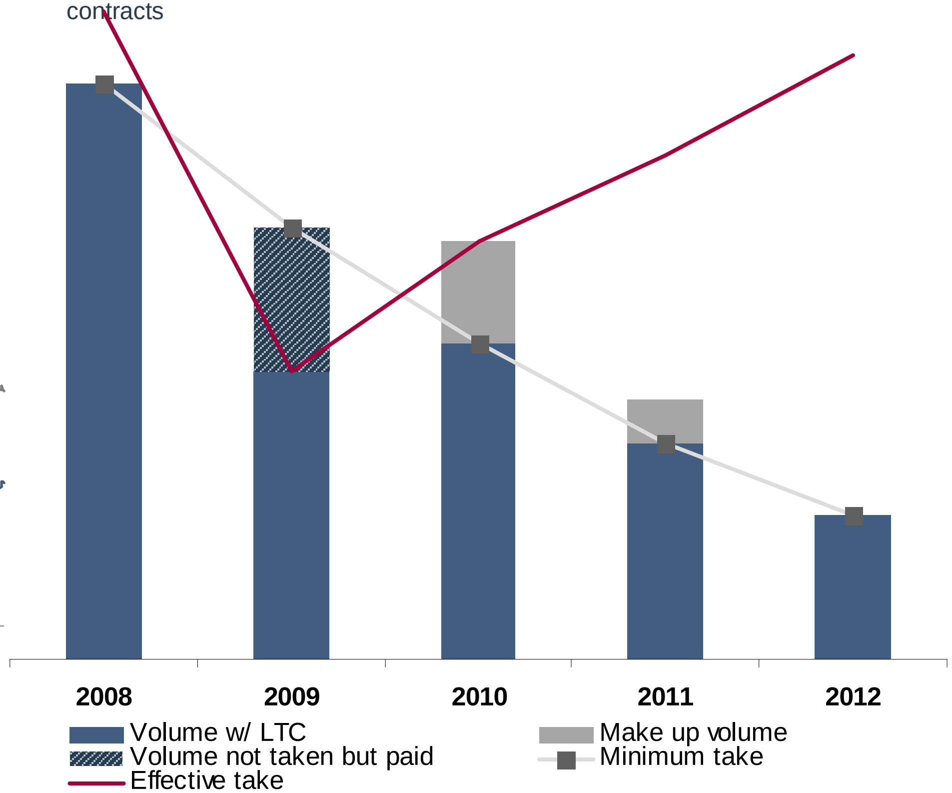
A strong decorrelation between gas price and oil price

- [Supply of E.on is linked to LTC (90% oil indexed)
- Sales contracts are shorter (2-3 years) and more linked to the spot prices
- Squeeze in margin (-€410m impact on E.on PEG as of Q3 09)



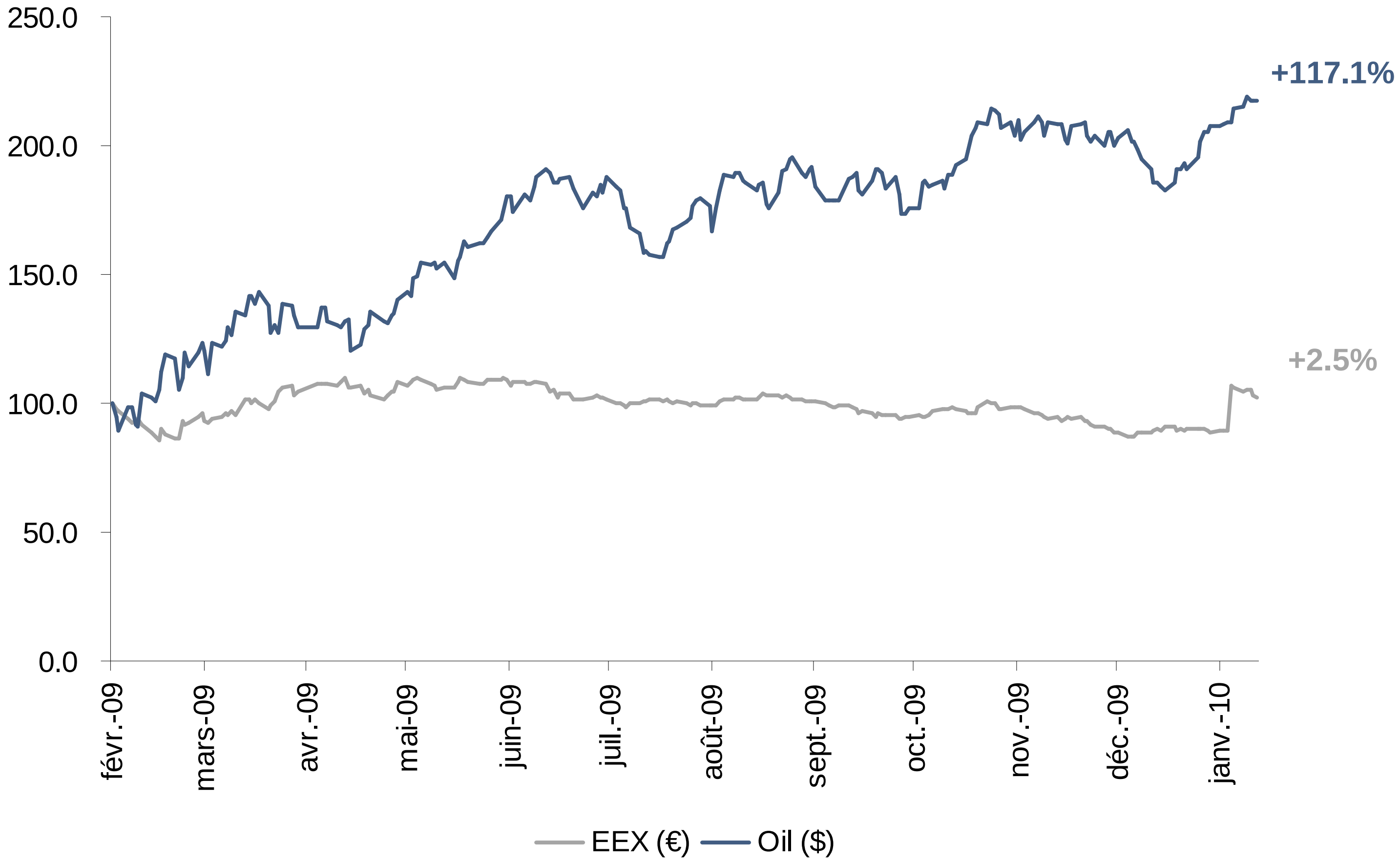
Some remaining gas volumes to catch up

- In 2009, E.on will be below minimum take of gas
- Need to make up volume in 2010/2011
- E.on would delay some renewal of contracts to limit the minimum take of the LTC contracts



Verbund: mark to market on electricity prices

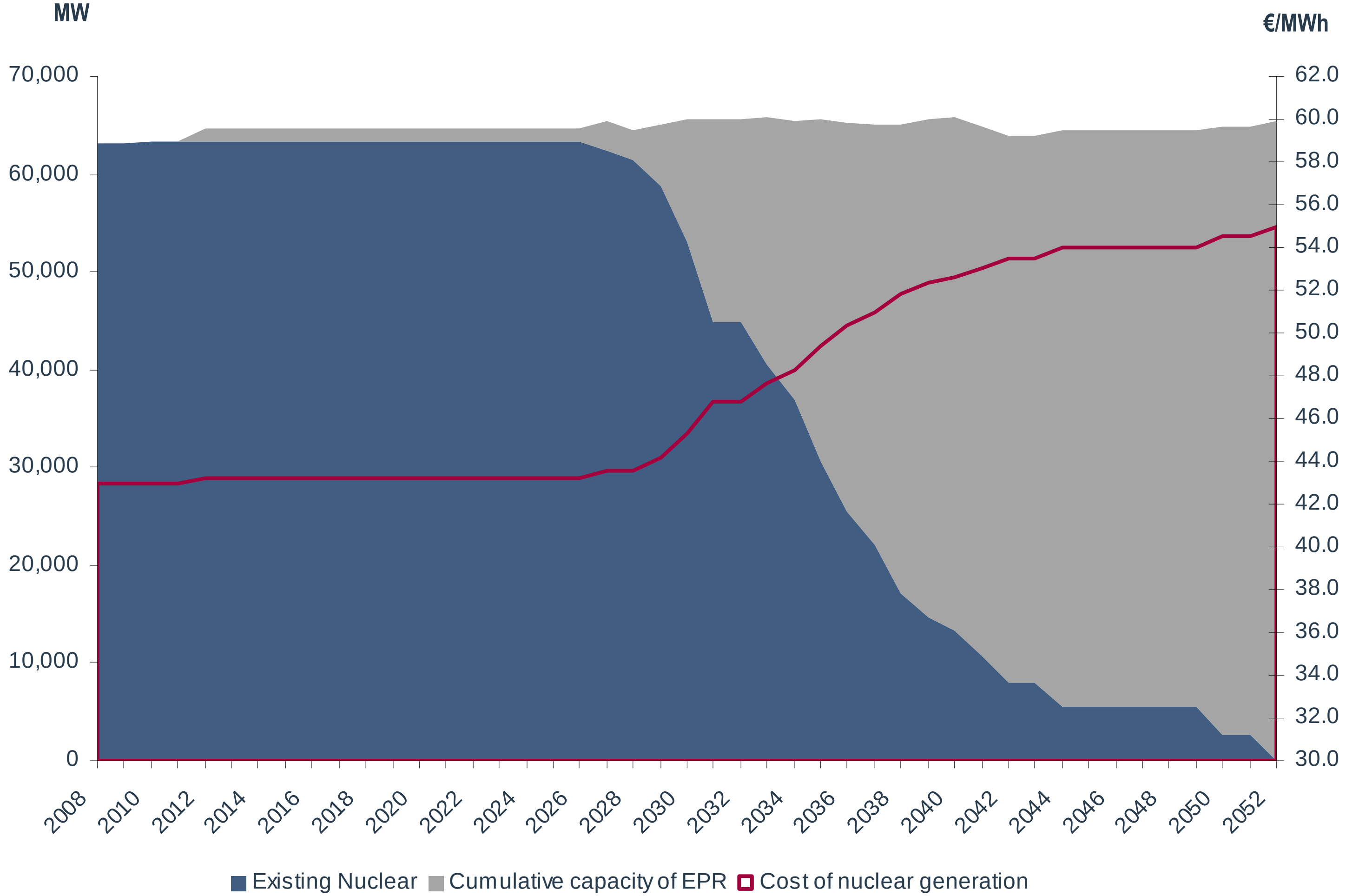
Decorrelation between the Oil prices and the electricity prices since the beginning of the year



Source: EEX, bloomberg – base 100 as of 11/02/09

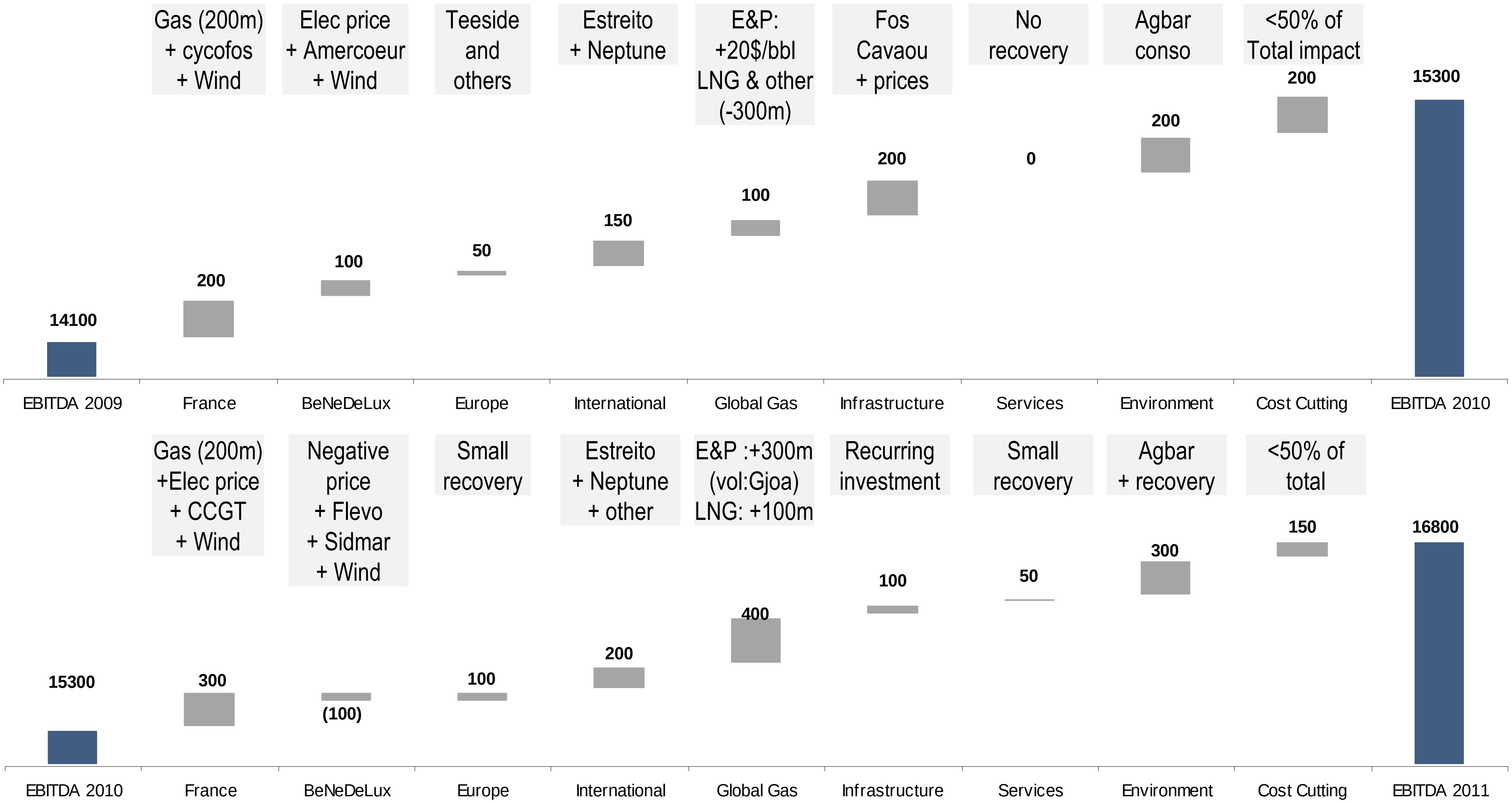
EDF: a positive price effect to come

A price increase toward 43€/MWh by 2015



GDF Suez: the growth story for 2010-11

EBITDA Breakdown 2009 - 2011



GDF Suez: results already highly impacted by low gas prices

EBITDDA Forecast

in €m - FYE 31/12	2008a	2009a	2010a	2011e
Total EBITDA	**13,885**	**14,110**	**15,222**	**16,792**
EBITDA/Sales	+16.7%	+17.5%	+17.7%	+18.6%
change (%)	+10.7%	+1.6%	+7.9%	+9.7%
France	246	604	744	1,045
% growth	(33.1%)	+145.4%	+23.0%	+40.6%
Benedelux	1,752	2,216	2,349	2,238
% growth	(2.4%)	+26.4%	+6.0%	(4.8%)
Europe	844	940	1,011	1,110
% growth	+19.1%	+11.4%	+7.5%	+9.7%
International	1,798	1,840	1,980	2,214
% growth	+7.5%	+2.4%	+7.6%	+11.8%
Global Gas	3,715	2,594	2,718	3,101
% growth	+58.5%	(30.2%)	+4.8%	+14.1%
Infrastructure	2,878	3,002	3,202	3,309
% growth	+1.1%	+4.3%	+6.6%	+3.4%
Services	904	895	895	934
% growth	(4.4%)	(1.0%)	-	+4.4%
Environment	2,101	2,076	2,285	2,605
% growth	+1.9%	(1.2%)	+10.1%	+14.0%
Other	(354)	(58)	39	235
% growth	+71.8%	(83.7%)	(167.6%)	+247.9%

- Consensus still above the Group's guidance (€17bn)[Sub-bullet text]
- Negative price effect
- E&P: collapse in oil price

  LNG: decrease in demand from Asia and €300m arbitrage in Q1

  => More than €1bn impact
- €600m net positive impact from cost cutting, i.e. only 50% of the target

ODDO

Southern Europe

- Spain: overcapacity to remain for the next few years
- Spain : overcapacity has a double impact on prices
- Iberdrola
- Iberdrola Renovables
- Endesa
- Italy: in the MT a decrease in the electricity prices
- Enel

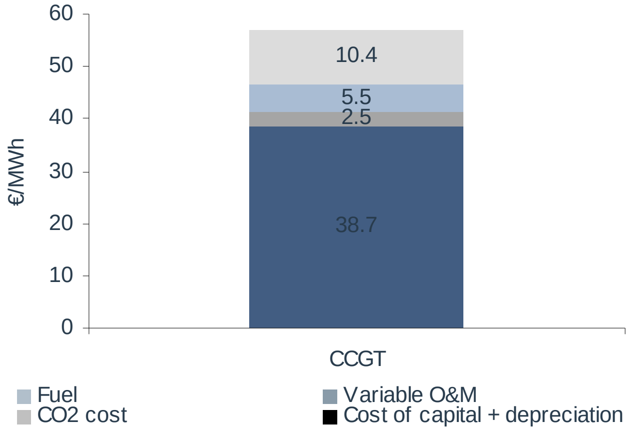
Spain: overcapacity to remain for the next few years

Electricity hedging

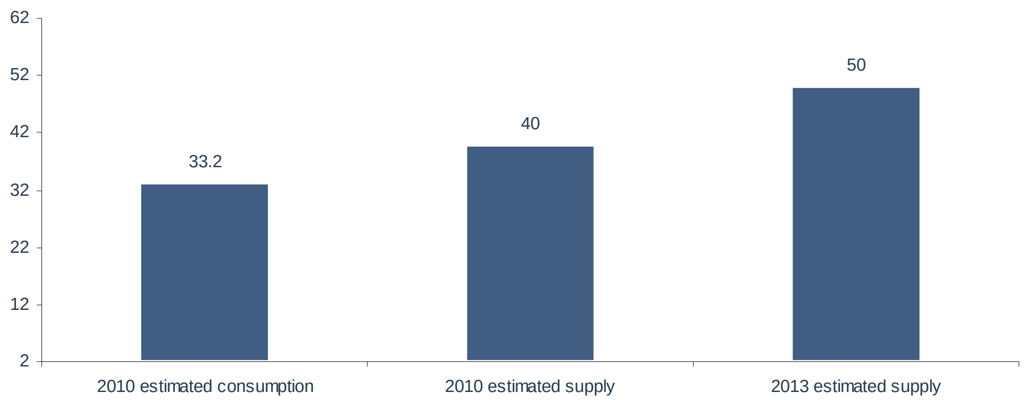
	2007a	2008a	2009e	2010e	2011e	2012e	2013e	2014e	2015e
CAPACITY (MW)									
Peninsular ordinary regime									
Hydro	16,657	16,657	16,657	16,657	17,683	17,683	17,683	17,683	17,683
Nuclear	7,716	7,716	7,716	7,716	7,716	7,716	7,716	7,716	7,716
Coal	11,357	11,359	11,159	10,959	10,759	10,559	10,359	10,159	9,959
Fuel oil	4,810	4,418	4,218	4,018	3,818	3,618	3,418	3,218	3,018
CCGTs	20,958	21,667	23,368	26,062	26,062	26,914	26,914	26,914	26,914
Total	**61,499**	**61,817**	**63,118**	**65,412**	**66,038**	**66,490**	**66,090**	**65,690**	**65,290**
Number of built CCGTs	5,458	709	1,701	2,694	0	852	0	0	0
Peninsular special regime									
Hydro (mini)	1,913	2,333	2,433	2,533	2,633	2,733	2,833	2,933	3,033
Wind	13,909	15,576	17,718	20,155	21,655	23,155	24,655	26,155	27,655
Other renewables (biomass, solar…)	1,507	1,838	2,038	2,238	2,438	2,638	2,838	3,038	3,238
Non renewables (cogeneration…)	6,871	8,381	8,481	8,581	8,681	8,781	8,881	8,981	9,081
TOTAL	**24,200**	**28,128**	**30,670**	**33,507**	**35,407**	**37,307**	**39,207**	**41,107**	**43,007**
TOTAL MAINLAND SPAIN	**85,699**	**89,945**	**93,788**	**98,919**	**101,445**	**103,797**	**105,297**	**106,797**	**108,297**
OUTPUT - GWh									
Peninsular ordinary regime									
Hydro	26,352	21,175	24,986	24,986	26,525	26,525	26,525	26,525	26,525
Nuclear	55,102	58,756	55,555	57,098	57,098	57,098	57,098	57,098	57,098
Coal	71,833	46,346	55,795	54,795	53,795	52,795	51,795	50,795	49,795
Fuel oil	2,397	2,454	1,687	1,607	1,527	1,447	1,367	1,287	1,207
CCGTs	68,139	91,821	64,166	60,273	63,565	68,633	73,945	79,510	85,335
TOTAL	**223,823**	**220,552**	**202,189**	**198,759**	**202,510**	**206,498**	**210,731**	**215,216**	**219,960**
Peninsular special regime									
Hydro (mini)	3,965	4,776	5,110	5,320	5,530	5,740	5,950	6,160	6,370
Wind	26,888	31,102	35,436	40,310	43,310	46,310	49,310	52,310	55,310
Other renewables (biomass, solar…)	4,876	5,874	6,726	7,386	8,046	8,706	9,366	10,026	10,686
Non renewables (cogeneration…)	20,574	24,784	25,442	25,742	26,042	26,342	26,642	26,942	27,242
TOTAL	**56,303**	**66,536**	**72,714**	**78,757**	**82,927**	**87,097**	**91,267**	**95,437**	**99,607**
Gross generation	**280,126**	**287,088**	**274,903**	**277,517**	**285,437**	**293,595**	**301,998**	**310,653**	**319,568**
Interconnections	(5,750)	(11,221)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
Pump storage consumption	(4,349)	(3,494)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
Self-consumption	(8,753)	(8,412)	(8,000)	(8,080)	(8,322)	(8,572)	(8,829)	(9,094)	(9,367)
Total available output - Ordin. + special Regime	**261,274**	**263,961**	**253,403**	**255,937**	**263,615**	**271,523**	**279,669**	**288,059**	**296,701**
Growth	*3.1%*	*1.0%*	*-4.0%*	*1.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
NUMBER OF HOURS									
Hydro	1,582	1,271	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Nuclear	7,141	7,615	7,200	7,400	7,400	7,400	7,400	7,400	7,400
Coal	6,325	4,080	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Fuel oil	498	555	400	400	400	400	400	400	400
CCGTs	**3,251**	**4,238**	**2,746**	**2,313**	**2,439**	**2,550**	**2,747**	**2,954**	**3,171**
Hydro (mini)	2,073	2,047	2,100	2,100	2,100	2,100	2,100	2,100	2,100
Wind	1,933	1,997	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Other renewables (biomass, solar…)	3,236	3,196	3,300	3,300	3,300	3,300	3,300	3,300	3,300
Non renewables (cogeneration…)	2,994	2,957	3,000	3,000	3,000	3,000	3,000	3,000	3,000
CCGT Load factor	**37%**	**48%**	**31%**	**26%**	**28%**	**29%**	**31%**	**34%**	**36%**

Spain : overcapacity has a double impact on prices

Utilites can only recover the marginal cost of the CCGT



Oversupply in the gas market



Electricity hedging

Endesa electricity prices (€/MWh)	2008a	2009a	2010a	2011a	2012a	2013a	2014a	2015a
Oil prices $/bbl	99.5	60	65	70	75	80	80	80
Marginal cost of a CCGT €/MWh	53.4	41.1	43.0	47.4	51.8	54.4	54.4	54.4
New entrant cost of a CCGT €/MWh	63.8	51.5	53.4	57.8	62.2	64.8	64.8	64.8
Pool prices in Spain incl. services €/MWh	**65.0**	**44.3**	**46.2**	**51.7**	**56.4**	**59.2**	**62.0**	**64.8**
Iberdrola achieved price incl. hedging €/MWh	**65.0**	**54.4**	**50.4**	**51.3**	**57.0**	**60.8**	**62.8**	**64.8**
Endesa achieved price incl. hedging €/MWh	**62.0**	**58.4**	**49.3**	**51.7**	**56.4**	**59.2**	**62.0**	**64.8**

Iberdrola : Spanish exposure over estimated

Iberdrola Sum Of The Part

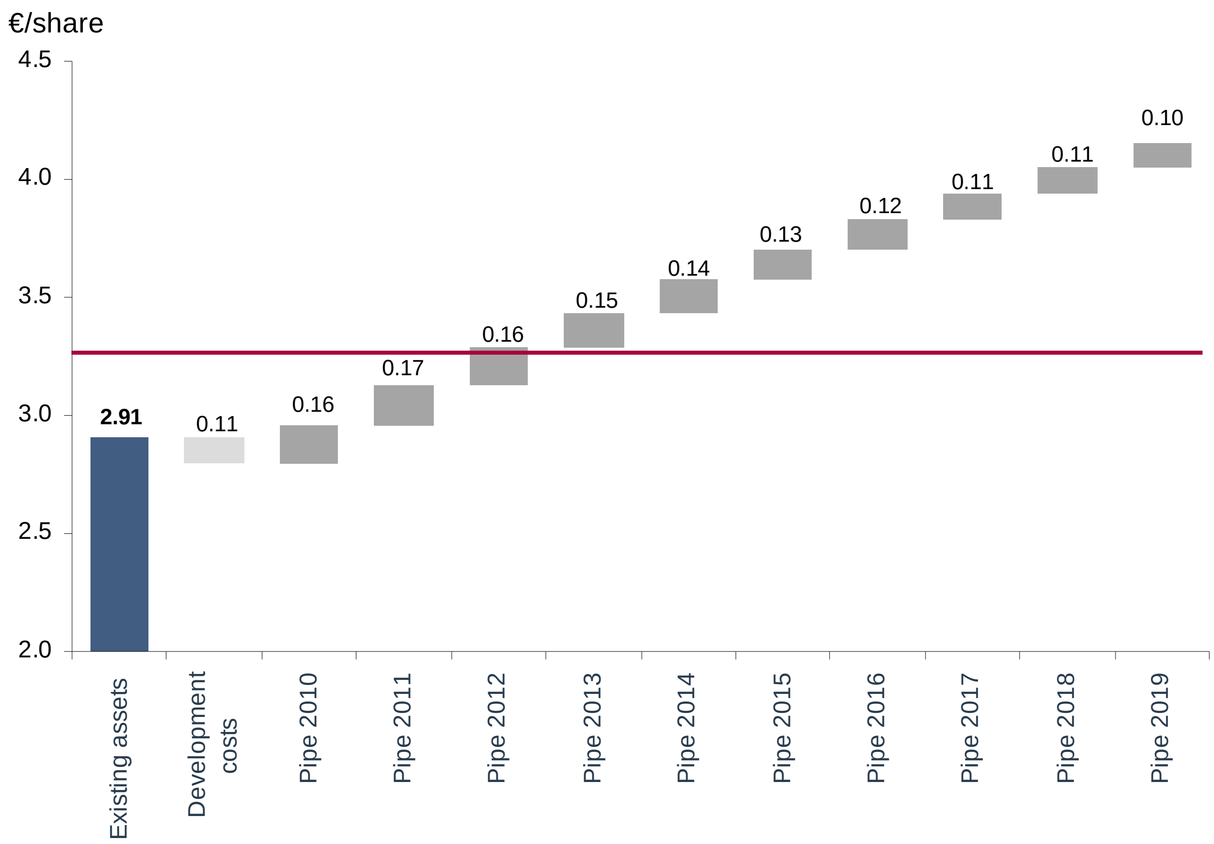
SOTP	€m	%	EBITDA multiples
Spain	**21,192**	***32.8%***	**9.7x**
Generation & supply	11,704	*18.1%*	9.3x
Distribution	9,888	*15.3%*	9.1x
Other (HQ costs, etc)	(400)	*(0.6%)*	
Scottish Power	**10,566**	***16.3%***	**6.6x**
Generation	5,757	*8.9%*	6.5x
RAB Distribution	3,013	*4.7%*	5.9x
RAB Transmission	1,378	*2.1%*	
Gas storage UK	418	*0.6%*	
LatAm	**5,631**	***8.7%***	**6.5x**
Iberdrola Renovables	**19,578**	***30.3%***	**11.5x**
Energy East	**6,053**	***9.4%***	**8.8x**
Non Energy	**1,645**	***2.5%***	**5.4x**
TOTAL EV	**64,666**	***100.0%***	**8.8x**
Net debt 2009 post securitisation	**-26,517**		
2009 Tariff deficit	1,225		
50% of tax shield benefit	428		
Financial Investments	3,001		
Minorities	(3,084)		
Provision/Other liabilities	(1,970)		
Equity Value	**37,748**		
NOSH net of treasury	5,240		
Target price (€/share)	7.20		

- Regulated activities valued at 7.7x 2010 Ebitda vs 9x for listed regulated Utilities.
- Latam: 6.2x 2010 Ebitda vs 7x for Enersis despite activities that can be considered as regulated and despite exposure to Mexico
- Non Energy: 5.2x 2010 Ebitda on depressed results (Real estate Ebitda -86%)
- Generation SPW: 5.5x 2010 Ebitda despite a natural hedge due to the upstream and downstream exposure

The current share price implicitly value Spanish Generation assets at 6.5x 2010 Ebitda, based on depressed results

Iberdrola Renovables : a free call option on post 2012 wind farms

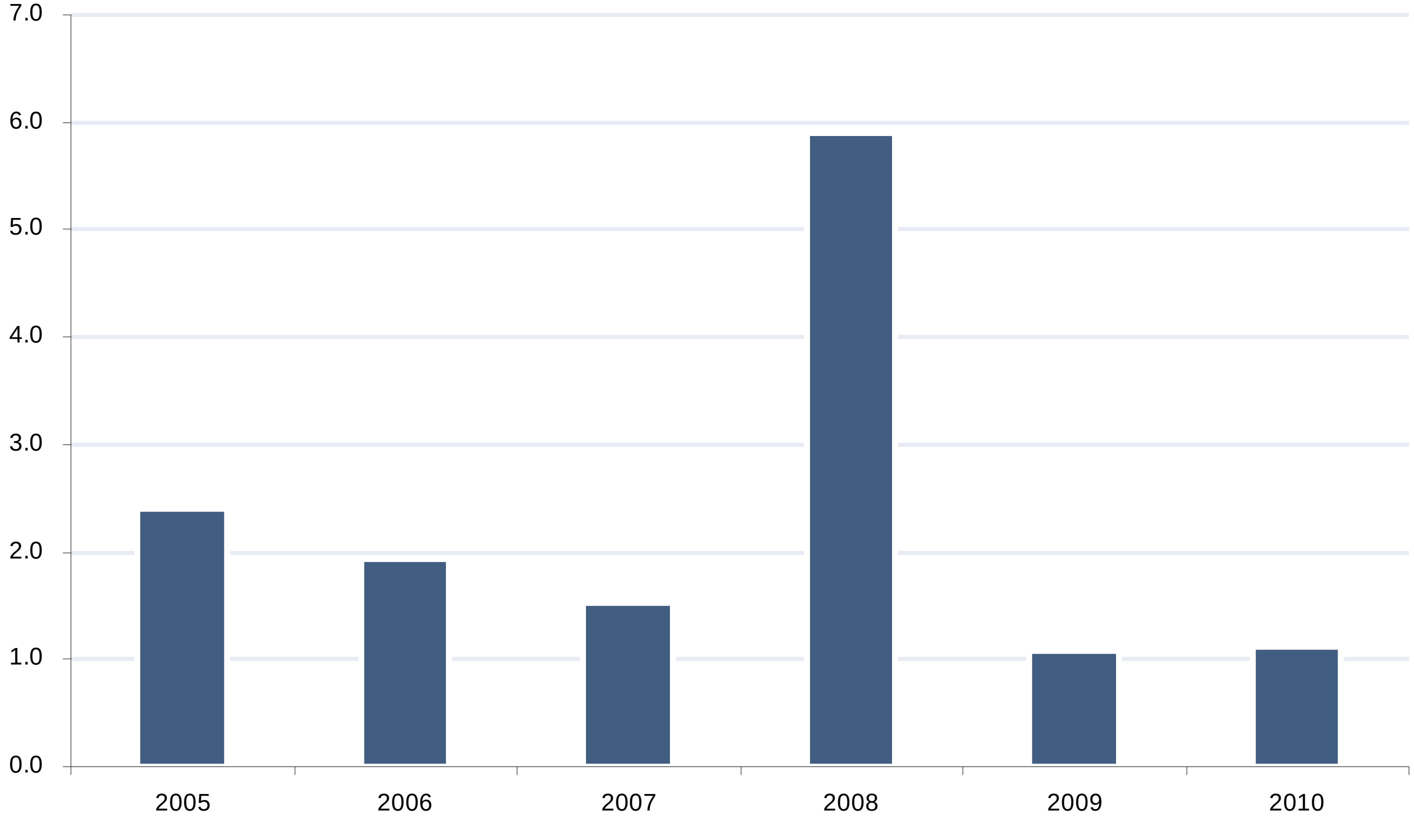
Valuation breakdown



Source: Oddo Securities

Endesa: we prefer to play it through Enel

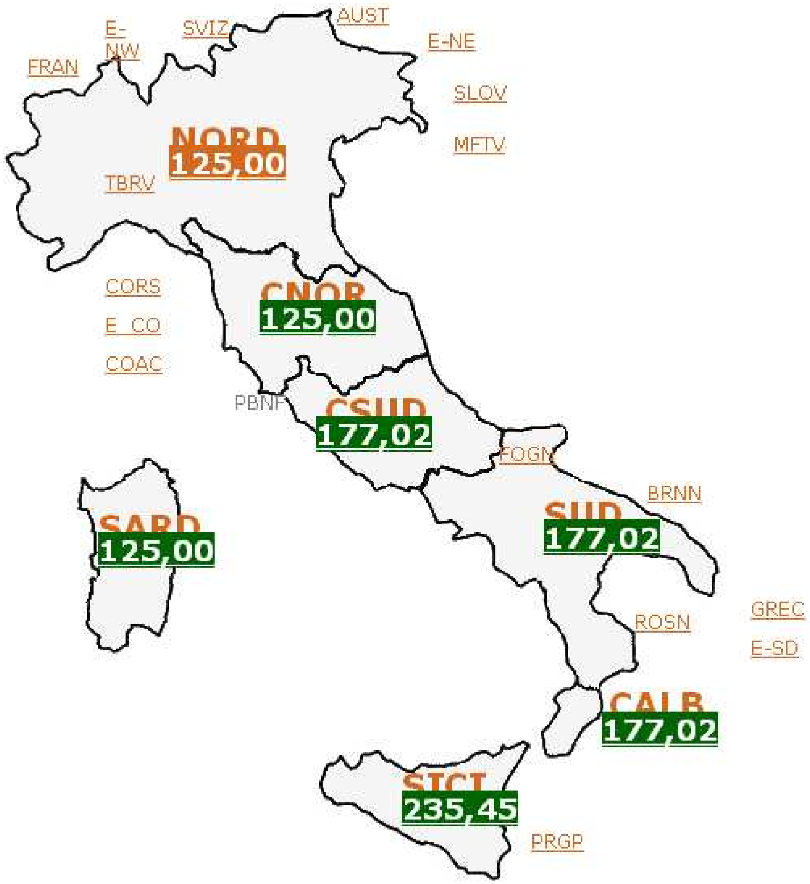
Evolution of Endesa's dividend (€/share)



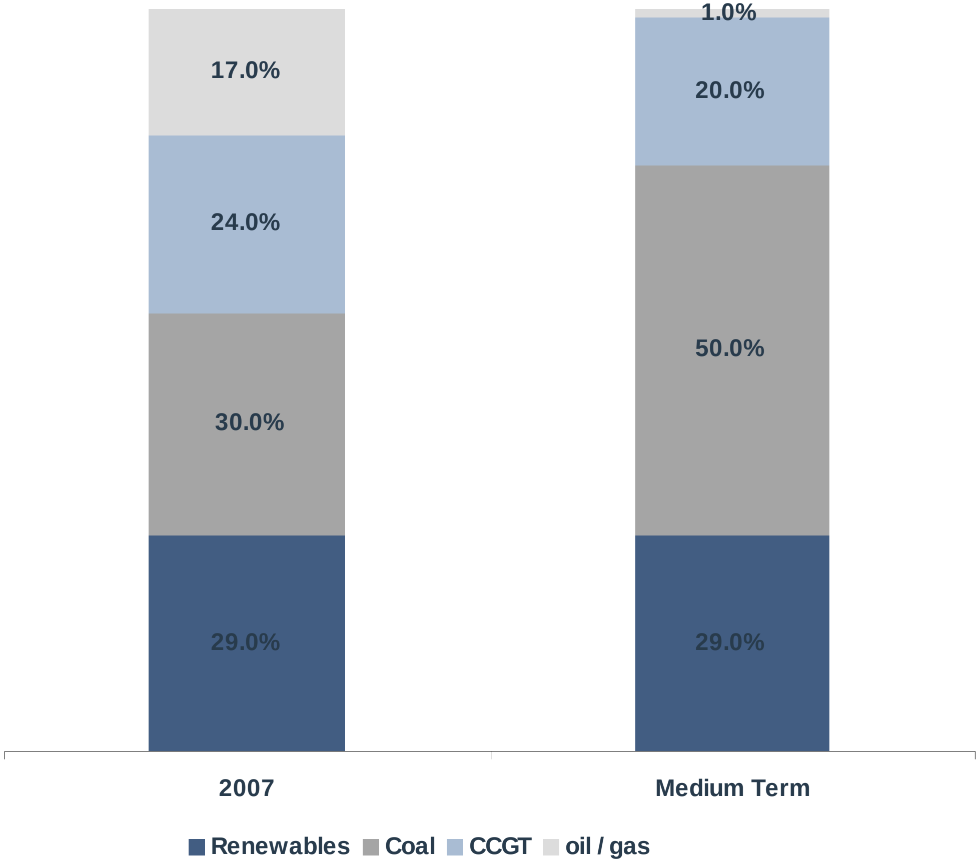
Source: Oddo Securities

Italy: in the MT a decrease in the electricity prices

Prices differences in Italy



Mix evolution makes the oil power plants marginal

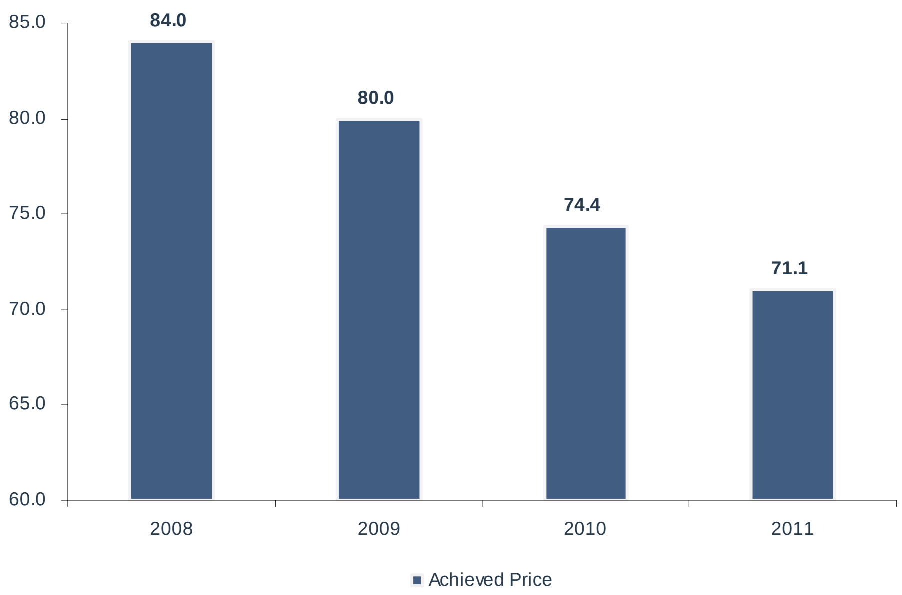


Source: Oddo Securities

Enel: a cheap high yield stock but exposed to negative price effect

Achieved power prices in Italy (€/MWh)

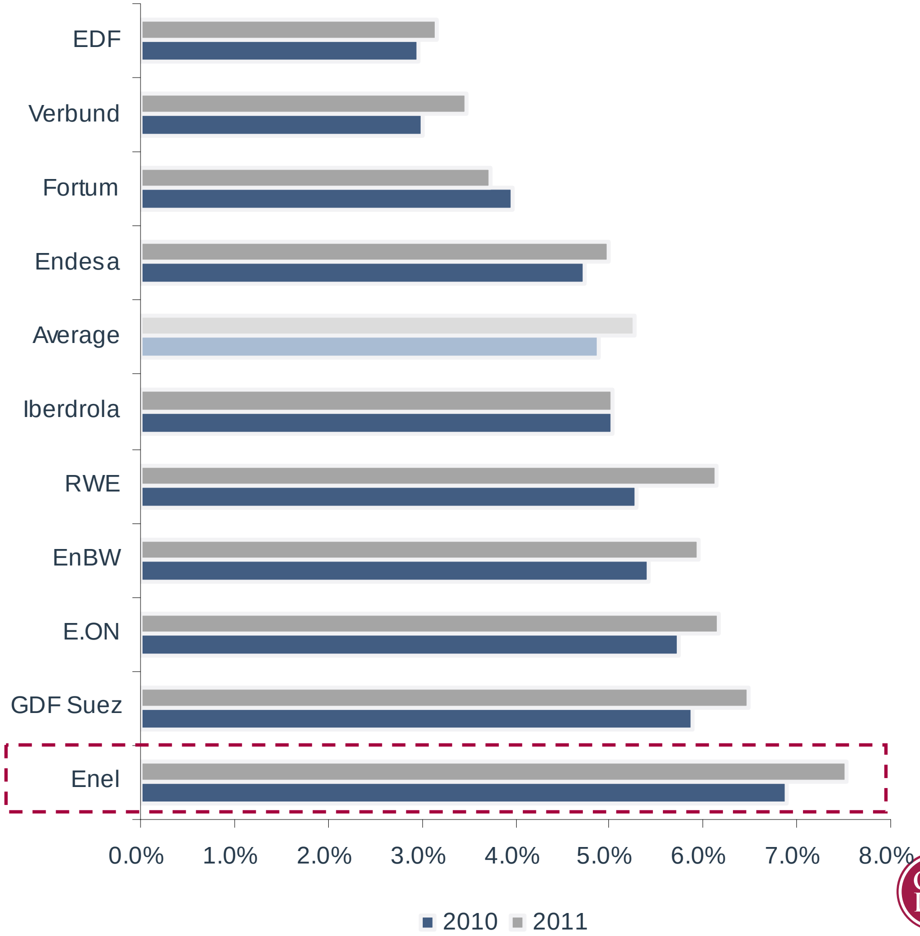
- Enel remains exposed to a negative price effect in Italy in the ST and in the LT…
- … and the overcapacity in Spain
- Financial flexibility might limit the growth in Latin America



Source: Oddo Securities

The highest dividend yield

- But the group has the highest dividend yield of the sector
- …And trades with 10% discount vs. the sector



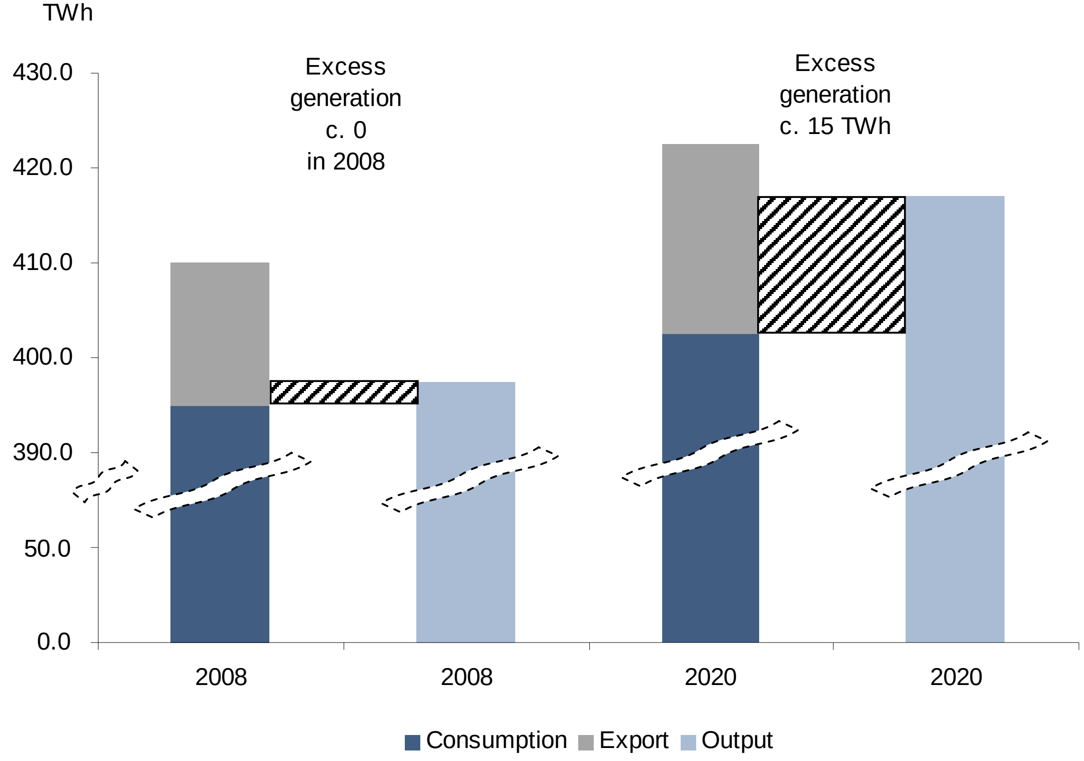
Other Utilities

- Fortum: a risk of oversupply in the LT
- Veolia Environnement: collapse of the water profitability
- Suez Environnement: a safer way to play the recovery (waste)

Fortum: a risk of oversupply in the long term

System adequacy forecast

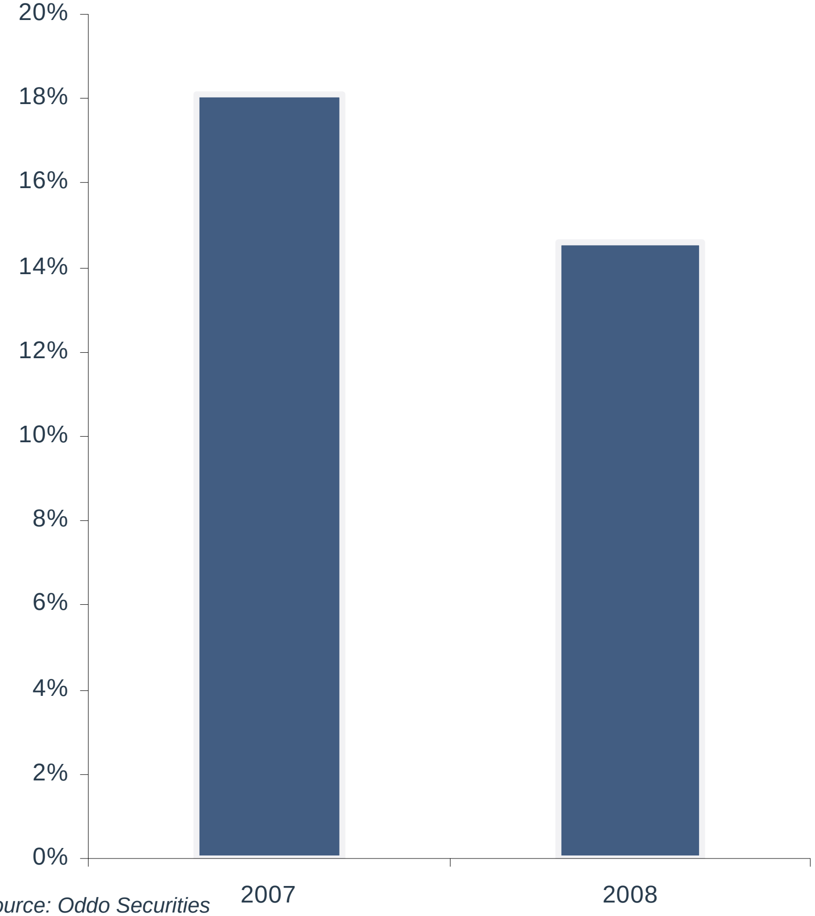
- Destruction of demand due to definitive clossure of industrial facilities in 2009 (c. -10 TWh)
- Very slow increase in the demand (CAGR +0.7%/year) until 2020
- Strong net increase in capacity until 2020 (between +15 / +50 TWh)
- Oversupply might be absorbed only with development of exports



No stress on capacity margin to justify a convergence to German prices

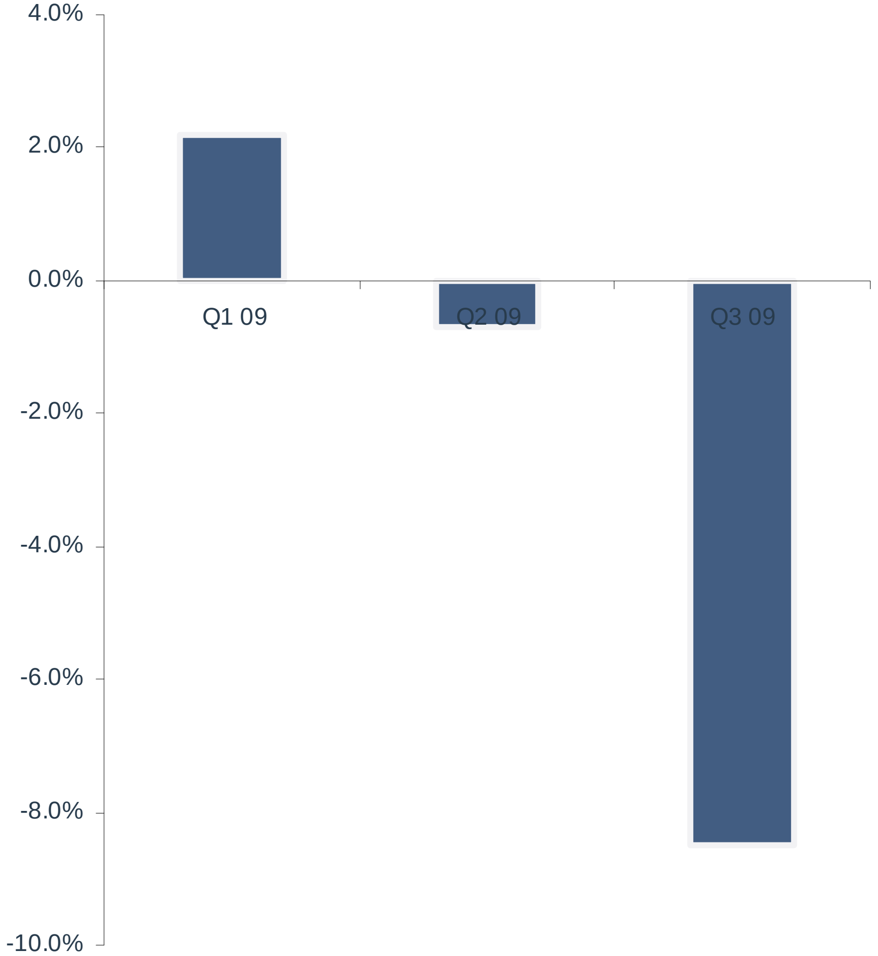
Veolia Environnement: collapse of the water profitability

Water pre tax ROCE



Source: Oddo Securities

EBITDA evolution of the 3 businesses excl. Waste over the first 3Q of 2009



Suez Environnement: a safer way to play the recovery (waste)

Sequential improvement for Ebitda quarter on quarter