KPMG

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European Power & Utilities Report

Q3 2014

PRICES AND MARGINS

- Electricity baseload prices in Central Europe have strongly recovered in Q3 from their low summer values of around 20€/MWh to ~40€/MWh.
- Prices in the UK have also increased in Q3 but at a slower pace
- Baseload prices in Spain have dramatically recovered to reach ~60€/MWh
- Oil prices have started a significant downward trend at the end of Q3
- Gas border prices in Europe have decreased to values around 9 USD/MMBTU, still well above Henry Hub levels (4 USD/MMBTU).
- Coal prices continue their slow decline trend and have reached ~70 USD/t
- As a result, gas-based generation margins (spark spreads) are recovering slowly to slightly positive values, while coal-based margins (dark spreads) are also improving across Europe

REGULATORY NEWS

- EU leaders agreed on 23 October 2014 the main building blocks of the 2030 policy framework for climate and energy
- German Lawmakers voted to reduce renewable energy subsidies: extensive revision of the country´s EEG clean-energy law.
- UK's Ofgem opened investigation into British Gas, E.ON and Npower over advanced meter roll-out performance, published draft determinations in electricity distribution and proposed new transparency rules
- Spain's CNMC published provisional settlements (Settlements 8/2014)
- New regulation was enacted in Italy regarding commercial quality in gas distribution, unbalance management in power, invoice transparency and simplification for power and gas and peak shaving in gas
- FERC approved Cameron LNG Export project.

CAPITAL MARKETS

- Eurostoxx Utilities evolution in Q3 2014 has been slightly positive (+1,3%), but individual share price evolution has been extremely diverse
- 4 out of the 5 best performers have been Iberian-based companies. Worst performers in the quarter include French players, UK merchants and the Italian incumbent
- Valuation levels continue to present wide differences, with EV/EBITDA now ranging from 5-7 for merchant players to 10-12 for grid and renewable companies
- Net debt levels have remained stable among large players around 3,0 x EBITDA, with unchanged credit ratings

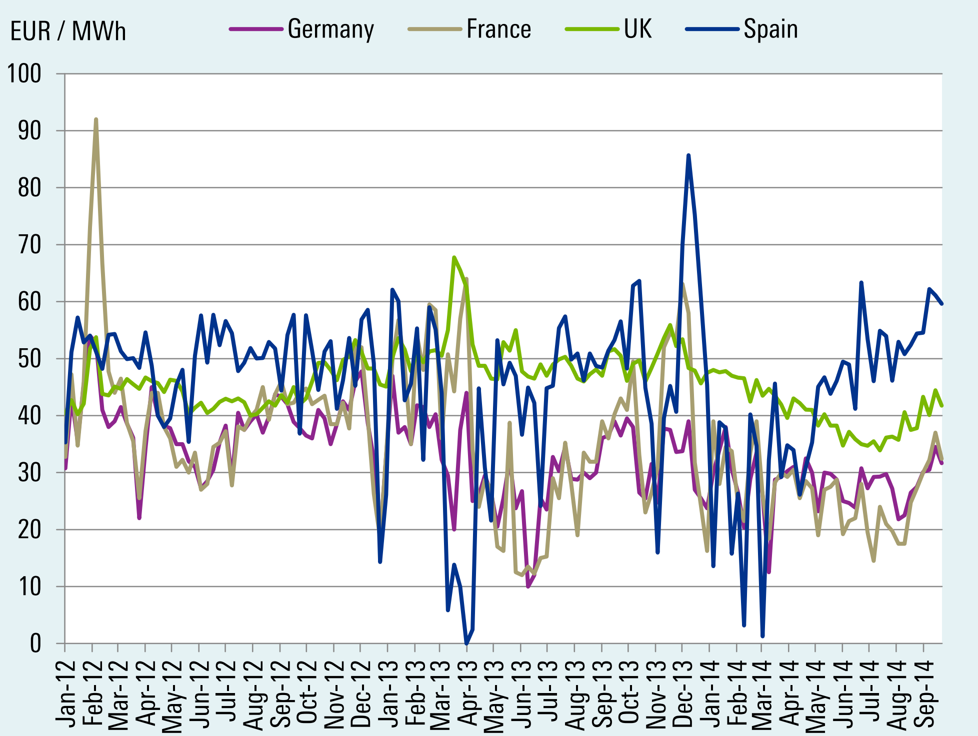
M&A

- M&A activity in the Energy sector has continued to be strong in Q2-Q3 2014, driven by Americas- and Asia-based deals and internal portfolio rearrangement of large groups
- Largest deals have included:
  - The minority buyouts by Kinder Morgan at Kinder Morgan Energy Partners (44 €bn), Kinder Morgan Management LLC (7,7 €bn) and El Paso Energy Partners (7,5 €bn)
  - The acquisition of Pepco Holdings by Exelon (8.8 €bn)
  - The acquisition by Enel of Endesa's Latam business, including Enersis (7,9 €bn)
  - Wisconsin Energy Corporation's purchase of Integrys Energy (6,6 €bn)

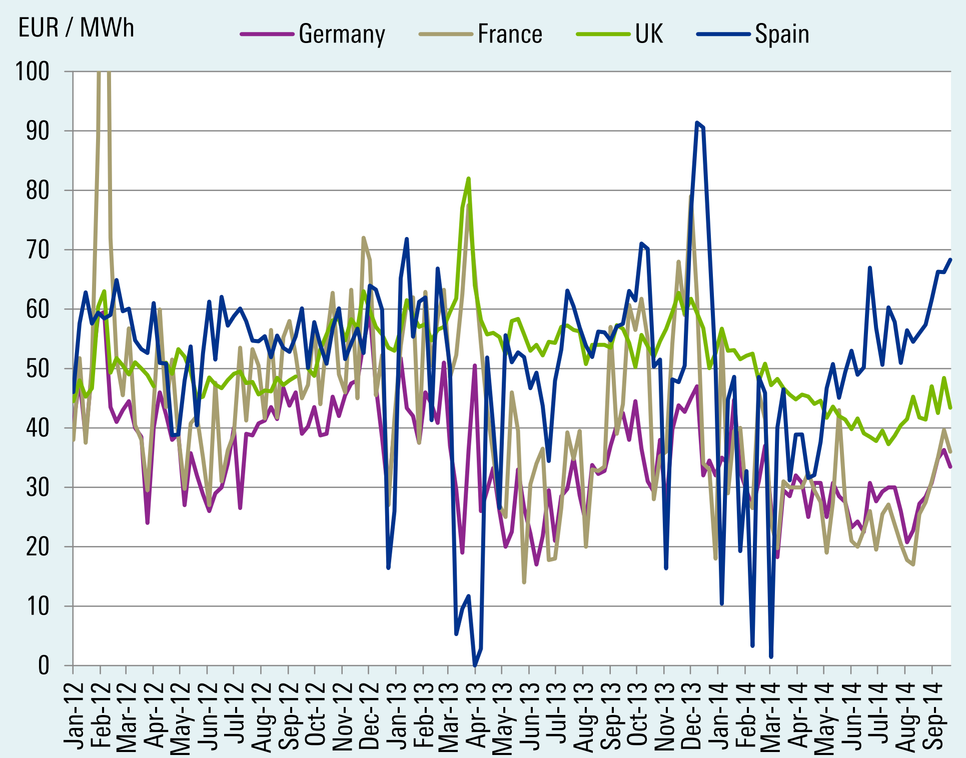
- Electricity baseload prices in Central Europe (France, Germany) have strongly recovered in Q3 from their low summer values of around 20€/MWh to ~40€/MWh. Peak-baseload differentials remain very low
- Prices in the UK have also recovered in Q3 but at a slower pace, resulting in the lowest differentials vs Continental Europe since 2012
- Baseload prices in Spain have dramatically recovered to reach ~60€/MWh, confirming their very high volatility; peak-baseload have increased to reach 10€/MWh in late September
- Oil prices have started a downward trend at the end of Q3 following weaker demand and high LTO production in the US
- Gas border prices in Europe have decreased to values around 9 USD/MMBTU, still well above Henry Hub levels (4 USD/MMBTU). On the opposite, European spot prices have started recovering, with NBP reaching levels of 50 GBP/MWh
- Coal prices continue their slow decline trend and have reached ~70 USD/t
- As a result, gas-based generation margins (spark spreads) are recovering slowly to slightly positive values, while coal-based margins (dark spreads) are also improving across Europe

Electricity price evolution

Base Load



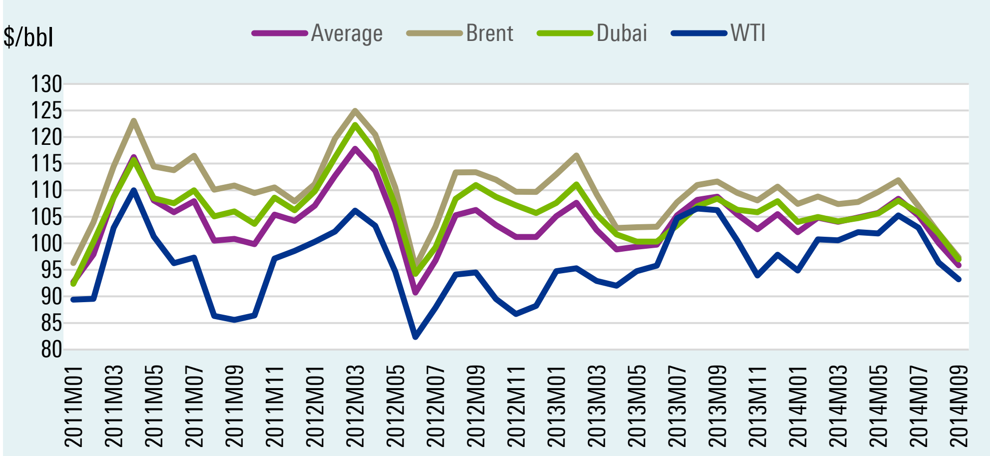
Peak Load



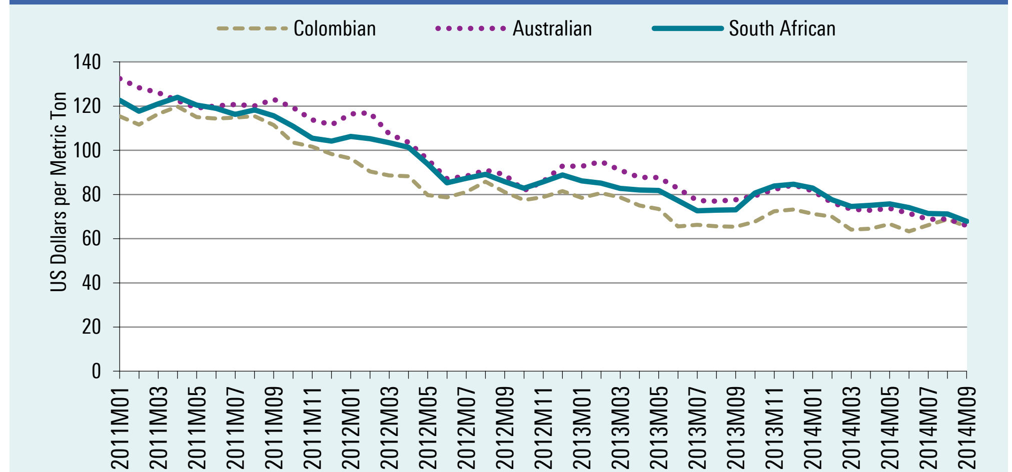
Source: Bloomberg

Fuel price evolution

Crude Oil

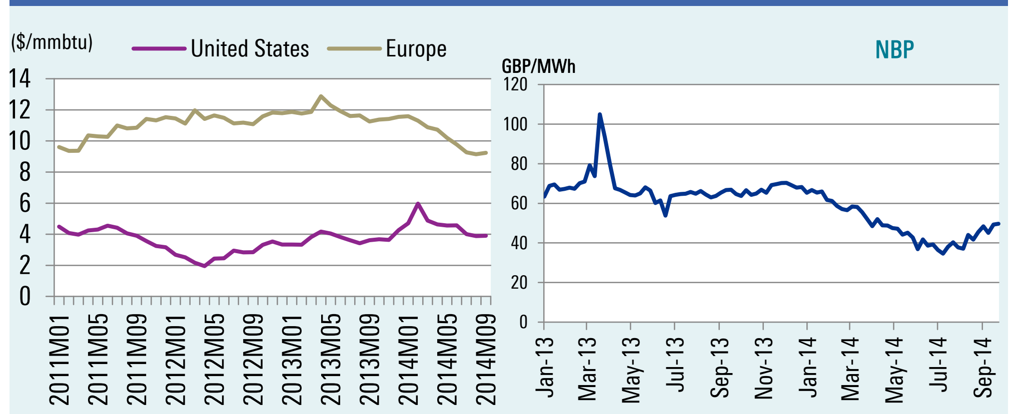


Coal: South African, Colombian and Australian export price Monthly Price



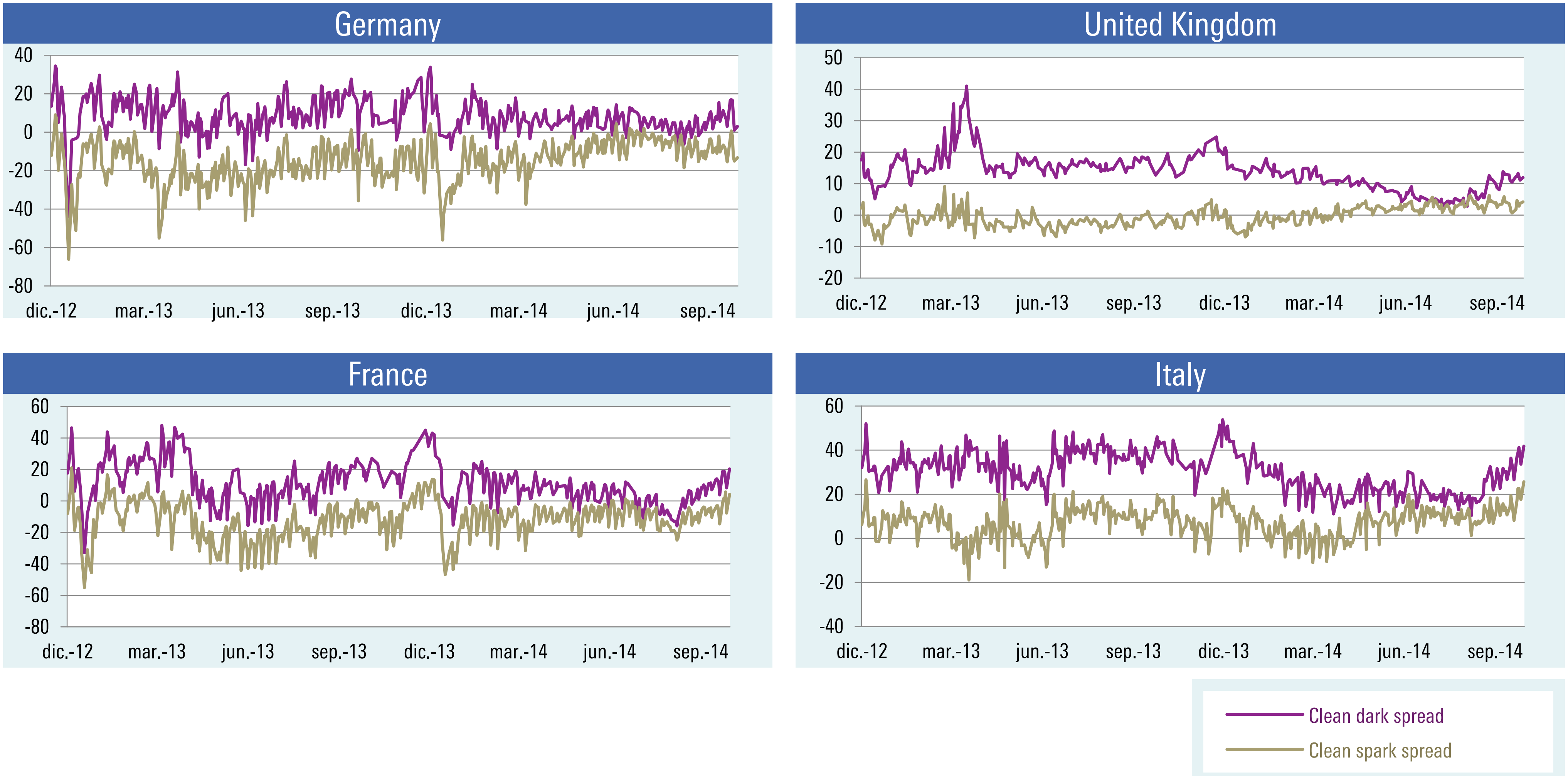
Carbon price – EU ETS

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



Source: Bloomberg; BAFA, World Bank

Clean dark and spark spreads (EUR/MWh)



Source: Bloomberg

- EU leaders agreed on 23 October 2014 the main building blocks of the 2030 policy framework for climate and energy, as proposed by the European Commission in January 2014.
- German Lawmakers voted to reduce renewable energy subsidies: extensive revision of the country´s EEG clean-energy law.
- UK's Ofgem opened investigation into British Gas, E.ON and Npower over advanced meter roll-out performance, published draft determinations for the 'slow-tracked' electricity distribution companies and proposed new rules to bring more transparency to company profits.
- Spain's CNMC published provisional settlements (Settlements 8/2014), with 3,511 million euro deficit in electricity sector and 644 million euro deficit in gas sector.
- New regulation was enacted in Italy for incentive-penalties regarding commercial quality in gas distribution, unbalance management in power sector, invoice transparency and simplification for power and gas and peak shaving in gas sector for Winter 2014-2015
- Portugal published Decree-law 153/2014 of self-consumption, approving net balance and changes in feed-in-tariffs
- FERC approved Cameron LNG Export project.

REGULATORY NEWS

EU

- EU leaders agreed on 23 October 2014 the main building blocks of the 2030 policy framework for climate and energy, as proposed by the European Commission in January 2014.
- Areva and Siemens raises claim to 3.5 billion euros over Finnish (TVO) reactor delays.
- Energy Community Secretariat delivers Third Energy Package-compliant draft gas law to Bosnia and Herzegovina.
- Energy Community Secretariat launched a tender for technical assistance project in the area of energy statistics in Bosnia and Herzegovina, Macedonia and Montenegro.
- Portugal publishes Decree-law 153/2014 of self-consumption, approving net balance and changes in feed-in-tariffs.

SPAIN

- CNMC publishes provisional settlements (Settlements 8/2014), with 3,511 million euro deficit in electricity sector and 644 million euro deficit in gas sector.
- Royal Decree-Law 8/2014, "urgent measures in energy issues", released.
- Supreme Court rejects to suspend Garoña's nuclear plant activity.
- Government announce that new demand response auctions for industrial consumers in 2015 will take place on Nov 2014.

GERMANY

- German Lawmakers vote to reduce renewable energy subsidies: extensive revision of the country´s EEG clean-energy law
- E.ON calls on the Merkel's federal government 380 million damages for the three-month nuclear moratorium.

FRANCE

- France and UK NRA´s (CRE and Ofgem) consider that exemption conditions must be applied to ElecLInk joint venture for its proposed interconnector between Great Britain and France.

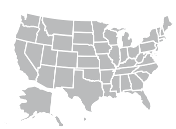
UK

- Ofgem sets out funding plans for £1 billion transmission subsea link.
- Ofgem opens investigation into British Gas, E.ON and Npower over advanced meter roll-out performance.
- Ofgem published draft determinations for the 'slow-tracked' electricity distribution companies for the RIIO-ED1 price control period (2015-2023).
- Ofgem reforms bring more transparency to company profits.
- Ofwat published Draft determinations for the water price control PR14 (2015-2020)..

ITALY

- New regulation is enacted for incentive-penalties regarding commercial quality in gas distribution
- New discipline is enacted for unbalance management in power sector
- Bill 2.0: criteria issued for invoice transparency and simplification for power and gas
- New regulation is enacted for peak shaving in gas sector for Winter 2014-2015
- Deliberazione 516/2014/S/eel: adoption of sanctions for violation of continuity in electriciy distribution.

UNITED STATES



- FERC approves Third Settlement in 2011 Southwest Blackout Case.
- FERC reviews actions to improve cold-weather grid performance.
- FERC approves Cameron LNG Export project.

Source: KPMG

UK: Links to new key regulation

News	Link
Ofgem set out funding plans for £1 billion transmission subsea link, final decision to be taken in December	Link
Ofgem opened investigation into British Gas, E.ON and Npower over advanced meter roll-out performance	Link I
Ofgem published draft determinations for the 'slow-tracked' electricity distribution companies for the RIIO-ED1 price control period (2015-2023). Final determinations expected in November	Link 2
Ofgem proposed new rules to improve the transparency of energy company profits	Link 3
Ofwat published Draft determinations for the water price control PR14 (2015-2020). Final determinations will be published in December.	Link 4

Source: KPMG

SPAIN: Links to new key regulation

News	Link
Royal Decree-Law 8/2014, “urgent measures in energy issues”, is released	Link
CNMC publishes provisional settlements for electricity, gas, and renewable energies sectors (Liquidación 8/2014)	Link I Link II Link III
New demand response auctions for industrial consumers in 2015 will take place on November 2014	Link

Source: KPMG

ITALY: Links to new key regulation

News	Link
New regulation is enacted for incentive-penalties regarding commercial quality in gas distribution	Link
New discipline is enacted for unbalance management in power sector	Link
Bill 2.0: criteria issued for invoice transparency and simplification for power and gas	Link
New regulation is enacted for peak shaving in gas sector for Winter 2014-2015	Link

Source: KPMG

- Eurostoxx Utilities evolution in Q3 2014 has been slightly positive (+1,3%), but individual share price evolution has been extremely diverse across companies, even within individual countries

- 4 out of the 5 best performers have been Iberian-based companies (Enagas, Gas Natural, EDP Renewables and Iberdrola), in addition to Fortum. Worst performers in the quarter include French players (EDF, GDF Suez), UK merchants (SSE, Centrica) and the Italian incumbent (Enel and EGP)

- Valuation levels continue to present wide differences, ranging from widened, with EV/EBITDA now ranging from 5-7 for merchant players to 10-12 for grid and renewable companies

- Net debt levels have remained stable among large players around 3,0 x EBITDA, with unchanged credit ratings

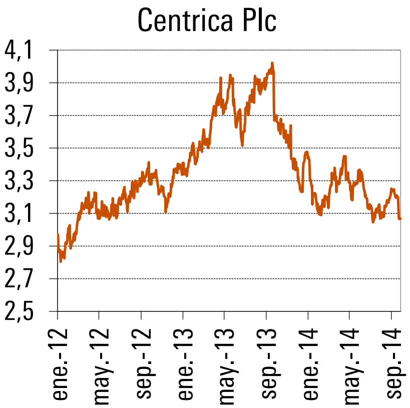
Share price evolution (EUR)

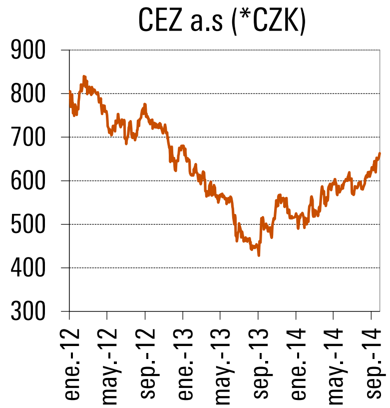
Company	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Last Quarter Q3 2014/ Q2 2014	Last Year Q3 2014/ Q3 2013
Enagás SA	17,86	19,3	18,1	19,06	20,77	22,05	24,70	11,97%	36,44%
Fortum Oyj	14,59	14,67	15,27	16,57	16,68	17,46	19,27	10,40%	26,20%
Gas Natural SDG SA	14,72	15,61	15,07	17,58	18,87	21,18	22,92	8,22%	52,10%
EDP Renováveis	4,04	3,89	3,85	3,93	4,47	5,02	5,35	6,64%	38,92%
Iberdrola SA	3,92	4,07	4,12	4,56	4,72	5,20	5,51	6,10%	33,82%
RWE AG	28,76	27,21	22,7	26,91	27,87	28,80	30,53	6,01%	34,51%
REE	41,14	40,35	41,31	45,78	54,66	61,55	63,83	3,71%	54,51%
CEZ as*	618,45	549,76	469,76	526,93	528,02	585,88	607,16	3,63%	29,25%
National Grid plc	7,12	7,89	7,53	7,68	8,08	8,45	8,75	3,50%	16,15%
Endesa SA	17,41	17,03	17,75	21,17	23,29	27,61	28,51	3,28%	60,63%
E.ON SE	13,36	13,3	12,57	13,6	13,62	14,00	14,25	1,77%	13,33%
Snam SpA	3,61	3,65	3,57	3,82	4,09	4,32	4,38	1,42%	22,70%
EDP	2,36	2,5	2,62	2,67	2,99	3,48	3,46	-0,52%	32,19%
Enel SpA	2,94	2,77	2,59	3,18	3,62	4,15	4,12	-0,79%	59,13%
Enel Green Power SpA	1,47	1,6	1,64	1,75	1,96	2,07	2,05	-1,33%	24,79%
SSE Plc	14,4	15,46	15,7	13,91	13,88	15,34	15,06	-1,79%	-4,06%
GDF SUEZ SA	15	15,86	16,69	17,85	17,8	19,93	19,37	-2,81%	16,06%
Centrica plc	3,48	3,75	3,85	3,49	3,23	3,29	3,15	-4,34%	-18,29%
EDF	14,51	17,19	21,08	25,7	26,96	27,28	24,23	-11,17%	14,96%
Eurostoxx Utilities	222,9	226,2	224	249,5	262,3	284,9	288,6	1,31%	28,82%

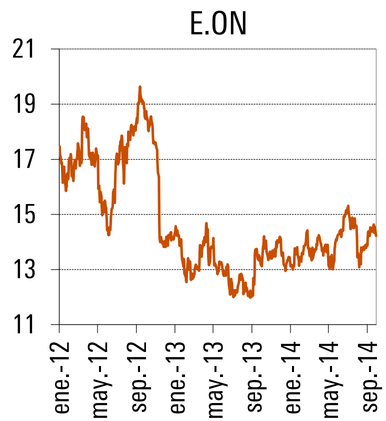
*CZK

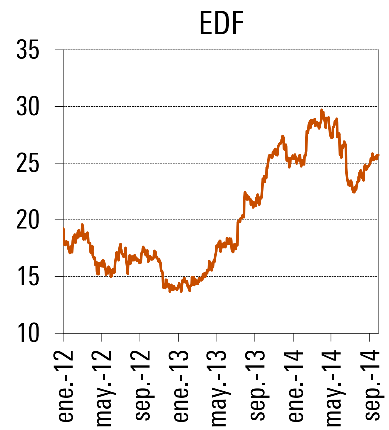
Source: Capital IQ,

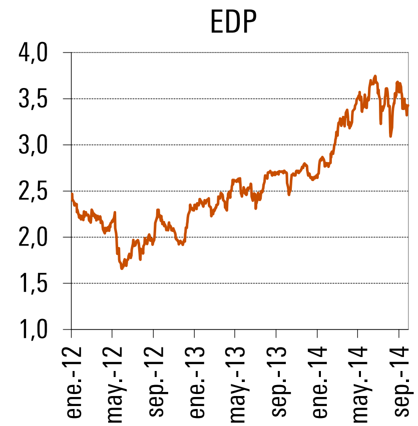
Share price evolution (EUR)

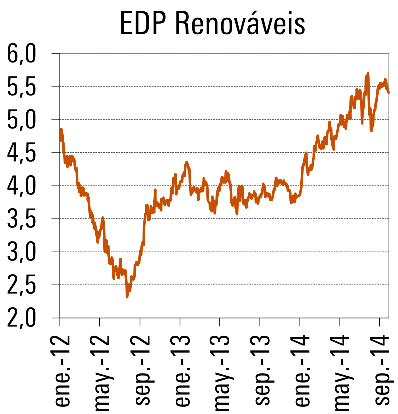


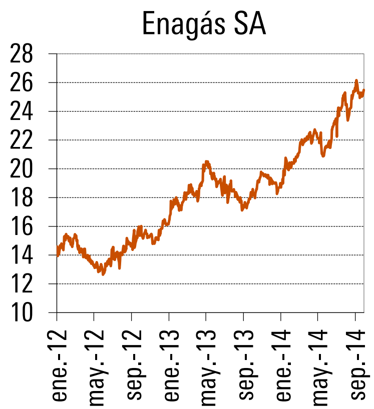


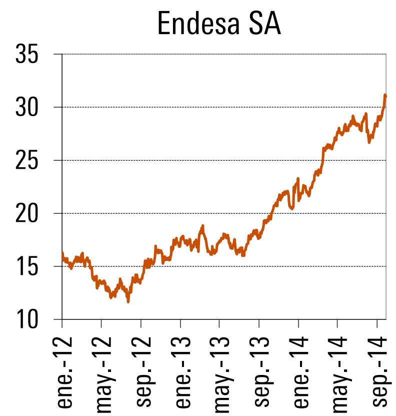


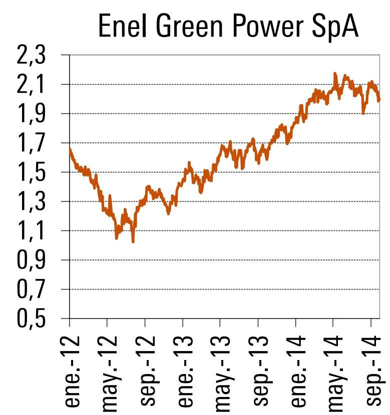


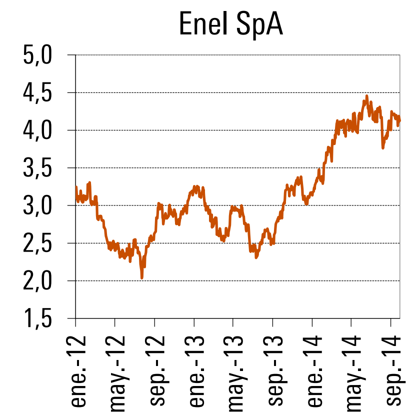






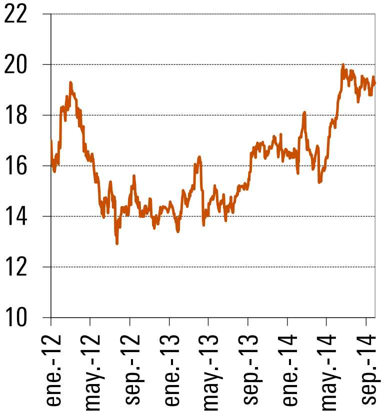




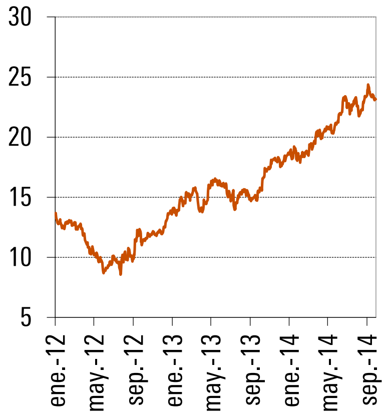


Share price evolution (EUR)

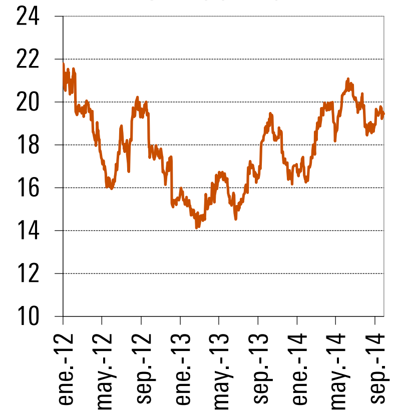
Fortum Oyj



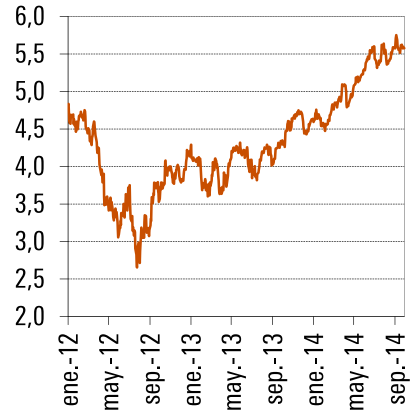
Gas Natural SDG SA



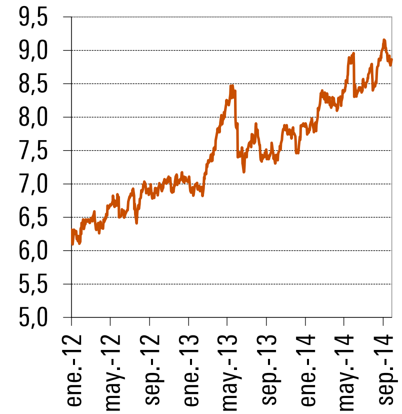
GDF SUEZ SA



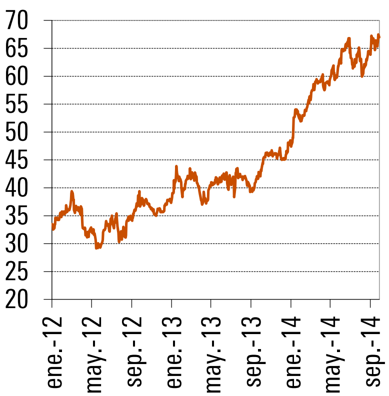
Iberdrola SA



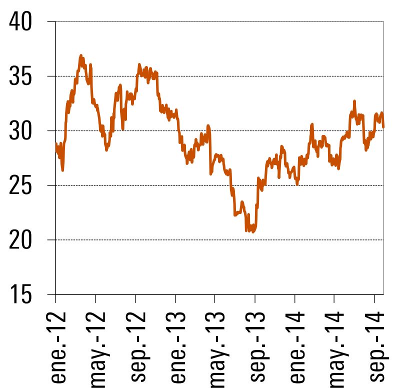
National Grid Plc



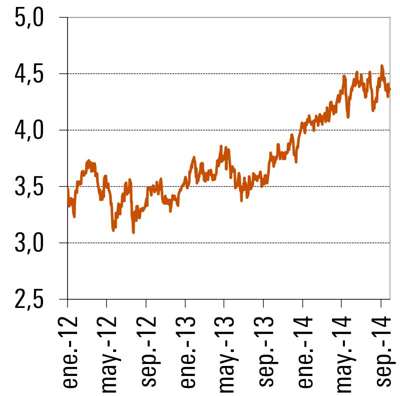
REE



RWE AG

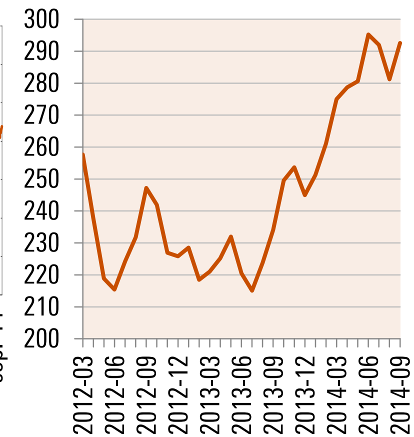


Snam SpA



SSE Plc

Eurostoxx Utilities



Source: Capital IQ,

Relative valuation per company

	EV (as of Sep. 30) / EBITDA (LTM)	EV (EUR mill.) (as of Sep. 30)	Market Capitalization (EUR mill.) (as of Sep. 30)
National Grid plc	11,7	71.786	42.420
EDP Renováveis	11,0	8.845	4.789
Enel Green Power S.p.A.	10,5	17.918	10.130
Red Eléctrica Corporación S A.	10,5	14.133	9.271
SSE plc	10,3	26.994	19.250
Snam S.p.A.	10,1	28.538	14.807
Fortum Oyj	10,0	22.334	17.154
Enagás, S.A.	10,0	9.955	6.095
EDP-Energias de Portugal, S.A.	9,9	33.459	12.553
Gas Natural SDG SA	8,2	37.967	23.326
Endesa SA	7,4	43.406	33.123
Enel SpA	7,1	104.499	39.513
Centrica plc	6,9	26.548	19.480
Iberdrola, S.A.	6,7	58.718	35.370
RWE AG	6,6	32.278	18.664
GDF SUEZ S.A.	6,6	79.957	46.875
CEZ, a.s.	6,3	16.956	12.769
E.ON SE	5,7	43.276	27.897
Electricite de France SA	5,0	85.892	48.259
	Weighted average: 7,8	763.459	441.745

Source: Capital IQ,

Leverage and credit ratings (as of Sep. 30)

	Net Debt (LTM) / EBITDA (LTM)	Rating S&P	Date	Rating Moody's	Date	Rating Fitch	Date
EDP-Energias de Portugal, S.A.	5,21	BB+	01-feb-12	Ba1	30-jul-14	BBB-	02-jul- 2014 (rating affirmed)
Snam S.p.A.	4,84	BBB+	11-jul-13	Baa1	18-feb-14	-	-
National Grid plc	4,80	A-	24-ago-07	Baa1	13-dic-13	BBB	19-sep-2014 (rating affirmed)
EDP Renováveis	4,49	-	-	-	-	-	-
Enagás SA	3,97	BBB	15-oct-12	Baa2	28-feb-14	A-	30-abr-2014 (rating affirmed)
Enel Green Power S.p.A.	3,96	-		-	-	-	-
REE	3,59	BBB	15-oct-12	-	-	A-	30-abr-2014 (rating affirmed)
Enel SpA	3,27	BBB	11-jul-13	Baa2	12-dic-13	BBB+	15-abr-2014 (rating affirmed)
SSE plc	2,96	A-	21-ago-09	A3	29-abr-14	A-	21-ago-2014 (rating affirmed)
Gas Natural SDG SA	2,84	BBB	17-dic-10	Baa2	11-jul-14	BBB+	10-ene-2014 (rating affirmed)
Iberdrola SA	2,69	BBB	28-nov-12	Baa1	13-dic-13	BBB+	25-mar-2014 (rating affirmed)
RWE AG	2,46	BBB+	27-jul-12	Baa1	21-jun-13	BBB+	12-dic-2013 (rating affirmed)
GDF SUEZ S.A.	2,21	A	22-jul-08	A1	30-abr-14	-	-
Fortum Oyj	2,15	A-	27-nov-12	A2	15-jul-05	A-	06-dic-2013 (rating affirmed)
Electricite de France SA	1,88	A+	17-ene-12	Aa3	14-ene-09	A+	12-dic-2013 (rating affirmed)
Centrica plc	1,82	A-	29-may-09	A3	05-feb-13	A-	16-dic-2013 (rating downgrade)
E.ON SE	1,68	A-	27-jul-12	(P)A3	29-ago-14	A-	23-abr-2014 (rating affirmed)
CEZ, a.s.	1,49	A-	02-oct-06	A2	27-mar-14	A-	17-abr-2014 (rating affirmed)
Endesa SA	0,72	BBB	11-jul-13	-	12-dic-13	BBB+	15-abr-2014 (rating affirmed)
Average	3,00						

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

- M&A activity in the Energy sector has continued to be strong in Q2-Q3 2014, driven by Americas- and Asia-based deals and internal portfolio rearrangement of large groups
- Largest deals have included:
  - The minority buyouts by Kinder Morgan at Kinder Morgan Energy Partners (44 €bn), Kinder Morgan Management LLC (7,7 €bn) and El Paso Energy Partners (7.5 €bn)
  - The acquisition of Pepco Holdings by Exelon (8.8 €bn)
  - The internal acquisition by Enel of Endesa's Latam business, including Enersis (7.9 €bn)
  - Wisconsin Energy Corporation's purchase of Integrys Energy Group (6.6 €bn)
  - The acquisition of Athlon Energy by EnCana Corporation (5.2 €bn)

M&A Activity Q2 2014

TOP 10 M&A operations in the P&U sector in Q2 2014 by deal value

Announced Date	Target Company	Target Description	Target Country	Bidder Company	Bidder Country	Seller Company	Deal Value EUR(m)
30/04/2014	Pepco Holdings Inc	US-based holding company that supplies, distributes, and transmits electricity	USA	Exelon Corporation	USA		8784
23/06/2014	Integrys Energy Group, Inc.	US-based holding company with subsidiaries providing electric and natural gas energy and related services in both regulated and nonregulated energy markets	USA	Wisconsin Energy Corporation	USA		6636
15/06/2014	Access Midstream Partners L.P (25% Stake); Access Midstream Partners GP, L.L.C. (50% Stake)	US-based company providing midstream natural gas services; US-based company providing natural gas services	USA	Williams Companies, Inc.	USA	Global Infrastructure Partners II	4430
01/05/2014	AltaLink, L.P.	Canada-based owner and operator of electricity transmission facilities	Canada	Berkshire Hathaway Energy	USA	SNC-Lavalin Group Inc.	3976
14/05/2014	CITIC Limited (formerly CITIC Pacific Limited) (11.78% Stake)	Hong Kong-based company engaged in steel manufacturing, iron ore mining, property development, infrastructure, power generation, distribution services, and telecommunication services	Hong Kong	Temasek Holdings Pte Ltd; Tokio Marine & Nichido Fire Insurance Co., Ltd.; China Life Insurance Company Limited ; Fubon Life Insurance Co., Ltd.; National Council for Social Security Fund; Mizuho Bank, Ltd.; Qatar Holding LLC; ICBC International Holdings Limited; CTBC Life Insurance Co., Ltd.; Beijing Infrastructure Investment (Hong Kong) Limited; AIA Company Limited; Safe Investment Company Limited; East Global Investments Limited; Harmony Glory Investment Limited; Giant Wave Investments Limited	Hong Kong;Hong Kong;China;Taiwan;Hong Kong;Taiwan;British Virgin Islands,Hong Kong;Hong Kong;Hong Kong;Japan;China;Qatar; Hong Kong;Singapore;Japan		3720

Source: Mergermarkets

M&A Activity Q2 2014

TOP 10 M&A operations in the P&U sector in Q2 2014 by deal value

Announced Date	Target Company	Target Description	Target Country	Bidder Company	Bidder Country	Seller Company	Deal Value EUR(m)
30/05/2014	Envestra Ltd. (82.54% Stake)	Australia-based natural gas distribution company	Australia	CK ENV Investments Pty Ltd	Australia		2752
07/05/2014	Freeport-McMoRan Oil & Gas LLC (Eagle Ford Shale Assets)	US-based oil and gas assets of Freeport-McMoRan Oil & Gas LLC	USA	Encana Oil & Gas (USA) Inc.	USA	Freeport-McMoRan Oil & Gas LLC	2227
01/05/2014	NOW Inc.	US-based company engaged in providing maintenance, repair, and operating supplies to energy and industrial markets. This company was spun-out from National Oilwell Varco, Inc.	USA	National Oilwell Varco, Inc. (Shareholders)	USA	National Oilwell Varco, Inc.	2180
25/06/2014	Nabors Industries, Inc. (Completion and production services businesses)	US-based completion and production business unit of Nabors Industries, Inc. which includes hydraulic fracturing that helps the companies get their wells ready to pump oil and natural gas	Canada,USA	C&J Energy Services Inc	USA	Nabors Industries Inc	2098
17/06/2014	Woodside Petroleum Limited (9.5% Stake)	Australia-based oil and gas exploration and production company	Australia	Woodside Petroleum Limited	Australia	Shell Energy Holdings Australia Limited	1969

Source: Mergermarkets

M&A Activity Q3 2014

TOP 10 M&A operations in the P&U sector in Q3 2014 by deal value

Announced Date	Target Company	Target Description	Target Country	Bidder Company	Bidder Country	Seller Company	Deal Value EUR(m)
10/08/2014	Kinder Morgan Energy Partners, L.P. (88.6% Stake)	US-based company engaged in pipeline transportation and energy storage	USA	Kinder Morgan, Inc.	USA		43885
17/09/2014	Enersis SA (60.62% Stake)	Chile-based company engaged in distribution and sale of electricity, thermal and caloric energy services	Chile	Enel Energy Europe S.r.l	Italy	Endesa, S.A.	7888
10/08/2014	Kinder Morgan Management, LLC (87% Stake)	US-based limited partner in and manages and controls the business and affairs of Kinder Morgan Energy Partners, L.P.	USA	Kinder Morgan, Inc.	USA		7656
10/08/2014	El Paso Pipeline Partners, L.P. (58.4% Stake)	US-based owner and operator of natural gas transportation pipelines and storage assets	USA	Kinder Morgan, Inc.	USA		7524
29/09/2014	Athlon Energy Inc.	US-based oil and gas exploration and production company	USA	EnCana Corporation	Canada		5203
12/09/2014	Sinopec Oilfield Service Corporation	China-based company engaged in providing oil engineering and oilfield technial services and early-staged offshore oil and gas exploration services	China	Sinopec Yizheng Chemical Fibre Co Ltd	China,Hong Kong	China Petrochemical Corporation	5164
13/07/2014	Kodiak Oil & Gas Corporation	US-based company engaged in oil and gas exploration and development	USA	Whiting Petroleum Corporation	USA		4376
12/08/2014	S-Oil Corporation (28.41% Stake)	South Korea-based company engaged in the oil-refining business, lube base oil business and petrochemical business	South Korea	Aramco Overseas Company B.V.	Netherlands	Hanjin Energy Co Ltd	3696
08/09/2014	NNK-aktiv (60% Stake)	Russia-based oil exploration company and a joint venture formed by Alliance Group and The Independent Petroleum Company	Russia	The Independent Petroleum Company	Russia	Alliance Group OAO	3249
22/07/2014	EquiPower Resources Corp. ; Brayton Point Power, LLC	US-based coal-fired electric generation facility; US-based power generation company operating a portfolio of eight high-quality power plants in Connecticut, Massachusetts, Illinois, Ohio and Pennsylvania representing 4,685 megawatts of generating capacity	USA;USA	Dynegy Inc.	USA	Energy Capital Partners, LLC	2562

Source: Mergermarkets