KPMG

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Power & Utilities Newsletter

Q1 2014

PRICES AND MARGINS

- Electricity baseload prices in Continental Europe have continued their trend of low values (around 30€/MWh), high volatility and low differential vs peak prices.
- Prices in the UK have slightly decreased to around 40€/MWh, with lower volatility and low differential vs peak
- Gas border prices in Europe have stabilised around 12 USD/MMBTU, well above Henry Hub levels (4 USD/MMBTU)
- Coal continues to decline in price, reaching 70-80 USD/t
- As a result, spark spreads are negative across Continental Europe (close to zero in the UK), while dark spreads are only marginally positive

REGULATORY NEWS

- The EU launched a new energy policy framework for 2030 emphasizing energy competitiveness vs other regions
- Germany has launched the Electricity reform (100% renewable target by 2050), while defining new Grid Development Plan and reserve capacity needs until 2018
- Spain completing its regulatory reform, with new Electricty Law approved and new regulation defined for networks and renewables/cogen
- UK implementing RIIO regulation, setting new rules for retailers and preparing auctions for new capacity builds
- The U.S. continues exploring the possibility of further opening the export of LNG

CAPITAL MARKETS

- Positive quarter in share price evolution for most European utilities, except for UK-centered players (SSE, Centrica).
- Best performers include EDP, Enel and their renwablres subsidiaries
- Valuation levels have widened, with EV/EBITDA now ranging from 3,4 (RWE) to 10,1 (National Grid)
- Debt levels of major players have moderated, with credit rating maintained in all cases except Centrica (downgraded in late December)

M&A

- M&A activity has remained strong in Q1 2014, driven by deleveraging of major players
- Largest deals have included:
  - The sale of RWE Dea to LetterOne Group (1.7 €bn)
  - The acquisition of Tennet Offshore by Copenhagen Infrastructure Partners (2,1 €bn)
  - EDF selling its 50% stake in Dalkia to Veolia Environnement (1,5 €bn)

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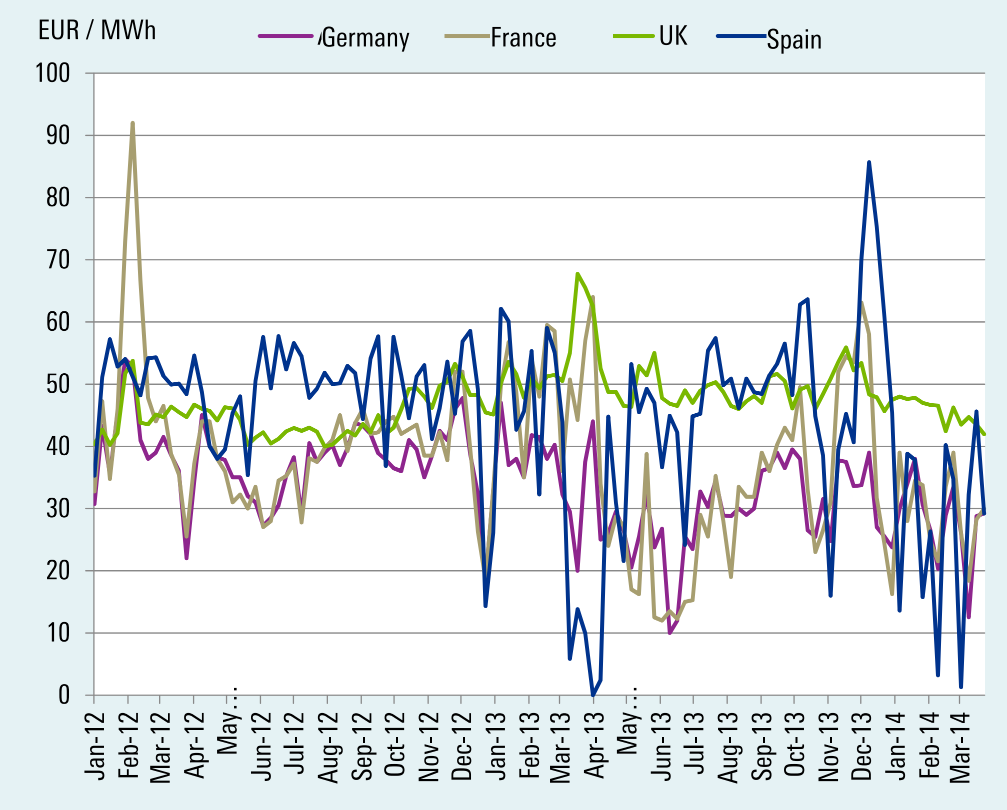
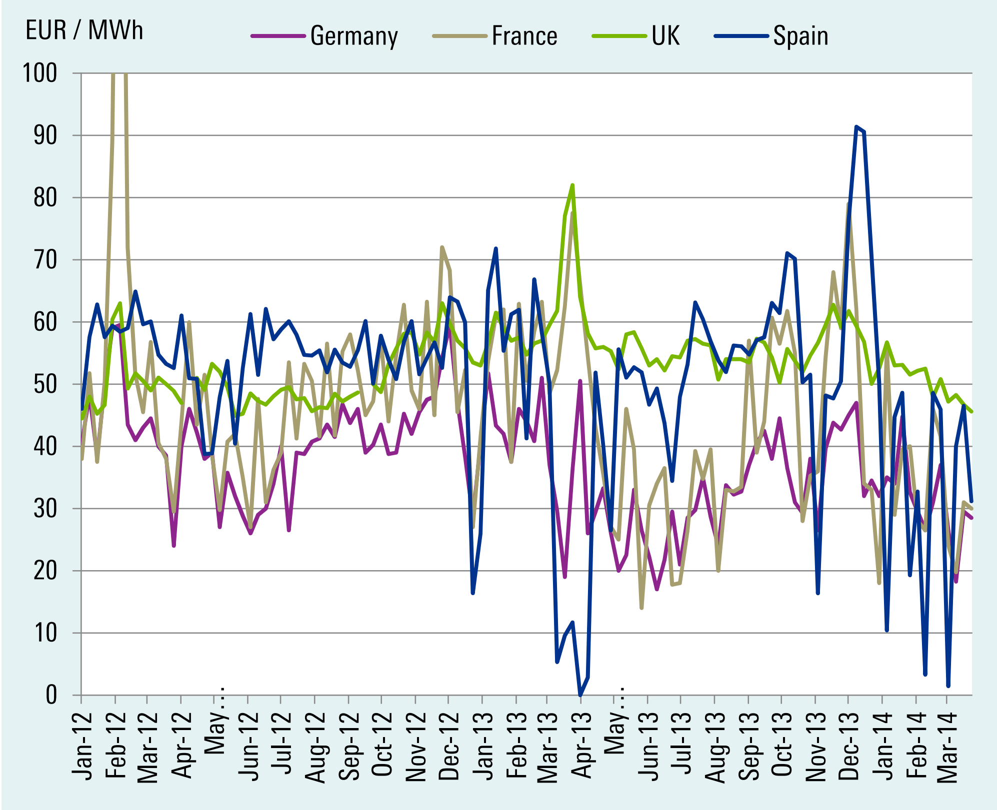
Electricity price evolution

Base Load



Peak Load



Source: Bloomberg

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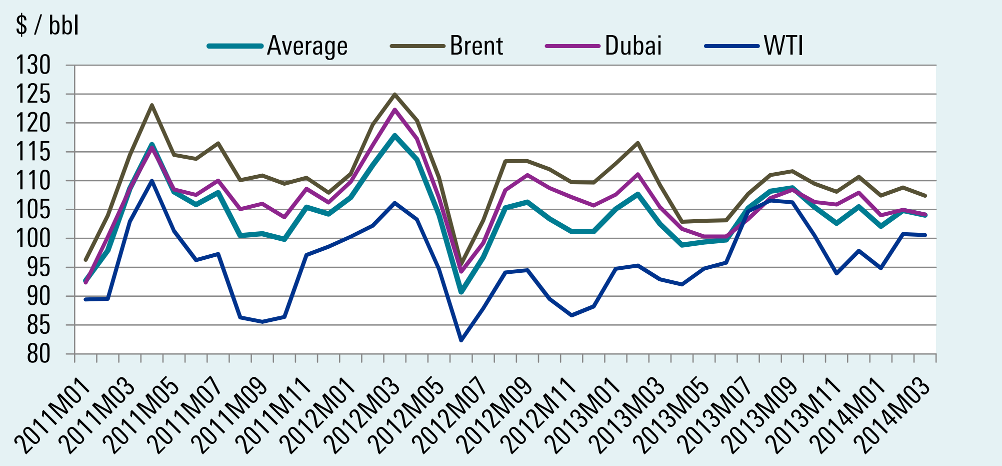
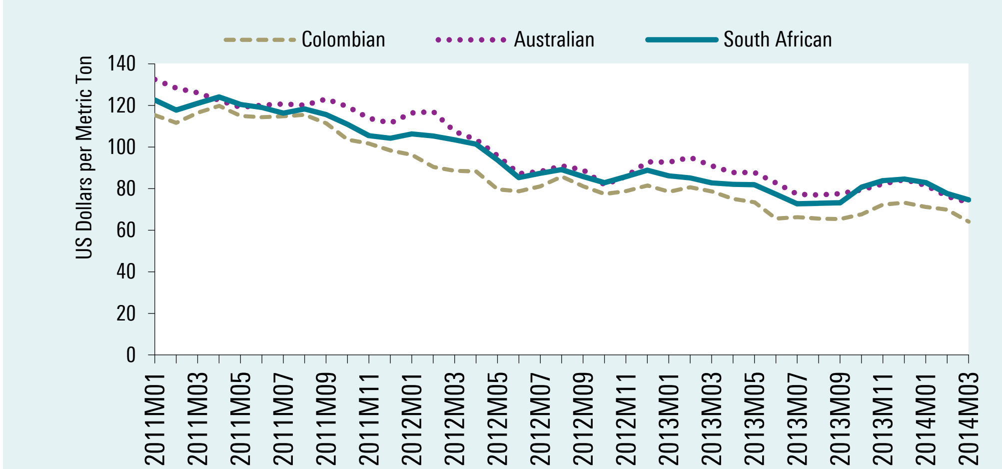
Fuel price evolution

Crude Oil

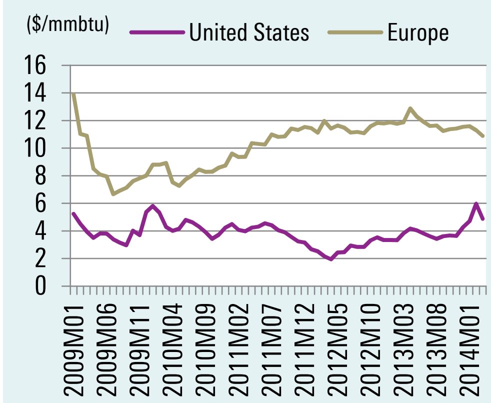


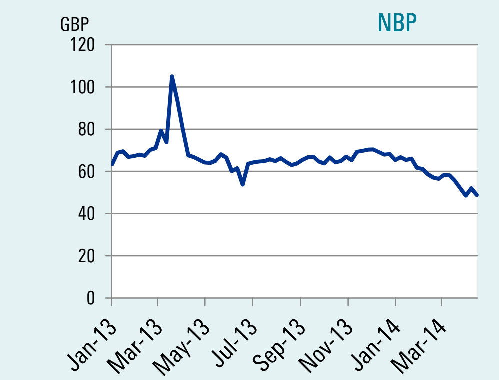
Coal: South African, Colombian and Australian export price Monthly Price



Carbon price – EU ETS

Gas prices: US (H.Hub), EU (border prices), NBP





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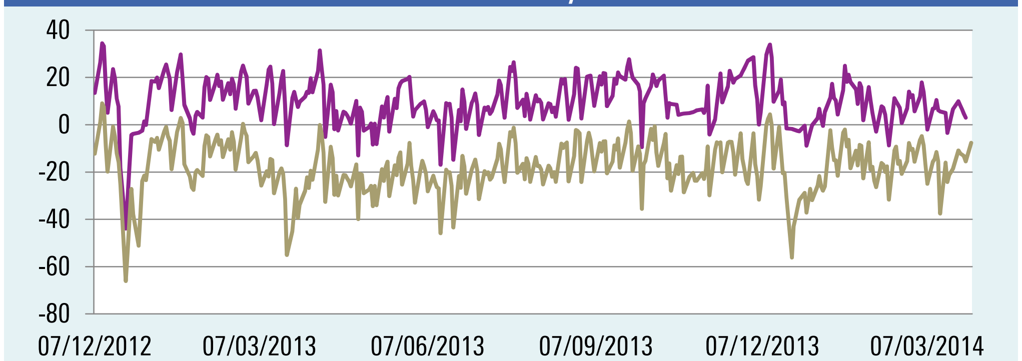
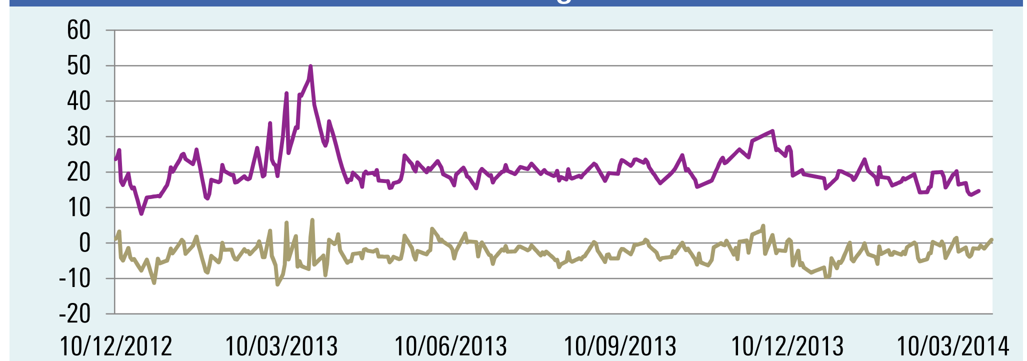
Source: Bloomberg; BAFA, World Bank

Clean dark and spark spreads (EUR/MWh)

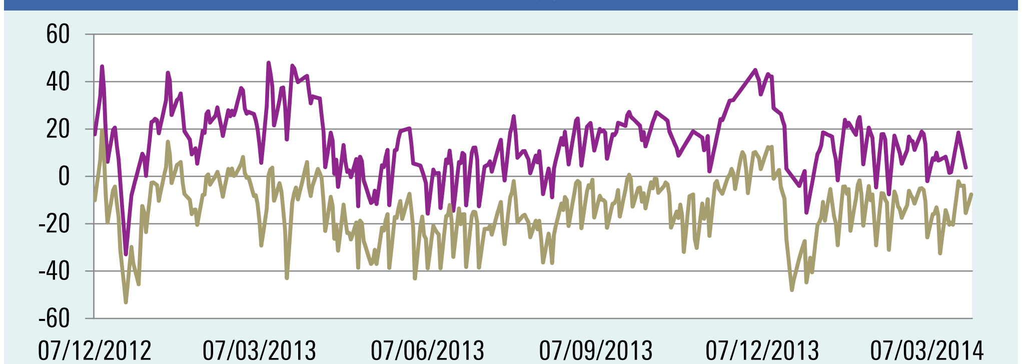
Germany



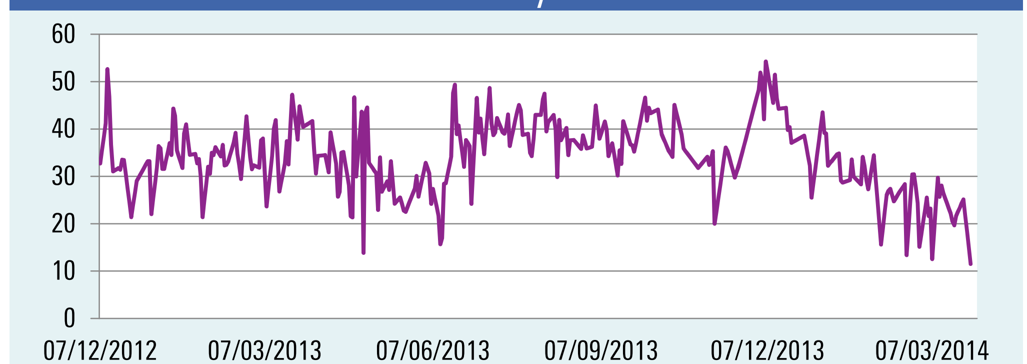
United Kingdom



France



Italy



Clean dark spread
Clean spark spread

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REGULATORY NEWS

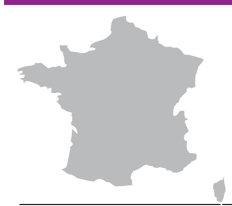
EU

- 2030 policy framework for climate and energy proposed by the European Commission (renewable energy target of at least 27%).
- Publication of an interactive map of the implementation plans for the first list of projects of common interest (PCIs) by type of infrastructure.
- Energy efficiency in buildings: Commission refers Belgium and Finland to Court for failing to fully transpose EU rules.
- The European Commission and Georgia launched negotiations for Georgia's accession to the Energy Community (single European energy market).

SPAIN

- Approval of the new Electricty Sector Law
- New regulation of tariffs of last resort
- New methodology for electricity transmission and distribution remuneration
- New regulation for renewables&cogen remuneration approved (pending ministerial order).
- New rules for power and gas interconnections
- New legislation on consumer protection

FRANCE



- Assignment of capacity in the electrical interconnection between France and Spain.
- GRTgaz has awarded the construction of the “Arc de Dierrey” pipeline in the Aube Department.

GERMANY

- Electricity reform (Energiewende). Target: 100% renewable energies by 2050.
- 2013 Electricity Grid Development Plan and 2013 Offshore Grid Development Plan confirmed.
- Public consultation launched to define 2025 renewable scenario.
- Reserve capacity needs until 2018 published.
- PV feed-in tariff falls by 1%.

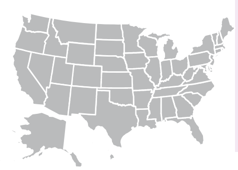
UK

- Efficiency analysis in electricity and gas (RIIO Model)
- Tougher rules for suppliers to make switching more reliable to customers.
- Approval of entry capacity auctions methodology for the Gas Transmission System
- New rules for electricity suppliers and brokers.
- Simplified commercial offers for consumers.

ITALY

- New tariffs for covering the costs of energy efficiency (Delibera 13/2014/R/efr).
- Modification of gas contracts(19/2014/R/gas).
- Capacity allocation of interconnected gas transmission (137/2014/gas).

UNITED STATES



- The U.S. continues exploring the possibility of opening the export of LNG.
- Strengthening of ciber security in the energy sector.
- Suspension of nuclear-waste fees.

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Source: KPMG

SPAIN: Links to new key regulation

News	Link
Basic legislation on power sector (Ley 24/2013)	Link
CNMC publishes provisional settlements for electricity, gas, and renewable energies sectors	Link I Link II Link III
Calculation methodology for voluntary price for small consumers	Link
Methodology for calculating the remuneration of electricity transmission and distribution	Link I Link II
CNMC and CRE approve new rules for French-Spanish interconnection	Link
Spanish General Law for the Defense of Consumers and Users and other complementary laws (Ley 3/2014)	Link
Congestion management mechanisms in international pipeline interconnections with Europe	Link

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Share price evolution (EUR)

Company	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Last Quarter Q1 2014/ Q4 2013	Last Year Q1 2014/ Q1 2013
REE	41,14	40,35	41,31	45,78	54,66	19,39%	32,88%
Enel SpA	2,94	2,77	2,59	3,18	3,62	13,87%	23,31%
EDP Renováveis	4,04	3,89	3,85	3,93	4,47	13,67%	10,64%
Enel Green Power SpA	1,47	1,60	1,64	1,75	1,96	12,38%	33,79%
EDP	2,36	2,50	2,62	2,67	2,99	11,72%	26,43%
Endesa SA	17,41	17,03	17,75	21,17	23,29	10,01%	33,75%
Enagás SA	17,86	19,30	18,10	19,06	20,77	8,94%	16,30%
Gas Natural SDG SA	14,72	15,61	15,07	17,58	18,87	7,34%	28,15%
Snam SpA	3,61	3,65	3,57	3,82	4,09	7,08%	13,12%
National Grid plc	7,12	7,89	7,53	7,68	8,08	5,23%	13,50%
EDF	14,51	17,19	21,08	25,70	26,96	4,89%	85,79%
RWE AG	28,76	27,21	22,70	26,91	27,87	3,55%	-3,12%
Iberdrola SA	3,92	4,07	4,12	4,56	4,72	3,48%	20,41%
Fortum Oyj	14,59	14,67	15,27	16,57	16,68	0,66%	14,35%
CEZ as*	618,45	549,76	469,76	526,93	528,02	0,21%	-14,62%
E.ON SE	13,36	13,30	12,57	13,60	13,62	0,16%	1,92%
SSE Plc	14,40	15,46	15,70	13,91	13,88	-0,22%	-3,62%
GDF SUEZ SA	15,00	15,86	16,69	17,85	17,80	-0,25%	18,71%
Centrica plc	3,48	3,75	3,85	3,49	3,23	-7,32%	-7,21%
Eurostoxx Utilities	222,87	226,15	224,04	249,48	262,29	5,13%	17,70%

*CZK

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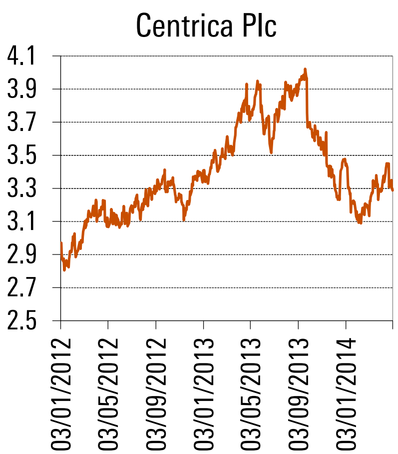

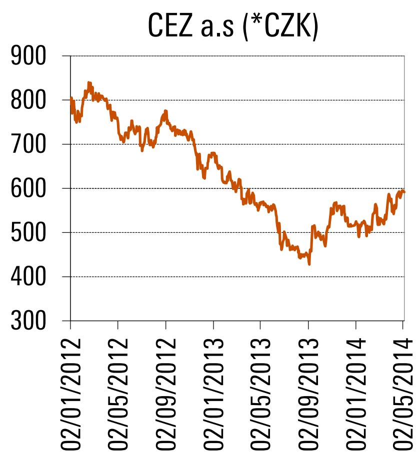

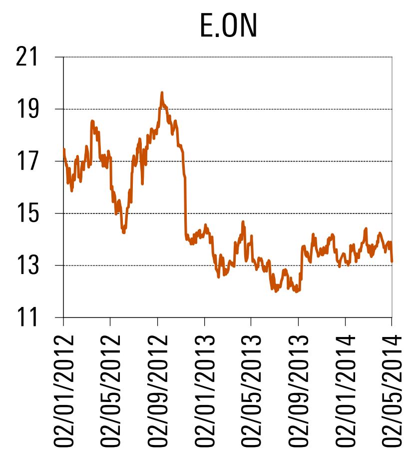

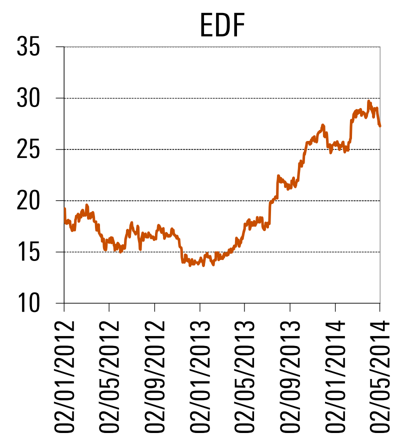

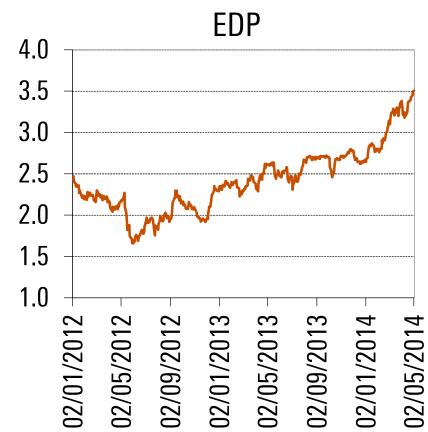

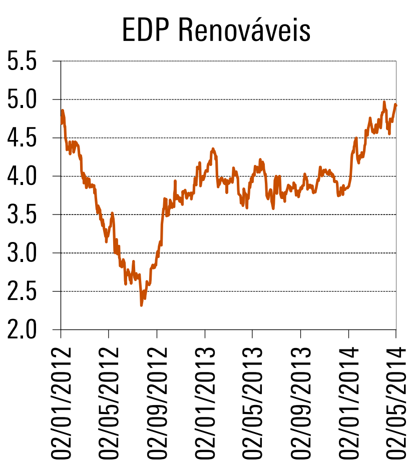

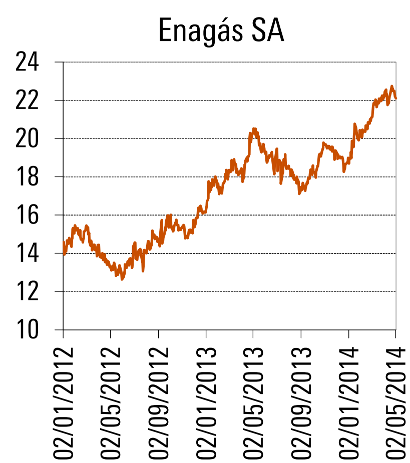

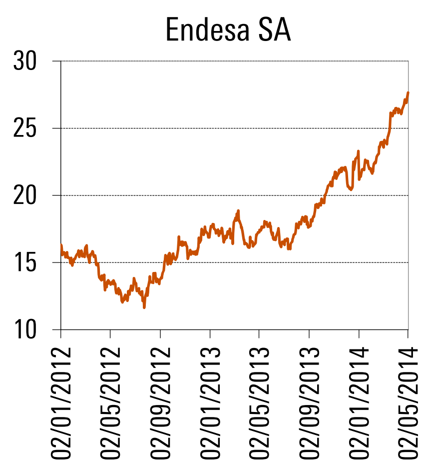

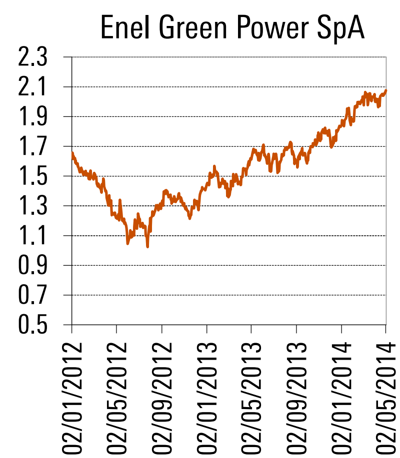

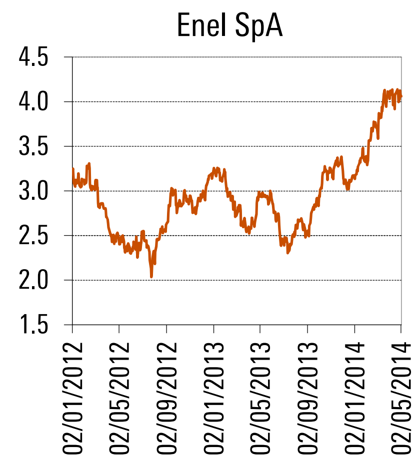

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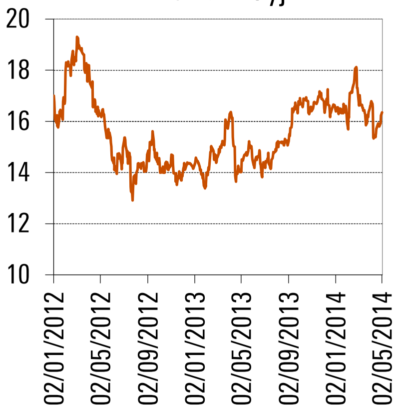
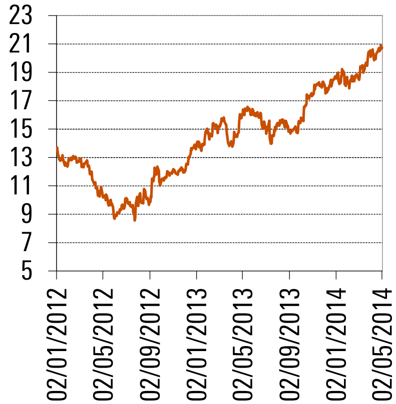
Share price evolution (EUR)

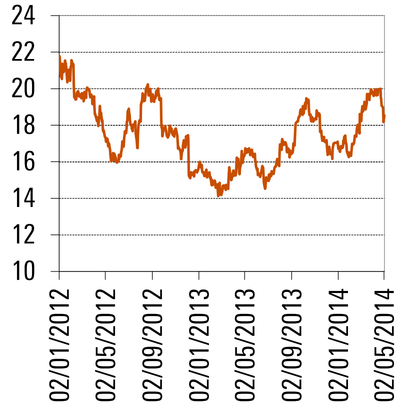
Fortum Oyj



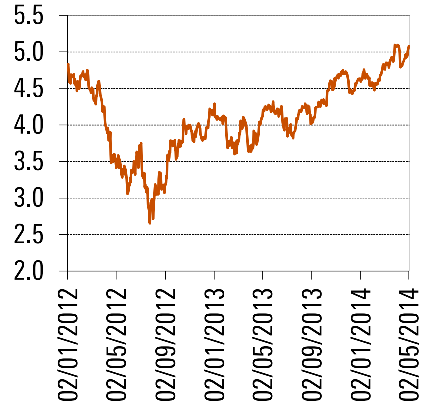
Gas Natural SDG SA



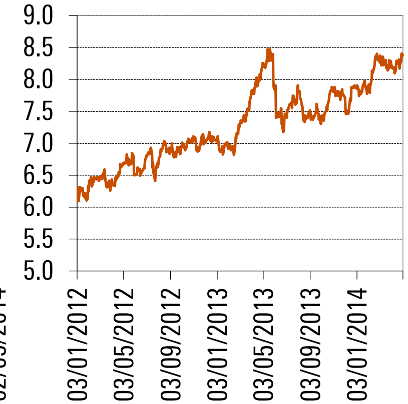
GDF SUEZ SA



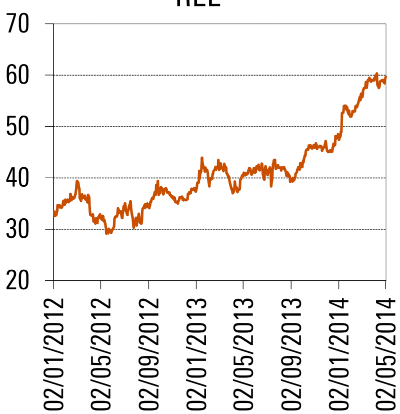
Iberdrola SA



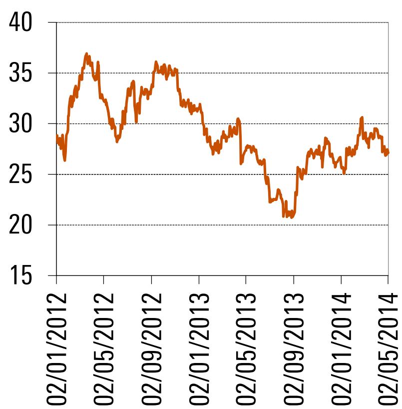
National Grid Plc



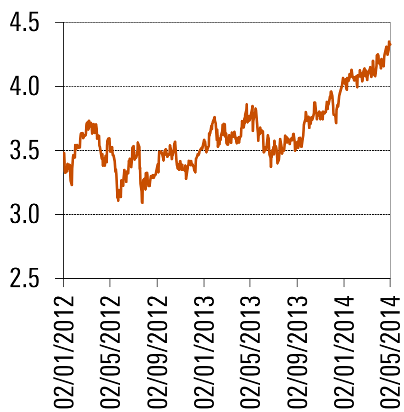
REE



RWE AG

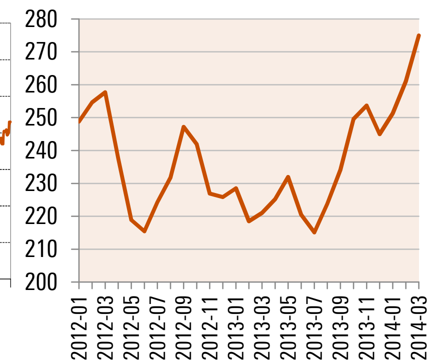


Snam SpA



SSE Plc

Eurostoxx Utilities



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Source: Capital IQ,

Relative valuation per company

	EV / EBITDA 2013	EV (EUR mill.)	Market Capitalization (EUR mill.)
National Grid plc	10,1	52.783	29.395
Fortum Oyj	9,7	23.346	14.774
Snam S.p.A.	9,7	27.069	13.742
Enel Green Power S.p.A.	9,0	16.142	9.155
REE	8,6	11.186	6.543
EDP-Energias de Portugal, S.A.	8,5	31.116	9.689
SSE plc	8,3	19.152	13.178
Enagás SA	8,1	8.338	4.535
Iberdrola SA	7,7	56.960	28.889
EDP Renováveis	7,6	7.345	3.368
Gas Natural SDG SA	7,1	35.634	18.708
Enel SpA	5,9	95.156	29.846
Centrica plc	5,8	23.006	17.677
GDF SUEZ S.A.	5,8	78.503	40.298
Endesa SA	5,2	34.473	24.669
Electricite de France SA	5,1	83.939	47.719
CEZ, a.s.	5,1	15.048	10.055
E.ON SE	4,9	45.473	25.627
RWE AG	3,4	30.050	16.271
	Weighted average: 6,7	Total: 694.719	Total: 364.138

*CEZ values in local currency are 413.255 CZK mill. for EV and 276.137 CZK mill. for Market Capitalization. Values shown in the table are calculated using a EUR/CZK exchange rate of 0,03641.

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Source: Capital IQ,

Leverage and credit ratings

	Net Debt/ EBITDA	Rating S&P	Date	Rating Moody's	Date	Rating Fitch	Date
EDP-Energias de Portugal, S.A.	5,0	BB+	01-feb-12	Ba1	13-nov-13	BBB-	15-abr-2014 (rating watch maintained)
Snam S.p.A.	4,8	BBB+	11-jul-13	Baa1	18-feb-14	-	-
National Grid plc	4,5	A-	24-ago-07	Baa1	13-dic-13	BBB	12-dic-2013 (rating affirmed)
Iberdrola SA	3,8	BBB	28-nov-12	Baa1	13-dic-13	BBB+	25-mar-2014 (rating affirmed)
EDP Renováveis	3,7	-	-	-	-	-	-
Enagás SA	3,7	BBB	15-oct-12	Baa2	14-feb-14	A-	30/04/2014 (rating affirmed)
REE	3,6	BBB	15-oct-12	-	-	A-	30/04/2014 (rating affirmed)
Fortum Oyj	3,3	A-	27-nov-12	A2	15-jul-05	A-	06-dic-2013 (rating affirmed)
Enel Green Power S.p.A.	3,3	-		-	-	-	-
Gas Natural SDG SA	3,1	BBB	17-dic-10	Baa2	11-dic-13	BBB+	10-ene-2014 (rating affirmed)
Enel SpA	3,0	BBB	11-jul-13	Baa2	12-dic-13	BBB+	15-abr-2014 (rating affirmed)
SSE plc	2,6	A-	21-ago-09	A3	22-sep-09	A-	30-sep-2013 (rating affirmed)
GDF SUEZ S.A.	2,0	A	22-jul-08	A1	04-feb-11	-	-
Electricite de France SA	1,9	A+	17-ene-12	Aa3	14-ene-09	A+	12-dic-2013 (rating affirmed)
E.ON SE	1,8	A-	27-jul-12	(P)A3	21-jun-13	A-	23-abr-2014 (rating affirmed)
CEZ, a.s.	1,6	A-	02-oct-06	A2	27-mar-14	A-	17-abr-2014 (rating affirmed)
RWE AG	1,4	BBB+	27-jul-12	Baa1	21-jun-13	BBB+	12-dic-2013 (rating affirmed)
Centrica plc	1,3	A-	29-may-09	A3	05-feb-13	A-	16-dic-2013 (rating downgrade)
Endesa SA	0,5	BBB	13-jul-13	-	12-dic-13	BBB+	15/04/2014 (rating affirmed)
	Average: 2,9						

Source:Capital IQ; S&P; Moody's; Fitch.

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- M&A activity has remained strong in Q1 2014, driven by deleveraging of major players
- Largest deals have included:
  - The sale of RWE Dea to LetterOne Group (5,1 €bn)
  - The acquisition of Tennet Offshore by Copenhagen Infrastructure Partners (1,7 €bn)
  - EDF selling its 50% stake in Dalkia to Veolia Environnement (1,5 €bn)

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M&A Activity Q1 2014

TOP 10 M&A operations in the P&U sector in Q1 2014 by deal value

Announced Date	Target Company	Target Description	Target Country	Bidder Company	Bidder Country	Seller Company	Deal Value EUR(m)
16/03/2014	RWE Dea AG	Germany based oil and gas production and exploration company	Germany	LetterOne Group	United Kingdom, Luxembourg	RWE AG	5100
17/02/2014	TenneT Offshore DolWin3 Beteiligungs GmbH & Co. KG (67% Stake)	Germany based offshore cable project under construction of a 900 MW DC grid connection for wind farms of TenneT Holding B.V.	Germany	Copenhagen Infrastructure Partners	Denmark	TenneT Holding B.V.	1711
25/03/2014	Dalkia International (50% Stake)	France based company that provides energy conservation, cleaning and maintenance services	France	Veolia Environnement SA	France	Electricite de France SA	1489
12/02/2014	Macquarie Generation	Australia based company engaged in production and sale of electricity	Australia	AGL Energy Limited	Australia	Government of New South Wales	999
31/01/2014	London Array 1 offshore wind farm (25% Stake)	UK based offshore wind farm with an installed capacity of 630 Megawatt	United Kingdom	Caisse de Depot et Placement du Quebec	Canada	DONG Energy A/S	777
28/03/2014	Empresa Electrica Guacolda S.A. (49.9% Stake)	Chile based energy company	Chile	Global Infrastructure Partners	United Kingdom,USA	Empresas Copec S.A.; Inversiones Ultraterra Limitada	529
17/02/2014	Dobreve Energia S.A.	Brazil based renewable energy company	Brazil	CPFL Energias Renovaveis S.A.	Brazil	Arrow – Fundo de Investimento em Participacoes	515
14/02/2014	China National Offshore Oil Corporation (Wind power assets)	The wind power assets of China National Offshore Oil Corporation	China	China National Nuclear Corporation	China	China National Offshore Oil Corporation	482
22/02/2014	Xinhua Hydroelectric Co Ltd (55% Stake)	China based company engaged in hydroelectric generation business	China	China Nuclear Power Co Ltd	China	Xinhua Water Conservancy Holdings Corporation	473
02/03/2014	Karcham Wangtoo hydropower project; Baspa II hydropower project	India based hydropower project	India;India	Abu Dhabi National Energy Company PJSC	United Arab Emirates	Jaiprakash Associates Limited	446

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Source: Mergermarkets

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