

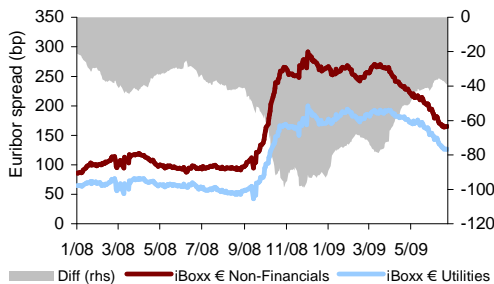
Franck Bataille

Senior Utilities Analyst

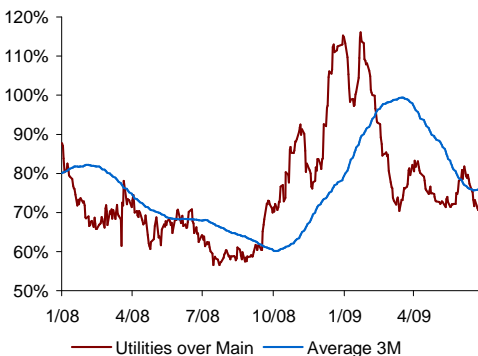
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Q309 Update

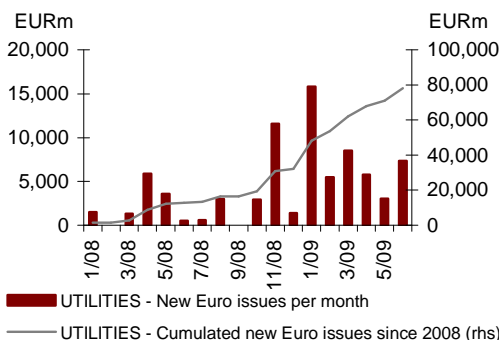
Cash: Utilities vs Non Financials A



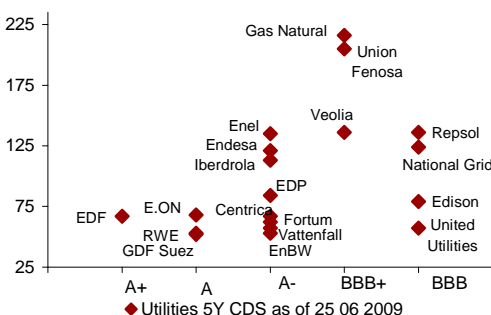
CDS: Utilities vs iTraxx Main



Primary: still buoyant!



5Y CDS: Utilities Mapping



Sources: Bloomberg, Calyon. As at 24 June 2009

Fast & Furious

■ Late-cyclical, but in a credit-friendly mode

Despite improving newsflow in Q209 (commodities rebound, improving liquidity, sound Q109 results...), European Utilities are sticking to their cautious 2009-10 operating guidance. Indeed, Q109 results cannot be extrapolated because margins and earnings will progressively be eroded as hedging protection will reduce over time.

Management teams remain committed to financial discipline in order to regain some financial flexibility and preserve what can already be considered as credit-rating floor levels for many players. If asset disposals ultimately appear to be insufficient, many players should be ready to consider capital increases, just like Iberdrola in Q209. Overall, we consider that European Utilities should continue to offer better visibility and rating resilience in 2009 than most of the other corporate sectors.

■ An overheated primary market?

In Q209, primary activity from Utilities has slowed down compared with Q408-Q109, but the sector remains in pole position with the equivalent of EUR82bn issued (of which EUR62bn in EUR and EUR20bn in other currencies) since October 2008. If we consider only the Eurobond market, the sector has already issued EUR46bn YTD (25% of 2009 new issues), and we still expect some EUR40bn to be issued by FYE10 as refinancing needs remain substantial following recent M&A activity (EUR230bn in two years).

Investor appetite remains strong for Utilities' new issues, which are oversubscribed many times and performing strongly post issuance. Due to this buoyant demand, new issue premiums have eroded massively since early April, which has reduced the attractiveness of some new issues and calls for increasing discrimination in our opinion.

■ Sector recommendations: Time for cherry-picking...

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 we recommend to be increasingly picky as new issue premiums have contracted and there is still substantial refinancing to be carried out. 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.

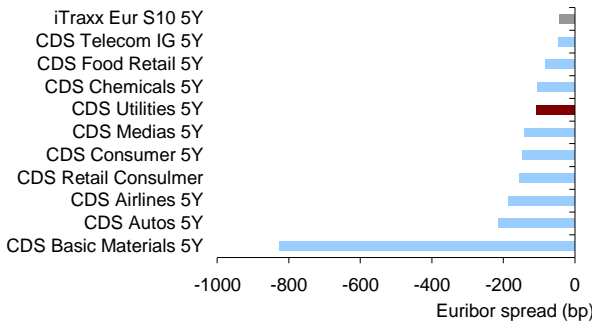
We favour players that offer above-average visibility on their strategic positioning and their medium-term rating trend, but that have also proven their ability to manage smoothly their refinancing needs (new issues, new loans, capital increases, tariff deficit monetisation). In this respect, following H109 developments, **GDF Suez**, **Vattenfall**, **EDP**, **EDF**, **E.ON** and to a lesser extent **Iberdrola** appear well positioned. In addition, we keep a positive stance on all the **Continental European networks** as these regulated players continue to offer above-average visibility.

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Sector recommendations

CDS: Sector YTD performance



Recommendation performance

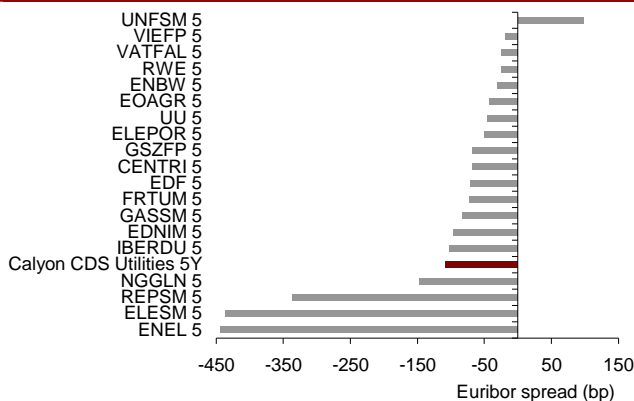
The sector in its environment: late-cyclical...

Is the worst behind European Utilities? At first sight, many positive signals have appeared in Q209: commodities prices have recovered (oil price is up 44% since 1 April 2009), Q109 earnings remain strong globally (with the notable exception of environmental groups penalised by their waste operations), refinancing conditions continue to improve...

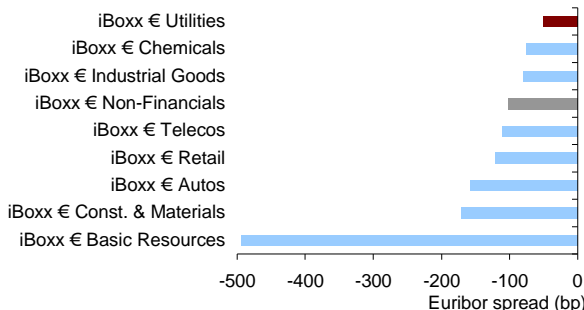
Management teams, however, are maintaining the cautious 2009-10 guidance given earlier this year. Driven by forward-selling mechanisms, Q109 results cannot be extrapolated because margin and earnings erosion will progressively materialise as hedging protection will reduce over time. Energy groups are not out of the woods yet and their operating earnings should bottom from late 2010.

We are happy to see that Utilities' top priority remains financial discipline as most companies need to regain financial flexibility in order to preserve credit ratings that can already been considered as a floor. In that perspective, if asset disposals and capex cuts turn out to be insufficient, many players should be ready to consider capital increases, just like Iberdrola in Q209. We therefore consider that European Utilities should continue to offer better visibility and rating resilience in 2009 than most of the other corporate sectors.

CDS: Under/outperformers YTD



Cash: Sector YTD performance

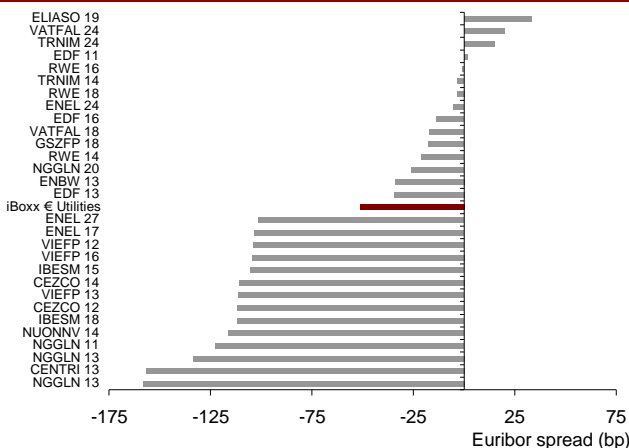


Cash Utilities: Time to cherry-pick in primary!

Investors continue to focus on the primary market (see page 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 globally performing well.

While new issues in Q408 and Q109 offered an historical opportunity (in terms of spreads and yields) to overweight the sector, Q209 has shown a compression of the new issue premium, which calls for increasing discrimination going forward.

Cash: Under/outperformers YTD



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

CDS Utilities: Technicals in the driving seat

In CDS, market activity on Utilities names remains much more limited than on the Cash side. Liquidity is quite scarce (limited flows, large bid-ask, sensitivity to loan book hedging mechanisms), but high-beta names (such as Enel, Gas Natural or Repsol) have continued to outperform as they have improved their liquidity position.

The sector outperformed when credit investors' appetite for Utilities bonds appeared strong enough to absorb its massive refinancing needs. Although Utilities' CDS are now back to normalised levels (close to their historical average), we will continue to play specific credit stories and relative value trade ideas (see page 3).

➤ CDS recommendation: **Marketperform**

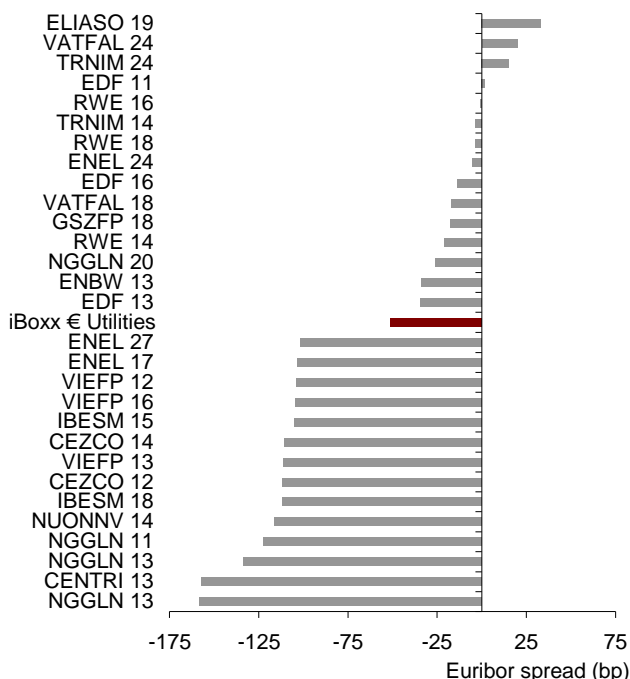
Source: Calyon. As at 24 June 2009

Issuer recommendations

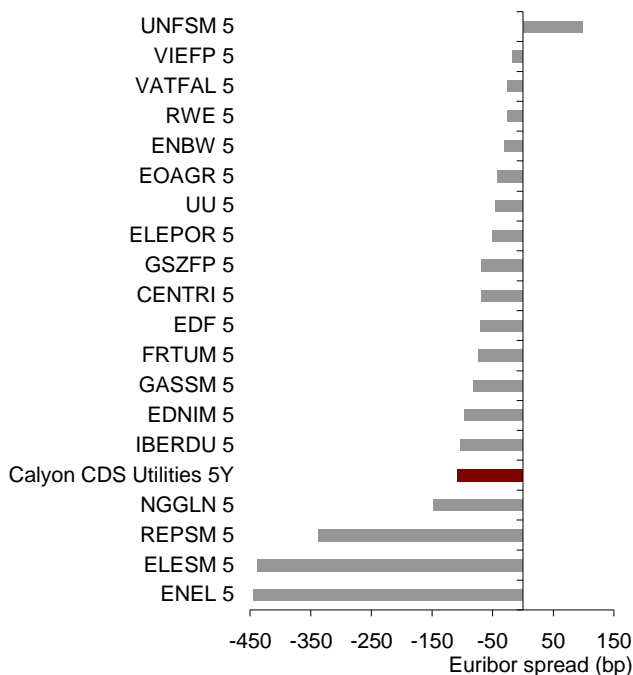
Winners/Losers: One way only...

What a rally! In CDS, liquidity remains scarce (limited flows; large bid-ask; high sensitivity to bank loan hedging mechanisms) but high-beta issues/names (such as Enel, Gas Natural or Repsol) continue to outperform as they have improved their liquidity position. In cash, high demand continues to pressurise spreads especially for new issues on the short part of the curve (5Y or below). Since Q209 Utilities spreads appear to be driven more by technical factors than fundamentals.

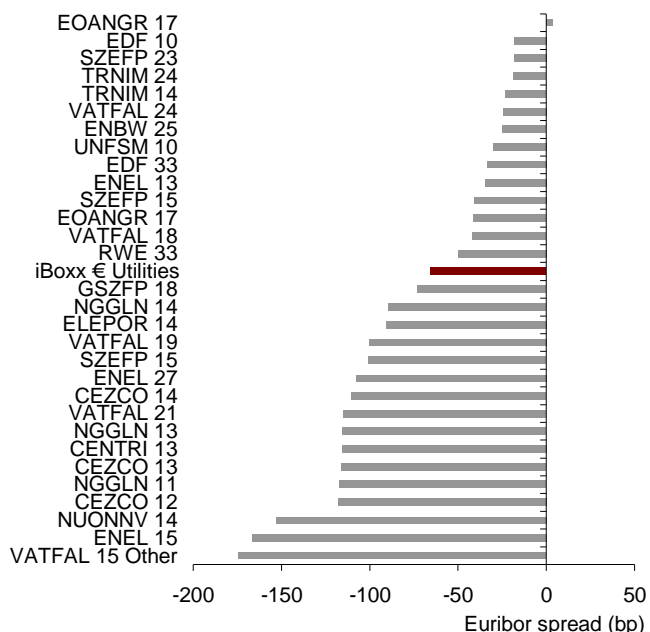
Utilities Cash: YTD Top 15 winners/losers



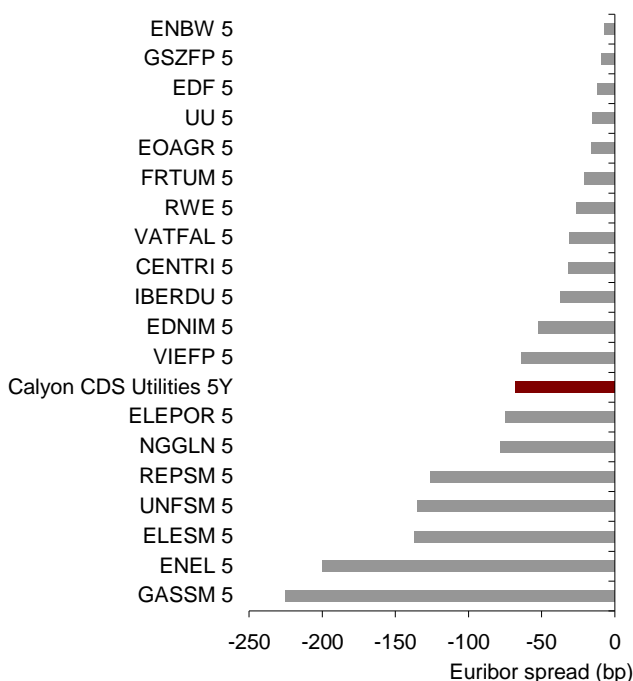
Utilities 5Y CDS: YTD winners/losers



Utilities Cash: Q209 Top 15 winners/losers



Utilities 5Y CDS: Q209 winners/losers



Sources: Calyon. As at 24 June 2009

CDS recommendations

YTD Performance

Overall YTD CDS performance

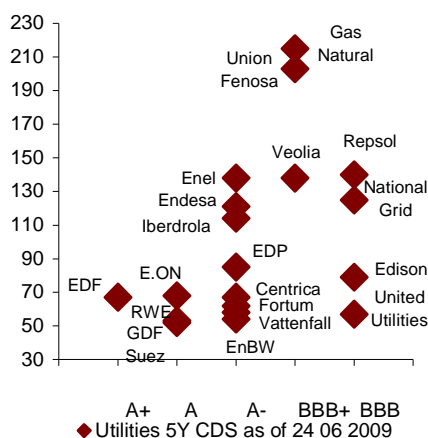
As at 24/06/09	Current rec.	Live perf. YTD	Closed YTD	Total YTD
Enel	Outperform	142	0	142
E.ON	Sectorperform	0	-3	-3
GIE Suez	Sectorperform	0	0	0
Endesa	Underperform	-26	0	-26
Iberdrola	Outperform	2	0	2
Veolia Env.	Outperform	-10	0	-10
EDP	Outperform	8	0	8
EDF	Sectorperform	0	0	0
Edison	Underperform	-5	0	-5
Vattenfall	Outperform	4	0	4
GDF Suez	Sectorperform	0	0	0
RWE	Underperform	16	0	16
EnBW	Underperform	14	0	14
Total		144	-3	141

Source: Calyon

Despite fairly limited flows on the CDS market, 2009 has been an eventful period for the Utilities sector so far: M&A developments, switch to crisis mode, credit-friendly measures and massive primary activity. Our overall CDS recommendations have already generated an excess performance of 141bp YTD (see table left), and our strategic trade ideas have generated a profit of some EUR900,000 (see table below). We have succeeded in leveraging on the following newsflow:

- **Enel:** After reaching record levels in January (5Y CDS above 630bp), Enel has massively outperformed following strategic announcements in Q109. Although most positive newsflow (EUR8bn capital increase/disposal of the Italian gas network) and tightening potential is now behind us, we keep an Outperform recommendation as Enel remains attractive compared with other Low-A/High-BBB issuers.
- **RWE:** The justified repricing of RWE's CDS started in January on the announcement of the acquisition of Essent for EUR9.3bn, which led to a negative outlook at S&P but also to a sharp increase in RWE's refinancing needs. We maintain our Underperform recommendation as RWE still appears too tight compared with peers such as EDF or E.ON, which are wider despite offering better visibility on their strategic positioning and rating trend.
- **EnBW:** The repricing of EnBW's CDS has finally started after years of mispricing. The trigger was reports (finally confirmed by EnBW) of its potential interest in buying a 48% stake in VNG (valued at some EUR1.2bn), which also led rating agencies to put the group on negative credit watch. We maintain our Underperform recommendation as EnBW's 5Y CDS still remains excessively tight compared with other Low-A names or its parent company EDF (which owns a 46% stake).
- **EDP:** In line with our expectations, EDP has finally outperformed the sector thanks to very positive newsflow: sound quarterly results, improved liquidity position, successful new bond issues. At this stage, we believe that EDP still offers potential for further tightening.
- **Iberdrola:** We changed our recommendation from Sectorperform to Outperform on 17 June 2009 when Iberdrola finally demonstrated its commitment to the Single A category by completing a EUR1.3bn capital increase. This recommendation has just started to bear fruit.
- **Veolia Environnement:** We changed our recommendation 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. Since then, Veolia's 5Y CDS has fluctuated in a narrow range and we still believe that it offers some tightening potential.
- **Edison:** Since the beginning of the year, Edison has fluctuated in a narrow range, but we still expect its 5Y CDS to underperform when the group comes back to the bond markets in order to refinance its Abu Qir acquisition.

5Y-CDS Mapping



Source: Calyon

Summary of our recommendations on Utilities CDS Trades YTD

Closed Strategies	Entry Date	P&L (€)	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	1/22/2009	416,734	ENEL	5M	629	134	iTaxx Europe S	15M	169	120	2/18/2009
Sell ENEL CDS EUR SR 5Y - Buy iTraxx Main S10 5Y	2/26/2009	190,692	ENEL	5M	433	330	ITRX EUR C	10M	175	177	3/20/2009
Sell VIEFP CDS EUR SR 5Y - Buy CENTRI CDS EUR SR 5Y	4/2/2009	117,435	VIEFP	10M	189	142	CENTRI	10M	98	75	5/12/2009

Closed Strategies 2009 P&L **724,862**

Open Strategies	Entry Date	P&L (€)	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 5Y	3/4/2009	62,414	VATFAL	10M	106	56	ITRX EUR C	5M	193	120	Open
Sell ELEPOR CDS EUR SR 5Y - Buy ENBW F CDS EUR SR 5Y	3/5/2009	105,935	ELEPOR	5M	142	83	ENBW F	10M	59	54	Open
Open Strategies 2009 P&L		168,349									

Total P&L 2009 **893,211**

Source: Bloomberg, Calyon, as at 22 June 2009.

Changes to issuer recommendations in this publication

- **Vattenfall – change from Outperform to Sectorperform:** We moved to Outperform on 24 February 2009 when 5Y CDS overreacted to Vattenfall's acquisition of Nuon for EUR8.5bn. Since then, Vattenfall has successfully refinanced its acquisition loan, which supported its recent outperformance. We now consider that Vattenfall's 5Y CDS is back to fair levels.
- **Endesa – change from Underperform to Sectorperform:** We will now stop playing the convergence Enel-Endesa, which has finally taken place: there is now less than a 15bp gap between the two names (which means almost full convergence in view of current bid-ask) instead of 100bp when we put in place this convergence trade in early April.

Summary of our recommendations on CDS

Issuer	S&P/Moody's	Calyon	Spot CDS	Variation			Expected	Spot vs Index			Perf. Expectation vs Sector Index		
				1 Week	1 Month	YTD		Trend	Ratio	Fair Value	Spot - FV	Previous	Since
Centrica	A- / A3	NR	67	2	-4	-68	→	67%	72	5	NR	–	NR
E.ON	A / A2	Mid A	68	0	-10	-42	→	68%	64	-4	Sectorperform	09/04/09	Sectorperform
Edison	BBB+ / Baa2	High BBB	79	1	-7	-96	→	79%	79	0	Underperform	01/10/08	Underperform
EDP	A- / A3	High BBB	85	1	-7	-50	→	85%	86	1	Outperform	09/03/09	Outperform
EDF	A+ neg / Aa3	High A	67	-1	-1	-70	→	67%	63	-4	Sectorperform	24/09/08	Sectorperform
Endesa	A- CW neg / A3 neg	High BBB	121	3	-5	-437	→	121%	160	39	Underperform	09/04/09	Sectorperform
Enel	A- CW neg / A2 neg	Suspended	138	3	-13	-444	→	138%	196	58	–	–	Suspended
Fortum	A- / A2	NR	62	-1	-5	-73	→	62%	61	-1	NR	–	NR
GDF Suez	A pos / Aa3	Mid A	52	0	0	-68	→	52%	49	-3	Sectorperform	06/04/09	Sectorperform
Iberdrola	A- / A3	Low A	114	0	-1	-103	→	114%	104	-10	Outperform	17/06/09	Outperform
Natl Grid	A- / Baa1 neg	NR	125	1	-13	-147	→	125%	129	4	NR	–	NR
Repsol	BBB / Baa1	NR	140	-6	-8	-337	→	140%	158	18	NR	–	NR
RWE	A neg / A1 CW neg	Mid A	53	-2	-8	-25	→	53%	55	2	Underperform	14/11/07	Underperform
Union Fenosa	NR / Baa2	NR	203	-4	19	98	→	204%	150	-53	NR	–	NR
United Utilities	A- / Baa1	NR	57	0	-4	-46	→	57%	58	1	NR	–	NR
Vattenfall	A- / A2	Low A	58	1	-8	-25	→	58%	57	-1	Outperform	24/02/09	Sectorperform
Veolia	BBB+ neg / A3 neg	High BBB	138	6	3	-18	↓	138%	113	-25	Outperform	26/03/09	Outperform
EnBW	A- CW neg/A2 CW neg	Low A	54	1	2	-30	↓	54%	46	-8	Underperform	03/04/08	Underperform
Gas Natural	BBB+ neg / Baa2	NR	215	-18	15	-82	→	216%	197	-18	NR	–	NR
Utilities Index			100	-1	-3	-108							Marketperform

Key: ↓ Outperformance expected; → No trend reversal is expected; ↗ Underperformance expected

Source: Bloomberg, Calyon as at 24 June 2009

Cash recommendations

Play the primary card but with increasing discrimination

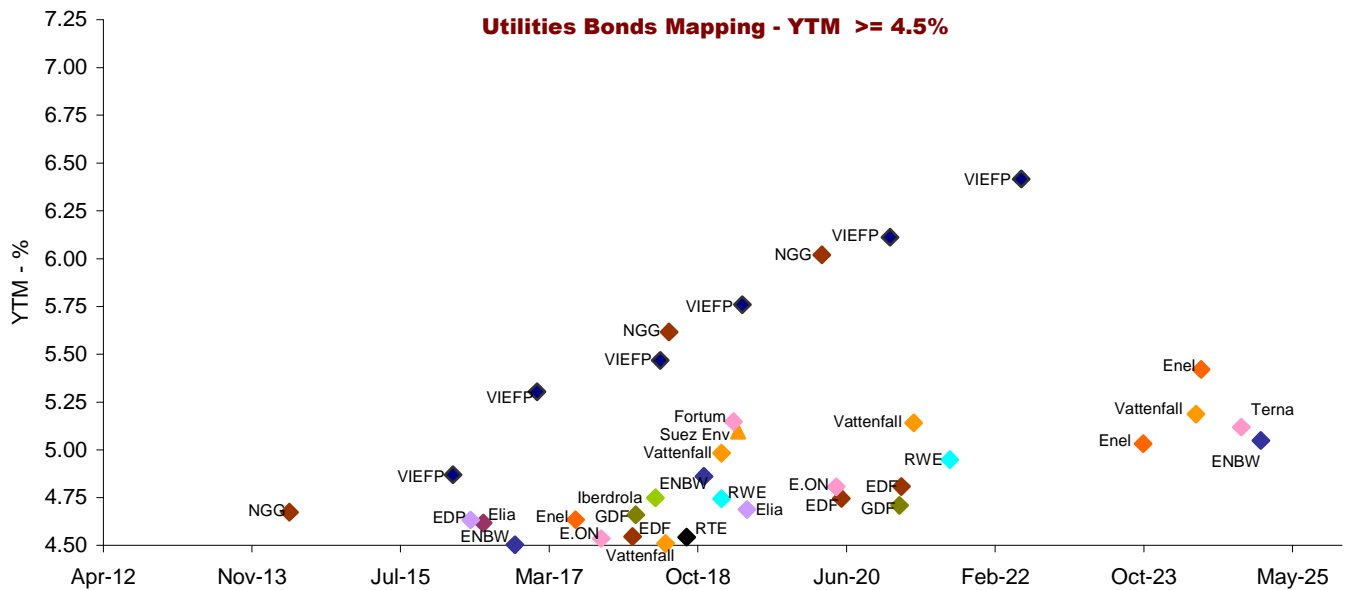
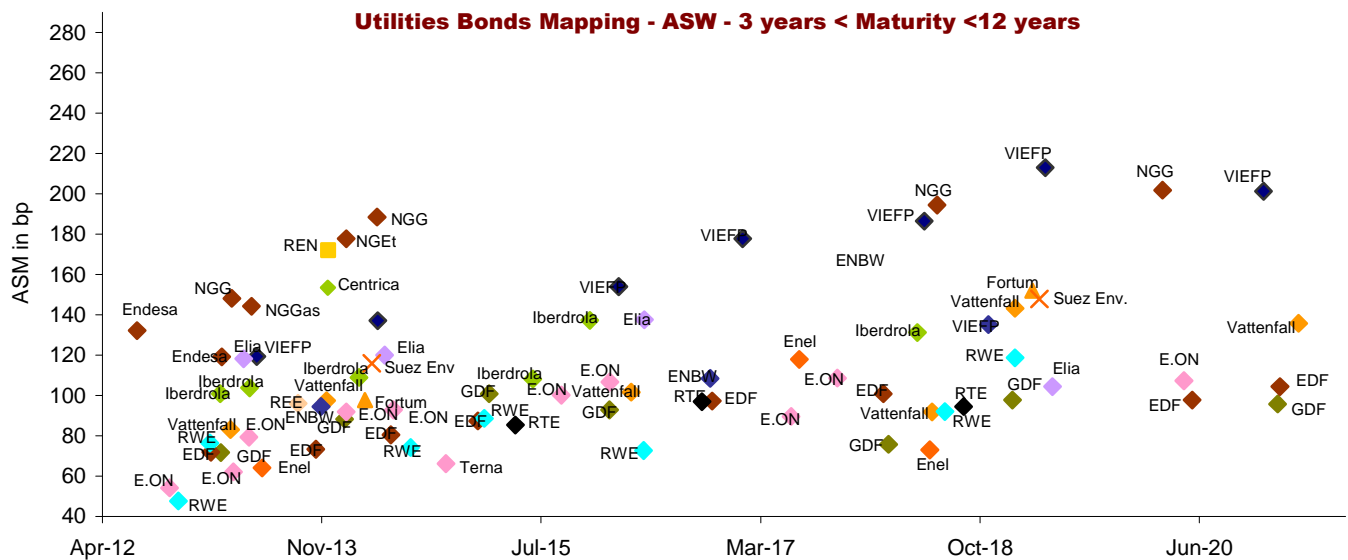
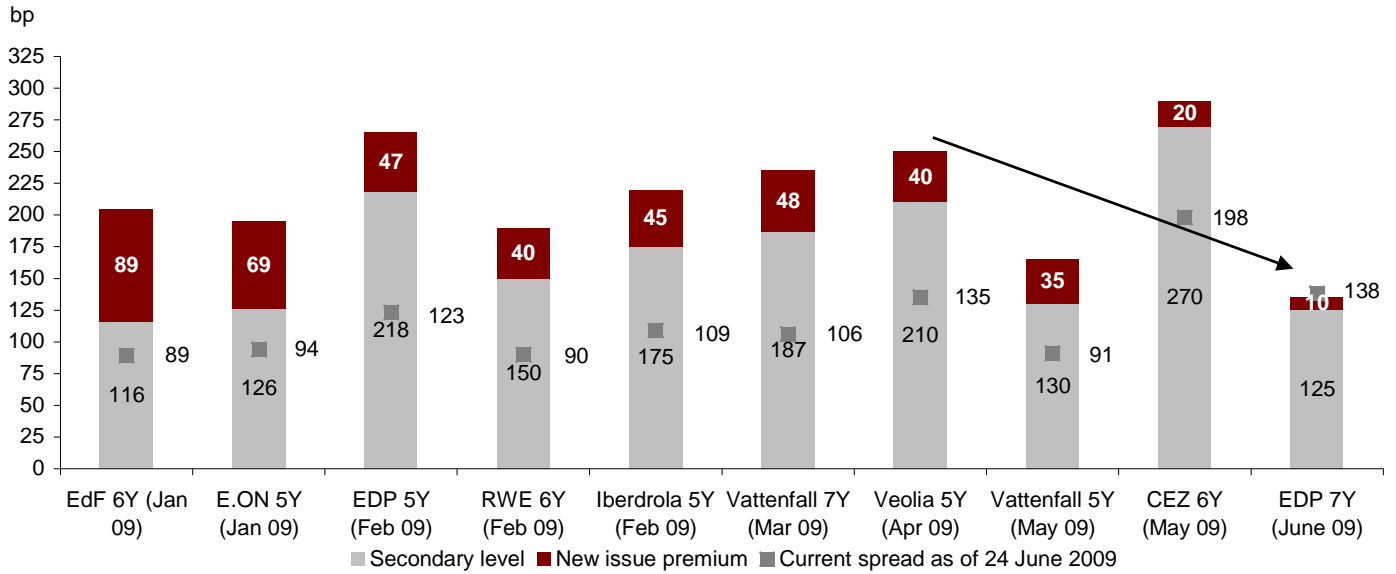
Q209 has confirmed investors' huge appetite for Utilities new issues, especially on the short part of the Euro curve (below 7Y). All the new deals have remained heavily oversubscribed and performed very well post issuance.

However, demand is currently inflated by new yield-driven investors (3Y-5Y closed funds with preset return target), which has contributed to reduce the spread attractiveness of new issues since early April: as shown on the chart below, new issue premiums have massively contracted over the past months reducing the pick-up offered by new issues.

In that context, after underweighting the sector for many years, **we continue to recommend overweighting Utilities through new issues** (recommendation unchanged since Q408), **but with increasing discrimination among issuers and issues**. As refinancing needs remain substantial (see page 7) and as the long part of the Euro curve (15-20Y bracket) still needs to be reopened and repriced, we consider that more value may return to the primary market in the coming months. While still overweighting the sector, we can therefore afford to be picky.

On the secondary market, liquidity is very limited and we consider that very few bonds offer any value, especially in terms of yield to maturity. The exceptions may be some bonds from **Iberdrola** (IBESM 2015), **Veolia Environnement** (VIEFP 2017) or **Centrica** (CENTRI 2017), which remain fairly liquid and appear cheap when compared with other Low-A/Mid-BBB issues.

Utilities: Cash market monitor



Source: Bloomberg, Companies, Calyon. As at 24 June 2009.

Primary activity and outlook

In Q209, primary activity from Utilities has slowed down compared with Q408-Q109, but the sector remains in pole position with the equivalent of EUR82bn issued (of which EUR62bn in EUR and EUR20bn in other currencies) since last October. If we consider only the Eurobond market, the sector has already issued EUR46bn YTD (25% of 2009 new issues), further strengthening its market share on the investment grade corporate Eurobond universe (23% of outstanding bonds in June 2009 vs 19% in October 2008).

Despite eroding new issue premiums in Q209, investor appetite remains strong for Utilities new issues, which are still oversubscribed many times and are performing strongly post issuance. The main weakness remains the sector's inability to print long-dated EUR-denominated bonds, as 78% of the new Utilities bonds issued since Q408 has a maturity below or equal to 7Y (12Y being the maximum). To access this key part of the curve may lead Utilities to accept paying higher issuance premiums in H209.

Who is next?

Although primary issuance has reached record levels over the past nine months, it is important to keep in mind that European Utilities still have significant refinancing needs to fulfil by FYE10. When stressing the liquidity position of the main players, we estimate that as of today the equivalent of some EUR40bn (some EUR15bn have been issued since our report, *Utilities: Performance blackout due to crisis*, published 30 April) 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.

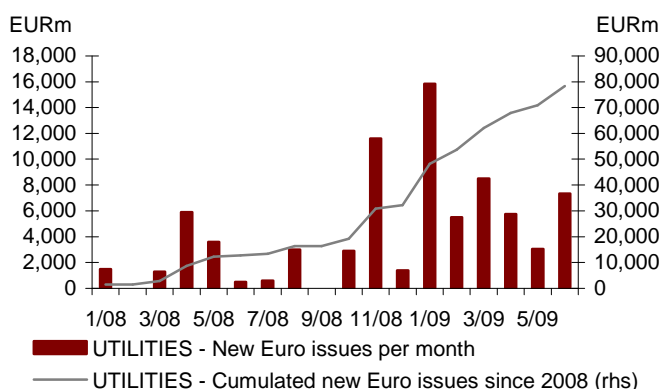
Enel-Endesa: Despite poor visibility on its EUR10bn asset-disposal programme, Enel's EUR8bn capital increase should help stabilise the new group's ratings at A- with a negative outlook. On that basis and following the massive tightening in their CDS, Enel and Endesa will be in a good position to access the primary market in the coming months.

Gas Natural: Gas Natural has just started its refinancing on the bond markets (EUR2.5bn). Going forward, whatever happens in the implementation of its EUR3bn disposal programme, Gas Natural should remain one of the most active players in order to deal with the very tight redemption schedule on its acquisition facilities.

RWE: RWE should 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.

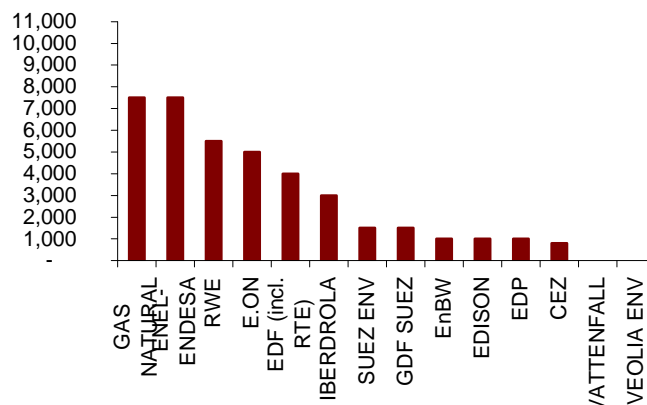
New/infrequent issuers: The good momentum on the Euro primary market has attracted new issuers, such as the Irish (Bord Gais Eireann) and Spanish (Enagas) networks or even the Finnish IPP company TVO. We are also expecting infrequent issuers, eg, EnBW, Edison, to come back to the primary market soon.

Utilities market activity since January 2008



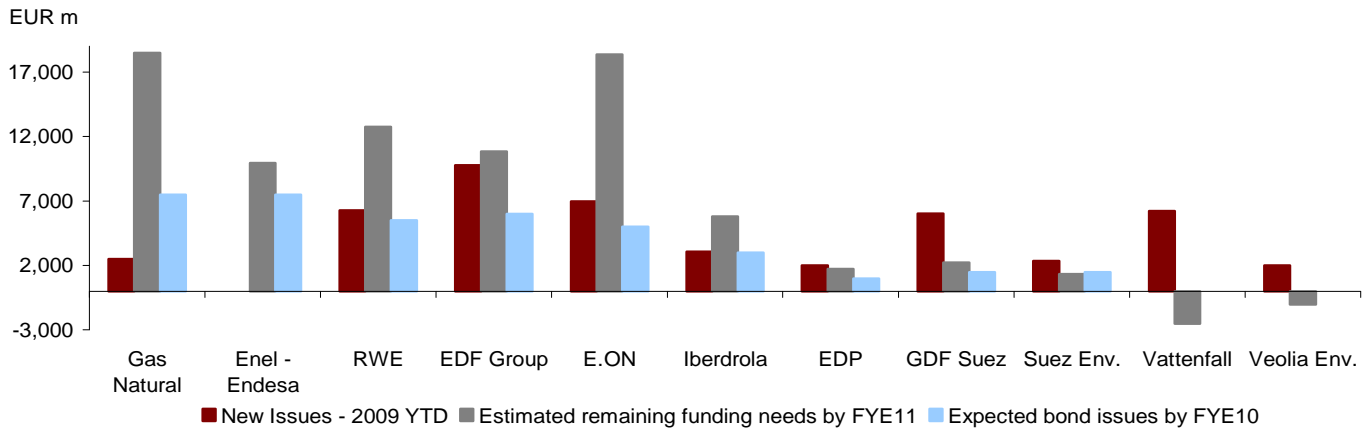
Source: Calyon, as at 24 June 2009

Expected new issues to FYE10 (all currencies)



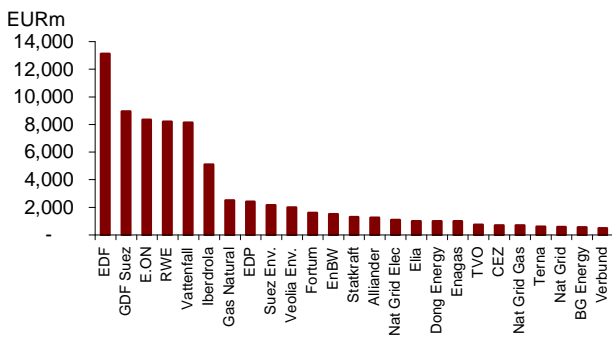
Source: Calyon, as at 24 June 2009

Utilities: Primary market monitor



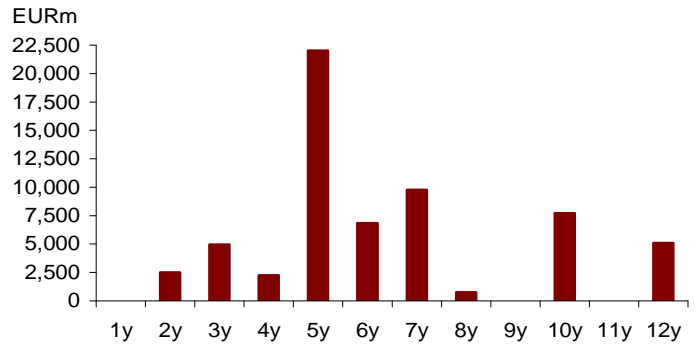
Source: Calyon

New bond issues since Q408 (all currencies)



Source: Calyon

New issues amount by maturity since Q408



Source: Calyon

Utilities issuers

Issue Date	Issuer	Size in Euro millions	Maturity date	Bond Yield	Issuance Spread (over MS)	Spread (over MS) as of 25.06.09	Perf. Since Issuance
7-Jan-09	E.ON	1,500	19-Jan-16	5.50%	205	106	-99
7-Jan-09	GDF Suez	1,750	16-Jan-12	4.38%	160	51	-109
7-Jan-09	GDF Suez	1,500	18-Jan-16	5.63%	215	90	-125
8-Jan-09	GDF Suez	1,000	18-Jan-21	6.38%	255	96	-159
12-Jan-09	Iberdrola	450	25-Nov-11	6.38%	180	81	-99
12-Jan-09	Iberdrola	550	25-Nov-15	7.50%	280	137	-143
13-Jan-09	Nat Grid	578	22-Apr-14	6.50%	365	181	-184
16-Jan-09	EDF	2,000	23-Jan-15	5.13%	205	83	-122
16-Jan-09	EDF	2,000	25-Jan-21	6.25%	255	102	-153
20-Jan-09	E.ON	1,750	28-Jan-14	4.88%	195	89	-106
22-Jan-09	ENI	1,500	28-Jan-16	5.00%	185	83	-102
22-Jan-09	GDF Suez	750	23-Feb-15	5.00%	NA	115	NA
27-Jan-09	Thames Water	500	4-Feb-13	6.13%	330	215	-115
3-Feb-09	RWE	2,000	10-Feb-15	5.00%	190	87	-103
3-Feb-09	RWE	1,000	10-Aug-21	6.50%	255	116	-139
10-Feb-09	EDP	1,000	18-Feb-14	5.50%	265	119	-146
20-Feb-09	Iberdrola	1,500	4-Mar-14	4.88%	220	104	-116
5-Mar-09	Vattenfall	500	18-Mar-13	4.13%	170	77	-93
5-Mar-09	Vattenfall	1,100	17-Mar-16	5.25%	235	102	-133
5-Mar-09	Vattenfall	1,100	17-Mar-21	6.25%	280	133	-147
16-Mar-09	Fortum	750	20-Mar-14	4.63%	195	97	-98
16-Mar-09	Fortum	750	20-Mar-19	6.00%	265	154	-111
17-Mar-09	E.ON	750	26-Mar-13	4.13%	155	59	-96
19-Mar-09	Nederlandse Gasunie	750	31-Mar-17	5.13%	200	86	-114
26-Mar-09	Statkraft	500	2-Apr-15	5.50%	250	169	-81
26-Mar-09	Statkraft	500	2-Apr-19	6.63%	320	228	-92
31-Mar-09	Suez Env.	1,000	8-Apr-14	4.88%	225	110	-115
31-Mar-09	Suez Env.	800	8-Apr-19	6.25%	300	144	-156
7-Apr-09	Elia	500	22-Apr-16	5.63%	245	140	-105
7-Apr-09	Elia	500	22-Apr-13	4.50%	190	112	-78
7-Apr-09	Alliander	500	20-Apr-12	4.00%	175	101	-74
7-Apr-09	Alliander	750	20-Apr-16	5.50%	230	122	-108
8-Apr-09	Verbund	500	17-Apr-15	4.75%	175	106	-69
15-Apr-09	Veolia Env.	1,250	24-Apr-14	5.25%	250	132	-118
15-Apr-09	Veolia Env.	750	24-Apr-19	6.75%	330	209	-121
28-Apr-09	Dong Energy	500	7-May-14	4.88%	220	132	-88
28-Apr-09	Dong Energy	1,500	7-May-19	6.50%	320	205	-115
6-May-09	Vattenfall	1,350	19-May-14	4.25%	165	83	-82
7-May-09	Suez Env.	350	8-Apr-14	4.88%	160	110	-50
14-May-09	CEZ	600	20-May-15	5.75%	290	193	-97
18-May-09	E.ON	750	30-Nov-11	2.50%	85	25	-60
8-Jun-09	RWE	1,500	16-Sep-11	2.50%	55	40	-15
16-Jun-09	TVO	750	27-Jun-16	6.00%	275	246	-29
18-Jun-09	EDP	1,000	26-Sep-16	4.75%	135	134	-1
22-Jun-09	Terna	600	3-Oct-19	4.88%	128	118	-10
22-Jun-09	Enagas	500	6-Jul-12	3.25%	95	67	-28
22-Jun-09	Enagas	500	6-Jul-15	4.38%	125	97	-28
24-Jun-09	Gas Natural	2,000	9-Jul-14	5.25%	235	216	-20
24-Jun-09	Gas Natural	500	9-Jul-19	6.38%	275	250	-25
TOTAL UTILITIES 2009 YTD (Euro only)		45,978					
Since Mid October 2008 (Euro only)		61,878					

Source: Bloomberg, Companies, Calyon. As at 24 June 2009

Credit trend

Q209: Crisis mode confirmed

In Q109, management presentations warned about weakening operating momentum for the Utilities sector (from double-digit organic EBITDA growth to flattish operating performance) and stressed the necessity for financial discipline in such a deteriorated environment (targeted asset disposals to reach some EUR40bn to deleverage the sector by FYE10). Since then, commodity prices have recovered (since 1 April 2009 the oil price has risen 44% to USD68), Q109 results were strong thanks to forward-selling mechanisms, and refinancing conditions have continued to improve ... is the worst really behind us?

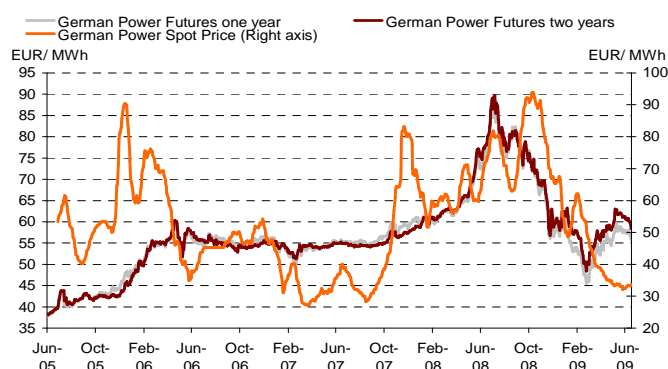
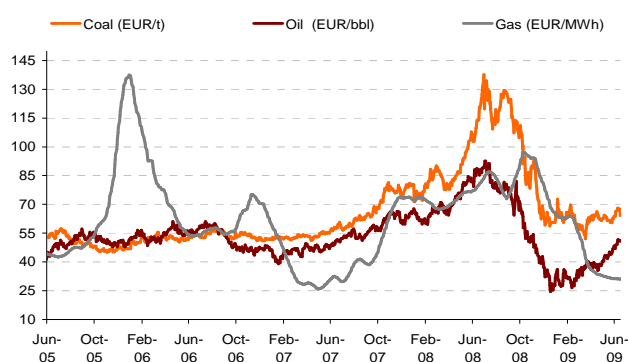
Operating momentum: not out of the woods yet...

- **Q109 results were strong...** Despite falling electricity demand (Germany: -5% YoY; UK: -7%; Italy: -8%; Spain: -8%) and much lower energy prices (German average spot price down from EUR56/MWh in Q108 to EUR47/MWh in Q109), European Utilities posted decent Q109 results well in line with managements' expectations of flattish earnings for the full year. On top of a colder winter YoY, groups have benefited from their forward-selling policies as well as higher generation margins locked in before market prices collapsed.
- **...but cannot be extrapolated.** However, managements have warned about the upcoming erosion of margins and earnings as hedging protection will reduce over time (Q109 already showed some unscheduled reduced sales figures; German prices of forward contracts for 2010 averaged EUR49/MWh in Q109, a 24% drop compared with the average price in Q408). We therefore consider that Q109 performance cannot be extrapolated and maintain our cautious stance on weakening operating momentum from 2009.

Q109 results and 2009 guidance

EURm	Released		Δ released vs consensus		YoY growth		Guidance	YTD Equity Perf. DJ Utilities: -13.4%
	Sales	EBITDA	Sales	EBITDA	Sales	EBITDA		
EDF	21,106	-	4.5%	-	15.1%	-	EBITDA: organic growth of around 3% in 2009	-16.5%
Edison	3,012	295	54.8%	-1.7%	20.4%	-3.9%	2009 EBITDA target: EUR1.5bn (-8.7% YoY)	7.1%
EDP	3,233	849	-7.7%	2.1%	26.2%	5.0%	2009 EBITDA: roughly stable YoY	3.5%
EnBW	4,792	916	-	-	8.6%	8.7%	2009 Adjusted EBIT: 0 - 3% Increase YoY	-6.6%
Endesa	5,976	1,729	6.4%	2.4%	9.7%	6.0%	2010 EBITDA target: EUR7.1bn	-38.7%
Enel	14,863	3,850	0.0%	7.2%	-1.5%	14.1%	2010 EBITDA target: EUR16bn	-8.4%
E.ON	25,935	3,973	5.2%	-2.9%	14.0%	-3.0%	2009 Adj. EBIT: stable YoY	-13.4%
GDF Suez	25,564	5,300	2.9%	7.9%	11.7%	14.7%	EBITDA 2009 > EBITDA 2008	-22.2%
Iberdrola	7,643	1,952	8.1%	4.5%	21.3%	9.0%	2009: EBITDA growth and rising recurrent net profit	-8.6%
RWE	14,516	3,090	6.2%	2.4%	8.4%	4.7%	2009 EBITDA: roughly stable YoY	-9.3%
Suez Environnement	2,829	436	-1.2%	-5.4%	-2.8%	-9.4%	EBITDA: low-single digit growth in 2009	4.1%
Vattenfall (SEKm)	52,528	17,149	-	-	15.7%	12.8%	na	-
Veolia Environnement	9,267	1,059	-1.6%	-1.7%	4.0%	-6.6%	2009 EBITDA: roughly stable at EUR4bn	-3.6%

Energy market monitors



Source: Bloomberg, Companies, Calyon. As at 15 June 2009

- **Is the recent rally in energy prices changing the outlook? Not really...** In line with the rebound seen in the oil price, electricity prices recovered in Q209, with German prices of forward contracts for 2010 rising from a low of EUR45/MWh in mid-February to average EUR49/MWh in Q109 to roughly EUR55/MWh in mid-June. Although still 40% lower than the peak (almost EUR90/MWh) reached last summer, this price level appears consistent with trends seen in demand and commodity prices. We therefore think that it would be premature to expect any short-term benefits from the recent rally for the following reasons: (1) earnings still have to reflect the drop in electricity prices experienced in H208 with operating earnings expected to bottom from late 2010; (2) as most of the 2009 and 2010 volumes have been pre-sold, the recent rally would mostly benefit forward-selling transactions with deliveries from 2011; and (3) regulatory and political pressure has increased strongly over the past 12 months and will impeach European Utilities to record the same level of (windfall) profits as over the 2005-07 period should there be a sharp rebound in commodity prices.

In summary, we consider that Q109 results are not meaningful as European Utilities has become a late-cyclical industry (with the exception of environmental groups, such as Veolia Environnement and Suez Environnement, which run early-cyclical waste operations and whose 2009 earnings have already started to be negatively impacted). The economic slowdown will therefore start weighing on operating results in the coming quarters, which is motivating a shift towards credit-friendly strategies in order to protect credit metrics and ratings – a move that has accelerated in Q209...

Newsflow: From asset disposals to capital increases...

Earlier this year, most of European Utilities announced conservative measures in order to deleverage their financial structures and improve their liquidity positions. In top of cost cuttings, lowered Capex plans and softer dividend policies, sector wide asset disposals were supposed to reach some EUR40bn by FYE10, therefore being the main potential financial leeway. Recent newsflow has however demonstrated that this objective might be hard to achieve with a limited number of buyers, therefore paving the way to capital increases in order to preserve what can already be considered as credit rating floors for many players.

- **Asset disposals: buyers wanted!** The recent transactions are showing that the implementation of the asset disposals programmes will be difficult both in terms of value and timing. Two main trends are worth mentioning: 1/ Only regulated assets, such as Enel's electricity and gas networks, have so far found buyers at decent prices (i.e. their RAB), but still requiring longer than expected transaction times and political support. 2/ Unregulated assets have to face depressed valuation levels (EV/EBITDA down from 9-10x last summer to 6x today), which massively puts at risk the targeted asset disposal plans and may lead to impairments. This negative market momentum was highlighted by the revised EDF-Centrica deal: instead of selling a 25% stake in British Energy for some EUR3.5bn, EDF finally sold a 20% stake in BE for a discounted amount of EUR2.5bn and bought a 51% interest in Belgium's SPE for EUR1.2bn, which reduces massively the net cash in from EDF from EUR3.5bn to EUR1.3bn. Altogether, we therefore consider that the visibility on the announced asset disposals programme remains very limited. In addition, their benefits on the sector's risk profile have still to be proven as they may further dilute the regulated part of the business mix without allowing significant deleveraging.
- **Capital increases may become the easiest option...** As rating agencies are not easing the pressure (see Rating Changes Table thereafter), many groups have already decided to do capital increases in order to immediately improve their financial structure and regain some flexibility in the implementation of their asset disposals programmes. In that respect, Gas Natural (EUR3.5bn capital increase in April / still EUR2.3bn to be achieved through asset disposals by FYE10) and Enel (EUR8bn in July / still EUR7.7bn to be achieved through asset disposals by FYE10) are good examples as they had to quickly demonstrate their commitment to what can be considered as their rating floors (A- for Enel and BBB for Gas Natural). This sector's trend has been further confirmed by Iberdrola's decision to

complete a EUR1,325m capital increase early June despite having a stable outlook on its 'Low-A' ratings. Although diluting ACS may have been the main but undisclosed motivation, Iberdrola justified its decision by its commitment to maintain "Single A" ratings ("FFO / adjusted net debt" will be back on track for a 'A-' at S&P reaching 17.5% at FYE09 post capital increase and tariff deficit monetization) and therefore a competitive access to the bond markets. Following this transaction, Iberdrola's management regained flexibility in the execution of its asset disposals programme (EUR2.5bn targeted in FY09 of which only EUR850m have been so far completed) and could therefore easily confirm its investment and dividend objectives.

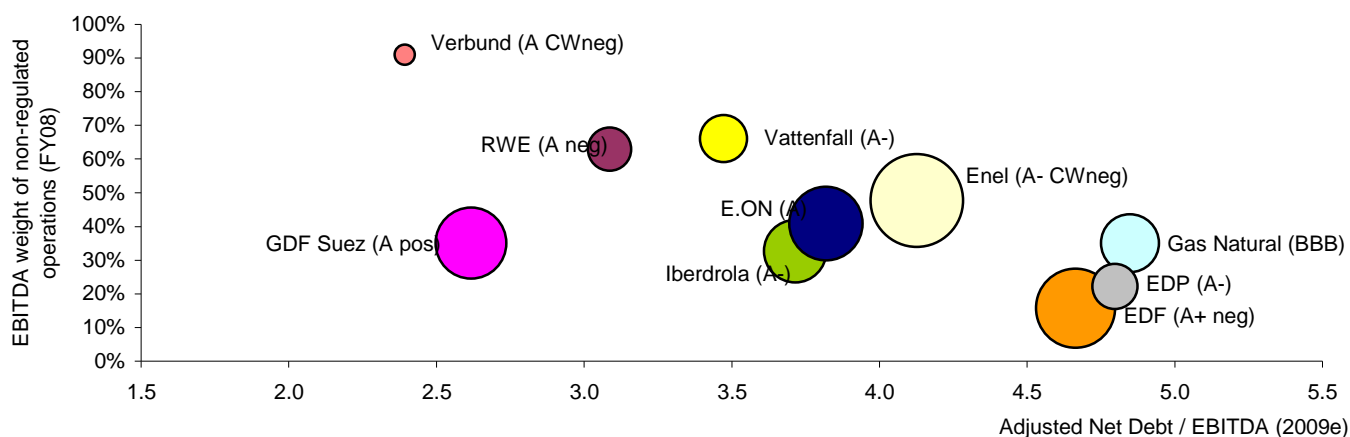
After the words, the facts... One of the key developments of Q209 has been the demonstration by many players that they are serious about their deleveraging targets and rating commitments for 2009. In that respect, if the announced asset-disposal programmes appear increasingly at risk, additional conservative measures (capital increase and/or further cuts in Capex or dividends) might have to be taken in the coming quarters. **In view of their current rating situation and strategic plans, next candidates for capital increases could potentially be Gas Natural, Veolia Environnement and E.ON over the short-term, as well as EDF and RWE over the medium term.**

Main exception to this cautious sector is EnBW that continues its expansion policy (26% stake in EWE for EUR2bn and 48% stake in VNG for an estimated EUR1bn) putting at risk its Low-A ratings (that have been put under negative creditwatch).

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.

Leverage vs. Rating vs. Funding Needs



Source: Calyon, Cheuvreux. As at 18 June 2009 // NB: Bubble size reflects net debt levels.

While rating agencies are not easing the downgrade pressure, it is important to assess for each player what rating level could be considered as a floor taking into account their strategic positioning, their operating leverage, their financial leverage as well as the amplitude of their on-going refinancing needs. Beyond their official targets, we consider that the European Utilities sector could be split as follows:

- "Low A" seen as a rating floor for groups that have already achieved a leading position at European level and are heavily indebted such EDF, GDF Suez, E.ON and Enel. Vattenfall (as it cannot access the equity market) and RWE (depending on its strategic evolution after Essent) should also be added to this list. As the "Single A" category is also the official rating target for these companies, we expect them to take all the conservative measures that are needed (including capital increases) to protect this rating floor.

- “Mid B” seen as a rating floor easily viable for smaller players with a large proportion of regulated operations or more limited financing needs, such as EDP (Moody’s now sees EDP as a stand alone Baa1), Iberdrola, Gas Natural and the environmental players (such as Veolia Environnement and Suez Environnement).

Altogether, in fundamental terms, we continue to favour players that offer above-average visibility on their strategic positioning (operating leverage vs. financial leverage) and their medium-term rating trend, but that have also proven their ability to manage smoothly their refinancing needs (new issues, new loans, capital increases, tariff deficit monetization). In this respect, following H109 developments, **GDF Suez, Vattenfall, EDP, EDF, E.ON** and in a lesser extent **Iberdrola** appear well positioned. In addition, we keep a positive stance on all the **Continental European networks** as these regulated players keep on offering an above-average visibility.

YTD Rating Changes

	Company Name	Rating Type	Agency	New Rating	Previous Rating
Centrica					
N	29/5/2009	LT rating	S&P	A-	A CW Neg
ENBW					
N	15/5/2009	Outlook	S&P	A- CW Neg	Stable
N	19/5/2009	Outlook	Moody's	A2 CW Neg	Stable
EDP					
N	06/09/2009	LT rating	Moody's	A3	A2
EDF					
N	01/09/2009	LT rating	S&P	A+ Neg	AA- CW Neg
N	14/1/2009	LT rating	Moody's	Aa3	Aa1 CW Neg
N	01/07/2009	LT rating	Fitch	A+	AA-CW Neg
Endesa					
N	15/1/2009	Outlook	S&P	A- CW Neg	Stable
P	08/04/2009	Outlook	Moody's	A3 Neg	CW Neg
N	23/02/2009	Outlook	Moody's	CW Neg	Stable
P	23/2/2009	Outlook	Fitch	CW Neg	Stable
Enel					
N	15/1/2009	Outlook	S&P	A- CW Neg	Stable
P	08/04/2009	Outlook	Moody's	A2 Neg	CW Neg
N	23/02/2009	Outlook	Moody's	CW Neg	Stable
N	23/2/2009	LT rating	Fitch	CW Neg	Stable
Gas Natural					
P	06/05/2009	LT rating	S&P	BBB+ Neg	BBB+ CW Neg
N	20/2/2009	LT rating	S&P	BBB+ CW Neg	A CW Neg
N	06/05/2009	LT rating	Moody's	Baa2	Baa1 CW Neg
N	03/02/2009	LT rating	Moody's	Baa1 CW Neg	A3 CW Neg
N	26/2/2009	LT rating	Fitch	A- CW Neg	A CW Neg
Suez Environnement					
NR	03/04/2009	LT rating	Moody's	A3	NR
Terna					
N	02/10/2009	LT rating	S&P	A+	AA- CW Neg
N	02/09/2009	LT rating	Moody's	A2	A1 CW Neg
N	04/01/2009	LT rating	Fitch	A	A+ CW Neg
Union Fenosa					
N	06/05/2009	LT rating	Moody's	Baa2	Baa1 CW Neg
N	03/02/2009	LT rating	Moody's	Baa1 CW Neg	A3 CW Neg
Vattenfall					
N	24/2/2009	LT rating	Fitch	A+ CW Neg	Stable
Veolia					
N	25/3/2009	LT rating	S&P	BBB+ Neg	Stable
N	26/3/2009	LT rating	Moody's	A3 Neg	Stable

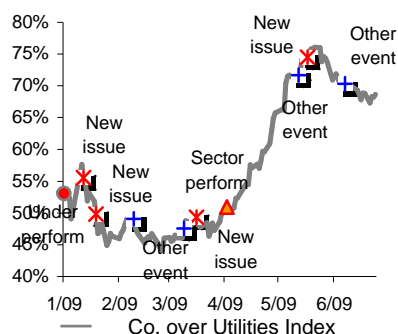
N : Negative rating action / **P** : Positive rating action / **NR** : New rating

Source: Calyon. As at 31 March 2009

Issuer snapshot

Energy players

E.ON's CDS YTD performance



Source: Calyon

E.ON (A/A2/A)

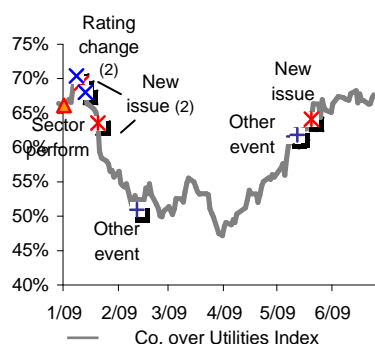
A couple of months after having revised its investment and earnings prospects over the 2009-2011 period down, E.ON reported weak Q109 earnings (EBIT down 5.5% YoY to EUR3.1bn) due to contraction of power demand as well as lower generation and gas margins. Management however kept unchanged its 2009 operating guidance (stable EBIT YoY at EUR9.8bn), which still looks achievable in view of E.ON's cautious hedging strategy (90% of 2009 output have been sold forward). In such a challenging environment, priority remains given to organic growth and deleveraging, mainly through the implementation of a EUR10bn assets disposals programme by 2010. Despite a EUR1bn deal with Verbund announced early June, the group warned that its disposal target may be jeopardized or delayed by the current financial crisis. We however believe that if needed E.ON will take all the necessary additional measures to preserve its Mid-A ratings. In relative value terms, as its funding needs are now easily manageable (worst case scenario being EUR5bn to be issued by FYE10), we consider that E.ON is currently fairly priced in line with peers such as EDF.

One year rating target: Mid-A (maintained)

Relative value: Sectorperform (maintained since 09/04/09)

See *Credit Alert – E.ON: Weak Q109, but 2009 operating guidance and deleveraging priority are confirmed*, 14 May 2009

EDF's CDS YTD performance



Source: Calyon

EDF (A+ neg/Aa3/A+)

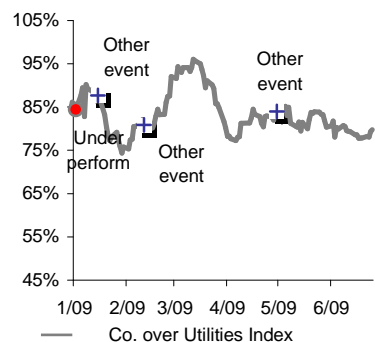
When publishing its Q109 revenues (up 15.1% YoY, o/w +12.5% organic), EDF confirmed its 2009 guidance of achieving moderate EBITDA growth (excl. the TARTAM effect that hit 2008 earnings). Some caution is however needed as EDF is penalised by strikes in its nuclear sites, which puts load factors under pressure and might impact its operating earnings in H109. In strategic terms, the group confirmed the priority now given to organic growth and to the implementation of its EUR5bn asset disposal programme by FYE10. In addition, EDF finally reached an agreement with Centrica in May (selling 20% of British Energy for EUR2.5bn and buying 51% of Belgium's SPE for EUR1.2bn), but benefited from lower-than-expected cash-in (EUR1.3bn vs. EUR3.5bn initially expected). In that context, EDF's 'A+' will be under growing pressure without significant achievements in the assets disposal programme by FYE. This one notch downgrade risk is however already priced in as EDF is currently trading 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's CDS YTD performance



Source: Calyon

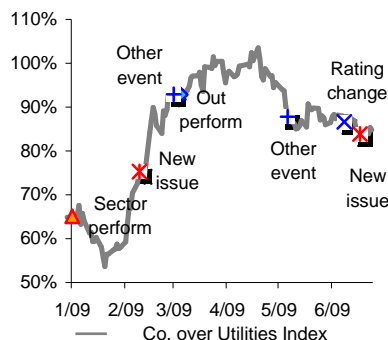
Edison (BBB+/Baa2/BBB+)

Edison released decent Q109 results (EBITDA down by 3.9% YoY to EUR307m) and confirmed its 2009 EBITDA target of EUR1.45bn (-8.7% YoY), but warned that upcoming quarters will fully reflect the sharp drop seen in energy demand and prices. In addition, management stressed that the Abu Qir acquisition (EUR1bn last January) and additional working capital needs will boost net debt to EUR4.5bn by year-end, which will further weight on credit metrics leaving almost no leeway at High-BBB. Altogether, we however still view Edison as a sound BBB-rated energy player, notably thanks to its strategic importance for its parent company EDF (49% stake). In relative value terms, we however keep our Underperform recommendation ahead of Edison's likely return to the bond market before year-end (remaining 2009 funding needs estimated at EUR1bn).

One year rating target: High-BBB (maintained)

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

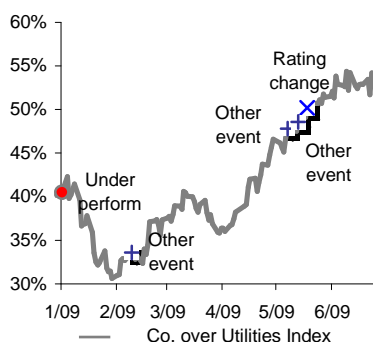
See *Credit Alert – Edison: A decent Q109 but limited leeway*, 1 May 2009

EDP's CDS YTD performance

Source: Calyon

EDP (A-/A3/A-)

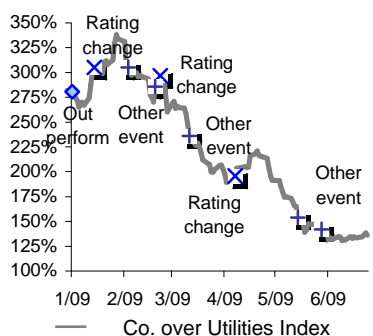
Benefiting from its highly regulated operating profile (80-85% of EBITDA), EDP posted sound Q109 results (EBITDA up by 5%; 16% excl. non recurring-items) and is therefore well on track to achieve its 2009 guidance of stable EBITDA. In strategic terms, the group remains committed to its Capex-driven growth strategy (EUR12bn over 2009-2012) and should therefore not substantially improve its financial flexibility in the coming years. In that respect, our High-BBB rating target remains unchanged and is now consistent with Moody's stand alone rating (Baa1 following early June downgrade). On that basis, EDP still looks attractive, especially taken into account the significant improvement since the beginning of the year. After having already issued EUR2.5bn this year, the group should indeed not be back on the bond markets before next year, which will bring some technical support.

One year rating target: High-BBB (maintained)**Relative value: Outperform (maintained since 09/03/09)**See *Credit Alert – EDP: Well on track in Q109*, 11 May 2009**EnBW's CDS YTD performance**

Source: Calyon

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

EnBW released sound Q109 results (Adjusted EBIT up 8% YoY) thanks to high generation margins that were locked through forward selling in Germany before market prices collapsed last summer. Management however warned about the upcoming erosion of its generation earnings and lowered its 2009 guidance for the electricity division (EBIT up 0-3% vs. 4-6% initially). Altogether, EnBW however still expects a slight increase in consolidated EBIT thanks to positive consolidation effects. In the meantime, EnBW continues to implement its aggressive expansion strategy: while the acquisition of a 26% stake in EWE for EUR2bn is still pending, EnBW announced mid May its intention to purchase EWE's 48% stake in the German gas company VNG, whose value is estimated at some EUR1.2bn. In line with rating agencies, we will cut our one-year rating target by one notch to High-BBB if no mitigating measures are announced during the H109 results presentation (30 July 2009). In that perspective, we maintain our Underperform recommendation on EnBW's 5Y CDS that is still excessively tight (especially versus its parent company EDF - 46% stake) despite its recent underperformance.

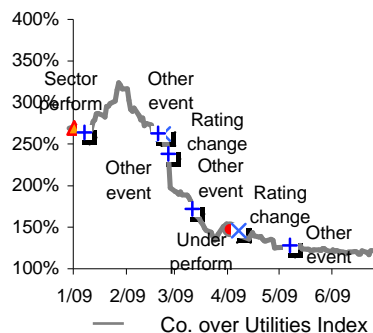
One year rating target: Low-A (under review)**Relative value: Underperform (maintained since 03/04/08)**See *Credit Alert – EnBW: Slowdown ahead!*, 11 May 2009; See *Morning News – EnBW: Moving ahead with the acquisition of a 48% stake in VNG*, 14 May 2009**Enel's CDS YTD performance**

Source: Calyon

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

Benefiting from its increased geographical diversification and its forward selling strategy in Italy, Enel posted decent Q109 results that exceeded market expectations (EBITDA up 14.1% to EUR3.8bn). Despite an increasingly challenging operating environment and the gradual erosion of hedging benefits, Enel is therefore in comfortable position to achieve its 2009 guidance (EBITDA above prior year level). In strategic terms, priority remains given to deleveraging through the already completed EUR8bn capital increase and the on-going implementation of its EUR10bn asset disposal programme by FYE10. In that respect, EUR2.3bn have already been achieved through the disposal of Enel's Italian networks, but visibility on the rest of the programme (valuation/timing) remains limited at this stage. Altogether, we however consider that these conservative measures have succeeded to ease short-term pressure on credit ratings (in line with Enel's official 'Single A' rating target) and spreads, which should allow Enel and Endesa to come back to the bond markets in H209 (combined new issues expected to reach EUR7.5bn by FYE10).

One year rating target: Suspended**Relative value: Suspended**See *Credit Alert – Enel: Decent Q109, but key driver will remain deleveraging*, 13 May 2009; *Credit Alert – Enel: Agrees to sell 80% of its Italian gas network for EUR480m*, 29 May 2009

Endesa's CDS YTD performance

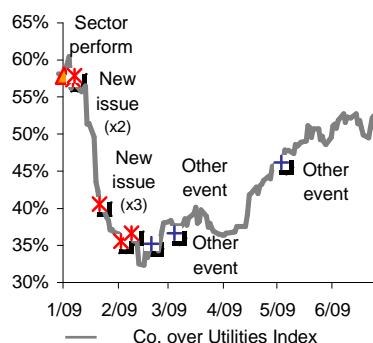
Source: Calyon

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

Despite a challenging operating environment, Endesa presented good Q109 results with EBITDA up 6% YoY to EUR1,729m. Indeed, while Iberian operations have well resisted thanks to efficient hedging strategy, the Latam division benefited from higher generation margins. The group therefore appears well on track to achieve its annual target of stable earnings for 2009. In strategic terms, Q109 accounts confirmed Endesa's releveraging through the execution of the Enel-Acciona agreement: dividend payment of EUR6.2bn indeed pushed up net debt to EUR21.6bn (Net debt/EBITDA of 3.1x, including tariff deficit). However, the new regulatory framework (Spain's RD6/2009) recently approved by the Spanish government should allow Endesa to monetize its tariff deficits and therefore cut net debt by some EUR5.4bn in a near future. Altogether, developments of the past few months have materialised the convergence between Enel and Endesa's financial structure, ratings and spreads, which motivates our change in recommendation (CDS gap between the two names has now almost disappeared).

One year rating target: High-BBB (maintained)**Relative value: Sectorperform (previously Underperform, since 09/04/09)**

See *Credit Alert – Endesa: An eventful Q109*, 11 May 2009; *Credit Alert – Spanish Electricity market: Agreement to resolve tariff deficit by 2012*, 5 May 2009

GDF Suez's CDS YTD performance

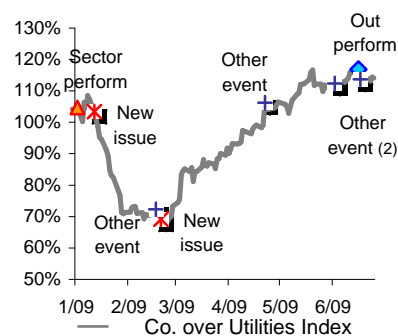
Source: Calyon

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

GDF Suez released stronger-than-expected Q109 earnings (EBITDA up 14.7% YoY to EUR5.3bn, o/w +12.6% organic), but stressed that this performance was mainly driven by non recurring items, especially arbitrage opportunities within the Global Gas division (EUR600m) and positive climate effects (EUR300m). Indeed, when restating these items and taking into account gas tariff deficit (EUR363m in Q109), underlying organic growth is flattish. In that context, the group reaffirmed its cautious guidance for 2009 (EBITDA 2009 > EBITDA 2008) as well as its mid-term targets, notably 2009-2011 EBITDA guidance (between EUR17-18bn). Altogether, although GDF Suez is likely to use its financial flexibility at Mid-A to do some medium-sized acquisitions, we consider that the group will remain a solid player with a well balanced profile in terms of operating and financial leverage.

One year rating target: Mid-A (maintained)**Relative value: Sectorperform (maintained since 06/04/09)**

See *Credit Alert – GDF Suez: An exceptionally good Q109*, 5 May 2009

Iberdrola's CDS YTD performance

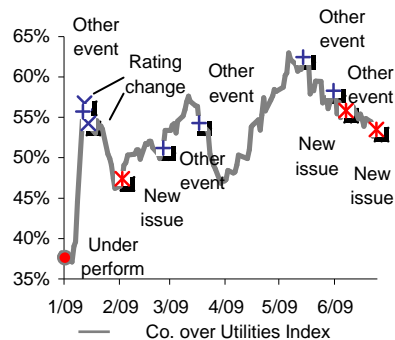
Source: Calyon

Iberdrola (A-/A3/A-)

In a very challenging operating environment, especially in Spain, Iberdrola posted weak but still decent Q109 results (EBITDA down 3.6% YoY excluding perimeter changes). Despite its growing diversification, the group however indicated that its 2010 net income target (EUR3.5bn) could be missed by around 10%. In the meantime, Iberdrola's financial structure had further deteriorated over Q109 due to the payment of interim dividend as well as a further increase in tariff deficit (up to EUR2.6bn). Although the new regulatory framework (Spain's RD6/2009) should allow Iberdrola to monetise its tariff deficits in the near future, Iberdrola decided to complete an EUR1.3bn capital increase mid June in order to secure its Single A ratings while regaining some flexibility in the execution of asset disposal programme that is supposed to generate some EUR2.5bn in 2009 (of which only EUR850m have already been executed). Although diluting ACS may have been the main but undisclosed motivation, this capital increase is at last proving Iberdrola's management's commitment to the Single-A category, and is easing the group's refinancing needs (maximum EUR3bn to be issued by FYE10).

One year rating target: Low-A (maintained)**Relative value: Outperform (since 17/06/09)**

See *Credit Alert – Iberdrola: Is the worst really behind?*, 22 April 2009; *Iberdrola: Sells a 10% stake in Gamesa for EUR392m*, 2 June 2009; *Iberdrola: Launch of a minimum EUR1.25bn capital increase*, 17 June 2009; *Spanish Electricity market: Agreement to resolve tariff deficit by 2012*, 5 May 2009.

RWE's CDS YTD performance

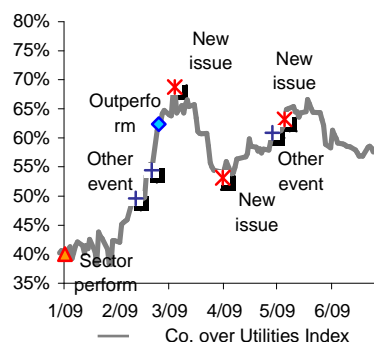
Source: Calyon

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

RWE released stronger-than-expected Q109 results (EBITDA up 4.7%) benefiting from the realisation of forward selling transactions that were contracted before last summer and locked in higher generation margins YoY. Management however warned that its earnings will be gradually hit by falling power demand and energy prices as well as by the 15% cut in gas prices for residential customers from July 2009. In that context, RWE adjusted its FY09 revenues forecast (from growing to stable), but maintained its guidance of stable EBITDA YoY, which looks feasible in view of its hedging strategy. In strategic terms, while the Essent EUR9.3bn acquisition will be completed in Q309, RWE remains committed to its ambitious EUR26bn Capex Plan, which will put its financial flexibility at Mid-A under growing pressure except if mitigating measures are taken. In that respect, the upcoming disposal of its German gas grid as well as the deconsolidation of American Water (stake cut to 49% early June) might not be sufficient. In line with Standard & Poor's, we therefore remain cautious on RWE's strategic choices and rating trend. In that perspective, RWE looks expensive compared to other Mid-A names such as EDF or E.ON, especially taken into account its short-term refinancing needs (new issues expected to reach some EUR7bn by FYE10).

One year rating target: Mid-A (maintained)**Relative value: Underperform (maintained since 14/11/07)**

See *Credit Alert – RWE: Q109 was all about hedging*, 15 May 2009; *Credit Alert – RWE: Cuts its shareholding in American Water to 49%*, 8 June 2009.

Vattenfall's CDS YTD performance

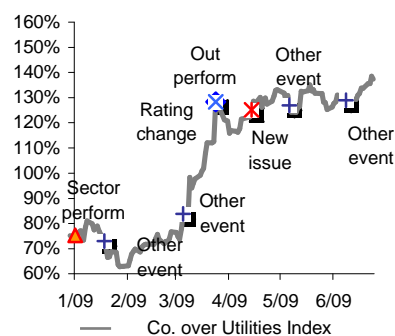
Source: Calyon

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

Vattenfall reported sound Q109 results (4.4% organic growth in EBIT), but is expecting weaker earnings in the coming quarters due to low electricity prices and therefore growing pressure on its generation margins. We however expect Vattenfall to achieve a steady performance in FY09 thanks to its hedging policy. In strategic terms, following the acquisition of Nuon for an enterprise value of EUR8.5bn, the group has entered into a "digestion" phase, with top priority now being to protect its 'single A' ratings. In that perspective, Vattenfall remained fully committed to implementation of the credit friendly measures announced last February: 5% cut of its 2009-13 Capex Plan (down to SEK191bn) and asset disposals for more than EUR1.5bn over the short-term (mainly through the disposal of its German grid network). In addition, the group has already refinanced through new bond issues the EUR5bn bank facility used for the acquisition of the initial 49% stake in Nuon, which justified its recent CDS outperformance. In our opinion, Vattenfall's CDS looks now fairly priced.

One year rating target: Low-A (maintained)**Relative value: Sectorperform (previously Outperform, since 24/02/09)**

See *Credit Alert – Vattenfall: Ready to face the storm*, 30 April 2009

Environmental players**Veolia's CDS YTD performance**

Source: Calyon

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

Due to the collapse of industrial waste volumes, Veolia Environment's Q109 results (EBITDA down 6.6% YoY to EUR1,059m) were weak but totally in line with market expectations and consistent with the FY09 EBITDA guidance of EUR4bn. In addition, the group improved its free cash flow generation capacity in Q109 and therefore confirmed its 2009 top priority of being free cash flow positive, after Capex, dividend and asset disposals that are supposed to reach EUR1bn in this year. Despite S&P's negative outlook, we consider that the group will remain correctly positioned at High-BBB if it continues to be on track for achieving its 2009 objectives. In addition, Veolia should not come back to the bond market this year, which supports the outperformance potential of its 5YCDs.

One year rating target: High-BBB (maintained)**Relative value: Outperform (maintained since 26/03/09)**

See *Credit Alert – Veolia Environnement: On track in Q109*, 7 May 2009; *Credit Alert – Veolia Environnement: Possible deal with Transdev*, 12 June 2009.

Suez Environnement (NR/A3/NR)

Due to its significant exposure to waste activities in Europe, Suez Environnement released worse-than-expected Q109 results (5.3% organic drop in EBITDA). Although this performance is well below the objective of achieving low single-digit growth in both revenues and EBITDA this year, Suez Environnement SE confirmed its 2009 guidance, including the already announced Capex cuts and cost saving measures. While net debt was stable over Q109 at EUR6.0bn, SE is keeping its financial flexibility almost unchanged at Low-A (Net debt/EBITDA of 2.9x vs. 2.8x at FYE08 < 3.0x maximum target). In term of funding, the group's entry on the bond markets was successful with already EUR2,350m issued this year. Going forward, we expect SE to issue another EUR1.5bn by FYE10.

One year rating target: Low-A (maintained)

Relative value: Overweight (cash only)

See *Credit Alert – Suez Environnement: Worrying trend in Q109*, 29 April 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 to EUR117m versus EUR157m initially, in order to adapt to lower volumes on the Belgian electricity market. In addition, after many years of inactivity, Elia was back on the bond market in last April (EUR1bn new issue), in order to refinance its 2009 redemptions.

One year rating target: Low-A (maintained)

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

REE unveiled sound Q109 results with EBITDA up 7.1% YoY to EUR219m and remained committed to its 2009-2013 Investment plan, despite the depressed situation of the Spanish electricity market. Altogether, we still consider REE as a defensive regulated player which is not exposed to volumes risk and therefore, keep unchanged our overweighting recommendation on potential new issues that will be needed when the acquisition of the remaining Spanish transmission assets (mostly owned by Endesa and valued at some EUR1.0-1.5bn) takes place (deadline being July 2010).

One year rating target: Mid-A (maintained)

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.

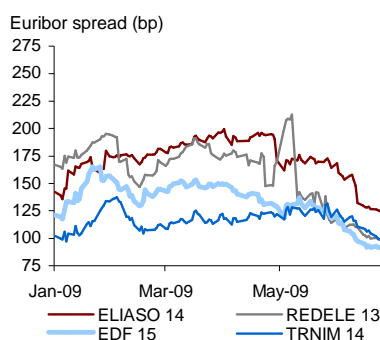
One year rating target: Low-AA (maintained)

Terna (A+/A2/A)

Being immunized to volumes drop in 2009, Terna released strong Q109 results (EBITDA up 8.6% YoY to EUR267m) that confirmed the good visibility offered on its operating performance. In addition, after completing the EUR1.1bn acquisition of Enel's high voltage grid in Italy, Terna has ruled out any other M&A and announced the sale of its Brazilian assets for some EUR780m. Although the proceeds of this sale will be mainly used to finance Terna's massive investment programme in Italy (EUR700m p.a. over 2009-2013), we expect the group to stabilise its financial structure at Mid-A. In addition, Terna successfully has already successfully refinanced its Enel's acquisition through a new EIB loan and bond issue.

One year rating target: Mid-A (maintained)

Networks' bonds YTD performance



Source: Calyon

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

Utilities earnings calendar

July

29	Monday	30	Tuesday	1	Wednesday	2	Thursday	3	Friday
6	Monday	7	Tuesday	8	Wednesday	9	Thursday	10	Friday
13	Monday	14	Tuesday	15	Wednesday	16	Thursday	17	Friday Fortum HY09 Results
20	Monday	21	Tuesday	22	Wednesday Iberdrola Q209 Results	23	Thursday	24	Friday Edison HY09 Results
27	Monday	28	Tuesday	29	Wednesday Terna Gas Natural HY09 Results	30	Thursday EnBW Enel EDF Repsol Vattenfall HY09 Results	31	Friday

August

3	Monday	4	Tuesday	5	Wednesday	6	Thursday Veolia HY09 Results	7	Friday
10	Monday	11	Tuesday	12	Wednesday E.ON Q209 Results	13	Thursday RWE CEZ HY09 Results	14	Friday
17	Monday	18	Tuesday	19	Wednesday	20	Thursday	21	Friday
24	Monday	25	Tuesday	26	Wednesday Suez Env. HY09 Results	27	Thursday GDF Suez HY09 Results	28	Friday Elia HY09 Results

September

31	Monday	1	Tuesday	2	Wednesday	3	Thursday	4	Friday
7	Monday	8	Tuesday	9	Wednesday	10	Thursday	11	Friday
14	Monday	15	Tuesday	16	Wednesday	17	Thursday	18	Friday
21	Monday	22	Tuesday	23	Wednesday	24	Thursday	25	Friday
28	Monday	29	Tuesday	30	Wednesday	1	Thursday	2	Friday

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Data releases as of 2 June 2009

Appendix – Summary of CDS recommendation

Issuer	Ratings		Spot CDS	Variation			Expected Trend	Spot vs Index		Perf. Expectation vs Sector Index		
	S&P/Moody's	Calyon		1 Week	1 Month	YTD		Ratio	Fair Value	Spot-FV	Previous	Since
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, i.e. 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 17th Apr 2009)

	All covered companies		Companies where Calyon provided Investment Banking Services in past 12 months	
	Count	Percentage	Count	Percentage
Outperform	16	18%	4	25%
Sectorperform	43	48%	11	26%
Underperform	31	34%	3	10%

Disclosures

Company Name Disclosure

Centrica	None	National Grid	None
E.ON	G	Nuon	None
EDF	G	Red Electrica de Espana	None
Edison	None	Repsol	None
EDP	None	RTE	G
Elia	None	RWE	G
Enagas	None	Suez Environnement	None
EnBW	None	Terna	None
Enel	None	TVO	None
Essent	None	Vattenfall	None
EWE	None	Veolia Environnement	G
Gas Natural	None	Verbund	None
GDF Suez	E, G	VNG	None
Iberdrola	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.
F	Crédit Agricole Cheuvreux and/or a company in the Crédit Agricole S.A. group is a market maker or a liquidity provider for the financial instruments of the Company.
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J	An executive director of the Credit Agricole S.A. group is a director or board member of the company.

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