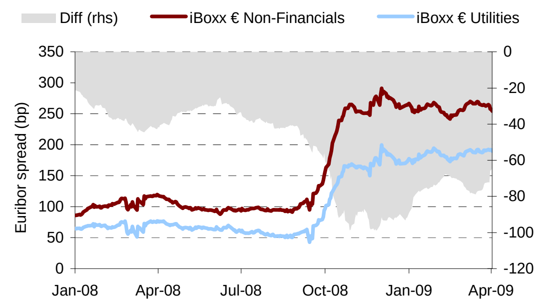
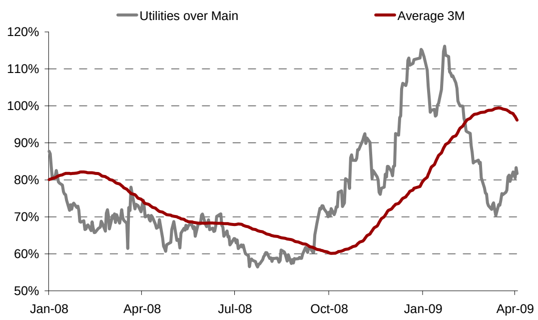
Utilities Quarterly

Franck Bataille
Senior Utilities Analyst
(+33 1 41 89 14 86) franck.bataille@calyon.com

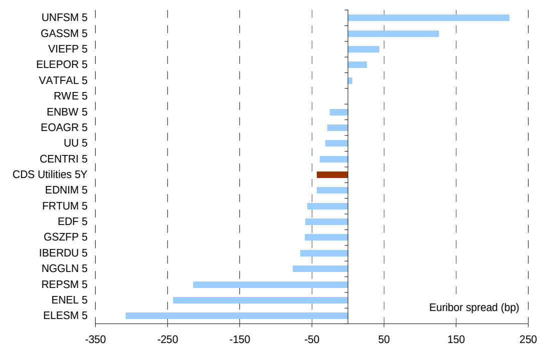
Cash: Utilities vs Non Financials A



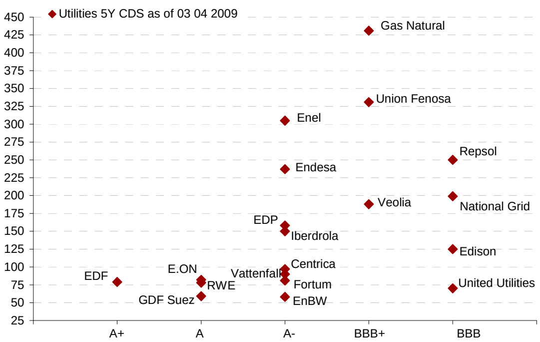
CDS: Utilities vs iTraxx Main



5Y CDS: Under/outperformers YTD



5Y CDS: Utilities Mapping



Sources: Bloomberg, Calyon. As at 3 April 2009

Q209 Update

The primary wild card

■ Not crisis-proof, but resisting well

In line with our 2009 Utilities scenario, the sector remains forced to exercise caution in front of a durably deteriorated operating environment and to smoothly digest its M&A excesses. In that perspective, against a backdrop of much lower growth prospects, we continue to expect European Utilities to enter stabilisation mode in order to allow for a soft landing of the negative credit trend, with average sector ratings stabilising slightly below low-A by FYE09.

With the exception of the long-awaited rating actions on EDF and Gas Natural, the sector has resisted well the waves of downgrades that have been observed on many corporate sectors since the beginning of the year. Despite gloomy newsflow in Q109, European Utilities are still offering better visibility and resilience to the crisis than most of the other corporate sectors.

■ A buoyant primary market! Can it last?

In Q109, Utilities have continued to rush to the bond markets in order to ease their massive refinancing needs over the 2009-10 period. Since October 2008, European Utilities have indeed issued the equivalent of EUR62bn (of which EUR46bn in EUR and EUR16bn in other currencies). Despite these huge primary amounts in a short period of time, investor appetite remains strong for Utilities new issues, which are still oversubscribed many times and are performing strongly post issuance.

Although new deals are logically repricing the Utilities' credit curve, we consider that the bond markets should be able to absorb the sector's still-massive refinancing needs by FYE10, which we estimate at roughly EUR55bn.

■ Sector recommendations: Cash is King!

After Underweighting the sector for many years, we consider that since Q408 new issues have been offering an historical opportunity to rebuild our Utilities exposure. We therefore keep our **Overweight** recommendation on the **Cash** side, but through new issues only as we consider that the secondary market does not offer any value. On the **CDS** side, the sector remains close to its historical average in line with our **Marketperform** recommendation, but we will continue to play specific credit stories and relative value trade ideas.

We favour players offering above-average visibility on their operating and rating trend, with manageable refinancing needs by FYE10. On that basis, **EDF**, **GDF Suez**, **Vattenfall**, **E.ON**, the **Continental European networks** and to a lesser extent **EDP** appear well positioned.

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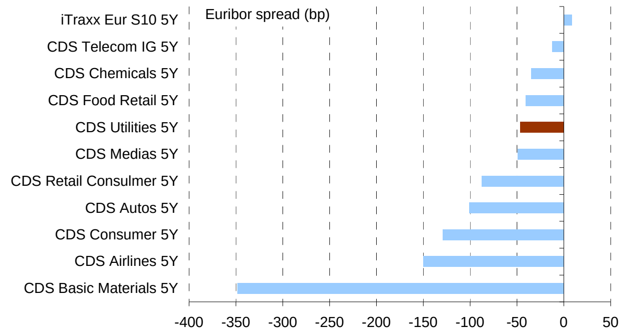
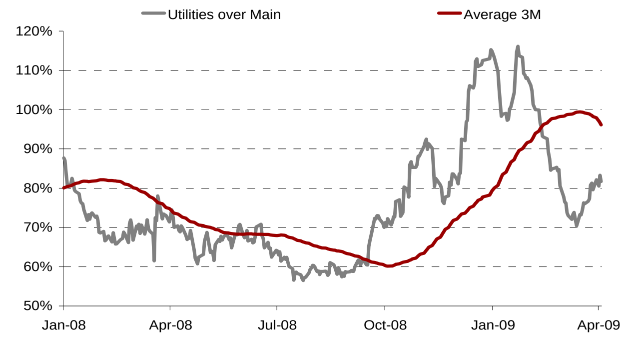
Sector recommendations

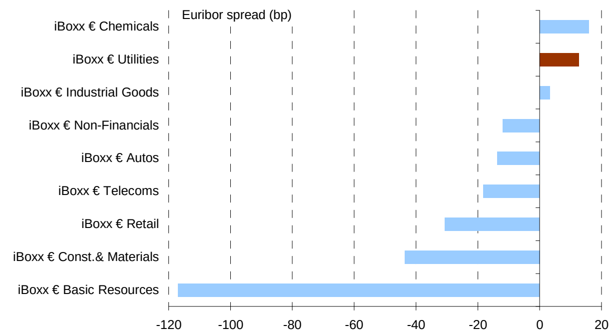
CDS: Sector YTD performance



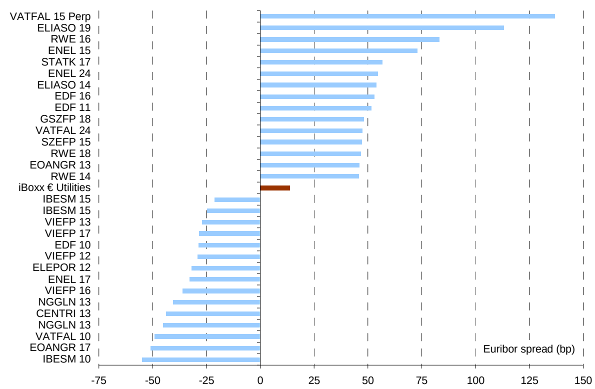
CDS: Utilities vs iTraxx Main YTD



Cash: Sector YTD performance



Cash: Under/outperformers YTD



Source: Calyon. As at 3 April 2009

Recommendation performance

The sector in its environment: resisting…

Q109 newsflow, especially the guidance given for 2009 and 2010, confirmed that European Utilities are not totally crisis-proof. The economic and financial crisis is indeed exposing the sector to new or renewed risks, such as sharply falling commodities prices, collapsing industrial waste volumes, higher cost of risk, potential impairments on recently acquired assets, as well as increasing political and regulatory pressure.

In that context, managements have lowered their growth expectations (to the low-single-digit range) and adopted credit-friendly measures (capex cuts, asset disposals and softer shareholder policies) in order to protect their financial structure and liquidity position. In addition, Utilities have demonstrated their capacity to access capital markets (both debt and equity) in order to cope with their huge refinancing needs over 2009-10.

Despite gloomy newsflow in Q109, European Utilities are still offering better visibility and resilience to the crisis than most of the other corporate sectors.

CDS Utilities: a loan book story…

In CDS, market activity on Utilities names remains much more limited than on the Cash side. In that context, the main CDS movements have been driven by loan book hedging mechanisms on names involved with massive M&A to refinance such as Enel (best performer in Q109) or Gas Natural (worst performer in Q109).

After weakening massively in mid-January (see chart *Utilities vs. iTraxx Main*), Utilities' CDS started to outperform when credit investors' appetite for Utilities bonds appeared strong enough to absorb the sector's strong refinancing needs. In 5Y CDS, the sector is now back to its historical average (ie, roughly 90% of the Main), but we will continue to play specific credit stories and relative value trade ideas (see page 3).

- CDS recommendation: **Marketperform**

Cash Utilities: only primary matters…

'Cash is King!' This has been further confirmed in Q109 as most investors focused on the primary market (see pages 6-7), which keeps reaching record levels on Utilities. Although new deals are logically repricing the Utilities' credit curve (see 'Sector YTD Performance' chart, left), they remain oversubscribed and are performing well. We therefore still consider that 2009 offers an historical opportunity to overweight the sector through new issues in order to rebuild our Utilities exposure.

- Cash recommendation: **Outperform** (primary only)

Issuer recommendations

CDS recommendations

YTD Performance

Despite fairly limited flows on the CDS market, Q109 has been an eventful period for the Utilities sector due to M&A developments, unexpected rating actions and massive primary activity. In that context, our overall CDS recommendations have already generated an excess performance of 163bp YTD (see table left), and our strategic trade ideas have generated a profit of some EUR600,000 (see table below). We have succeeded in leveraging on the following newsflow:

- **Enel**: After reaching record levels (5Y CDS above 600bp), Enel has massively outperformed following strategic announcements in Q109. We keep an Outperform recommendation as we believe Enel should further benefit from upcoming positive newsflow, such as the EUR8bn capital increase in July and additional disposals (notably the gas network in Italy).
- **RWE**: Unlike EnBW, the justified repricing of RWE's CDS has finally begun following the announcement of the acquisition of Essent for EUR9.3bn, which has led to a negative outlook at S&P but also to a sharp increase in RWE's refinancing needs. We keep our Underperform recommendation as RWE still appears too tight when compared with peers such as EDF or E.ON.
- **Vattenfall**: We changed our recommendation from Sectorperform to Outperform on 24 February 2009 when 5Y CDS overreacted to Vattenfall's acquisition of Nuon for EUR8.5bn. As Vattenfall has already successfully started its refinancing, we expect further CDS outperformance.
- **EDP**: We changed our recommendation from Sectorperform to Outperform on 24 February 2009 as 5Y CDS underperformed significantly despite a positive newsflow (sound results, improved liquidity position). We expect EDP's CDS to close the gap with other Iberian names such as Iberdrola.
- **Veolia Environnement**: We changed our recommendation from Sectorperform to Outperform on 26 March 2009 when 5Y CDS overreacted to S&P's outlook change to negative and became larger than other BBB names such as National Grid or Edison. This recommendation has started to bear fruit.

Overall YTD CDS performance

As of 3-April-09	Current Recommendation	Live perf. YTD	Closed YTD	Total YTD
Enel	Outperform	147	0	147
E.ON	Sectorperform	NEW	-3	-3
GIE Suez	Sectorperform	0	0	0
Endesa	Underperform	NEW	0	0
Iberdrola	Sectorperform	0	0	0
Veolia Env	Outperform	19	0	19
EdP	Outperform	-9	0	-9
EDF	Sectorperform	0	0	0
Edison	Underperform	-11	0	-11
Vattenfall	Outperform	10	0	10
GDF Suez	Sectorperform	0	0	0
RWE	Underperform	17	0	17
EnBW	Underperform	-7	0	-7
		167	-3	163

Source: Calyon

Summary of our recommendations on Utilities CDS Trades YTD

Closed Strategies	Entry Date	P&L (EUR)	Selling Leg	Amount	Entry Spread	Last Spread	Buying Leg	Amount	Entry Spread	Last Spread	Closing Date
Sell ENEL CDS EUR SR 5Y - Buy iTraxx Main S10 5Y	22/01/09	416,734	ENEL	5M	629	299	iTaxx Europe S10	15M	169	165	18/02/09
Sell ENEL CDS EUR SR 5Y - Buy iTraxx Main S10 5Y	26/02/09	190,692	ENEL	5M	433	330	iTaxx Europe S10	10M	175	177	20/03/09
Closed Strategies YTD2009 P&L		**607,427**									

Open Strategies	Entry Date	P&L (EUR)	Selling Leg	Amount	Entry Spread	Last Spread	Buying Leg	Amount	Entry Spread	Last Spread	Closing Date
Sell VATFAL CDS EUR SR 5Y - Buy ITRX EUR CDSI GENERIC	04/03/09	35,493	VATFAL	10M	106	84	ITRX EUR C	5M	193	165	Open
Sell ELEPOR CDS EUR SR 5Y - Buy ENBW F CDS EUR SR 5Y	05/03/09	-33,911	ELEPOR	5M	142	152	ENBW F	10M	59	56	Open

Source: Bloomberg, Calyon, as at 6 April 2009

Changes to issuer recommendations in this publication

- **E.ON – change from Underperform to <u>Sectorperform</u>**: Although E.ON has outperformed the sector as a whole, its 5Y CDS has been repriced – in our opinion correctly – versus its peers such as EDF or RWE.
- **Endesa – change from Sectorperform to <u>Underperform</u>**: As Enel is to take full control of Endesa, we consider that the two groups should trade in a very close range. We are thus changing our recommendation to play an upcoming convergence between the two companies, with Endesa being a floor for Enel.

Summary of our recommendations on CDS

			Spot	Variation			Expected	Spot vs Index			Perf. Expectation vs Sector Index		
Issuer	S&P/Moody's	Calyon	CDS	1 Week	1 Month	YTD	Trend	Ratio	Fair Value	Spot - FV	Previous	Since	New
E.ON	A / A2	Mid A	82	9	12	-28	➔	51%	102	20	Underperform	12/12/2008	**Sectorperform**
Edison	BBB+ / Baa2	High BBB	125	-6	-20	-50	➔	78%	123	-2	Underperform	01/10/2008	Underperform
EDP	A- / A2 neg	High BBB	158	3	16	23	➔	98%	128	-30	Outperform	09/03/2009	Outperform
EDF	A+ neg/ Aa3	High A	79	2	1	-58	➔	49%	109	30	Sectorperform	24/09/2008	Sectorperform
Endesa	A- CWneg / A3 neg	High BBB	237	19	-58	-321	➔	147%	327	90	Sectorperform	03/04/2008	**Underperform**
Enel	A- CWneg / A2 neg	High BBB	305	-7	-111	-277	➚	189%	378	73	Outperform	14/12/2007	Outperform
GDF Suez	A pos / Aa3	Mid A	59	2	0	-61	➔	37%	83	24	Sectorperform	23/07/2008	Sectorperform
Iberdrola	A- / A3	High BBB	150	11	34	-67	➔	93%	164	14	Sectorperform	05/02/2008	Sectorperform
RWE	A neg / A1 CW neg	Mid A	78	3	-5	0	➔	48%	89	11	Underperform	14/11/2007	Underperform
Vattenfall	A- / A2	Low A	90	6	-8	7	➔	56%	85	-5	Outperform	24/02/2009	Outperform
Veolia	BBB+ neg / A3 neg	High BBB	188	-7	73	32	➔	117%	151	-37	Outperform	26/03/2009	Outperform
ENBW	A- / A2	Low A	58	1	0	-26	➔	36%	71	13	Underperform	03/04/2008	Underperform
Utilities Index			161	7	7	-46							Market perform

Key: ➘ *Outperformance expected;* ➔ *No trend reversal is expected;* ➚ *Underperformance expected*

Source: Bloomberg, Calyon as at 3 April 2009

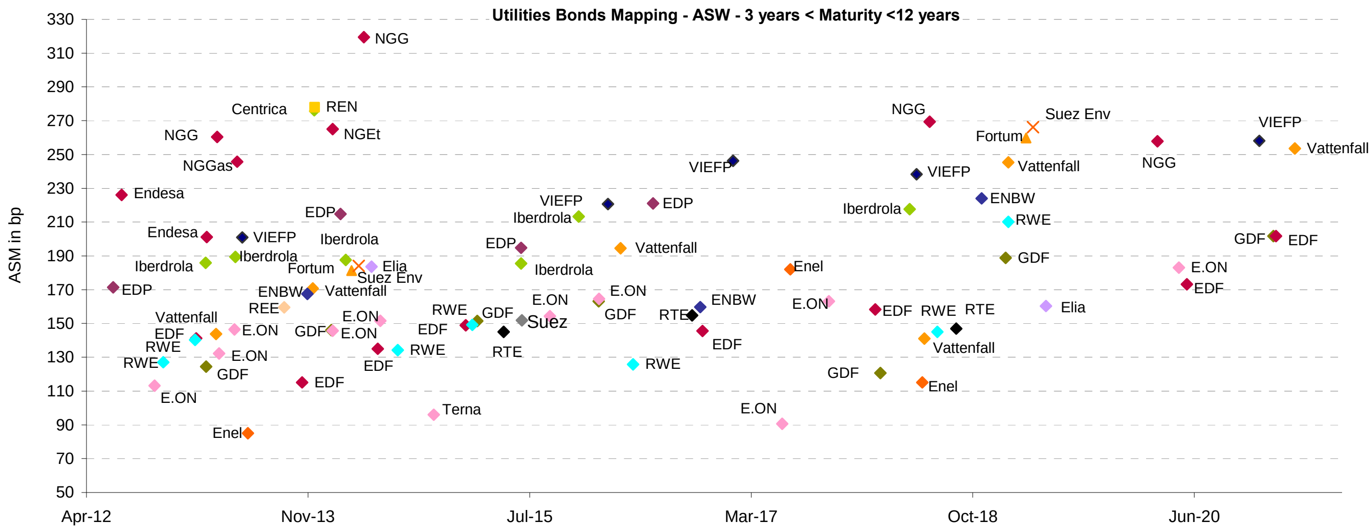
Cash recommendations

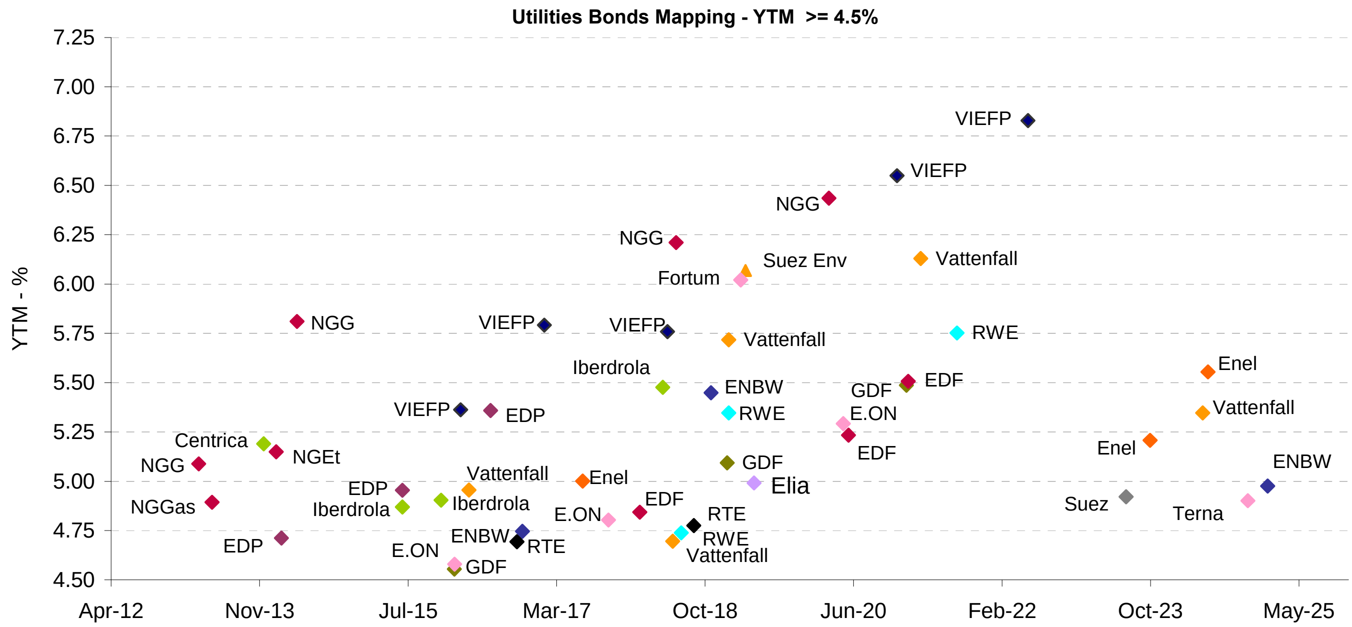
Play the primary card, almost exclusively…

In Q109, European Utilities have further demonstrated that their access to the bond markets remains crisis-proof. Although all the new deals have been heavily oversubscribed and have performed very well post issuance (see page 7), the primary pipeline has logically continued to reprice the Utilities' credit curve, which explains the overall underperformance of the iBoxx Utilities Index. As primary needs remain substantial, this phenomenon should continue in the coming quarters, especially if Utilities accept having to pay higher premiums in order to issue long-dated bonds (15-20Y bracket).

After underweighting the sector for many years, **we continue to recommend overweighting Utilities but almost exclusively through new issues in 2009**. On the secondary market, we consider that very few bonds offer any value, especially in terms of yield to maturity. The exceptions may be some bonds from **EDP** (EDP 2016) or **Veolia Environnement** (VIEFP 2016), which look cheap when compared with other Low-A/Mid-BBB issues.

Utilities: Cash market monitor





Source: Bloomberg, Companies, Calyon. As at 1 April 2009

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Primary activity and outlook

In Q109, Utilities have continued to rush to the bond markets in order to ease their refinancing needs over the next two years. Since GDF Suez reopened the Eurobond primary market in October, European Utilities have issued the equivalent of EUR62bn (of which EUR46bn in EUR and EUR16bn in other currencies). Making up 31% of the new EUR issues since Q408, Utilities therefore remain in pole position on the primary market, and have strengthened their market share on the investment grade corporate Eurobond universe (23% market share in April 2009 vs 19% in October 2008).

Despite these huge primary amounts in a short period of time, investor appetite remains strong for Utilities new issues, which are still oversubscribed many times and are performing strongly post issuance. The only weakness has so far been the sector's inability to print long-dated bonds, as 77% of the new Utilities bonds issued since Q408 had a maturity below 10 years (12 years being the maximum). To access this key part of the curve may lead Utilities to accept paying higher issuance premiums in the coming months.

Who is queuing?

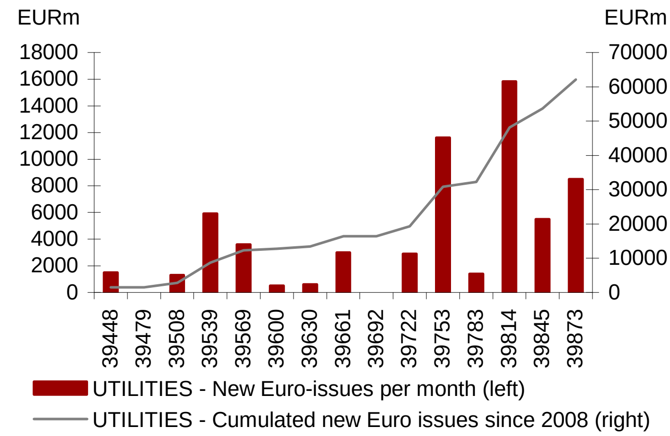
Although primary issuance has reached record levels over the past six months, it is important to keep in mind that the European Utilities still have massive refinancing needs to fulfil by FYE10. While new issues (all currencies) have already reached some EUR35bn YTD, we estimate that the equivalent of EUR55bn will have to be issued over the next 18 months. As shown in the chart below right, the largest issuers over the period will once again be players with significant M&A refinancing to cover.

Enel/Endesa: Once Enel's EUR8bn capital increase is completed (probably in July) and their ratings removed from credit watch, Enel and Endesa (which will remain a standalone issuer) will be in a good position to re-enter the bond market, with estimated needs by FYE10 of EUR8bn and EUR5bn, respectively.

Gas Natural: Despite the EUR3.5bn capital increase and the implementation of its EUR3bn disposal programme, Gas Natural should be one of the most active players from H209, in order to cope with a very tight redemption schedule on its acquisition facilities.

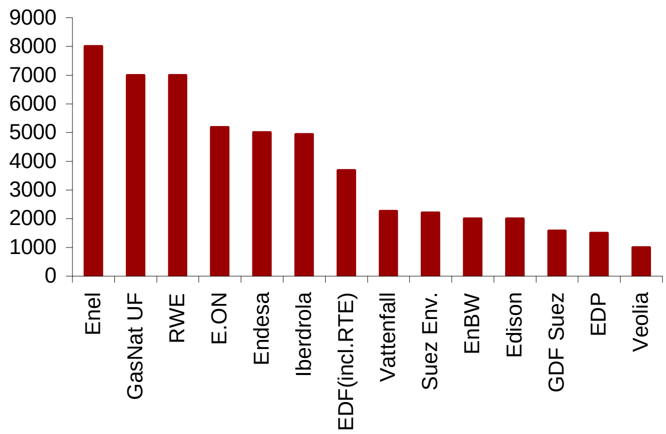
RWE: After many years of inactivity, RWE made its return to the bond market last autumn and will continue to tap the primary market in the coming months in order to refinance its EUR9bn acquisition facility for Essent as well as its ambitious EUR33bn capex plan over 2008-12.

Utilities market activity since January 2008



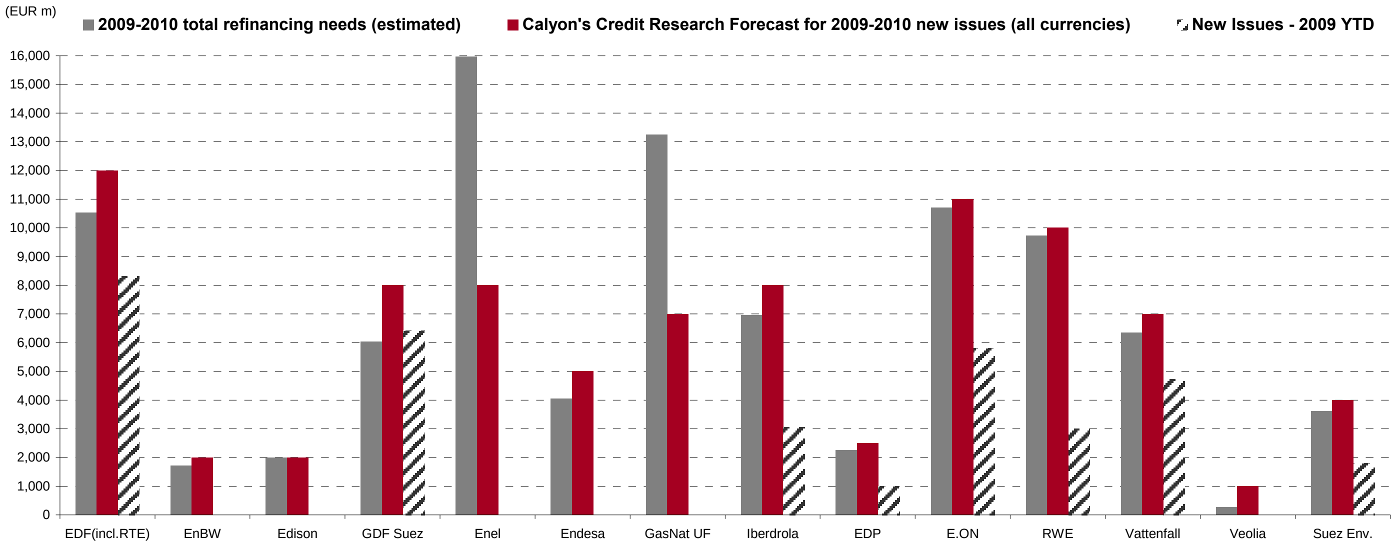
Source: Calyon

Expected new issues to FYE10 (all currencies)

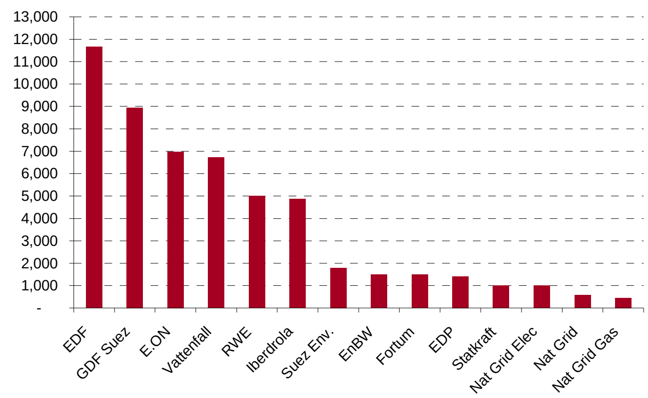


Source: Calyon

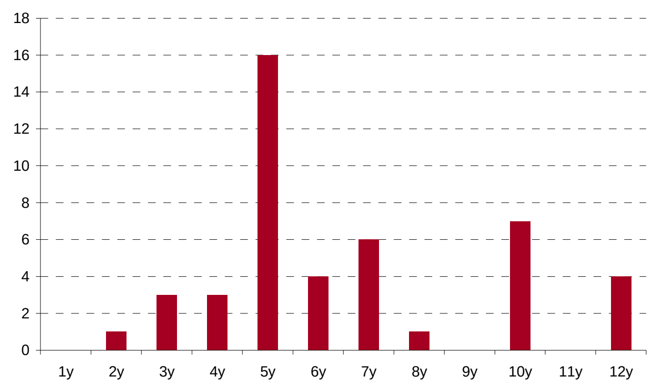
Utilities: Primary market monitor



New issues since Q408 (all currencies)



Number of new issues by maturity since Q408 (Euro only)



Issue Date	Issuer	Size in Euro millions	Maturity date	Bond Yield	Issuance Spread (over MS)	Spread (over MS) as of 3.4.09	Perf. Since Issuance
7-Jan-09	E.ON	1,500	19-Jan-16	5.50%	205	164	-41
7-Jan-09	GDF Suez	1,750	16-Jan-12	4.38%	160	95	-65
7-Jan-09	GDF Suez	1,500	18-Jan-16	5.63%	215	168	-47
8-Jan-09	GDF Suez	1,000	18-Jan-21	6.38%	255	202	-53
12-Jan-09	Iberdrola	450	25-Nov-11	6.38%	180	157	-24
12-Jan-09	Iberdrola	550	25-Nov-15	7.50%	280	216	-64
13-Jan-09	Nat Grid	578	22-Apr-14	6.50%	365	317	-48
16-Jan-09	EDF	2,000	23-Jan-15	5.13%	205	147	-58
16-Jan-09	EDF	2,000	23-Jan-21	6.25%	255	199	-56
20-Jan-09	E.ON	1,750	28-Jan-14	4.88%	195	149	-47
22-Jan-09	ENI	1,500	28-Jan-16	5.00%	185	150	-35
22-Jan-09	GDF Suez	750	23-Feb-15	5.00%	NA	148	NA
27-Jan-09	Thames Water	500	4-Feb-13	6.13%	330	323	-8
3-Feb-09	RWE	2,000	10-Feb-15	5.00%	190	149	-41
3-Feb-09	RWE	1,000	10-Aug-21	6.50%	255	216	-39
10-Feb-09	EDP	1,000	18-Feb-14	5.50%	265	214	-51
20-Feb-09	Iberdrola	1,500	4-Mar-14	4.88%	220	191	-29
5-Mar-09	Vattenfall	500	18-Mar-13	4.13%	170	145	-25
5-Mar-09	Vattenfall	1,100	17-Mar-16	5.25%	235	194	-41
5-Mar-09	Vattenfall	1,100	17-Mar-21	6.25%	280	251	-29
16-Mar-09	Fortum	750	20-Mar-14	4.63%	195	181	-14
16-Mar-09	Fortum	750	20-Mar-19	6.00%	265	258	-7
17-Mar-09	E.ON	750	26-Mar-13	4.13%	155	130	-25
19-Mar-09	Nederlandse Gasunie	750	31-Mar-17	5.13%	200	131	-69
26-Mar-09	Statkraft	500	2-Apr-15	5.50%	250	247	-3
26-Mar-09	Statkraft	500	2-Apr-19	6.63%	320	316	-4
31-Mar-09	Suez Env.	1,000	8-Apr-14	4.88%	225	186	-39
31-Mar-09	Suez Env.	800	8-Apr-19	6.25%	300	276	-24
TOTAL UTILITIES 2009 YTD (Euro only)		**29,828**					
Since Mid October 2008 (Euro only)		***45,728***					

Source: Bloomberg, Companies, Calyon. As at 3 April 2009.

Credit trend

Q109: a gloomier tone

Along with the presentation of the 2008 annual results, Utilities Q109 headlines focused on operating momentum as well as financial guidance against the backdrop of the current economic crisis. More surprisingly, M&A was still on the agenda with two latecomers on the acquisition front, RWE and Vattenfall, which bought Essent and Nuon, respectively.

Operating momentum

We consider that management presentations of the 2008 results have highlighted the following trends:

- **2008 results have shown Utilities' growing exposure to commodity prices through their wholesale and E&P activities.** Annual results were globally in line with market expectations, with the notable exception of EDF (larger-than-expected additional provision on its French regulated supply activities) and Iberdrola (the EUR7bn EBITDA target was missed due to uncontrollable items such as a negative FX impact and negative MtM adjustments on commodities). In 2008, booming commodity prices on gas upstream operations and higher generation margins on wholesale power sales have mitigated political pressure on end-user tariffs (EUR4.7bn tariff deficit in electricity supply in Spain; EUR679m tariff deficit in gas supply in France), increasing scrutiny on potential windfall profits (cuts in network fees in Germany, introduction of a 'Robin Hood' tax in Italy, introduction of a windfall tax in Finland…) as well as a reinforced CO_2 constraint over the 2008-12 period.
- **Despite hedging policies, much weaker operating momentum in 2009.** While many players recorded low-single-digit organic growth in EBITDA (excluding perimeter changes) in FY08, management teams confirmed the cautious tone adopted since Q308. The operating environment did continue to deteriorate: a massive drop in electricity demand all over Europe (eg, 8% drop YTD in Spain, 6% in Italy, 3-4% in the UK), no tangible recovery in commodity (oil price still around USD50/bl) or power (1Y forward still below EUR50/MWh on EEX) prices, first signs of rising bad debt, as well as ongoing decline in waste volumes (industrial waste volumes down 10% YTD). Most of the guidance given, however, still targets a stabilisation of earnings in FY09. Forward selling policies (2009 output: almost 100% hedged; 2010 output: roughly 50% hedged) have indeed already secured higher generation margins YoY, which should compensate for sharp falls in earnings from the E&P operations, especially for players such as GDF Suez, Edison, E.ON or RWE. In that context, the resilience and the efficiency of the hedging policies will be the key element to monitor in the upcoming quarterly results publications.
- **Free cash flow generation and financial discipline remain top of the agenda.** While visibility beyond 2009 remains very limited, especially as earnings growth will gradually stop benefiting from hedging policies, management teams are now strongly committed to financial caution and to free cash flow generation. This gloomier outlook has led to further announcements of conservative measures in order to protect financial structures and liquidity positions: (1) many capex plans have been revised downwards (notably E.ON, Vattenfall, Enel, Endesa, Veolia Environnement or Suez Environnement); (2) asset-disposal programmes have been announced (notably EDF, E.ON, Enel, Vattenfall and Veolia Environnement) but have still to demonstrate their viability in such a depressed market; and, (3) shareholders' policies have been softened (notably E.ON, Enel and Veolia Environnement) in order to reflect the operating performance.

2008 results presentations confirmed that the Utilities sector cannot be considered totally immune to the economic crisis, now acting as a late-cyclical industry. After having sharply releveraged over the past three years, most players have made a shift to credit-friendly strategies since Q408, which should protect credit metrics over FY09 and therefore substantially reduce the risk of rating actions.

FY08 results and 2009 guidance

	Released		Δ released vs consensus		YoY growth		Guidance	YTD Equity Perf.
EURm	Sales	EBITDA	Sales	EBITDA	Sales	EBITDA		DJ Utilities: -20.2%
EDF	64,279	14,240	3.1%	**-5.9%**	7.8%	**-6.4%**	**EBITDA: organic growth of around 3% in 2009**	**-30.4%**
Edison	11,066	1,643	10.6%	**3.3%**	33.7%	**2.4%**	**2009 EBITDA target: EUR1.5bn (-8.7% YoY)**	**-9.9%**
EDP	13,894	3,155	12.0%	**2.7%**	26.2%	**20.0%**	**2009 EBITDA: roughly stable YoY**	**-4.5%**
EnBW	16,305	2,540	9.2%	**1.6%**	10.8%	**8.7%**	**2009 EBIT: stable YoY**	-4.6%
Endesa	21,728	6,895	4.6%	**-3.2%**	24.0%	**8.0%**	**2010 EBITDA target: EUR7.1bn**	**-40.3%**
Enel	61,184	14,318	5.1%	**0.6%**	40.0%	**45.5%**	**2010 EBITDA target: EUR16bn**	**-21.8%**
E.ON	86,753	13,385	8.8%	**1.7%**	26.2%	**7.5%**	**2009 Adj. EBIT: stable YoY**	**-28.0%**
GDF Suez	83,053	13,886	1.7%	**-0.7%**	16.6%	**10.7%**	**EBITDA 2009 > EBITDA 2008**	**-29.0%**
Iberdrola	25,196	6,413	10.8%	**-6.3%**	44.2%	**15.8%**	**2009 EBITDA: significant growth (perimeter)**	**-20.5%**
RWE	48,950	8,314	5.8%	**-1.2%**	15.2%	**5.0%**	**2009 EBITDA: roughly stable YoY**	**-18.0%**
Suez Environnement	12,364	2,102	-0.2%	**0.0%**	5.4%	**4.0%**	**EBITDA: low-single digit growth in 2009**	**-5.1%**
Vattenfall (SEKm)	164,549	45,960	-	**-**	14.6%	**0.3%**	**na**	**-**
Veolia Environnement	36,205	4,137	-0.2%	**-0.9%**	13.4%	**-0.6%**	**2009 EBITDA: roughly stable at EUR4bn**	**-30.1%**

Source: Bloomberg, Companies, Calyon. As at 31 March 2009

Newsflow

Utilities headlines focused on the completion of long-awaited M&A deals. Since the publication of our *Utilities 2009 Outlook*, 12 December 2008, many transactions have been finalised:

- **EDF reached an agreement with Constellation.** According to an agreement reached in late December, EDF will acquire a 49.99% interest in Constellation Energy's nuclear generation (total installed capacity of 3,869MW located in three sites in Maryland and New York, US) and operation business for USD4.5bn, of which USD1bn has already been paid as a treasury advance. In addition, EDF provided Constellation Energy with a liquidity back-up through a two-year put option on up to USD2bn of non-nuclear generation assets. While this US transaction is expected to be closed in Q409, EDF successfully completed the acquisition of British Energy for EUR13.5bn in early 2009. These two M&A transactions logically led to EDF being downgraded, with Standard & Poor's assigning the lowest rating at A+ with a negative outlook.
- **The Dutch companies, Essent and Nuon, have finally found foreign partners – RWE and Vattenfall, respectively.** In early January, RWE announced a binding all-cash offer on the leading Dutch electric utility (production and supply activities only), Essent NV, for an enterprise value of EUR9.3bn (of which EUR1.2bn in debt). Part of an exclusive and friendly agreement supported by Essent's municipal shareholders (which own 100% of the group), the transaction will be closed in Q309. Although fully consistent with RWE's 2008-12 strategic plan, this acquisition led S&P to change the outlook from stable to negative on it's a rating, which is already the lowest rating assigned to the German group.

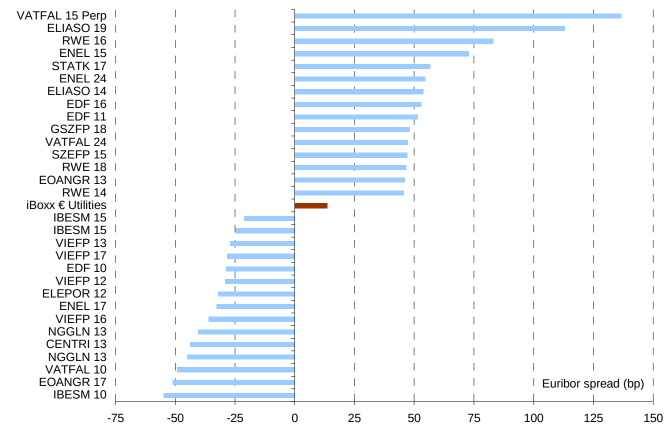
  One month later, Vattenfall announced a friendly all-cash offer for Nuon (production and supply activities only), the second-largest Dutch electric Utility, for an enterprise value of EUR8.5bn (equity value after 2008 dividend of EUR10.3bn). Takeover will take place in two steps, 49% by the end of June 2009 and 51% in the coming six years, but Vattenfall will have operational control of Nuon immediately. As this acquisition is fully consistent with Vattenfall's strategy and taking into account the good M&A track record of the group, S&P and Moody's confirmed their ratings (A-/A2) with a stable outlook following the announcement.
- **Enel moved closer to a happy ending on Endesa…** While concerns on its 2010 liquidity position (redemption of an EUR11bn tranche on the Endesa initial acquisition loan + Acciona's put option for its 25% Endesa stake for EUR11bn + potential Endesa minority buyout for an extra EUR3bn) were

growing, Enel took decisive steps in late February. Firstly, the group agreed to take full control of Endesa by buying Acciona's stake for EUR11.1bn, financed through an early 2008 dividend from Endesa for EUR4.2bn and a new EUR8bn banking facility (of which EUR5.5bn will mature in 2014 and EUR2.5bn in 2016). In addition, the Spanish regulator stated that a minority buyout would not be compulsory. Secondly, Enel announced a shift to a credit-friendly strategy, proposing some key measures: (1) a capital increase of EUR8bn to be completed in July 2009; (2) an asset disposal programme of EUR10bn by 2010; (3) investment plan cut by EUR12bn to EUR32.6bn by 2013; and (4) new dividend policy from FY09 related to performance (60% payout of consolidated net ordinary income). Altogether, Enel is aiming to cut its net debt from EUR63bn currently (our estimated proforma) to EUR45bn in 2010 and then EUR41bn in 2013. Although rating agencies have maintained Enel under review for potential downgrade due to potential execution risks (worst-case scenario would be a downgrade to BBB+ at S&P), these measures are positive and have significantly improved the visibility on Enel's strategy and financial situation.

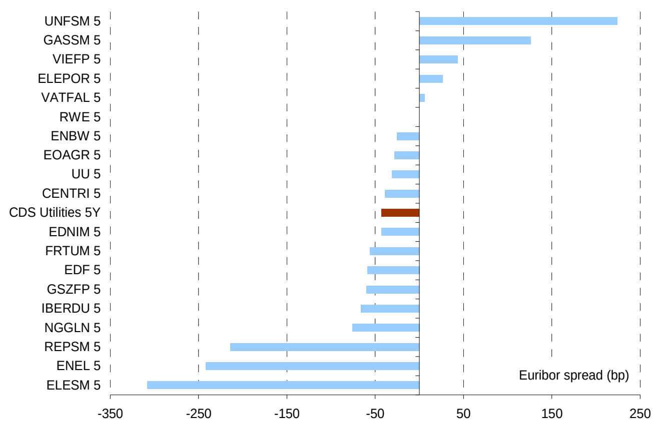
While Gas Natural's friendly takeover of Union Fenosa is well on track (EUR3.5bn capital increase completed on 31 March; tender offer closing on 14 April; EUR3bn asset-disposal programme commenced, with Union Fenosa selling its 5% stake in Cepsa for EUR442m), M&A activity should sharply decrease going forward. After spending more than EUR220bn in M&A over the past two years, the top priority of many groups is now to regain some financial flexibility. In that respect, newsflow should focus on the feasibility of the announced asset-disposal programme over the coming quarters.

Winners/Losers: Liquidity still in the driving seat

Utilities Cash: YTD Top 15 winners/losers



Utilities 5Y CDS: YTD winners/losers



Sources: Calyon. As at 31 March 2009

When looking at CDS performance, M&A developments and their refinancing consequences remain the main spread drivers leading to increasing discrimination among players. Although Utilities have proven their capacity to access the bond primary market since Q408 (with more than EUR48bn raised through new issues), technical factors such as bank loan hedging mechanisms are still playing a key role in a CDS market that has been globally quite illiquid since last summer (limited flows; large bid-ask).

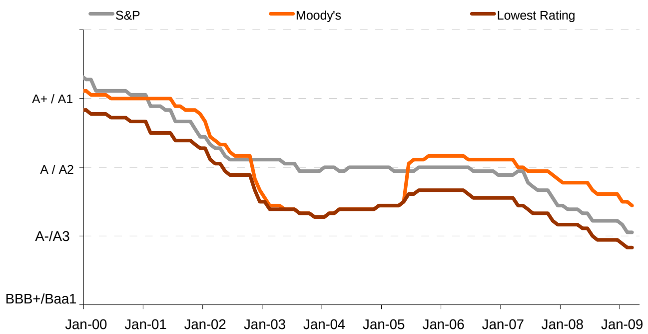
Against such a backdrop, the big winners have been Enel and Endesa. Their CDS have logically benefited from recent announcements (agreement with Acciona, EUR8bn capital increase, shift to a credit-friendly strategy), which have significantly eased their refinancing needs. In contrast, Gas Natural and Union Fenosa have been penalised by their rising leverage and refinancing needs as Gas Natural is increasingly drawing on its credit lines to complete the acquisition. In addition, it is worth noticing the outperformance of Repsol, which has benefited from no further negative newsflow from Argentina YTD, as well as the underperformance of Veolia Environnement following the change of the outlook on its BBB+/A3 ratings from stable to negative in late March due to pressure on industrial waste earnings.

When looking at cash performance, the overall trend shows a strong performance of all the new issues (printed since Q408). On the secondary market, the repricing of ‘old’ (ie, issued before last summer) and squeezed bonds has mainly taken place on names that have issued massively in recent months (such as EDF, RWE, GDF Suez or Vattenfall) or which need to do so over the short term (such as Enel or even Elia).

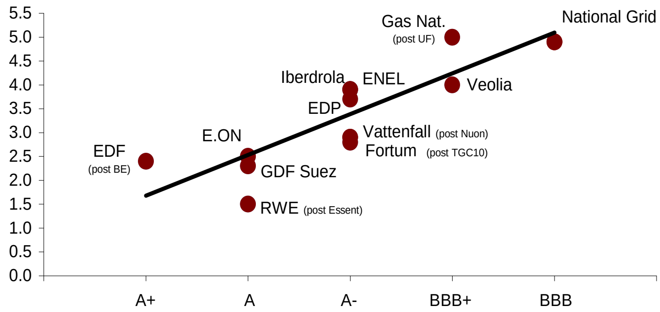
Outlook and credit trend

In line with our 2009 Utilities scenario, the Utilities sector remains forced to exercise caution in front of a durably deteriorated operating environment and to smoothly digest its M&A excesses. Thus, we continue to expect European Utilities to enter stabilisation mode in order to allow a soft landing of the negative credit trend, with the average sector rating stabilising slightly below low-A by FYE09. With the exception of the long-awaited rating actions on EDF and Gas Natural, the sector has resisted well the waves of downgrades that have been observed on many corporate sectors since the beginning of the year.

Utilities rating trend



Net debt/EBITDA 2009e versus ratings



Source: Calyon, Cheuvreux. As at 31 March 2009

At company level, it is worth noticing that Veolia Environnement has so far been the only player to be sanctioned (outlook changed to negative) due to the current economic slowdown (stronger-than-expected slowdown in industrial waste). However, we consider that the timing of this action was inappropriate, especially on the BBB+ rating, as the group has just announced credit-friendly measures for FY09-10. In addition, this change in outlook is strengthening the inconsistency among the sector’s ratings, especially at S&P, as Iberdrola and EDP are still benefiting from a stable outlook on their A- rating despite the sharp slowdown seen in Iberia and credit metrics that do not meet the minimum requirements at this rating level. We maintain our High-BBB ratings for Iberdrola and EDP.

Player positioning versus the crisis

	Score*	Leverage	Liquidity	Goodwill	Emerging markets	Commodity drop & Recession
GDF Suez	+1	☺	☺ ☺	☹	😐	☹
Vattenfall	+1	😐	😐	😐	☺ ☺	☹
EDF	0	☹	😐	☹	☺ ☺	😐
RWE	0	😐	😐	😐	☺ ☺	☹ ☹
Suez Environnement	-2	☹	☹	☺	😐	☹ (waste)
EDP	-3	☹ ☹	😐	☹	☹	☺
E.ON	-4	😐	😐	☹ ☹	☹	☹
Fortum	-4	😐	😐	😐	☹ ☹	☹ ☹
Veolia Environnement	-5	☹ ☹	☺	☹ ☹	☹	☹ (waste)
Iberdrola	-6	☹ ☹	☹	☹	☹	☹
Enel	-8	☹ ☹	☹	☹ ☹	☹ ☹	☹
Gas Natural	-9	☹ ☹	☹ ☹	☹ ☹	☹ ☹	☹

** Score: Lowest exposure: +10; Highest exposure: -10*

Source: Calyon. As at 31 March 2009

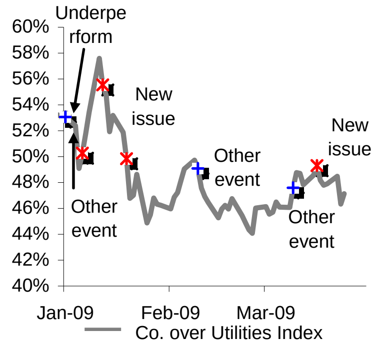
Altogether, in fundamental terms, we continue to favour players that offer above-average visibility on their strategic positioning and their medium-term rating trend, but that have also proven their ability to manage smoothly their refinancing needs (new issues, new loans). In this respect, following Q109 developments, **GDF Suez**, **Vattenfall**, **EDF**, **E.ON,** the **Continental European networks** and to a lesser extent **EDP** appear well positioned.

Issuer snapshot

Energy players

E.ON (A/A2/A)

E.ON's CDS YTD performance



Source: Calyon

One month after announcing some unexpected impairment charges of EUR3.3bn, E.ON released a decent set of 2008 annual results that were slightly above market expectations. The group however warned of the ongoing crisis and revised its investment and earnings prospects over the 2009-2011 period down. In addition, E.ON seems committed to take all the conservative measures needed to stabilise its credit profile in line with its A/A2 rating target. On that basis, the company took the commitment to cash EUR10bn through asset disposals by FYE10. Altogether, although E.ON's 5Y CDS is still trading close to its historical lows, we are changing our recommendation from Underperform to Sectorperform as E.ON has been correctly repriced relatively to its peers such EDF or RWE.

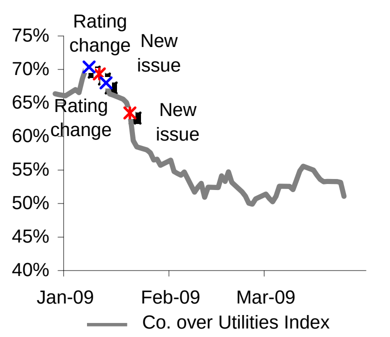
One year rating target: Mid-A (maintained)

Relative value: Sectorperform (previously Underperform, since 12/12/08)

See *Credit Alert – E.ON: Limited financial leeway left,* 11 March 2009; *Credit Alert – E.ON: First on the impairment front,* 10 February 2009

EDF (A+ neg/Aa3/A+)

EDF's CDS YTD performance



Source: Calyon

EDF released 2008 annual results that fell short of market expectations due to a larger than expected additional provision on its French regulated supply activities (TaRTAM). Excluding this non-recurring item, EBITDA would have been up by 1.5% to EUR15.4bn, which remains a fairly disappointing performance but is in line with the company organic growth guidance (+3.7% vs. +3% targeted). By country, while France's organic performance (+2.2% excluding TaRTAM) has been negatively impacted by new recurrent maintenance and pension costs, international activities performed well (+6.5% organic), especially EnBW and EDF trading. In line with the EUR35bn Investment Plan over 2008-10, capex was up 30% YoY and the acquisitions of British Energy (EUR2.7bn out of EUR13.5bn) and Constellation (USD1bn out of USD4.5bn) have started to impact the financial structure, leading to a sharp increase in net debt to EUR25bn and rating downgrades. For 2009, EDF maintains a cautious stance, targeting moderate organic growth in EBITDA (c. +3%) and giving priority to financial recovery with a EUR5bn asset disposal program over 2009-10. Altogether, we keep our rating target unchanged in addition to our Sectorperform recommendation on EDF's 5Y CDS that looks fairly priced well in line with peers such as E.ON.

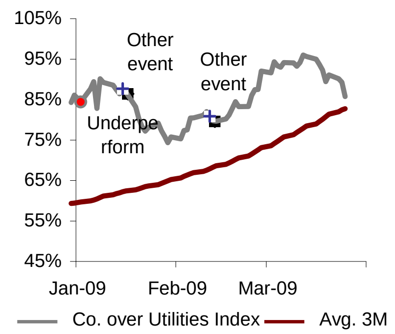
One year rating target: High-A (maintained)

Relative value: Sectorperform (maintained since 24/09/08)

See *Credit Alert – EDF: Digestion time,* 13 February 2009

Edison (BBB+/Baa2/BBB+)

Edison's CDS YTD performance



Source: Calyon

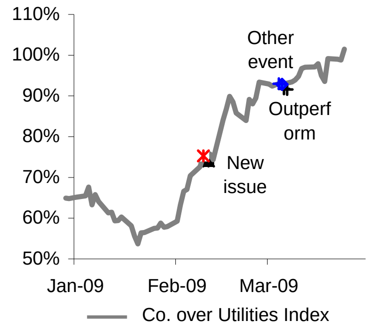
Edison released 2008 annual results that have shown a sound operating performance (EBITDA up 5.5% on a comparable basis) but have been hampered (group net profit down 30%) by the increase in the Italian tax rate ("Robin Hood Tax"). Going forward, management has stressed that its 2009 performance will be negatively impacted by the sharp on-going deterioration of the operating environment. In that context, Edison expects its 2009 EBITDA to drop by some 8.7% YoY to EUR1.5bn, but this guidance would still mean that Edison would likely succeed in achieving stable operating results on a comparable basis, which might be tough with a rebound in energy demand and prices. In relative value terms we keep our Underperform recommendation unchanged, waiting for Edison to be back on the bond market for the refinancing of its Abu Qir USD1.4bn acquisition (closed in January 2009).

One year rating target: High-BBB (maintained)

Relative value: Underperform (maintained since 01/10/08)

See *Credit Alert – Edison: Challenging times ahead*, 12 February 2009

EDP's CDS YTD performance



Source: Calyon

EDP (A-/A2 neg/A-)

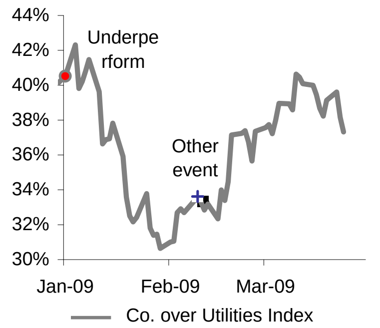
EDP released 2008 annual results that were slightly above market expectations and confirmed the key axes of its 2009-2012 Strategic Plan. EDP's priority therefore continues to be its focus on organic but capex-driven growth, with 80% of its budgeted investments (EUR3bn per annum) being dedicated to expansion capex. As such, while rating agencies have maintained EDP in the Single A category based on a progressive improvement in credit metrics, we keep a cautious eye on EDP and maintain our High-BBB rating target. In relative value terms, although EDP intends again to be back on the bond markets around the summertime, in order to pre-finance its future funding needs, we consider that the recent widening seen in EDP's CDS is excessive, especially when compared to its peers and taking into account the strengthening of its liquidity position since the beginning of the year (monetization of its 2007 and 2008 Portuguese tariff deficits for EUR1.2bn; issuance of EUR1.5bn bond; new EUR1.5bn 3Y revolving credit facility replacing the one maturing in June).

One year rating target: High-BBB (maintained)

Relative value: Outperform (maintained since 09/03/09)

See *Credit Alert – EDP: To be back again on the bond market*, 9 March 2009

EnBW's CDS YTD performance



Source: Calyon

EnBW (A-/A2/NR)

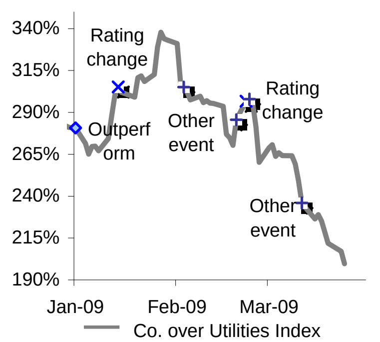
EnBW's 2008 annual results showed a sound operating performance (adjusted EBIT up 15%, above the given guidance) driven by improved generation margins on the electricity segment. Earnings (group net profit down 36%) have however been laden by surging impairment losses on financial assets in the wake of the financial crisis. In front of a troubled economic outlook and an uncertain political framework in Germany, EnBW is targeting stable operating earnings (YoY) in 2009, but confirmed the investment pace set last year with EUR7.7bn budgeted over 2009-2011 (o/w EUR2.2bn for acquisitions including EUR2bn to be spent for a 26% stake in EWE). This strategy should lead to an increase in net debt by no more than EUR2bn, which will consume most of EnBW's financial leeway but without jeopardising its 'Single A' ratings. Altogether, despite EnBW's defensive profile, we keep our Underperform recommendation unchanged. Its 5Y CDS indeed appears too tight compared with other A-rated Utilities, and the gap with EDF (which owns 45% of EnBW) looks excessive.

One year rating target: Low-A (maintained)

Relative value: Underperform (maintained since 03/04/08)

See *Credit Alert – EnBW: Will try to keep the pace*, 12 February 2009

Enel's CDS YTD performance



Source: Calyon

Enel (A- CW neg/A2 neg/A- CW neg)

Thanks to the full year consolidation of Endesa (at 67.05%) and to higher generation margins in Italy, Enel released 2008 annual results in line with its guidance (EBITDA>EUR14bn at EUR14.3bn; Net debt slightly below EUR50bn) and market expectations. More importantly, Enel took decisive steps in Q109 to improve its strategic positioning and liquidity position. After agreeing to take full control of Endesa, by buying Acciona's 25% stake for EUR11.1bn, Enel unveiled a new 2009-2013 Strategic Plan that gives priority to organic growth and financial recovery (net debt to be down from EUR63bn today to EUR45bn in 2010 and EUR41bn in 2013). In that regard, Enel announced a EUR8bn capital increase, scaled down its 2009-13 capex plan (down EUR12bn to EUR33bn), defined a EUR10bn asset disposal program by 2010 and lowered its dividend policy. Although rating agencies are now likely to maintain Enel in the Single A category, our one-year rating target of High-BBB is unchanged for the time being due to the execution risks related to this 2009-13 Strategic Plan. Our 5Y CDS recommendation is however maintained at Outperform as tightening should continue in line with the implementation of this credit-friendly strategy.

One year rating target: High-BBB (maintained)

Relative value: Outperform (maintained since 14/12/07)

See *Credit Alert – Enel: In a credit friendly mood*, 12 March 2009; *Credit Alert – Enel and Acciona struck a deal, at last,* on 23 February 2009

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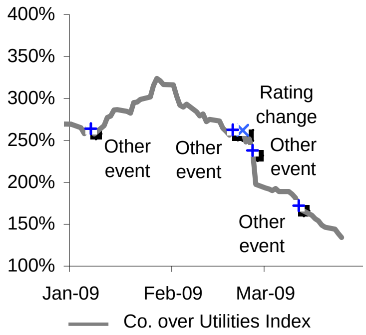
Endesa's CDS YTD performance



Source: Calyon

Endesa (A- CW neg/A3 neg/A- CW neg)

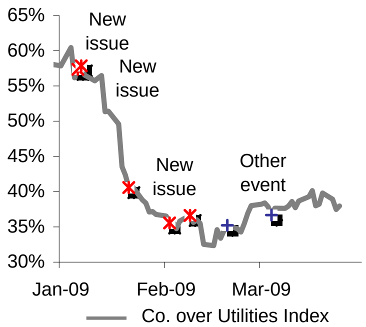
Despite a challenging environment and regulatory hurdles in Spain, Endesa posted a sound operating performance in 2008 (EBITDA up 8.3% to EUR6.9bn). For 2009, despite the ongoing economic slowdown, Endesa targets steady results thanks to its efficient hedging policy and diverse mix. As Enel has recently agreed to take full control of Endesa (stake raised to 92%), perimeter and financial structure will however go through deep reaching changes in 2009: 2,104MW of installed capacity will be sold to Acciona for EUR2,890m and exceptional dividends on the asset disposals to E.ON will finally be paid (boosting dividends against 2008 earnings to some EUR6.2bn), which will lead to continued moderate leverage at Endesa level ('Net debt / EBITDA' of roughly 2.6x). Going forward, Endesa will follow Enel's 2009-13 Strategic Plan that gives priority to organic growth and portfolio optimisation. On that basis, Endesa's rating should remain on par with Enel's one (Calyon's rating: High-BBB for both companies due to ongoing execution risks). In relative value terms, we therefore decide to play the convergence between Enel (on which we have an Outperform 5Y CDS recommendation) and Endesa, on which we are changing our 5Y CDS recommendation from Sectorperform to Underperform.

One year rating target: High-BBB (maintained)

Relative value: Underperform (previously Sectorperform, since 03/04/08)

See *Credit Alert – Enel: In a credit friendly mood*, 12 March 2009; *Credit Alert – Enel and Acciona struck a deal, at last,* on 23 February 2009

GDF Suez's CDS YTD performance



Source: Calyon

GDF Suez (A pos/Aa3/AA CW neg)

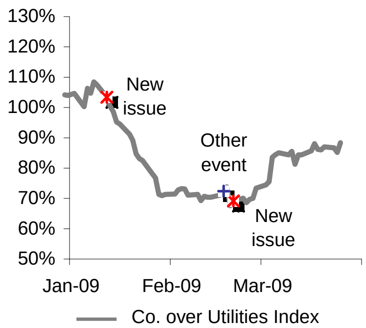
Benefiting from record results from its upstream operations GDF Suez released strong 2008 annual results, well in line with its guidance and market expectations. Despite confirming its 2008-10 EUR30bn capex plan, the group delivered a very cautious message on 2009 (EBITDA 2009 > EBITDA 2008) and pushed back its 2010 EBITDA target by a year due to prospects of a slow recovery in energy prices. Altogether, although reducing financial flexibility in the coming years should limit potential for an upgrade at S&P, GDF Suez will remain a solid player, offering above-average resilience thanks to the strong diversification of its activities. In that regard, although its 5Y CDS is much tighter than its peers such as EDF, E.ON or RWE we maintain a Sectorperform recommendation, especially in view of its extremely comfortable liquidity position.

One year rating target: Mid-A (maintained)

Relative value: Sectorperform (maintained since 23/07/08)

See *Credit Alert – GDF Suez: Lower growth ahead*, 6 March 2009

Iberdrola's CDS YTD performance



Source: Calyon

Iberdrola (A-/A3/A neg)

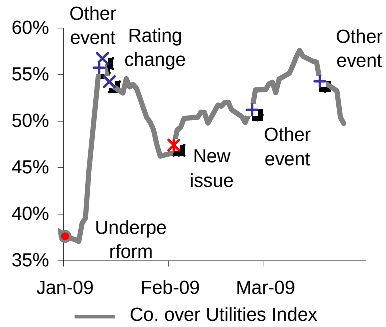
Iberdrola posted disappointing FY08 results (EBITDA of EUR6.4bn), that missed the EUR7bn EBITDA guidance and fell short of market expectations, but announced a 20% increase in its 2008 dividends. In 2009, the group will face a challenging environment, especially in Spain where it will have to manage a sharp drop in electricity demand and prices as well as the recovery of its EUR2.4bn pending tariff deficit. Thanks to its diversified business mix and geographical footprint, Iberdrola is however targeting significant EBITDA growth (helped by the full-year consolidation of Energy East) in 2009. In addition, the group stuck to its medium-term guidance (net profit of EUR3.5bn in 2010) despite confirming a 20% cut in its 2009-10 Capex Plan. Altogether, in view of the integration risks related to Iberdrola's recent acquisitions as well as the aggressiveness of its financial policy, we maintain our conservative approach positioning the group at High-BBB over the next few years. In regard relative value, however, we keep our Sectorperform 5Y CDS recommendation unchanged as current valuation levels appear quite fair.

One year rating target: High-BBB (maintained)

Relative value: Sectorperform (maintained since 05/02/08)

See *Credit Alert – Iberdrola: Weakening*, 23 February 2009

RWE's CDS YTD performance



Source: Calyon

RWE (A neg/A1 CW neg/A+ neg)

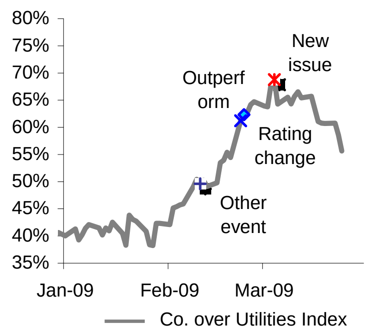
Excluding the negative impact of impairment charges on American Water for EUR631m, RWE released strong 2008 operating results (EBITDA up 15.2% to EUR8.3bn) that were mainly driven by higher generation volumes and margins in Germany. For 2009 RWE has already locked in, through forward selling contracts, higher generation margins that should compensate for lower earnings from its upstream and UK operations. Management is therefore confident in achieving operating results in the order of last year's level, but the efficiency of the hedging policy and the evolution of energy prices will have to be closely monitored over the medium-term. In the meantime, the acquisition of Essent for EUR9.3bn in 2009 will consume most of RWE's financial flexibility at its targeted A/A2 rating level. In addition, RWE remains committed to its EUR33bn Capex Plan over 2008-2012 as well as its regular payout ratio of 50-60%, which may put pressure on the current ratings if mitigating measures are not taken. On that perspective, even if our one-year rating target remains unchanged for the time being, we keep our Underperform recommendation on RWE's 5Y CDS due to potential execution risks as well as refinancing pressure.

One year rating target: Mid-A (maintained)

Relative value: Underperform (maintained since 14/11/07)

See *Credit Alert – RWE: Acquires Essent for EUR 9.3bn*, 13 January 2009

Vattenfall's CDS YTD performance



Source: Calyon

Vattenfall (A-/A2/A+ CW neg)

Although being penalised by ongoing nuclear outages in Germany, Vattenfall succeeded in reporting a stable operating performance in 2008. Its well-diversified industrial mix as well as its hedging strategy should allow the group to further prove the resilience capacity of its operations this year. In the meantime, Vattenfall will maintain its highly selective investment approach and the necessary caution to accommodate its growth strategy with a credit profile at least compatible with a Low-A rating. On that basis, following its acquisition of Nuon for EUR10.5bn, Vattenfall announced a cut in its 2009-2013 Capex Plan (by SEK11bn to SEK191bn) as well as an asset disposal programme of at least EUR1.5bn over the short term. In line with rating agencies, our one-year rating target remains therefore unchanged. In relative value terms, we changed our 5Y CDS recommendation from Sectorperform to Outperform to benefit from what we considered as an excessive widening following the Nuon announcement.

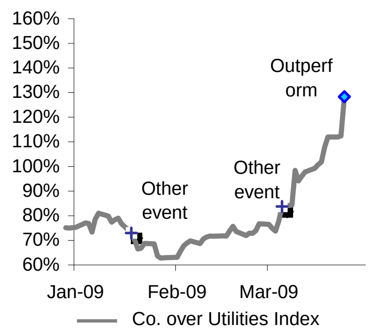
One year rating target: Low-A (maintained)

Relative value: Outperform (maintained since 24/02/09)

See *Credit Alert – Vattenfall: EUR 10.5bn bid for Nuon*, 24 February 2009; *Credit Alert – Vattenfall: Cold Blooded*, 13 February 2009.

Environmental players

Veolia's CDS YTD performance



Source: Calyon

Veolia Environnement (BBB+ neg/A3 neg/A-)

After two profit warnings last year, VE released disappointing FY08 results that were further hurt by write-downs on the recently acquired German waste company Sulo for EUR430m. Despite a sharp slowdown in waste operations (industrial volumes down 10%), VE targets a limited drop in earnings in 2009 (EBITDA down 4% to roughly EUR4bn), but switched to crisis mode with the top priority being to be free cashflow positive this year. The group therefore took credit-friendly measures such as capex cuts, assets disposals and dividend stability. We still expect VE to stabilise its financial structure in line with a High-BBB rating in FY09, as management could cut investments further in case of lower-than-expected EBITDA or a delay in assets disposals. Following S&P's outlook change VE's 5Y CDS has massively widened, becoming in our opinion attractive compared to peers even in case of a downgrade to BBB.

One year rating target: High-BBB (maintained)

Relative value: Outperform (maintained since 26/03/09)

See *Credit Alert –Veolia Environnement: S&P on the hard line, 26 March 2009*; *Credit Alert – Veolia Environnement: Crisis mode*, 6 March 2009

Suez Environnement (NR/A3/NR)

After having been spun-off from GDF Suez (now holding a 35.4% stake) in July 2008, Suez Environnement (SE) released 2008 annual results that were in line with its lower-end guidance (EBITDA between EUR2.1-2.5bn) but below market expectations. To adapt to an increasingly challenging environment for waste operations (industrial volumes down 10%), SE had to scale back its 2009 guidance (now only targeting a low-single digit growth in revenues and EBITDA) and investment plan (25% down in 2009 vs. 2008). On that basis SE should be able to keep its 'net debt / EBITDA' ratio below 3x, well in line with its guidance and current rating. Although SE has recently succeeded to issue its first benchmarks (EUR1.8bn in total) on the bond market, there is no CDS on SE quoted at this stage.

One year rating target: Low-A (maintained)

Relative value: Overweight (cash only)

See *Credit Alert – Suez Environnement: Ready to enter the bond market,* 4 March 2009

Networks

Elia (A-/NR/NR)

Elia's Low-A rating reflects our view of a sound and solid regulated player through the crisis. After posting sound 2008 results, Elia announced a cut in its 2009 capex in order to adapt to lower volumes on the Belgian electricity market. After many years of inactivity, Elia issued EUR1bn (2013 & 2016) early April in order to refinance its 2009 redemptions.

One year rating target: Low-A (maintained)

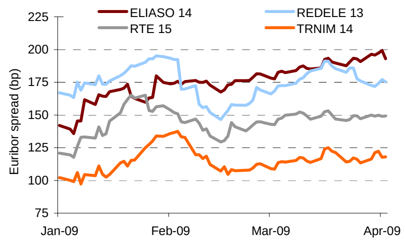
Red Electrica de Espana (AA-/A2/A+)

REE unveiled sound 2008 annual results and maintained its 2009-2013 Investments Plan. Although the Spanish electricity market should remain depressed in 2009, REE remains a defensive regulated player not exposed to volumes risk. We would then be ready to overweight REE if the acquisition of the remaining Spanish transmission assets takes place and leads to new issues.

One year rating target: Mid-A (maintained)

See *Credit Alert – REE: Maintaining its investment pace*, 4 March 2009

Networks' bonds YTD performance



Source: Calyon

RTE (AA- neg/NR/NR)

Although its 2008 performance (EBITDA down 15%) has been impacted by higher costs on compensation for power losses, RTE benefits from a favourable political and regulatory environment, offering excellent forward visibility on cash flow. While its rating is currently constrained by EDF's 100% ownership (S&P only tolerates a one notch difference with EDF that is rated A+ with a negative outlook), any divestment from EDF, as part of its recently announced disposal programme, to a French public entity may be credit positive, allowing an outlook change to stable.

One year rating target: Low-AA (maintained)

Terna (A+/A2/A)

After acquiring Enel's high voltage grid in Italy for EUR1.1bn, Terna released solid 2008 results and presented its 2009-2013 Strategic Plan. Although management has now ruled out any other acquisition and seems ready to sell its Brazilian assets, Terna's investment policy will avoid any recovery in credit metrics, therefore durably positioning Terna at Mid-A. In that regard, we would be ready to overweight Terna's upcoming new issues.

One year rating target: Mid-A (previously High-A, since 03/02/09)

See *Credit Alert – Terna: 2009-2013 Strategic plan leads to Mid-A*, 3 February 2008

- **Relative value networks: Outperform (cash only).** We keep a positive stance on bonds from European networks, such as REE, Terna, Elia and RTE. We indeed consider that these regulated issuers offer above-average visibility and benefit from their low-beta profiles. However, as liquidity on existing bonds is limited, we recommend playing them through primary issues only.

Utilities earnings calendar

April

6 Monday	**7 Tuesday**	**8 Wednesday**	**9 Thursday**	**10 Friday**
13 Monday	**14 Tuesday**	**15 Wednesday**	**16 Thursday**	**17 Friday**
20 Monday	**21 Tuesday**	**22 Wednesday** **Iberdrola** Q109 Results	**23 Thursday**	**24 Friday**
27 Monday	**28 Tuesday** **Fortum** Q109 Results	**29 Wednesday** **Vattenfall** Q109 Results	**30 Thursday** **Edison** Q109 Results	**1 Friday**

May

4 Monday **GDF Suez** Q109 Sales	**5 Tuesday**	**6 Wednesday**	**7 Thursday** **Veolia** Q109 Sales	**8 Friday** **EnBW** Q109 Results
11 Monday	**12 Tuesday** **Enel** **Gas Natural** Q109 Results **EDF** Q109 Sales	**13 Wednesday** **E.ON** **Repsol** **Terna** Q109 Results	**14 Thursday** **RWE, CEZ** Q109 Results **National Grid** FY 08/09 Preliminary Results	**15 Friday**
18 Monday	**19 Tuesday**	**20 Wednesday**	**21 Thursday**	**22 Friday**
25 Monday	**26 Tuesday**	**27 Wednesday**	**28 Thursday** **United Utilities** FY 08/09 Results	**29 Friday**

June

1 Monday	**2 Tuesday**	**3 Wednesday**	**4 Thursday**	**5 Friday**
8 Monday	**9 Tuesday**	**10 Wednesday**	**11 Thursday**	**12 Friday**
15 Monday	**16 Tuesday**	**17 Wednesday**	**18 Thursday**	**19 Friday**
22 Monday	**23 Tuesday**	**24 Wednesday**	**25 Thursday**	**26 Friday**
29 Monday	**30 Tuesday**	**1 Wednesday**	**2 Thursday**	**3 Friday**

www.calyon.com *Data releases as of 9 April 2009*

Appendix – Summary of CDS recommendation

	Ratings		Spot	Variation			Expected	Spot vs Index			Perf. Expectation vs Sector Index		
Issuer	**S&P/Moody's**	**Calyon**	**CDS**	**1 Week**	**1 Month**	**YTD**	**Trend**	**Ratio**	**Fair Value**	**Spot-FV**	**Previous**	**Since**	**New**
Issuer's Names							(1)		(2)			(3)	

Expected trend

According to our quantitative model, this column indicates the expected trend for each single name (sector) relative to its sector index (the iTraxx Main):

➚ The single name (resp. sector) should underperform its sector (resp. iTraxx Main) in the month following. Indeed, the single name CDS over sector index ratio has tightened a lot in the past few days and so the model anticipates a trend reversal. This means that it is a good time to play the underperformance (but not necessarily the widening as we are in relative value)

➔ No trend reversal is expected

➘ The single name (resp. sector) should outperform its sector (resp. iTraxx Main) in the month following. The ratio single names CDS/sector index has widened a lot in the past few days and so the model anticipates a trend reversal. This means that it is a good time to play the outperformance (but not necessarily the tightening as we are in relative value)

Fair value model

The ratio corresponds to the single name spread divided by its sector index (or sector index divided by iTraxx Main).

The historical fair value model has been developed to enhance our recommendation on every issuer of the coverage list. Its principle is based on a historical observation of the positioning of the 5Y CDS spread over the sector index. The average between the 3M, 6M and 12M ratios is considered to be the fair positioning of the 5Y CDS over the sector index. Therefore, with the spot value of the index, we can compute the historical fair value of the CDS.

The calculation of the historical fair value is achieved in several steps.

- **Step 1:** Using Calyon prices, we compute the ratio: '5Y CDS spread/index' for every trading day. It is worth noting that the computation of the index takes into consideration the PV01 weighting method (the wider the name, the less impact it has upon the fair value calculation for the index).
- **Step 2:** Once step 1 has been achieved, we compute the average value of the ratios over three months (3M), six months (6M) and one year (12M).
- **Step 3:** The average between the 3M, 6M and 12M ratios is considered to be the fair positioning of the 5Y CDS over the sector index. Therefore, with the spot value of the index, we can compute the historical fair value of the CDS. Comparing the spot price of the CDS and its fair value according to our model gives the analyst a quantitative tool to appreciate the potential future performance of an issuer vs the sector.

Performance expectation vs sector index

This represents the view of our analysts based on a fundamental analysis. It also indicates how long a particular recommendation has been held.

Certification

The views expressed in this report accurately reflect the personal views of the undersigned analyst(s). In addition, the undersigned analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report.

Franck Bataille

Recommendation System:

Fundamental credit assessment: We evaluate the fundamental credit quality trend of an issuer for the next 12 months.

Calyon's Credit Research evaluates the potential changes of an issuer for the next 12 months and assigns a one year forward rating based on S&P's scale. This rating is to be compared with the average long-term rating assigned by S&P and Moody's.

Internal credit rating: We assign a rating to a company which reflects the assessment of the credit quality by the credit analyst. The timeframe for the rating is one year. As a rating scale we use a scale similar to the one of S&P and Fitch, however, we substitute the rating agencies plus or minus by high and low, ie. the Calyon scale uses AAA, High-AA, Mid-AA, Low-AA, High-A, Mid-A etc.

Performance of credit instruments: We express our expectation of how the 5 year CDS is going to perform vis-à-vis its sector. The timeframe of that recommendation is one month. When the analyst changes a recommendation he/she should indicate in the analysis when the last recommendation was made.

Outperform: CDS spreads should outperform the sector performance.
Sectorperform: CDS spreads should perform in line with the sector performance.
Underperform: CDS spreads should underperform the sector performance.

Credit products rating distribution table:

(as of 16th Jan 2009)

	All covered companies		Companies where Calyon provided Investment Banking Services in past 12 months	
	Count	Percentage	Count	Percentage
Outperform	21	20%	3	14%
Sectorperform	44	41%	5	11%
Underperform	42	39%	4	10%

Disclosures

Company Name	Disclosure	Company Name	Disclosure
Abu Qir	None	Iberdrola	G
Acciona	None	Nuon	None
Cepsa	None	Red Electrica de Espana	None
Constellation	None	Repsol	None
E.ON	G	RTE	G
EDF	G	RWE	G
Edison	None	Suez Env	None
EDP	None	Sulo	None
Elia	None	Terna	None
EnBW	None	Vattenfall	None
Endesa	None	Veolia Env	None
Enel	None		
Essent	None		
Gas Natural	None		
GDF Suez	E, G		

A	NOT IN USE
B	NOT IN USE
C	The Company owned more than 5% of the total issued share capital of Crédit Agricole SA as of the end of the second most recent month preceding the publication date of this report.
D	NOT IN USE
E	One or more companies in the Crédit Agricole S.A. group owned more than 3 % of the total issued share capital of the Company as of the end of the second most recent trading day preceding the publication date of this report.
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I	This research has been communicated to the Company and following this communication, its conclusions has been amended before its dissemination.
J	An executive director of the Credit Agricole S.A. group is a director or board member of the company.

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