

European Utilities

Fragile Earnings, Low Quality Dividends – Buy EPS Upside

- **High dividends, low quality** – The Search for yield has boosted the utilities sector (5.8% yield) which has outperformed the market since March (+3%). Still, earnings downgrades accelerated in 2013 (2014e EPS -11% YTD) on declining commodities, regulatory risk in Southern Europe and economic headwinds. Payout is now at a historical high (72% in 2014e) and sector net cash flow generation is again under pressure (-€11bn in 2013e, -€8.1bn in 2014e) despite diminishing sector capex to historical lows. Improving balance sheets, mainly due to lower capex and disposals, easier access to bonds and market appetite for hybrids might allow aggressive dividend policy to continue in the short term. But dividend quality looks to be materially worsening and long-term equity return still looks challenging. We believe the sector is now fully valued.
- **Chase the earnings** – Sector EPS turnaround is still not in sight, in our view. Our 2014E estimates are 6.9% below consensus that we believe still have to factor in the recent deterioration of commodities in central Europe, and further regulatory changes in Italy and Spain. We believe few stocks can really surprise on the upside. Expectations on **Veolia's** restructuring remain low in our opinion and delivery from management could boost future earnings, notwithstanding timing-issues from the economic cycle. **ENEL** looks set to benefit from increased central-bank-driven liquidity as it should help accelerate the balance sheet restructuring (disposals, hybrid) and facilitate EPS accretive minorities' acquisitions. Although dividend payout is low, it is largely covered by cash flow, in our view.
- **Chase the value** – A rational approach to reregulation in Spain might unlock **REE** value. While we expect the regulator to cut its revenues, we believe those will be largely compensated by declining bond yield in Spain and improved visibility. **GDFSuez's** ~9% dividend yields remains one of the safest in the sector in our opinion and the group's disposal programme appears to be more strategic and less earnings-dilutive than the market originally feared.
- **Don't chase the dividends** – For a sector that offers poor growth and value creative prospects, the dividend can represent a misleading indicator and it might imply a return of capital to shareholders. We have downgraded **Snam** to Sell in our note [Italian Regulated Utilities - Unhealthy Dividends. Sell Snam and Terna](#). We believe that, together with **Terna**, the group's share price has been supported by dividend seekers but with declining EPS (due to lower bond yield) and earnings inflated by low D&A, the close to 100% payout is unsustainable in the long term. We continue to see downside pressure on **Verbund's** and **EON's** earnings and therefore dividends through 2016.

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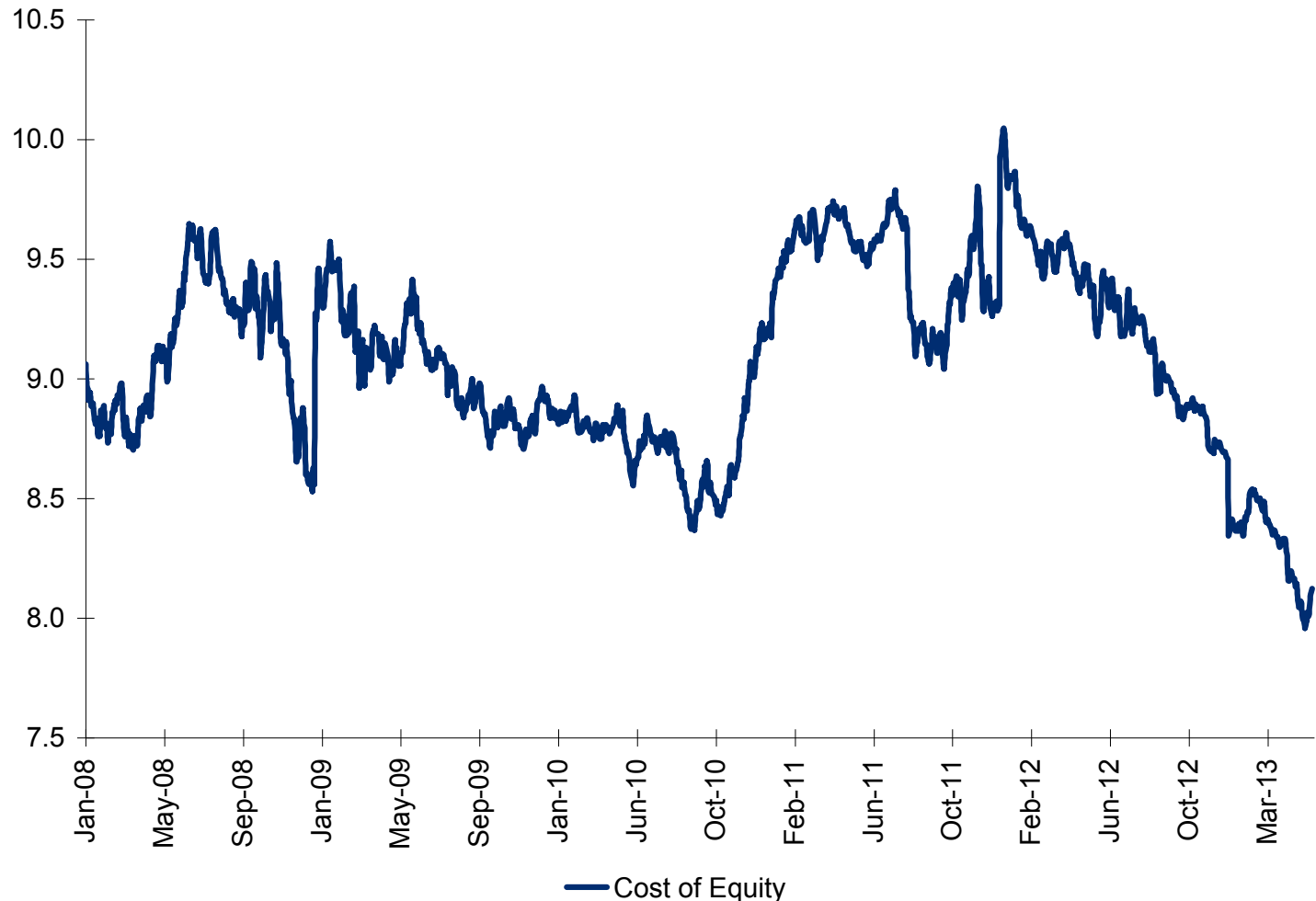
Summary and Conclusions

- **Utilities outperforming the market since March after four years of underperformance.** YTD, the European utilities sector, up 5.3%, is still underperforming the general market by 4.6%. Nevertheless, the sector's performance has started to materially recover since 1 March (+10% absolute, +3% relative) when, following monetary easing in Japan, Europe and US, liquidity increased and high dividend yield sectors outperformed the market. The rally favoured in particular, regulated utilities that since March have outperformed the sector by 3.7%, gaining +13.4%.
- **But earning revisions remain strong and outlook uncertain.** YTD we have reduced our 2014E estimates by 11% (consensus has been cut -7%) to factor in still-declining electricity and gas demand in Europe (-1.6% and -3.6% YTD), the enduring decline in power prices in Europe, and forthcoming regulatory reviews in Spain and Italy. In our estimates we expect sector net profit to decline by 15.1% in 2013E versus 2012. We forecast 2014E to bring little growth with utilities' EBITDA and net profit remaining broadly unchanged. This mainly reflects still-declining profits in Germany (EON and RWE) and in Italy, affected by regulatory changes. Growth prospects are therefore delayed to 2015E. In 2015, we expect broadly stable generation prices (increasing in UK and Spain), stable regulated revenues and cost cutting to lead to 6.5% growth in EBITDA that, combined with declining cost of debt, should lead to 11.6% growth in sector net profit.
- **Cash flow will not cover dividends until power generation profitability recovers.** Deterioration in earnings estimates adds pressure on the sector's cash flow from operations (free cash flow after dividends) which we now expect to remain heavily negative in 2013E and in 2014E and to broadly break even in 2015E assuming some recovery in generation profitability. Our poor cash flow outlook already discounts material cuts in capex now expected at €70.5 bn, the lowest since 2008, and declining cost of debt to 4.5% in 2015 (from current 4.8%).
- **Dividend yield is high but quality is worsening.** Sector dividend yield remains high (5.8% in 2014 on our estimates) and well above the market average (3.9%). Nevertheless we believe this dividend level is not covered by cash flow (in our estimates only 13 companies out of 34 under coverage will cover their dividend with cash flow in 2014) and sector payout is estimated to reach 72% in 2014E, well above last five years' average of 63%.
- **Chase the EPS upside potential.** Revision of estimates will remain key for performance, in our view. We see upside risk in **Veolia** on the back of the group's restructuring programme. We also believe that **ENEL's** consensus earnings could be supported by an improving outlook for Italian generation (current prices are heavily affected by high rain levels but electricity imports in Italy show a material declining trend) and by a declining cost of debt considering that ENEL's bond has been the best performer YTD among utilities corporate bonds and its 10 year yield has declined by 86 bps.
- **Chase the value names.** Among our top picks we would include **REE** and **GDFSuez**. REE's valuation is affected by the uncertainty surrounding the Spanish network regulatory review due over the next few weeks. We believe that the introduction of a RAB-based regulatory framework combined with declining Spanish bond yields can allow for a material cut in revenues whilst still support the group valuation. GDFSuez offers the highest dividend yield in the sector, on our forecasts, well supported by discretionary cash flow from 2014 onwards and scope to offer longer-term earnings growth through its international generation and gas assets.
- **Do not chase unhealthy dividends.** We are downgrading Snam to Sell (see [Italian Regulated Utilities - Unhealthy Dividends. Sell Snam and Terna](#), 21 May 2012). Despite solid regulation, we believe that **Snam** and **Terna's** 16% premium to equity RAB is unjustified. We expect earnings to be challenged by declining allowed returns, declining inflation and risk that the Robin Hood tax will remain in place. Under this scenario, we estimate that Snam and Terna's payout will exceed 80%, a level that we believe implies a return of capital to shareholders given the low D&A (compared to regulated D&A) which inflate reported net income. We continue to see downside pressure on EON's earnings and dividend through to 2016. We would also Sell Verbund, the most leveraged stock on power prices, in our view.

Summary — Utilities cost of equity has declined by 20% over the last 17 months

Figure 1. Utilities cost of equity is declining since 17 months

- Since its peak in December 2011, utilities' cost of equity has declined by 20% from 10% to 8% today.
- The decline in the cost of equity is mainly driven by decline in Euro rates (-141 bps France, -288 Italy, -51 Germany and -111 Spain) while UK and US contributed only marginally to this dynamic.
- YTD, the reduction of the sector cost of equity (-22 bps) has been driven mainly by Italy (-50 bps) and Spain (-94 bps) while Germany, France, UK and US bond yields have remained stable at very low levels.
- **METHODOLOGY:** we calculate the sector cost of equity using a **weighted average dynamic of 10-year sovereign bonds** (22% France, 22% UK, 14% Germany, 12.5% Italy, 12.5% Spain, 8% Latam, 3.5% Portugal and Greece, 3% US, 2.5% Russia) based on sector listed assets. We use an **asset beta** of 0.5 for fully regulated stocks and 0.75 for integrated utilities that considering the gearing of the sector leads to an average equity beta of 1-1.26 over the period 2008-2013. We assume an equity risk premium of 4%.

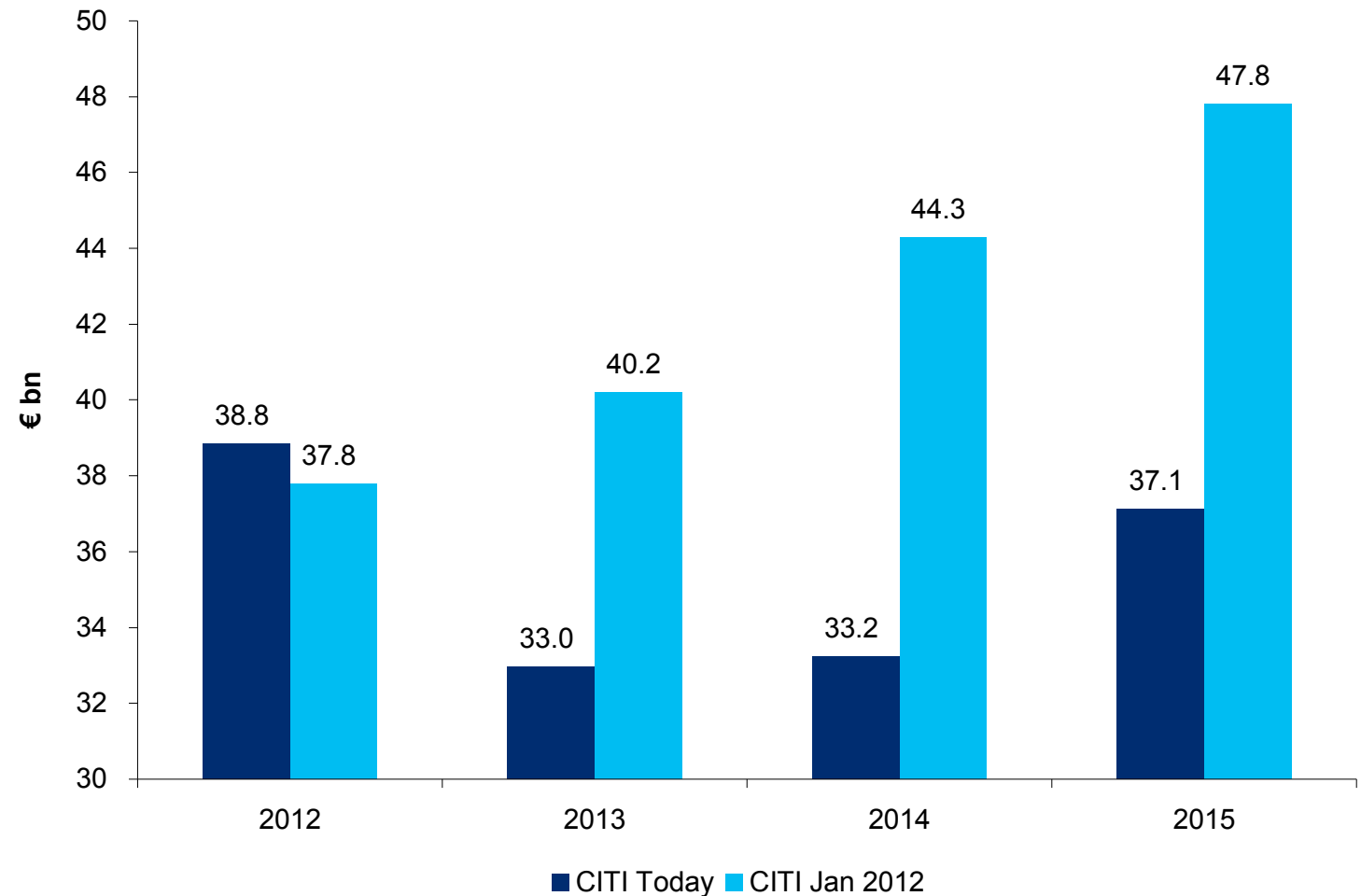


Source: DataStream and Citi Research

Summary – But earnings estimates have also declined: 2014E -11% YTD

Figure 2. Utilities 2014E earning estimates, revised downward by 24.4% since January 2012

- Over the last 18 months, earnings revisions (EPS 2014e -24.4%) have been driven by:
 - Declining European power prices;
 - Declining demand and increasing competition;
 - Regulatory changes in Spain.
- **YTD, earnings revisions have accelerated.** Citi has revised down its 2014e net profit estimates by 11%. Major revision affected Southern European utilities amid regulatory challenges both in Italy and Spain.
- **Citi 2014E sector earning estimates are some 6.9% below consensus.** We expect further cuts in consensus estimates mainly reflecting lower regulated returns in southern Europe following a decline in rates and additional cuts to earnings expectations for German utilities on weakening central European power prices.

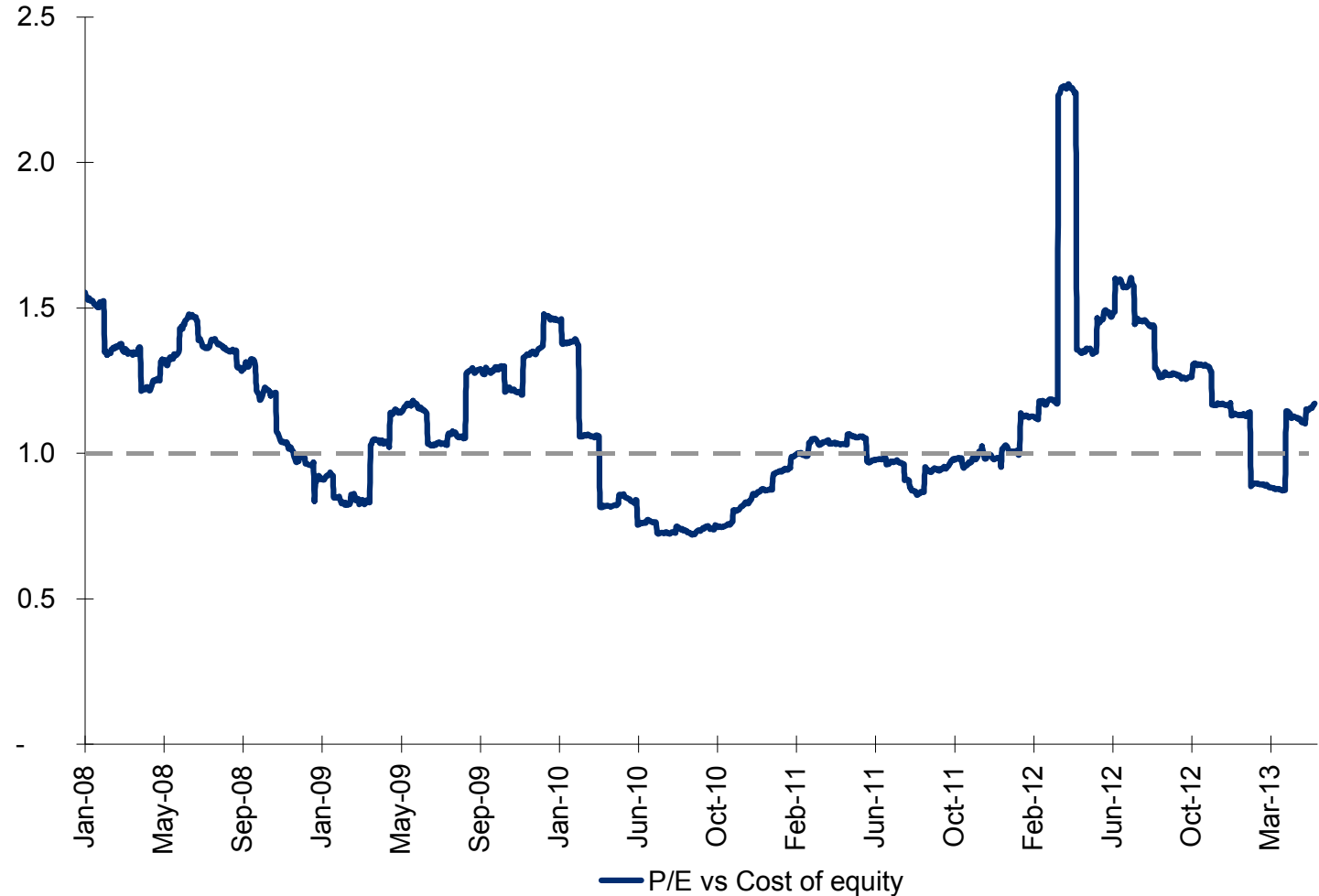


Source: IBES and Citi Research

Summary — P/E expanded by 20% YTD reflecting cost of equity reduction

Figure 3. Sector 2014E P/E increased to 12.4x today versus 9.8x in January 2012.. Decline in cost of equity reflected in sector valuations

- Since January 2012 the sector's value has increased by 4.9%
- Considering the 24.4% decline in EPS estimates, sector P/E has expanded materially
- The sector now trades at 12.4x 2014E P/E, more than 20% above January 2012 levels
- P/E expansion has mainly occurred during 2013. YTD sector 2014E P/E has increased from 10.4x in January to 12.4x currently, mainly reflecting earning revisions (-11%) and performance (+5.6%)



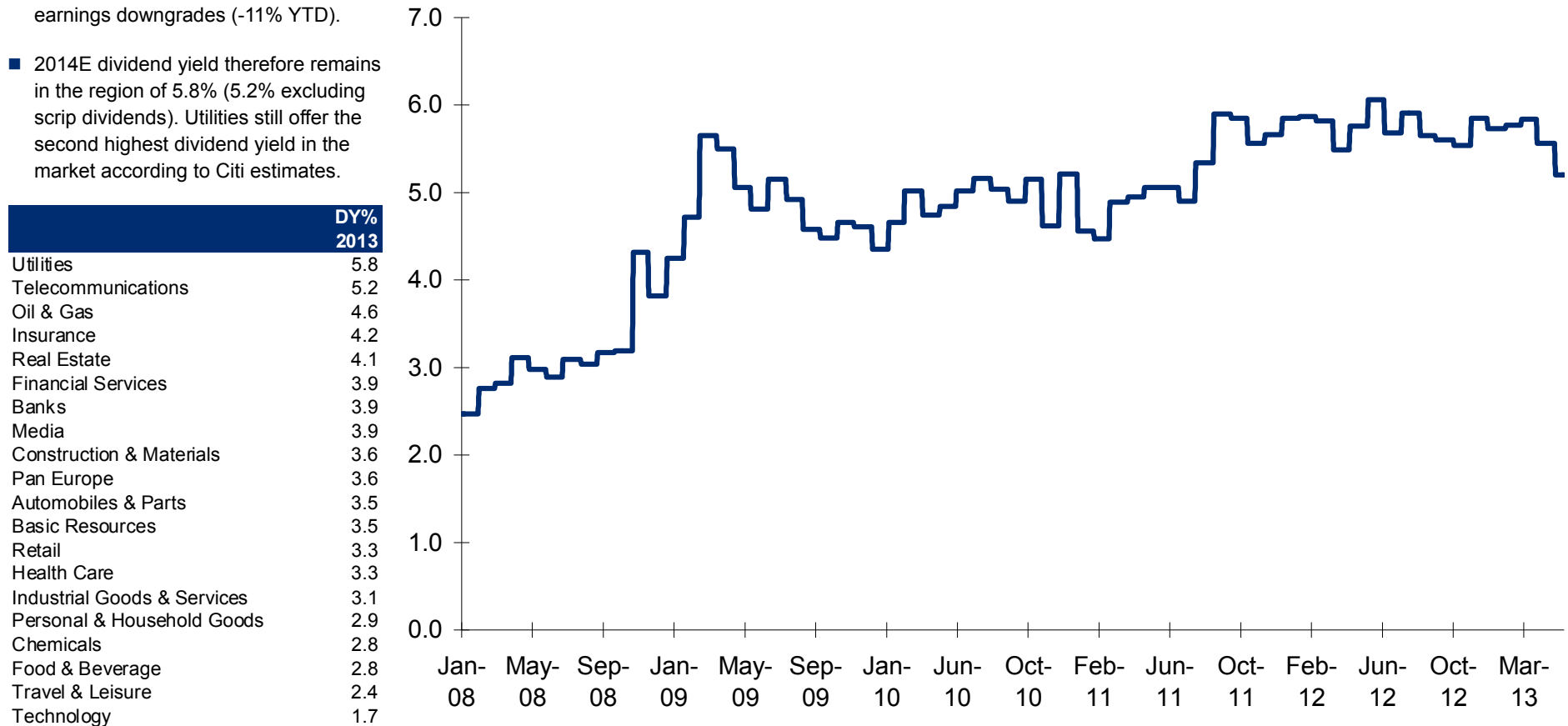
Source: DataStream

Summary — Dividend yield remains high...

Figure 4. DPS downward revision has been lower than EPS revision

- Amid a number of companies offering a fixed DPS policy, YTD our overall dividend expectations for 2014E have declined only by 3.5%, well below our earnings downgrades (-11% YTD).
- 2014E dividend yield therefore remains in the region of 5.8% (5.2% excluding scrip dividends). Utilities still offer the second highest dividend yield in the market according to Citi estimates.

Dividend Yield (%)



Source: Citi Research

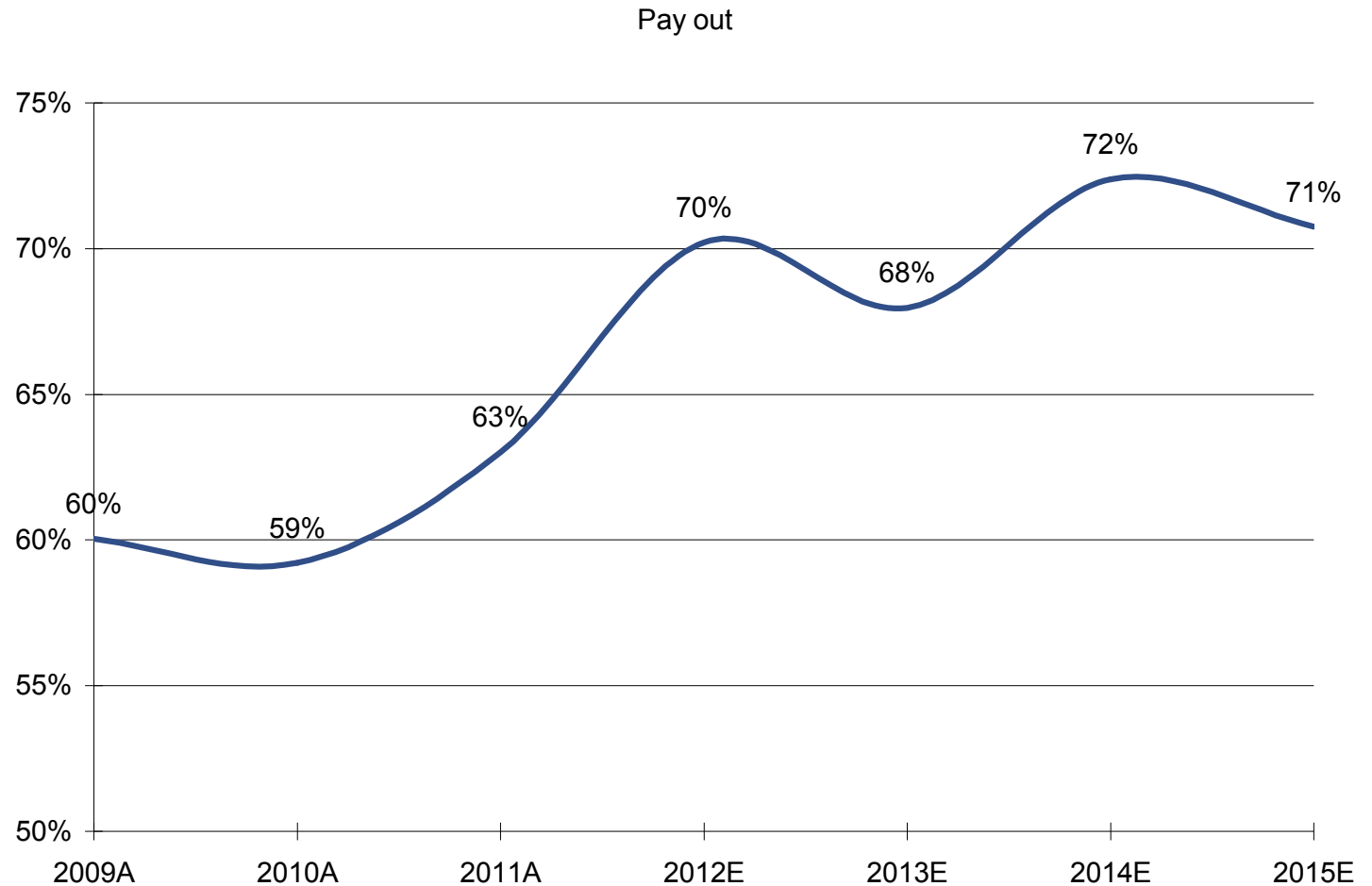
Source: DataStream

Summary — Dividend quality is worsening. Sector payout is at a historical high

Figure 5. Sector payout points to 72% in 2014E, above historical average of 60%

- Sector payout is estimated to increase to an average 72% in 2014E with 14 stocks having a payout above 80%.

Company	2014E Pay out
GDF Suez	151%
Verbund	125%
Veolia	122%
A2A	112%
Suez Env	106%
Snam	94%
National Grid Plc	92%
RWE	90%
TERNA	89%
Iberdrola	83%
Hera	82%
EDP	81%
Fortum	81%
United Utilities	81%
Severn Trent	78%
Enagas	74%
Acciona	72%
SSE	70%
Centrica	70%
Gas Natural	69%
REN	67%
REE	62%
E.ON	61%
Drax	57%
Penon	56%
EDF	54%
ENEL	43%
EGP	23%
EDPR	20%



Source: Citi Research

Source: DataStream

Summary — And again, cash flow generation does not cover dividends

Figure 6. Sector 2014E P/E increased to 12.4x versus 9.8x in January 2012... Decline in cost of equity reflected in sector valuations

■ Our expectations for sector free cash flow generation before dividends for 2014E now stand at €16bn, well below the €24bn expected at the beginning of the year.	€ bn	2010	2011	2012e	2013e	2014e	2015e	Cagr
	EBITDA	139.0	125.1	131.2	124.9	125.5	133.2	1.6%
	financial charges	-23.6	-22.7	-22.9	-22.2	-21.8	-19.8	-3.4%
	taxes	-17.9	-15.2	-14.8	-17.3	-17.2	-19.1	5.9%
	Operating Cash Flow	97.5	87.2	93.6	85.5	86.5	94.4	2.0%
■ This mainly reflect a 10% cut to our EBITDA estimates (-€13.8 bn) only partially compensated by lower capex (-€1.3bn), lower taxes (-€1.2 bn) and lower financial charges (-€2.1 bn).	Capex	-78.3	-86.5	-78.4	-72.2	-70.5	-68.9	-5.5%
	Free cash flow	19.2	0.7	15.1	13.3	16.0	25.5	142.7%
	Dividends	-27.9	-28.6	-25.2	-24.4	-24.1	-24.0	-4.3%
	Net cash	-8.7	-27.8	-10.1	-11.1	-8.1	1.5	
■ Capex. We have cut our capex forecasts to €70.5bn from €71.8bn expected in January. This is the lowest level since 2008 (€89bn). While we still see some potential for reduction (pure maintenance is in the region of €50-55bn), further falls would dent the sector's already-poor growth rates.								
■ In our estimates, dividend will be covered in 2015E. Nevertheless our 2015E forecasts assume a rebound in generation profits (+€4.3 bn) for which we still see no signals.								

Source: Company reports, Citi Research

Summary — Sector performance: a rational approach?

Figure 7. Stock performance not explained by lower bond yields and change in estimates.

- In this chart we analyse stock performance YTD.

- Subtracting from stock's YTD performance the performance justified by change in valuation due to lower bond yields (mainly in Southern Europe) and adjusted for 2014 consensus earnings changes, we derive the "unexplained performance".

- A large part of stocks' performance cannot be explained by changes in bond yields or by earnings revisions.

- In some cases, it reflects company specific issues that should play out longer-term, e.g. CEZ's plans to build new nuclear, market expectations of a supportive French tariff system for EDF or scope for more cost-cutting in the case of Veolia.

	Valuation Sensitivity to 100 bps lower Free risk	Risk free rate decline YTD % Bps	Upside/downside Justified by rates	2014e EPS revision Since 1/1/2013 consensus	Unexplained Performance YTD Performance
A2A	19%	49	9%	0%	43%
Acciona	13%	85	11%	-21%	-5%
CEZ	14%	16	2%	-13%	-7%
Centrica PLC	14%	-8	-1%	-7%	15%
Public Power Corp.	49%	254	124%	-11%	39%
Drax Group Plc	8%	-8	-1%	9%	8%
Electricite de France	36%	16	6%	-6%	29%
Energias de Portugal	10%	70	7%	-4%	14%
EDP Renovaveis	8%	44	4%	-6%	3%
Enel Green Power	13%	48	6%	-3%	18%
Endesa SA	13%	63	8%	-2%	5%
Enagas	-4%	94	-4%	-2%	24%
ENEL SpA	14%	48	7%	-13%	-7%
E.ON AG	22%	9	2%	-14%	-8%
Fortum Oyj	17%	14	2%	-9%	4%
Gas Natural SDG SA	14%	57	8%	-1%	20%
GDF Suez	28%	29	8%	-6%	6%
Iberdrola	13%	39	5%	-5%	0%
Hera	7%	49	4%	4%	33%
National Grid PLC	25%	-10	-3%	-1%	20%
Pennon Group PLC	16%	-8	-1%	-13%	10%
Red Electrica de Espana SA	-4%	94	-4%	-2%	10%
REN	6%	125	7%	-6%	13%
RWE AG	31%	-1	0%	-14%	-12%
Suez Environnement	26%	36	9%	-2%	20%
Snam Rete Gas SpA	-3%	49	-1%	-5%	8%
Scottish & Southern Energy PLC	14%	-8	-1%	-5%	13%
TERNA SpA	-3%	49	-2%	2%	16%
United Utilities PLC	22%	-8	-2%	-5%	13%
Verbund AG	22%	11	2%	-19%	-9%
Veolia Environnement	26%	13	3%	-16%	14%

Source: DataStream and Citi Research

Summary — Buy EPS upside risk and value – Top Picks

	EQUITY STORY	METRICS
■ ENEL (Buy, TP €4)	<ul style="list-style-type: none"> ■ ENEL's cautious approach (lowest payout in the sector) is delivering and its 10-year bond has been the best performer in the sector with its yield declining by 106 bps YTD. ■ A few catalysts might further improve the group's net debt outlook (placing of Hybrid bonds, disposals announcement) that combined with improving clarity on Spanish regulation and supportive Italian power prices (due to seasonality, normalising hydro and declining imports) should allow the group valuation GAP (26% discount on 2014E P/E) to close. 	2014e P/E 9.2x 2014e Dividend yield 4.3% 2014e Payout 40%
■ GSZ (Buy, TP €18)	<ul style="list-style-type: none"> ■ We expect GDFSuez to be comfortably within its earnings guidance for 2013-14 with scope for growth post-2015 as its European power generation and supply division troughs and investments in international markets reach maturity. ■ We see the group's ~9% dividend yield as one of the safest in the sector and supported by discretionary cash flow post 2014. 	2014e P/E 12.2x 2014e Dividend yield 9% 2014e Payout 110%
■ Veolia (Buy, TP € 13)	<ul style="list-style-type: none"> ■ We believe at current levels the market is pricing the cyclical headwinds as if they were structural pressures and is ignoring the benefits to be achieved and retained through the management's restructuring program including cost-cutting and deleveraging. ■ Through the transformation phase, a ~7% dividend yield provides good support, in our view. 	2014e P/E 17x 2014e Dividend yield 6.6% 2014e Payout 112%
■ REE (Buy TP € 48)	<ul style="list-style-type: none"> ■ A RAB-based regulation looks set to be introduced in Spain. This should lead to revenues cuts but on our estimates, REE would trade at a discount to Southern European regulated utilities on EV/EBITDA and P/E ratios, while being less geared and offering stronger EPS growth (4% pa 2013-2017e vs 2%). On our estimates, the stock trades at 17% to its "RAB". 	2014e P/E 14.2x 2014e Dividend yield 4.7% 2014e Payout 65%

Summary — Sell unsustainable dividends – Least Favoured

	EQUITY STORY	METRICS
■ EON (Sell, TP €12)	<ul style="list-style-type: none"> Our Sell rating on EON is based on our cautious outlook on Central European power prices through at least the middle of the decade and the negative implications for earnings and dividends, which in our opinion are yet to be reflected in consensus estimates. We furthermore see execution risk and pressure on the balance sheet from management's efforts to diversify outside Europe (Brazil and Turkey). 	2014e P/E 10.4x 2014e Dividend yield 5.3% 2014e Payout 55%
■ Verbund (Sell, TP € 13)	<ul style="list-style-type: none"> Verbund is the most leveraged stock to power prices under our coverage and, given our cautious view on Central European power prices, we believe consensus EPS estimates still have further to fall. In this context, we view Verbund's valuation as unattractive and, although we note some potential support from CO2 newsflow near term or the €1 one-off dividend in the medium term, we think fundamentals will likely remain poor. 	2014e P/E 20.8x 2014e Dividend yield, 2.4% 2014e Payout 50%
■ SNAM (Sell, TP €3.5)	<ul style="list-style-type: none"> We believe that Snam's 16% premium to 2013E equity RAB is unjustified given the Robin Hood tax (NPV represent 15-17% of the group Equity) and tax liabilities (3-5% of the equity). With earnings under pressure due to lower Italian bond yields and increasing gearing, we believe that current DPS, which is not covered by adjusted earnings, is unsustainable in the long run. 	2014e P/E 14.3x 2014e Dividend yield 6.6% 2014e Pay out 93.5%
■ TERNA (Sell, TP € 3.0)	<ul style="list-style-type: none"> Unjustified premium to 2013E RAB (+16%), downside risk on earnings due to declining allowed return and Robin Hood tax and increasing gearing due to lower cash flow and rapidly declining Italian inflation (1.1% in April down from 3.2% in 2012) are not discounted in the share price in our view. Dividend looks safe and relatively attractive but is based on a net profit inflated by lower accountancy D&A than that assumed by the regulator. Adjusting for that, DPS is not covered by real earnings. 	2014e P/E 14.4x 2014e Dividend yield 5.5% 2014e Payout 89.3%



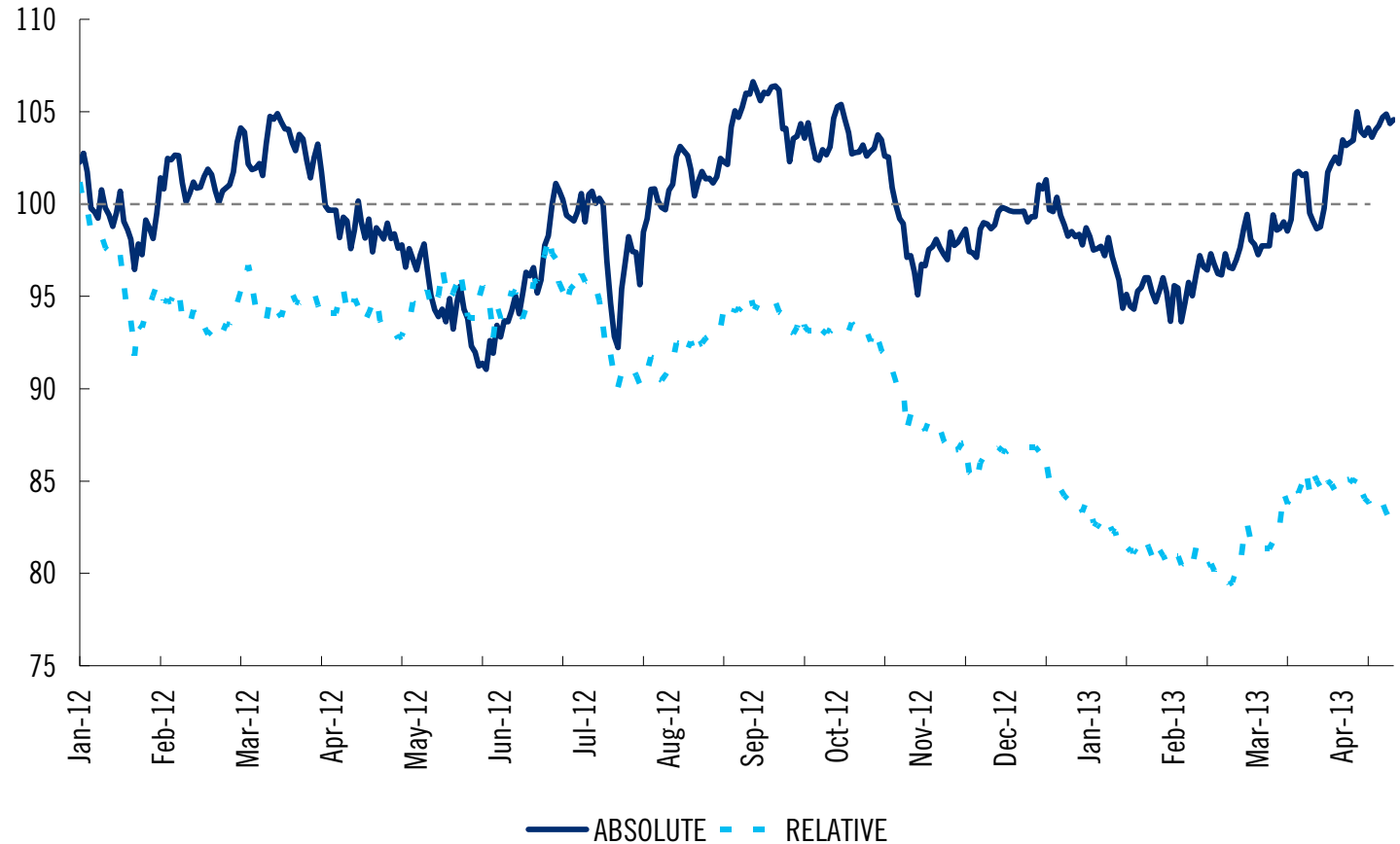
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European Utilities Performance

European Utilities Performance — 2013 outperforming since March

Figure 8. European Utilities, underperforming YTD by -4.6% but outperforming since bond yield rally (+3% relative since 1 March)

- YTD, European utilities sector is up 5.3%, still underperforming the general market by 4.6%. Nevertheless, sector performance started to materially recover from 1 March (+10% absolute, +3% relative), when, following monetary easing in Japan, Europe and US, liquidity increased and yields declined.
- The positive trend started in March followed more than four years of underperformance. Since 1 January 2009 the sector has lost 23.5% of its value and underperformed the European market by 46%.

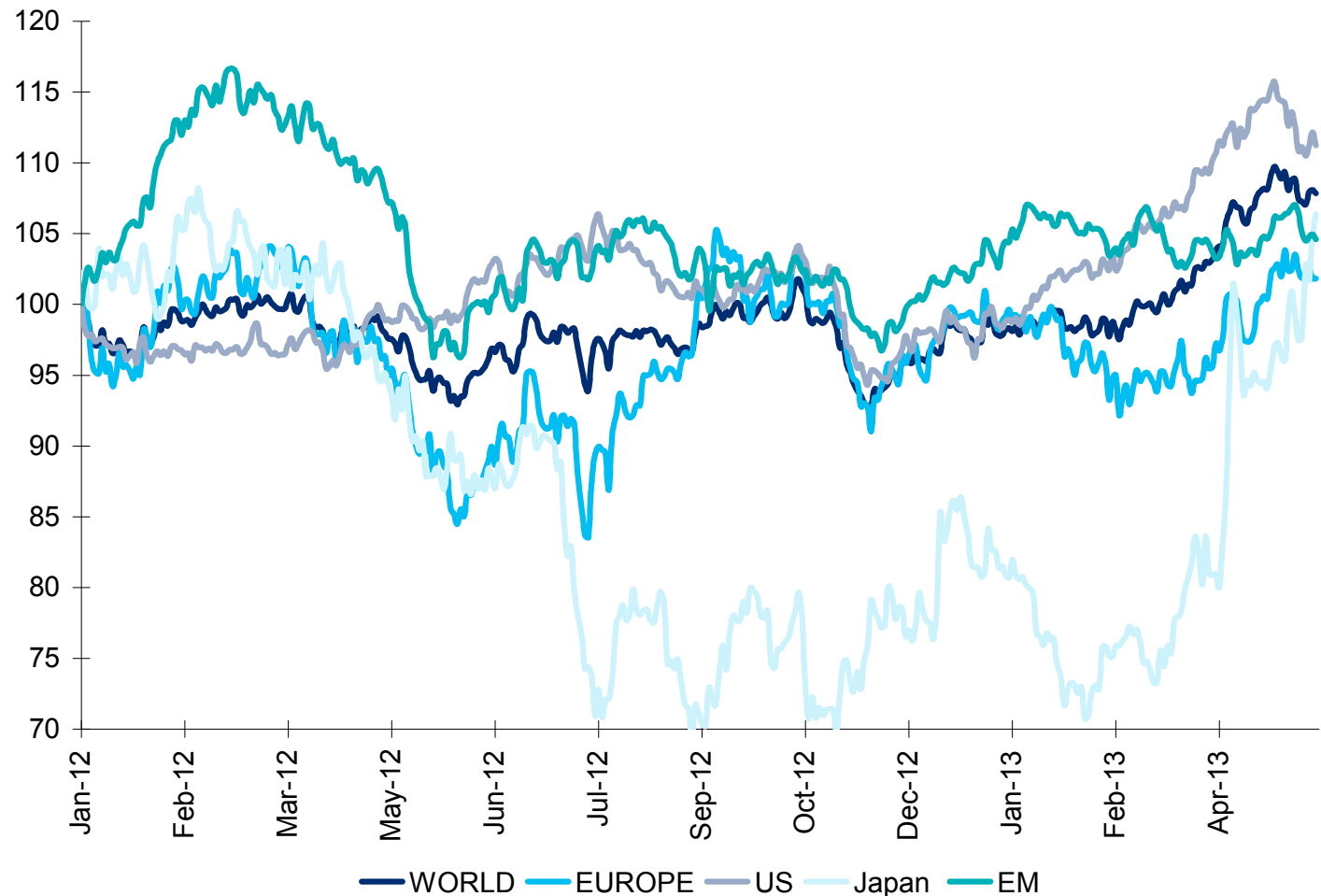


Source: DataStream

European Utilities underperformed the global sector in line with broader European markets

Figure 9. Utilities sector performance (in \$) – European utilities underperforming the global index by 7.5% YTD

- Adjusting for exchange rates, in 2013 European utilities have underperformed the global sector by 7.5%.
- YTD, (in US\$) Japanese utilities appreciated by 30.7%, the US by 14%, Europe by 3.1% while EM appreciated by just 1.7%.
- The trend of the utilities sector reflects the dynamic of the global index where utilities generally outperformed their local index by an average 3-5% since March.

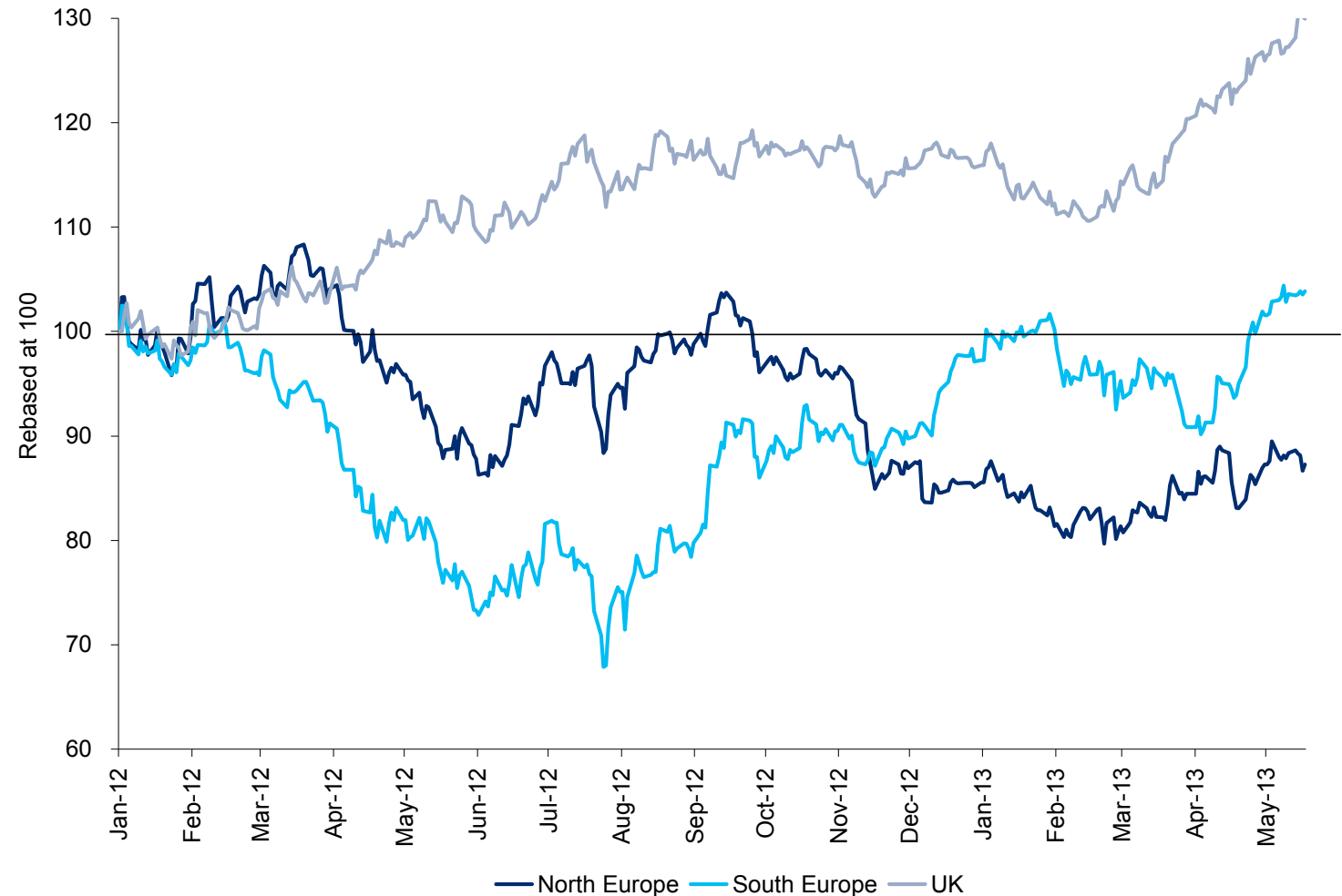


Source: DataStream

European Utilities Performance — UK outperformance continues, Southern Europe in Focus

Figure 10. UK structurally outperforming (in €), Southern Europe in focus since April

- Since January 2012 performance by geographic area has diverged materially, with Northern European utilities losing 13% of their value, Southern European gaining 4% and UK utilities gaining 30% in euro terms.
- YTD all geographic areas are posting positive performance but the UK continues to be the strongest market for utilities (+12.1% YTD), followed by Southern Europe (+6.8%) and Northern Europe (+2.0%).
- The dynamic has changed since 1 April: Southern European utilities have been the stronger performer (+14.3%), followed by the UK (+7.7%) and Northern Europe (3.3%)
- **This dynamic reflects the yield-driven market that favoured Southern European high yielding, highly geared utilities, and also the declining risk profile of peripheral countries.**
- **Central European declining power prices remains a major investor concern.**

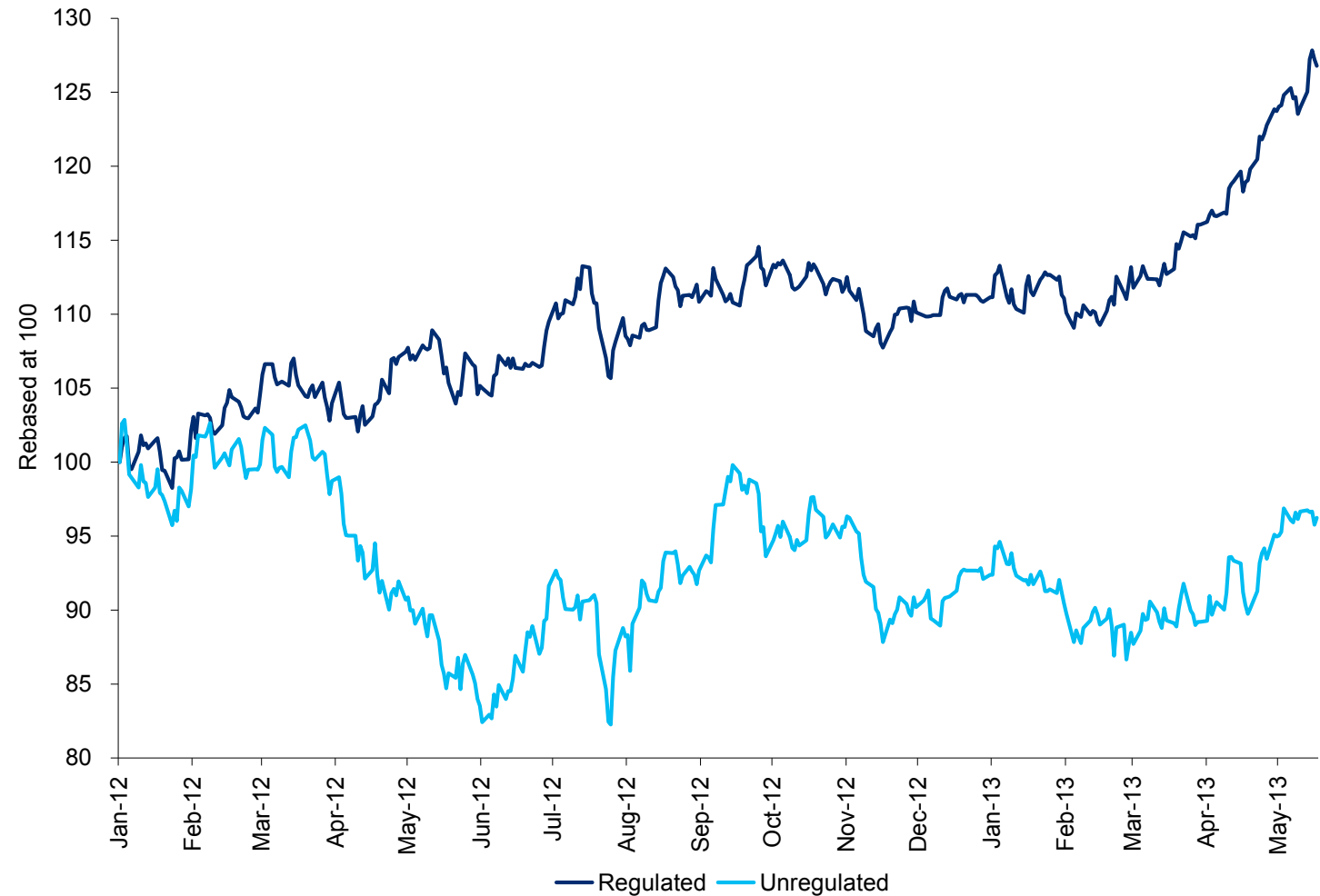


Source: DataStream

European Utilities Performance — Regulated utilities continue to outperform

Figure 11. Regulated names outperformed non-regulated names by 31% since January 2012, +55% since January 2011

- Since January 2012 regulated utilities outperformed integrated utilities by 31%. Regulated utilities have gained 27% of their value, while integrated utilities have lost 4% of their value since Jan 2012.
- YTD the outperformance of regulated utilities continued with regulated utilities gaining 14.1% of their value vs. +4.2% for integrated utilities
- Performance dynamics continue to be stronger for regulated utilities even in a declining rate environment. Since March regulated utilities have outperformed integrated utilities by 3.7%, gaining +13.4%.

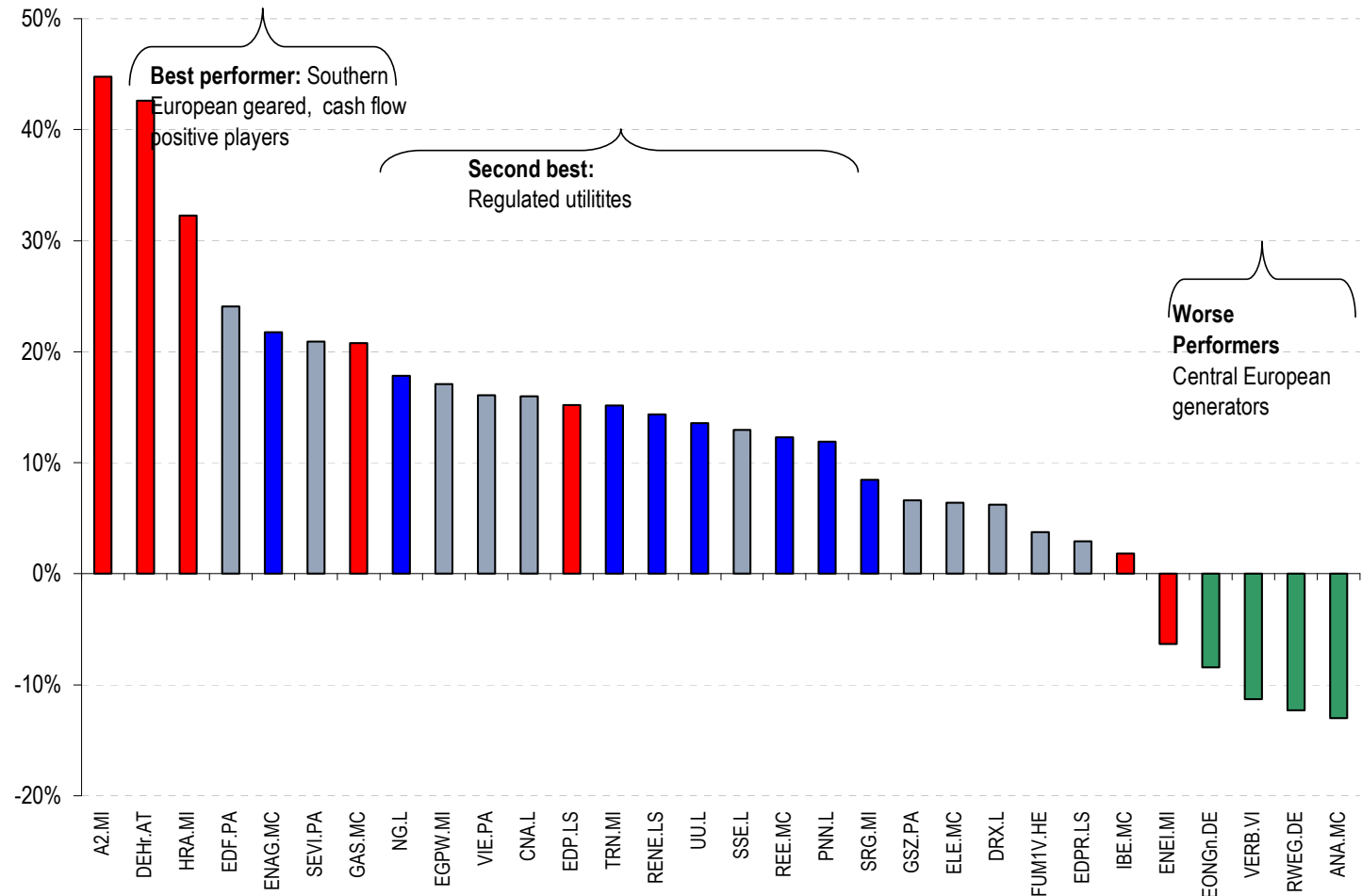


Source: DataStream

European Utilities Performance — YTD winners are Southern European cash-flow positive

Figure 12. Investors favored southern European and renewable operators in H2 2012

- The strong performance of Southern European geared but cash flow-positive players (A2A, Hera, Gas Nat) remained very strong in 2013. The recovery of these names commenced in August 2012.
- Regulated Utilities continued their solid performance in 2013.
- Central European integrated utilities (EON, RWE, Fortum and CEZ) have continued to underperform. This reflects the lower discount attached to their gearing and the persisting concern over the profitability outlook in gas and electricity markets.
- Some exception to these rules: ENEL and Iberdrola, despite benefitting materially from the decline in rates in Italy and Spain have underperformed the sector YTD.



Source: DataStream and Citi Research

Sector Fundamentals Outlook

Economic growth is weak. Pressure on Electricity and Gas demand

Demand YTD

- YTD electricity demand in the major European countries was down 1.6%, with Italy -3.4%, Spain -3.2%, Germany -1.9% and France down 1.1%. UK demand was up 1%. This follows a very negative 2012, with electricity declining in Italy (-2.8%), Portugal (-2.9%), Germany (-0.8%) and Spain (-1.1%).
- Gas demand was weak for the first four months of 2013 (-5.2% YoY) with Italy -13.4%, Spain -9.8% and UK -6.5%.

Figure 13. Overall European Electricity Demand Weakening (TWh)

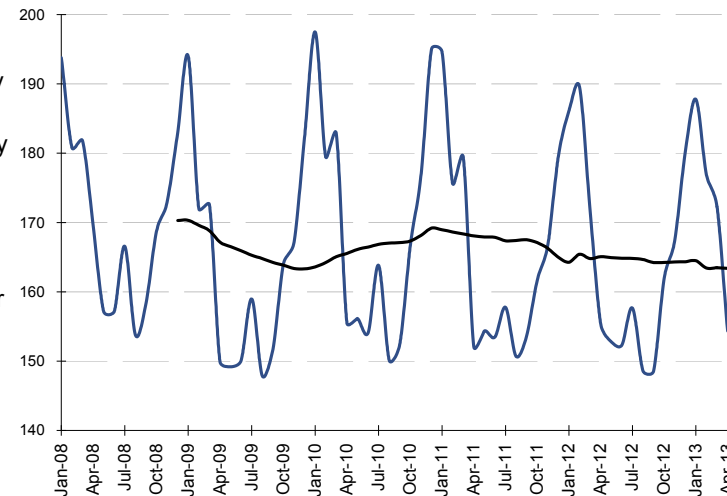
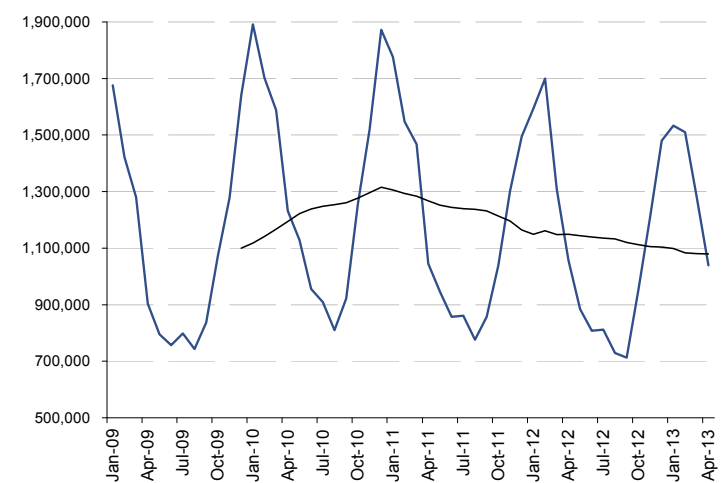


Figure 14. Gas demand -5.2% during the first 4 months of 2013



Expectations for 2013-205E

- Our [economists](#) expect the Eurozone to remain in recession until 2014 (GDP -0.6 in 2013 and -0.3% in 2014) affected by Italy and Spain. In UK growth is expected to remain poor (+0.4% in 2013 and +0.7% in 2014).
- We expect electricity demand in Europe to flatten out with electricity still increasing its share in the energy mix. Germany and UK demand growth should support the European average.
- The outlook for gas demand is more bearish. We expect 2015e demand to be some 10% below 2010 levels.

Figure 15. Citi electricity demand estimates: 0.4% growth p.a. 2012-2015

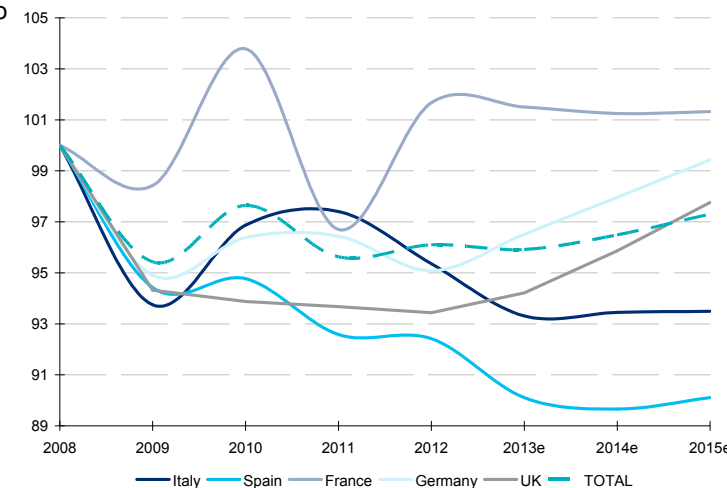
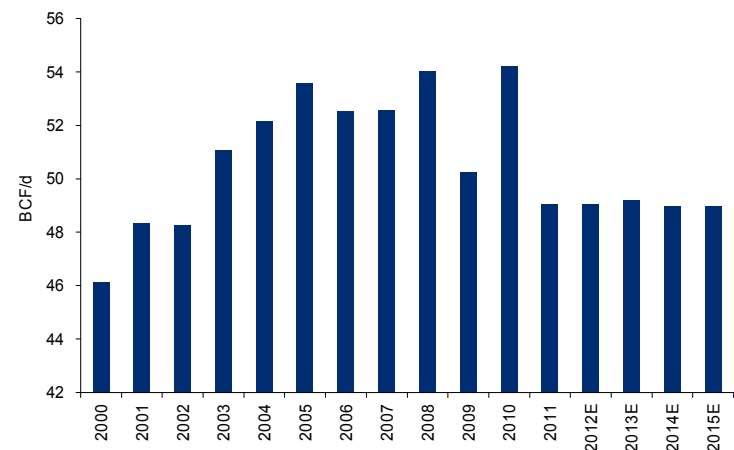


Figure 16. Citi estimates: gas demand to set 10% below 2010 peak



Source: ENTSOE, ENTSG, BP, PIRA, Citi Research

Commodities and Power Prices – Under pressure since beginning of 2013

Figure 17. Commodities: Remained weak with carbon prices falling the most

- Since January 2013 major commodities prices are down with carbon prices (-41% YTD) declining the most post the EU parliament's rejection of the carbon backloading proposal.
- YTD, 1-year forward Base load prices have declined on average by 7%, with German, French and Spanish power prices falling the most (-14.3%, -13.8% and -11.4% respectively). Power prices in Italy, Nordic and UK were also down 9.4%, 3.1% and 2% respectively.

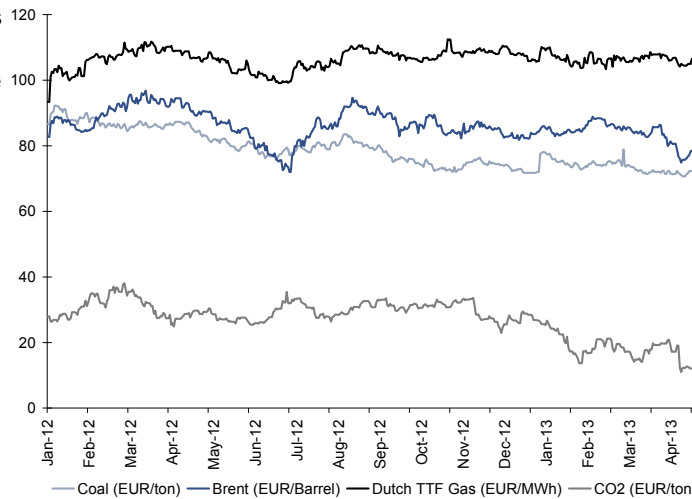


Figure 18. Power prices remains weak due to lower gas prices

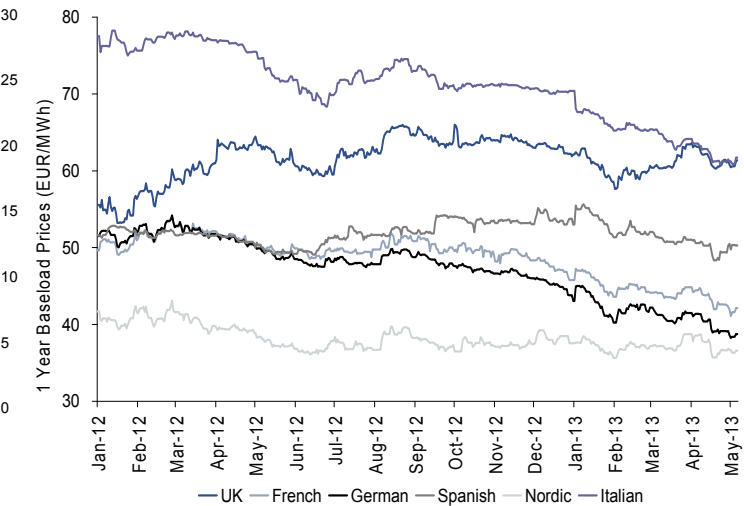


Figure 19. Low power prices keeps Northern European CSS under pressure

- Clean spark spreads worsened in Northern Europe, where they remain negative. Spanish and UK spreads are positive but taxes and carbon floor rules suggest that margins for generators remains under pressure.
- Green Dark spreads were down in 2013 (-5% on average in Europe YTD), with Germany (-18%) and Italy (-17%) falling the most.

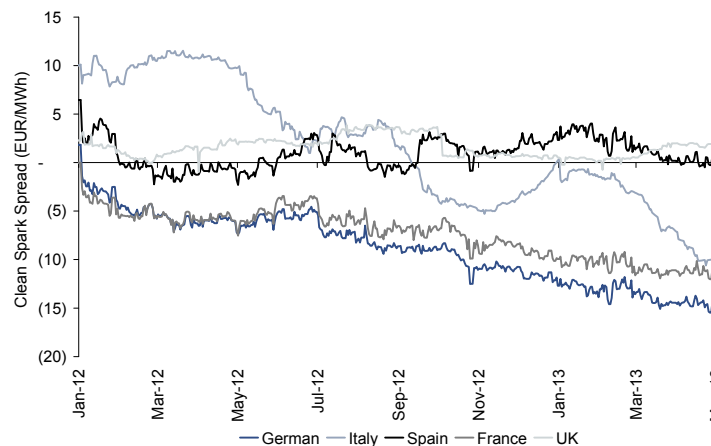
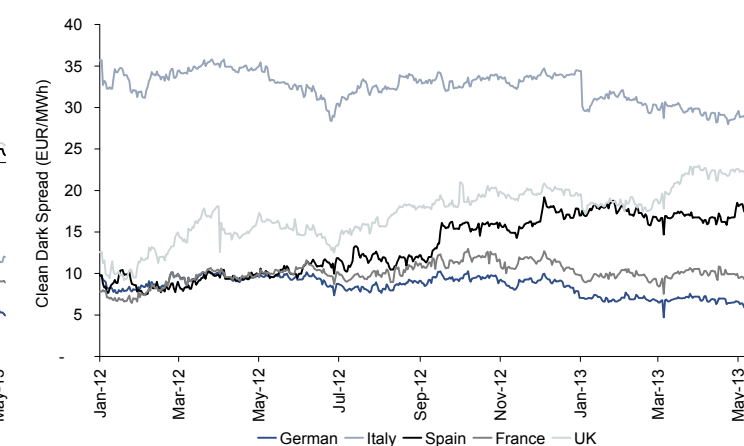


Figure 20. Green Dark Spreads were down the most in Germany and Italy



Source: Datastream and Citi Research

Outlook – Capacity closures, sole way to improve demand/supply balance

- Development of renewable energy is slowing down: 29GW of capacity expected 2013-15 vs. 85GW built in 2008-2012.
- Major capacity closures are expected in Italy and the UK. In Germany, E.On and RWE have indicated a willingness to close plants if they were to become unprofitable. However, the level of existing oversupply, renewable capacity additions and scope for a capacity market to emerge in the next 2-3 years will likely substantially limit the impact of any such actions and the groups' cost-cutting plans already largely factor in such measures.

Figure 21. . Closures of traditional capacity to outpace new builds (GW)

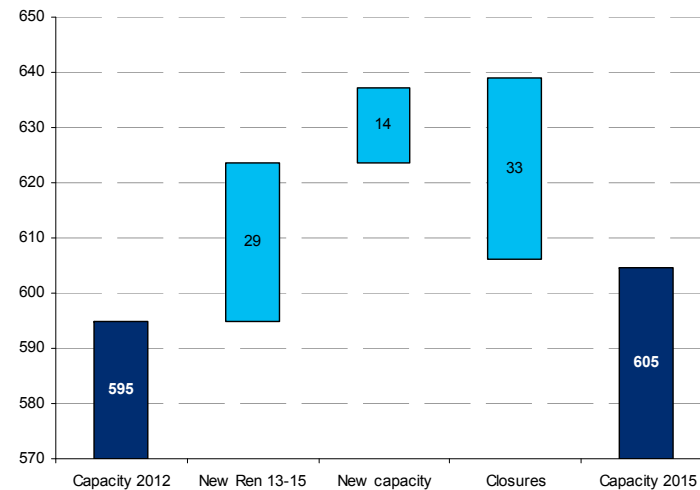


Figure 22. . Net traditional capacity change: declining but in Germany (GW)

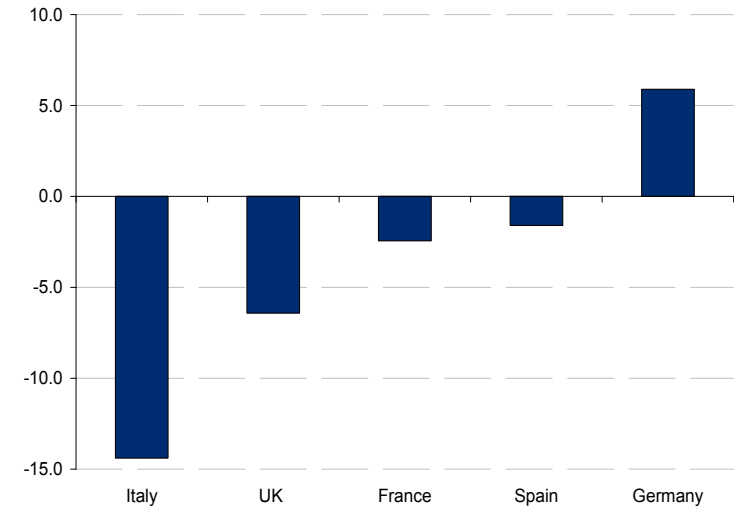
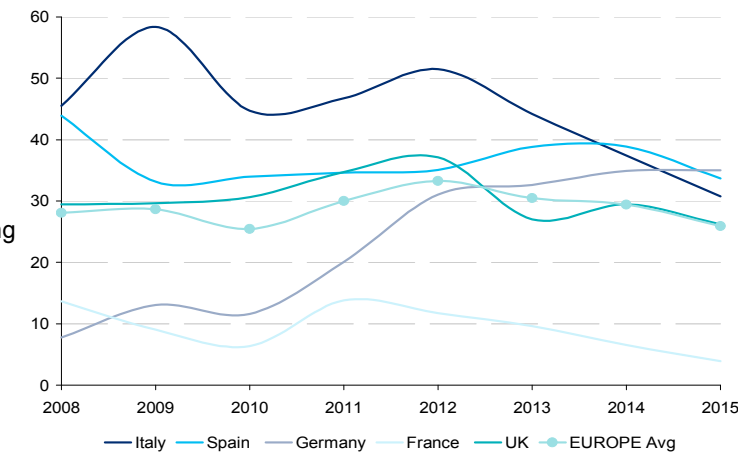


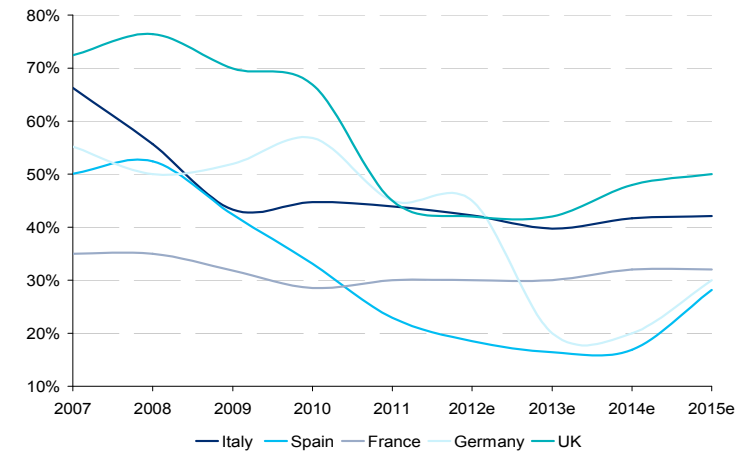
Figure 23. . Reserve margin in Europe set to decline (%)

- We define the reserve margins as capacity installed adjusted for hydro and renewable contribution divided by peak demand.
- While asset quality varies by country, and the absolute number might be misleading, we identify a clear declining trend in Europe with the exception of Germany.
- CCGTs load factor is expected to improve from 2014.



Source: Company data, Local TSO, Citi Research

Figure 24. CCGTs load factors gradually on the rise



Focus — Growth of Renewables slowing down materially

Figure 25. Renewable additions: material slow down.

- Development of renewable energy is slowing down: over the next three years we expect only 30GW of capacity to be installed vs 85GW installed in 2008-2012.
- We expect renewable output to grow by 63TWh in 2012-15e, absorbing an additional 2.7% of the total European output (4.5% 2008-2011).

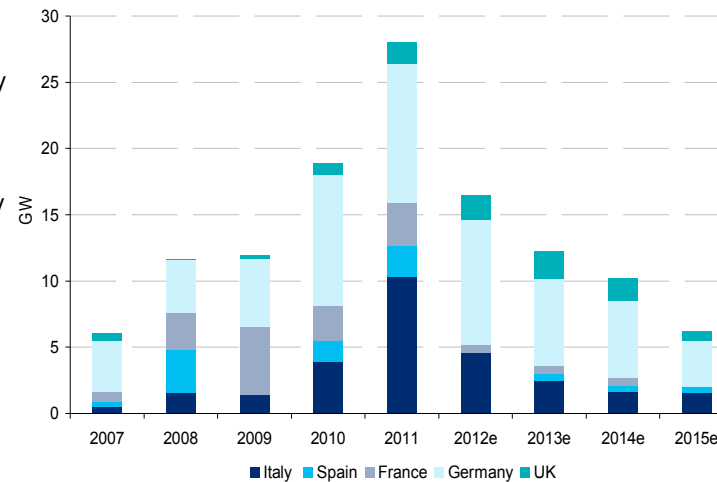


Figure 26. Renewable production: additional 2.5% of demand in 3 years

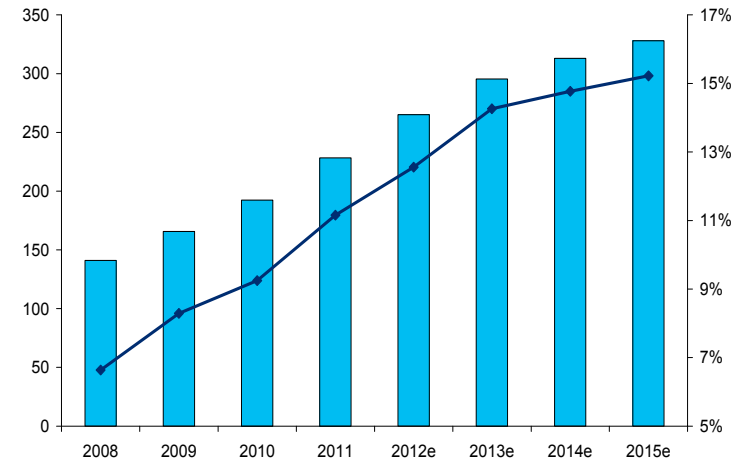


Figure 27. Regulatory changes in Europe

- Combination of cuts in subsidies and restriction to the development of new renewables are materially containing the future growth of bills.
- **Italy:** A cut in subsidies introduced since August 2012 have led to a reduction of solar development. During the period August 2012-April 2013 only 856MW of new solar has been built.
- **Spain:** Renewable moratorium introduced for new projects.
- **France:** The government has doubled its solar installations target for 2013, but also approved an increase in the renewable component of the bill (CSPE) of less than required leaving the system at a ~€2bn deficit due to be closed by 2016. We factor in above-inflation tariff increases for electricity with announcements due by year-end, but see downside risk to our assumptions.
- **UK:** General downward pressure on renewable support remains (ROC banding review and FIT changes). We expect pressure to continue and to hamper the development of new projects.
- Following two very difficult years (Italian bills + 16 and 13% in 2011 and 2012, Spanish bills +16.7% and 1.7% respectively), we believe the 2013-2016 outlook will be more sustainable.
- German bills though face two more years of significant rises due to T&D and renewables just as we enter an election year.

Figure 28. Sustainability of bills.

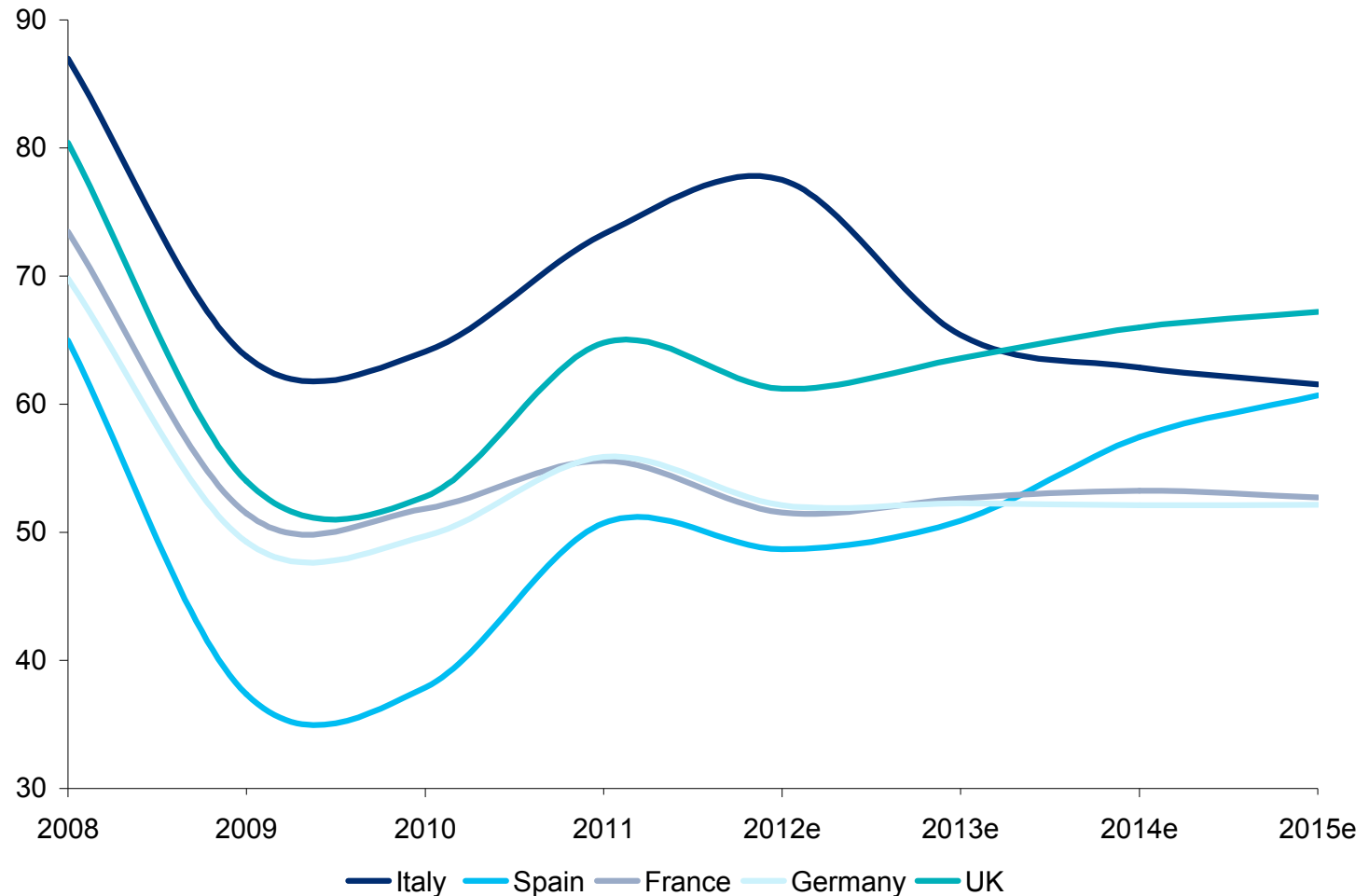
- **Italy:** Following the expected decline in power prices and the modest growth of renewable costs, we expect bills to decline by 3% on average in 2013 and to slightly decline in 2014, also reflecting lower network revenues due to regulatory review.
- **Spain:** We expect electricity final bills to decline by 6.5% in 2013e thanks to lower power prices. From 2014 onward we estimate that a 2% growth in electricity bills will be enough to maintain the balance of the system.
- **France:** Tariff dynamic will be affected by political decisions. Upward pressure might come from renewable.
- **Germany:** Pressure on bills will come from renewable and T&D.

Source: Company data, Local TSO, Citi Research

Power Price Outlook — Power prices under pressure in 2013

Figure 29. Power prices: no signals of Improvement.

- **Italy.** We expect power prices in Italy to decline to €65/MWh in 2013 from €76/MWh in 2012 on lower gas prices and green certificates costs. Spark spreads should improve over the next few years on normal hydro and reduction of imports. Overall power prices should modestly decline on the reduction of Green certificate costs.
- We expect **Spanish prices** to rise over the next few years from very weak 2013 levels (€49/mwh) reflecting the increase in taxes on generators, normalising hydro levels and closure of coal generation. We expect Spark spreads in Spain to remain negative in the medium term on overcapacity.
- We expect further downward pressure on spreads and prices in **Central Europe** over the coming 12 months, although expect current levels to be supported longer term, if we were to assume no changes in the pool-price system.
- In the UK the 1-year forward power price has recovered from its sub-£50/MWh lows during 2012. We expect prices to remain in the £50-55/MWh range in the near term, which leaves spark spreads around breakeven based on forward gas prices and the carbon floor tax.

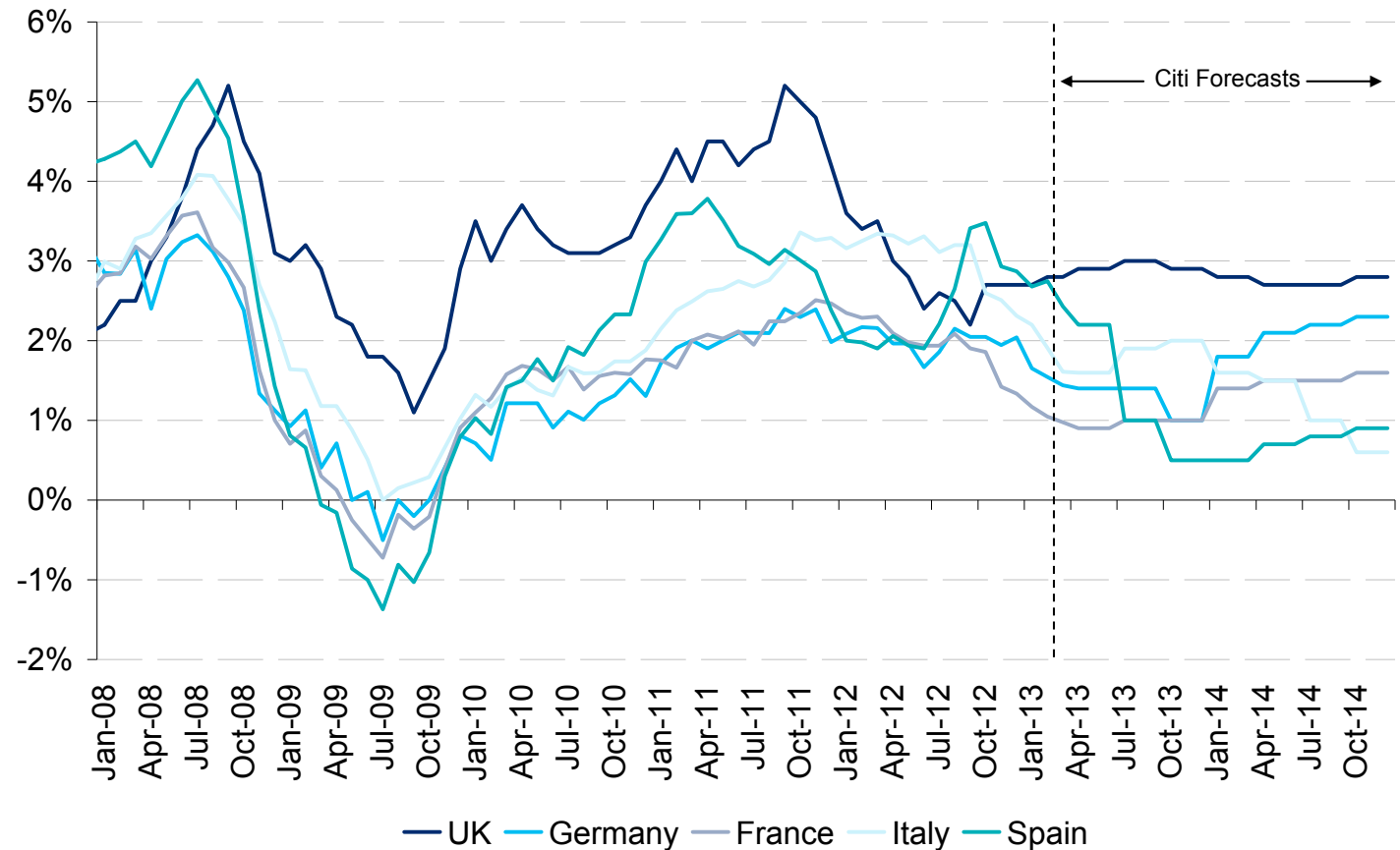


Source: Market data (EEX, Omel, IPEX) and Citi Research

More Macro Elements — Declining inflation

Figure 30. CPI Inflation Monthly data for major European countries

- CPI Inflation for the major European countries except UK has started to fall from the 4Q2012 with April CPI of 1.2% for Germany, 0.7% in France, 1.1% for Italy and 1.4% for Spain. In UK, CPI though rising is at 2.8%, still below the highs of 5.2% in September 2011.
- Our [Economists](#) expect overall Euro Area CPI inflation to fall to 1.6% in 2013 and 1.3% in 2014. CPI Inflation in the UK is expected to remain flat at 2.9% in 2013 and 2.7% in 2014. Italian and Spanish inflation is expected to decline below 1% from 2014 onwards.
- Inflation has an impact on regulated utilities EBITDA as asset value is linked to inflation. Lower growth of asset values impact the gearing of utilities, adding pressure to their financial structure.



Source: EUROSTAT, Citi Research, Citi Forecasts (as of April 2013)



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Earnings Outlook

Utilities Earnings Revisions — Sector 2013-2015 EPS lowered by 9.2% YTD, again

Figure 31. Citi EBITDA estimate revision, -17% in 15 months

- YTD we have lowered our sector 2013-2015e EBITDA estimates by an average 4.2%, in line with consensus.
- The EBITDA revision mainly reflects the introduction of Spanish regulatory review and downward pressure on clean spark spreads and thermal generation load factors as well as higher than expected – and usually dilutive – disposals
- In our new estimates we have also reduced our assumptions on Southern European allowed returns.

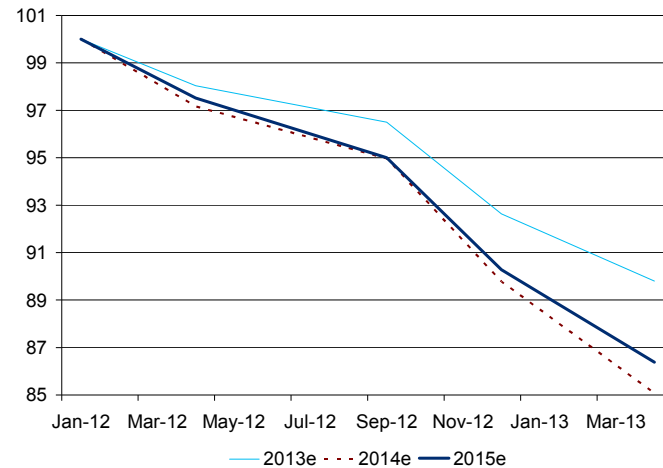


Figure 32. Consensus EBITDA estimate revision

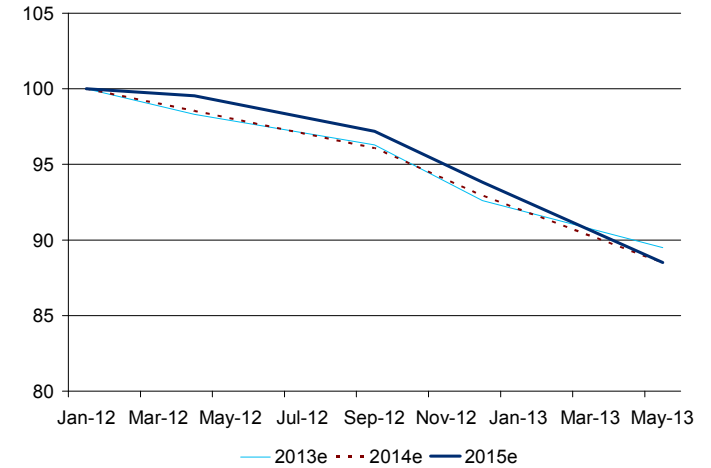


Figure 33. Citi EPS estimate revision

- YTD we have reduced our sector 2013-2015e EPS estimates by an average 9.2%, above consensus (-6.9%).
- 2014e EPS downgrades have been particularly strong at CEZ (-36%), ENEL (-28%), RWE (-21%) and Veolia (-29%).
- In 2013 we have increased our 2014e EPS estimates only for Drax (+30%), EDF (+4%) and Fortum (+9%).

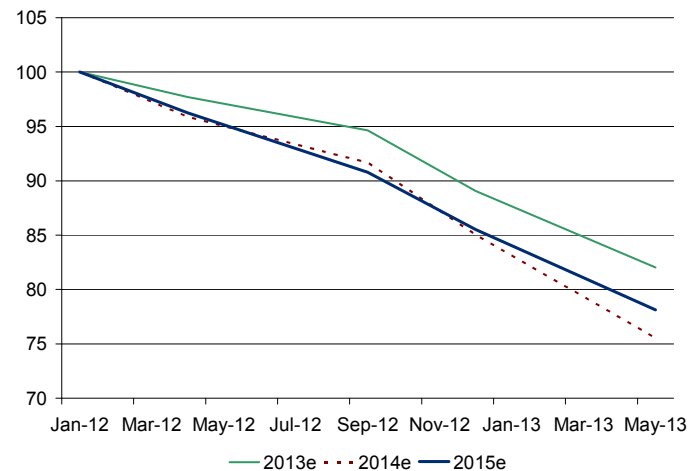
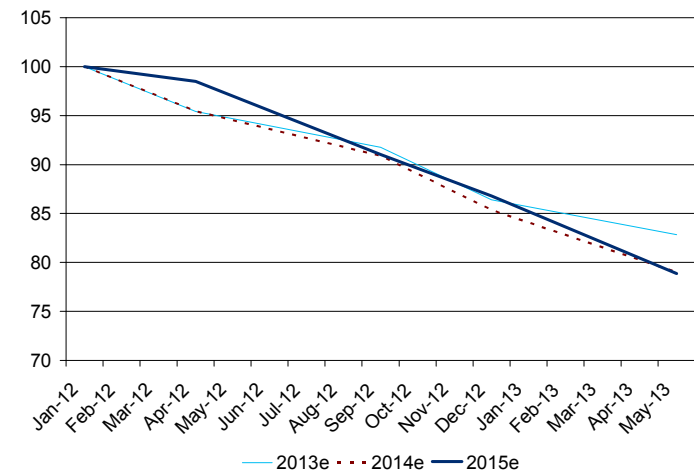


Figure 34. Consensus EPS estimate revision

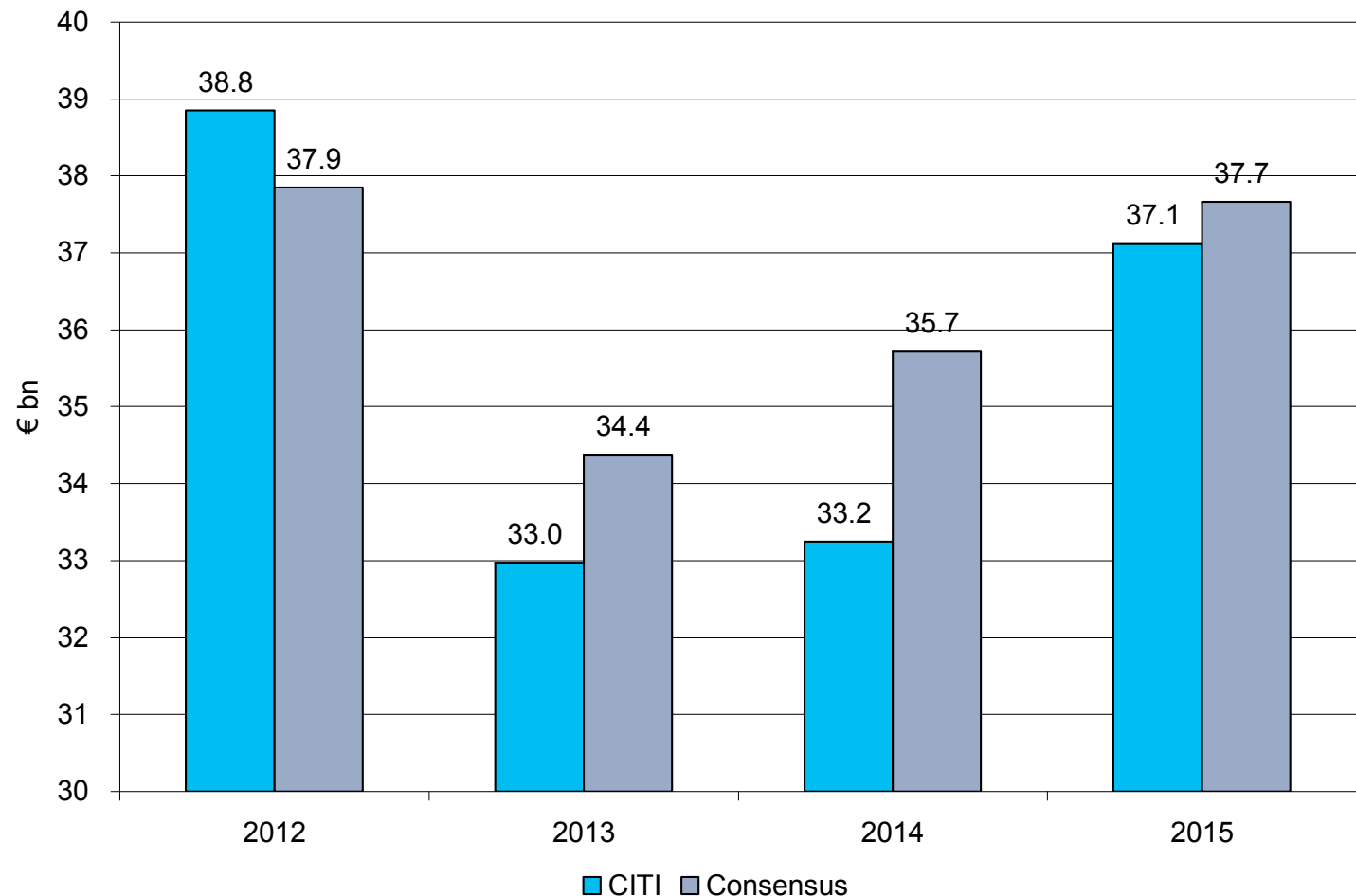


Source: IBES, Citi Research

Earnings Outlook — Declining profits until 2014E discounted in estimates

Figure 35. -15.1% decline in Utilities net profit expected in 2013

- In our estimates we expect utilities sector net profit to decline by 15.1% in 2013 versus 2012. This follows a 1% decline in adjusted net profit registered in 2012.
- 2014 should bring little growth with utilities EBITDA and net profit expected to remain broadly unchanged. This mainly reflects still declining profits in Germany (EON and RWE) and in Italy, affected by regulatory changes.
- Growth prospects are therefore delayed to 2015. In 2015, we expect broadly stable generation prices (increasing in UK and Spain), stable regulated revenues and cost cutting to lead to 6.5% growth in EBITDA that, combined with declining cost of debt, should lead to 11.6% growth in sector net profit.

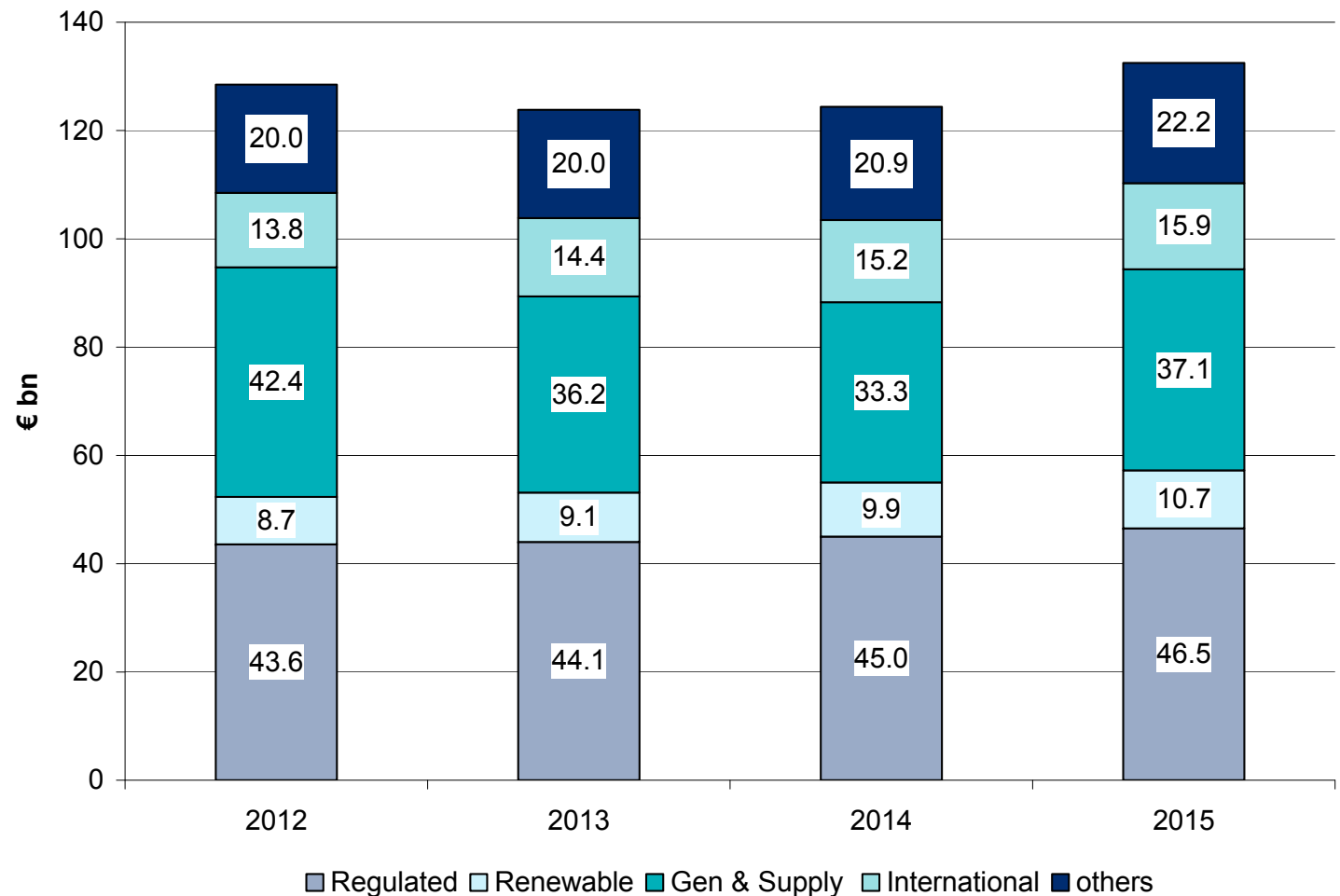


Source: IBES and Citi Research

EBITDA Outlook — 2015E recovery predicated on generation and supply rebound

Figure 36. Citi Estimates: Generation and supply weakness, discounted.

- We expect utilities sector EBITDA to grow at an average of 1% pa (2012-15E) with a 3.6% decline in 2013E, a modest recovery in 2014E (+0.5%) and solid growth in 2015E (+6.5%).
- Sector growth is mainly coming from renewables (+7.0% pa) and international growth (+4.8% pa). Our estimates for Regulated EBITDA growth have been materially trimmed over the past few weeks on Spanish regulatory reform expectations and declining bond yields in Italy. We now expect a 2.2% annual EBITDA growth for this sub-sector.
- **2015E recovery depends on generation.** Our expectations of EBITDA growth in 2015E (+6.5% on 2014E) is predicated on a recovery in generation and supply divisions that we expect will grow by 11.3% on cost cutting, modest increase in power prices and supply margins. This implies a growth in demand for which we have not seen any signals so far.



Source: Citi Research

Earnings Outlook — Stable debt levels, converging bond yields

- Our 2015e cumulative sector net debt estimates have declined by €36bn since the beginning of 2012, amid lower capex, declining dividend paid and disposals.
- Given the correction to our EBITDA estimates, the Net debt to EBITDA outlook remains unchanged.
- We expect sector net debt/EBITDA to remain stable over the next few years and materially decline only from 2015.

Figure 37. Sector net debt/EBITDA is declining

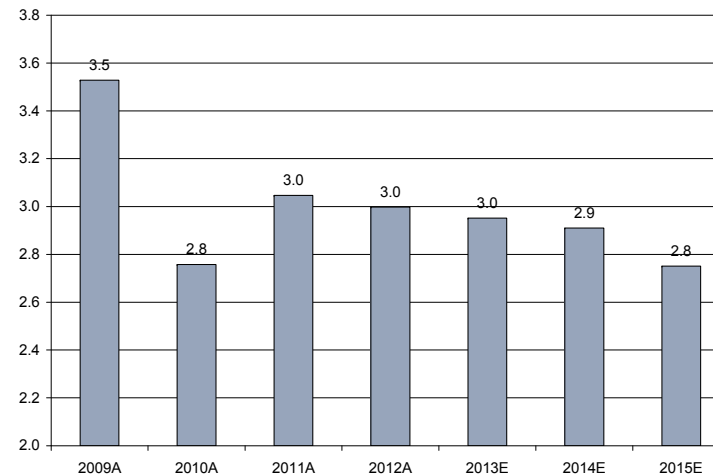


Figure 38. Overall net debt estimates reducing

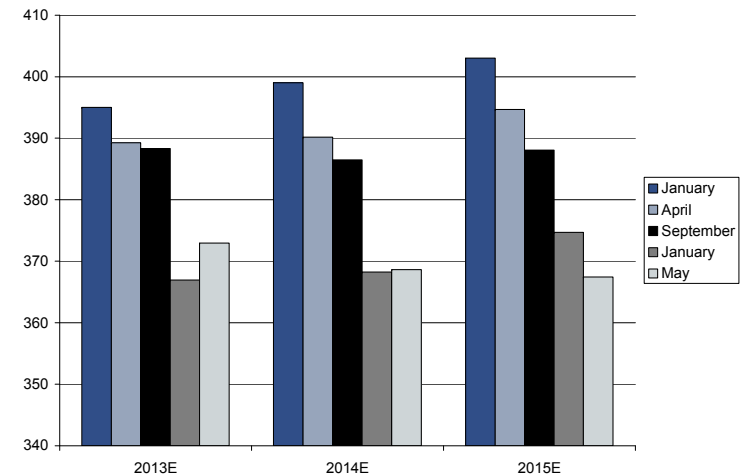
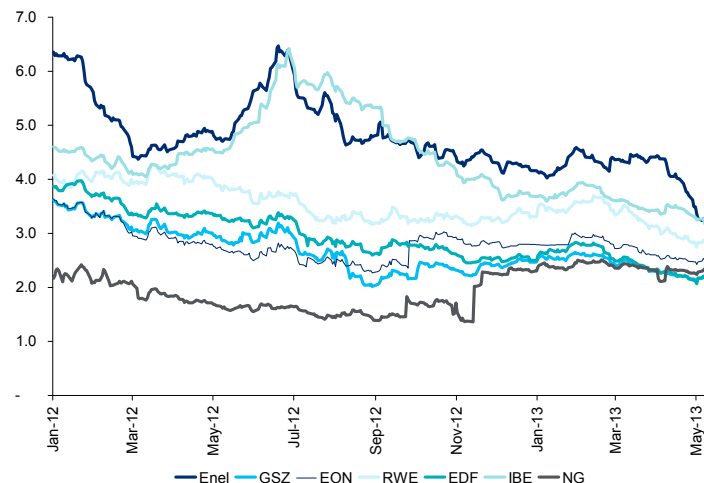


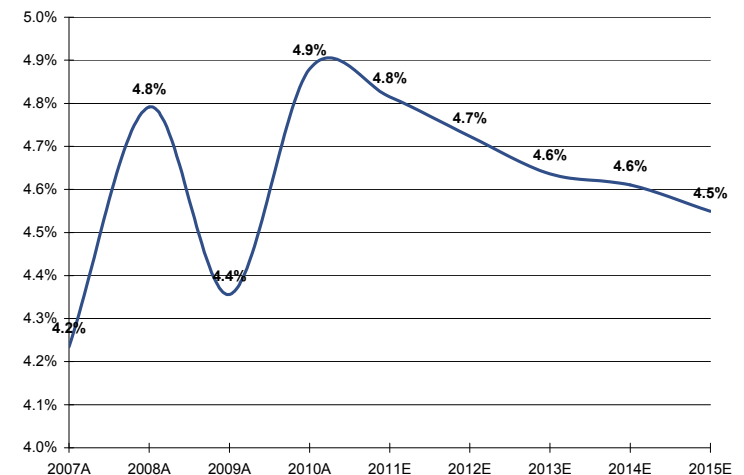
Figure 39. utilities 10years bond yield - Converging

- Financial conditions continue to improve. Average Utilities 10 year bond yields have decline by 134 bps since Jan 2012 and by 33 bps YTD
- ENEL Bond yields have been the best performer, declining by 306 bps since 2012 and by 86 bps YTD.
- Southern European utilities bonds (ENEL and IBE) are trading 70 and 100bps below their sovereign, German utilities bond yields at a premium (70-100) to German bonds. French and UK bond yield remains the lowest with a modest premium to their sovereigns.



Source: DataStream, Company Reports, Citi Research

Figure 40. Cost of debt is declining but remains above current bonds yields



Balance Sheet Outlook — Cash flow generation still not covering dividends

Figure 41. Sector cash flow generation set to improve

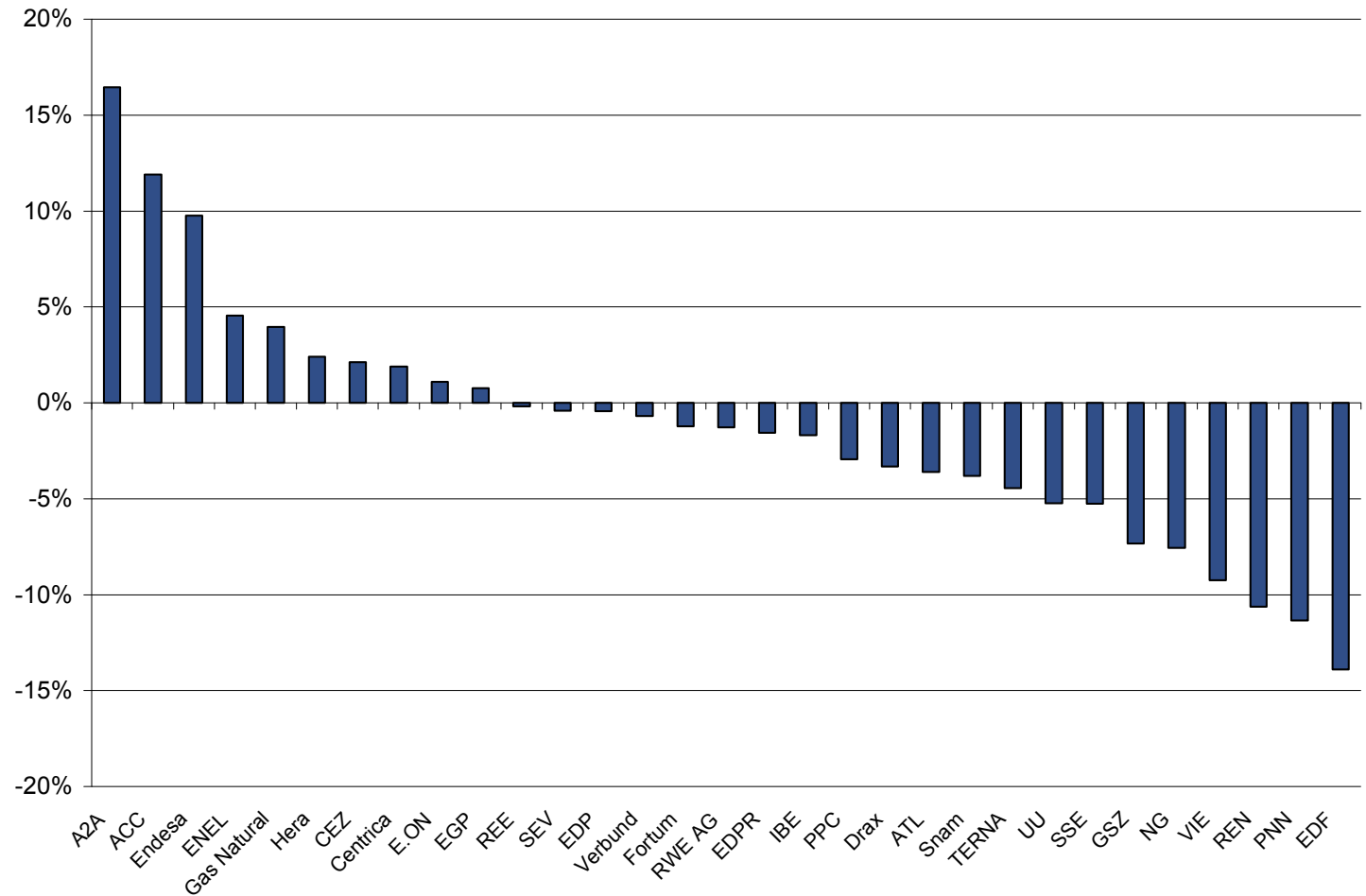
<p>■ The deterioration in earnings estimates adds pressure on sector cash flow from operations (2014E €8bn or -33% compared to our January 2013 estimates). The reduction in EBITDA (-€13.8bn from January 2013 expectations) is only partially compensated by lower capex (-€1.3bn), lower taxes (-€1.2bn) and lower financial charges (-€2.1bn).</p>	EBITDA	2010	2011	2012	2013e	2014e	2015e	Cagr
	financial charges	139.0	125.0	131.2	124.9	125.4	133.2	0.5%
	taxes	-23.6	-22.7	-22.9	-22.2	-21.8	-19.7	-4.7%
	Operating Cash Flow	-17.9	-15.2	-14.8	-17.2	-17.2	-19.1	8.7%
	Capex	97.5	87.2	93.5	85.5	86.4	94.4	0.3%
	Free cash flow	-78.3	-86.5	-78.4	-72.2	-70.4	-68.9	-4.2%
	Dividends	19.2	0.7	15.1	13.3	16.0	25.5	18.8%
	Net cash	-27.9	-28.6	-25.2	-24.4	-24.1	-24.0	-1.7%
	Others	-8.7	-27.8	-10.1	-11.1	-8.1	1.5	
	Change in debt	43.4	7.4	1.5	38.7	12.4	-0.3	
<p>■ On our current estimates cash flow from operations will not cover dividend in 2014E.</p>		34.7	-20.4	-8.6	27.6	4.3	1.2	
<p>■ On our estimates only 13 companies covered in our sector in 2014 will cover their dividend with cash flow. 19 companies are expected to cover their dividend in 2015E.</p>								

Source: Company Reports, Citi Research

Balance sheet Outlook — Cash-flow generation does not cover dividends in 2014

Figure 42. Utilities net cash generation /market cap: Central European utilities net cash flow (pre-disposals) remains negative

- Southern European companies offer the highest free cash flow yield. This reflects:
 - Lower capex;
 - Larger exposure to mature regulated assets (distribution);
 - Already implemented large restructuring process.
- Northern European cash flow remains poor as capex cuts have been outpaced by margin pressure and ageing power plants, whilst scope for further cost-cutting appears limited.

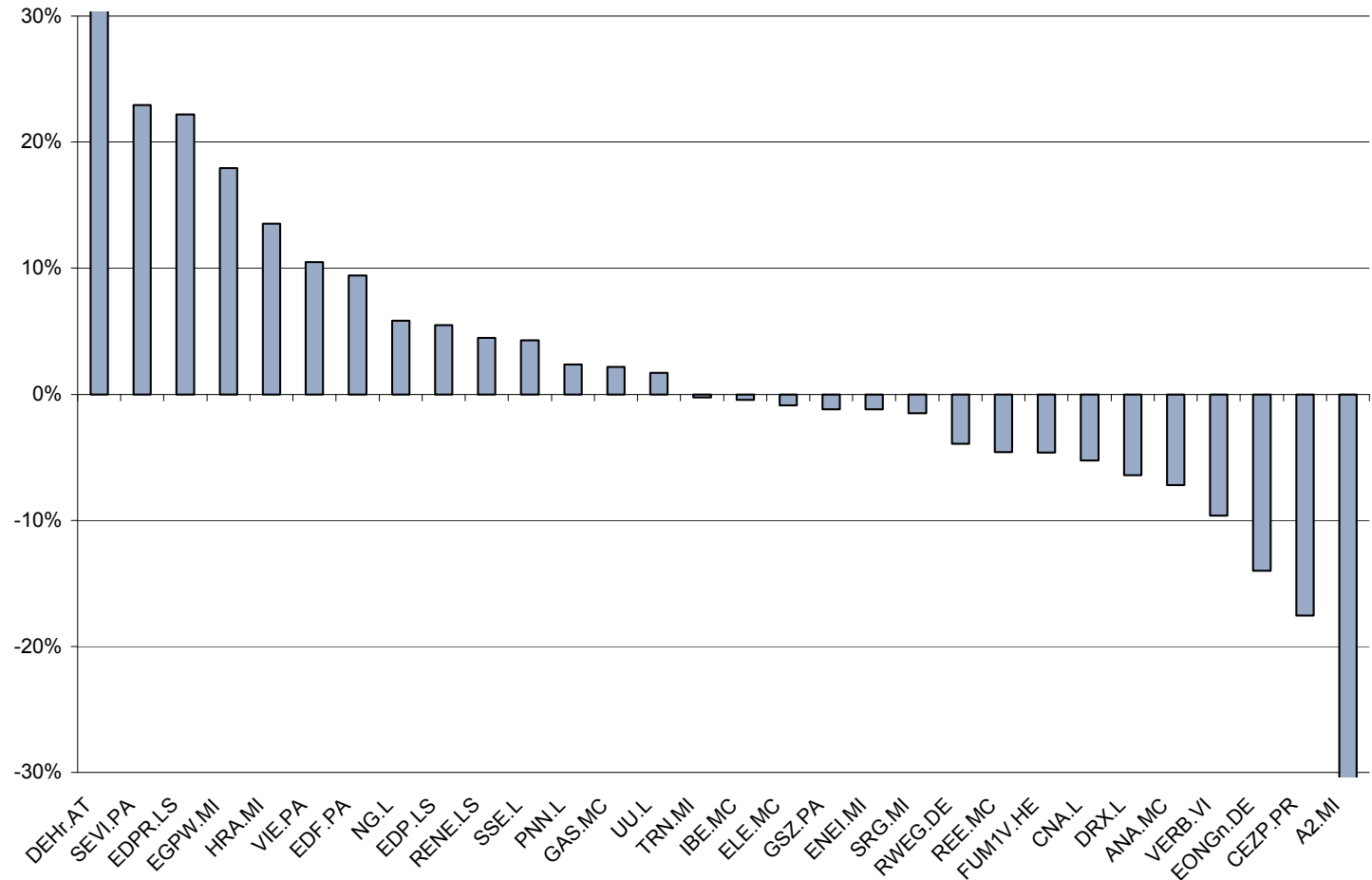


Source: Company Reports, Citi Research

Earnings Outlook — Net profit 3-year growth -0.7%

Figure 43. Sector EPS growth concentrated in renewable and restructuring stories

- On our estimates we expect net profit in 2015E to remain below 2012 levels.
- Net profit growth for the utilities sector should come mainly from renewables, which despite the reduction in capex are still increasing their capacity installed.
- Veolia and Suez Environnement offer earnings growth above sector average helped by a) ongoing investment above pure maintenance capex, b) the end of disposal programmes, c) a stabilisation of global macro trends, and d) in the case of Veolia the benefits of restructuring seen via lower financial expenses and substantial cost-cutting.

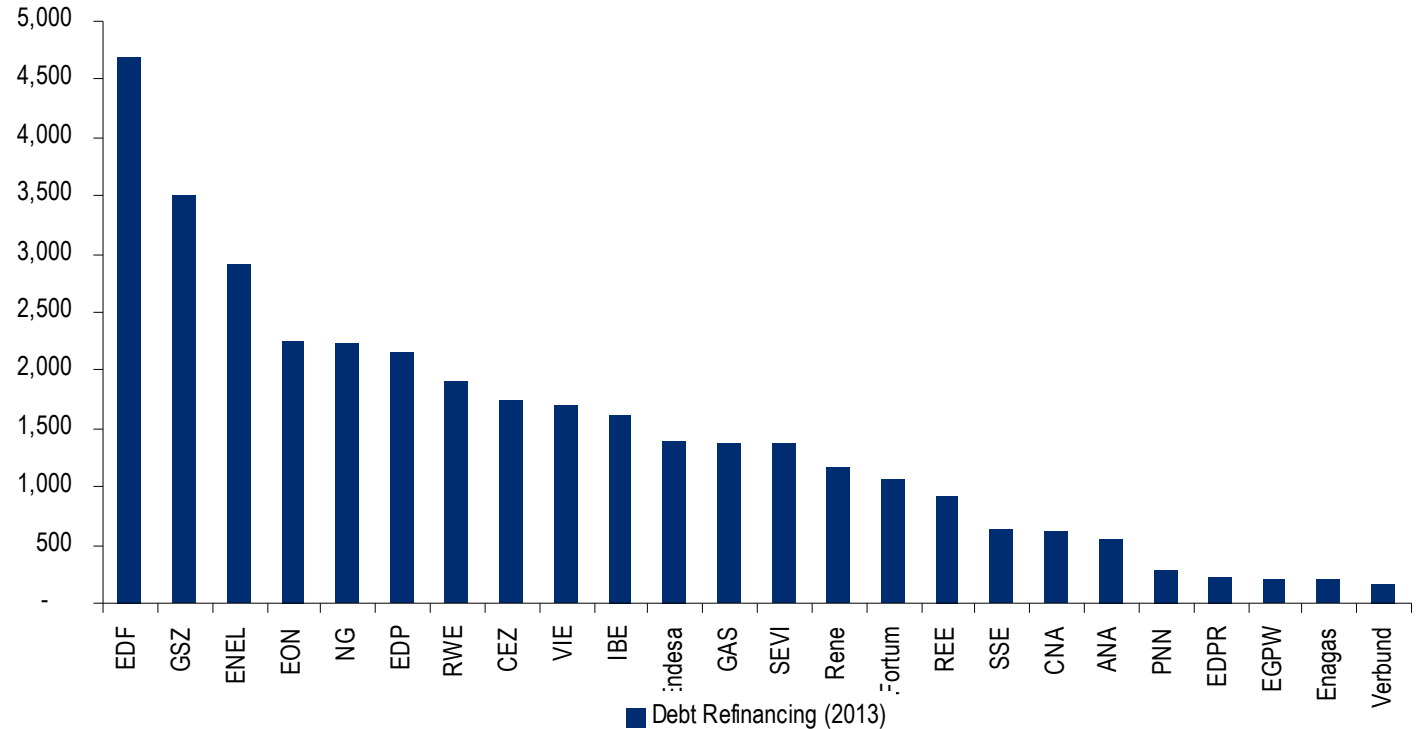


Source: Citi Research

Earnings Outlook — Cost of debt decline limited by fixed rates and long maturities

Figure 44. Only €38 bn, 8.5% of sector total debt, needs to be refinanced in 2013.

- Modest upside from current estimates could come from the decline in sector cost of debt.
- On our estimates (see Figure 40) sector cost of debt is expected to decline by an average of 24 bps from 2012 levels. This compares poorly with the 134bp-decline in utilities 10-year bond yields experienced since January 2012 (and more than 300bps for Southern European utilities).
- But in 2012, utilities heavily refinanced their debt (€63bn of bonds have been issued) and refinancing needs in the sector appear modest:
 - Only €38bn of debt needs to be refinanced in 2013 (8.5% of total sector debt);
 - Only €40bn of debt needs to be refinanced in 2014 (9.7% of sector total debt).
- Furthermore, 69% of the sector debt is contracted at a fixed rate.



Source: Citi Research

Utilities Earning Revision — Little room for surprises, risk of disappointments

Figure 45. Citi 2014e EPS estimates are 6.9% below consensus, Upside risk limited to a few names. Large risk of disappointment

- Our overall sector EPS estimates for 2014e are 6.9% below consensus but differ substantially on a company by company basis.
- For **EON and RWE**, we believe consensus has yet to fully factor in the pressures from low commodity prices affecting power generation, renewables and E&P activities.
- **Our estimates for Southern Europe are in general below consensus** as we are factoring in an additional regulatory review in Spain, a decline in allowed return in Italy and we assume that the Italian Robin Hood tax will not be reduced in 2014. Our underlying estimates imply higher than consensus average power price assumptions in Italy as we believe that Spark spreads will recover due to declining imports and normalising rainfall.

2014e EPS	CITI	Consensus	Difference
Drax	32.33	30.19	7%
PPC	1.19	1.13	5%
EDF	2.03	1.93	5%
REN	0.26	0.24	5%
Suez Environment	0.77	0.73	5%
Penon	43.08	41.73	3%
Enel GP	0.12	0.12	0%
SSE	115.47	116.24	-1%
Fortum	1.23	1.24	-1%
Centrica	29.53	29.79	-1%
EDPR	0.22	0.23	-3%
Gas Natural	1.41	1.45	-3%
United Utilities	41.38	42.64	-3%
EON	1.30	1.36	-4%
GDF Suez	1.37	1.43	-4%
National Grid	52.23	55.07	-5%
Enel	0.32	0.34	-5%
EDP	0.26	0.28	-7%
Veolia	0.62	0.67	-7%
Snam	0.27	0.29	-9%
Endesa	1.64	1.86	-12%
Terna	0.21	0.25	-14%
Iberdrola	0.35	0.41	-15%
Verbund	0.80	0.99	-19%
CEZ	54.06	66.76	-19%
Acciona	1.71	2.22	-23%
RWE	2.61	3.44	-24%
Red Electrica	3.03	4.08	-26%
A2A	0.02	0.06	-60%

Source: IBES and Citi Research

Utilities Valuation

Valuation — Utilities relative P/E below historical average

- Over the past five years utilities have lost some 43% of their value.
- In the meantime earnings have declined by 33%.
- The sector relative P/E has declined and is currently 7% below the market average.

Figure 46. Utilities Price and earnings Index



Figure 47. Utilities Price and earnings Index - Relative

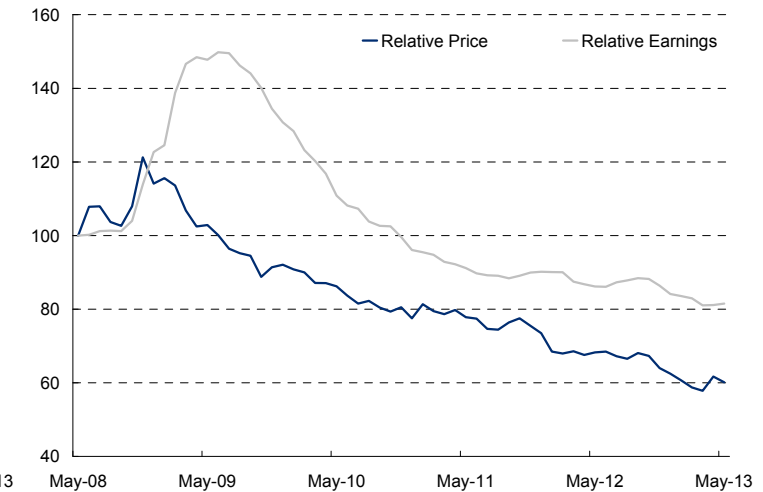
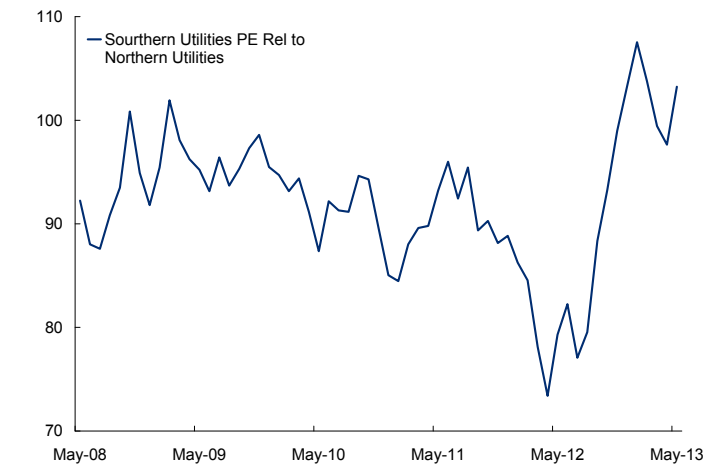


Figure 48. Utilities P/E relative to the Market

- Southern European Utilities trade at a 3% premium to Central and Northern European Utilities P/E.
- The current premium compares with a 27% discount 12 months ago and reflects the decline in Southern European sovereign bond yields.



Figure 49. Southern P/E back to beginning of the year



Source: Datastream and Citi Research

Valuation — WACC reducing but returns are still under pressure

- Sector return is estimated to further decline in 2013e and in 2014e and to recover in 2015e assuming an improvement in returns in generation.
- In the meantime the sector WACC is falling reflecting the reduction in risk free rates and the expected decline in cost of debt.
- The current valuation (the sector is trading at a 10% discount to invested capital) discounts the value destruction. Current valuations still do not reflect the potential earnings recovery we expect in 2015e.

Figure 50. Pan Europe — Sector expected to destroy value in the medium term

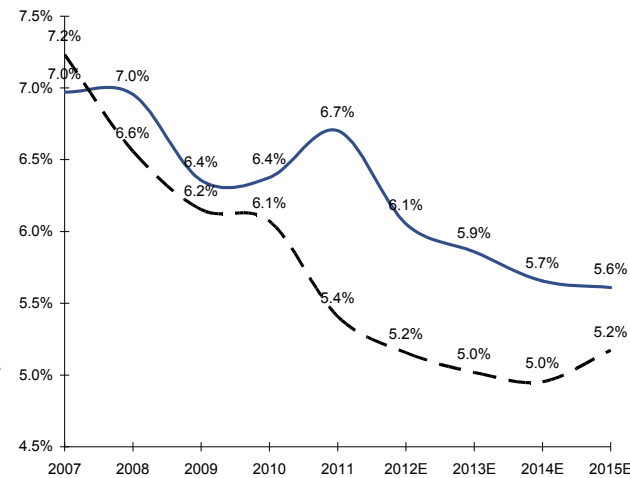


Figure 51. Pan Europe — Value destruction is in the price

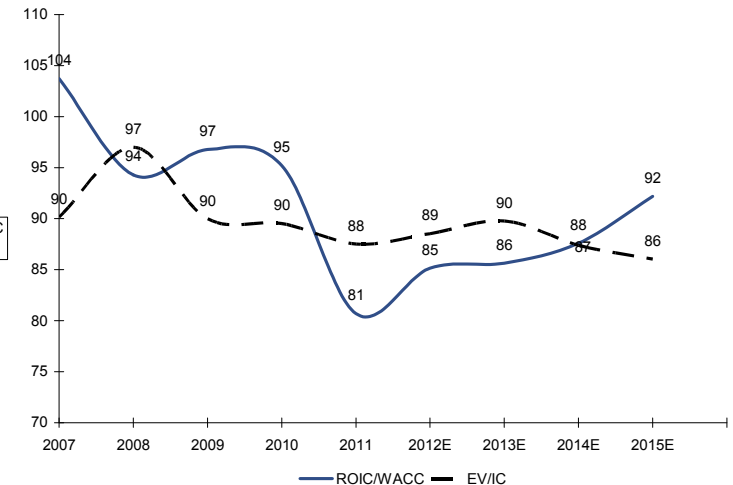


Figure 52. Regulated Utilities: Value creation increases

- FOCUS ON REGULATED UTILITIES: Regulated Utilities WACC is falling rapidly on lower bond yields and increasing gearing. Nevertheless ROIC is also declining following regulatory reviews in Italy and Spain.
- Regulated utilities trade at a 22% premium to 2013e invested capital, fully reflecting returns on invested capital higher than WACC.

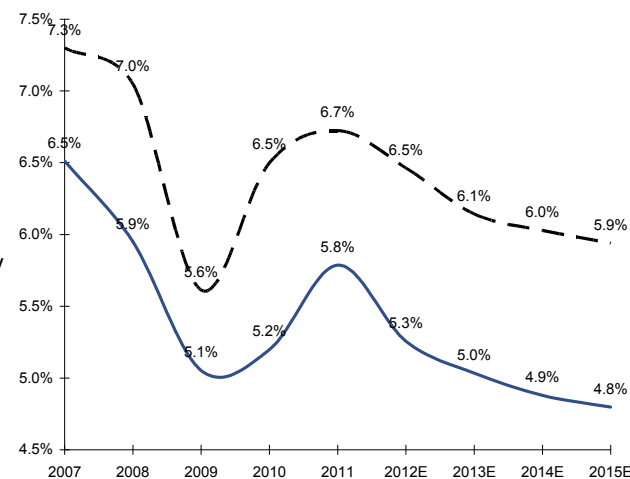
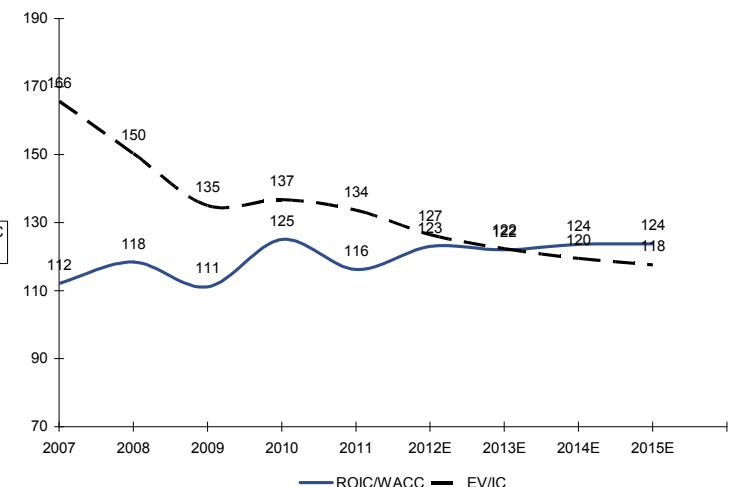


Figure 53. And it is discounted in the share price



Source: Company reports, Citi Research



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Valuation Tables

Country	Company	Recommendation	Target Price	Upside to Tgt Pr (%)	Total Return (%)	Share Price		Share Pr. Movement (%)			Market Value		Firm Value		Free Float	Dbt/Dbt+M cap
						Value	Ccy	1w	1m	12m	\$ bn	€ bn	\$ bn	€ bn		
Austria	Verbund AG	Sell/	13.00	-22%	-16%	16.6	EUR	-2%	3%	-12%	7	6	14	11	19%	39%
Czech Republic	CEZ	Neutral/	600.00	8%	15%	558.0	CZK	-1%	-1%	-21%	15	11	23	18	30%	33%
Finland	Fortum Oyj	Neutral/	14.00	-5%	2%	14.7	EUR	0%	5%	-4%	17	13	22	18	47%	37%
France	Electricite de France	Neutral/	16.00	-8%	-1%	17.4	EUR	-4%	10%	12%	41	32	167	130	14%	62%
France	GDF Suez	Buy/	18.00	8%	17%	16.6	EUR	-1%	6%	2%	51	40	118	92	60%	46%
France	Suez Environnement	Neutral/	12.00	9%	15%	11.0	EUR	0%	12%	15%	7	6	21	16	61%	58%
France	Veolia Environnement	Buy/	13.00	22%	29%	10.6	EUR	2%	13%	5%	7	5	24	19	84%	60%
Germany	E.ON AG	Sell/	12.00	-7%	-2%	12.9	EUR	-1%	-2%	-15%	32	25	92	72	97%	44%
Germany	RWE AG	Neutral/	28.00	2%	9%	27.4	EUR	-1%	5%	-9%	22	17	71	56	85%	44%
Greece	Public Power Corp.	Buy/	6.25	-26%	-25%	8.4	EUR	7%	24%	409%	3	2	9	7	49%	71%
Italy	A2A	Sell/	0.57	-10%	-8%	0.6	EUR	0%	19%	19%	3	2	9	7	42%	67%
Italy	Atlantia	Sell/	10.00	-28%	-22%	13.9	EUR	-3%	9%	41%	12	9	36	28	48%	56%
Italy	Enel Green Power	Sell/	1.40	-15%	-13%	1.6	EUR	-1%	7%	37%	11	8	19	15	31%	42%
Italy	ENEL SpA	Buy/	4.00	36%	40%	2.9	EUR	0%	10%	24%	35	28	125	97	69%	62%
Italy	Hera	Neutral/	1.35	-17%	-11%	1.6	EUR	-1%	9%	47%	3	2	7	5	39%	53%
Italy	Snam SpA	Sell/	3.50	-6%	-3%	3.8	EUR	1%	1%	15%	17	13	34	27	50%	51%
Italy	TERNA SpA	Sell/	3.00	-14%	-8%	3.5	EUR	0%	2%	29%	9	7	19	14	65%	49%
Poland	Enea	Neutral/	16.00	15%	16%	14.0	PLN	0%	13%	-11%	2	1	2	2	30%	8%
Poland	Polska Grupa Energetyczna	Buy/	17.60	2%	6%	17.3	PLN	3%	6%	-4%	9	7	9	7	38%	-15%
Portugal	Energias de Portugal	Neutral/	2.60	-1%	6%	2.6	EUR	0%	5%	42%	12	10	39	30	37%	65%
Portugal	REN	Sell/	2.10	-11%	-3%	2.4	EUR	0%	6%	22%	2	1	5	4	10%	68%
Spain	Acciona	Neutral/	46.00	-6%	-1%	48.9	EUR	0%	13%	8%	4	3	14	11	34%	73%
Spain	EDP Renovaveis	Buy/	4.70	14%	15%	4.1	EUR	0%	11%	37%	5	4	9	7	22%	52%
Spain	Enagas SA	Buy/	21.00	7%	13%	19.7	EUR	-3%	3%	52%	6	5	11	8	85%	45%
Spain	Endesa SA	Buy/	26.00	45%	45%	18.0	EUR	2%	10%	39%	24	19	33	26	8%	16%
Spain	Gas Natural SDG SA	Buy/	12.50	-24%	-19%	16.4	EUR	0%	12%	66%	21	16	43	34	28%	47%
Spain	Iberdrola	Neutral/	3.90	-9%	-2%	4.3	EUR	1%	13%	26%	34	27	77	60	89%	51%
Spain	Red Electrica de Espana SA	Buy/	48.00	15%	20%	41.9	EUR	3%	11%	42%	7	6	14	11	77%	47%
United Kingdom	Centrica PLC	Neutral/	3.70	-4%	0%	3.9	GBP	2%	1%	23%	30	23	36	28	100%	20%
United Kingdom	Drax Group Plc	Neutral/	5.90	2%	5%	5.8	GBP	-3%	-5%	2%	4	3	4	3	100%	-2%
United Kingdom	National Grid PLC	Neutral/	8.20	-1%	4%	8.3	GBP	-1%	4%	24%	46	36	81	63	96%	39%
United Kingdom	Pennon Group PLC	Neutral/	6.30	-10%	-6%	7.0	GBP	5%	7%	-3%	4	3	8	6	99%	48%
United Kingdom	SSE PLC	Sell/	12.70	-21%	-15%	16.0	GBP	1%	5%	20%	23	18	30	23	99%	27%
United Kingdom	United Utilities PLC	Neutral/	6.50	-15%	-11%	7.7	GBP	3%	3%	23%	8	6	17	13	99%	52%
Continental Europe weighted average (by mkt.cap.)				2%	8%			0%	7%	18%	26	20	71	55		
UK weighted average (by mkt.cap.)				-7%	-2%			1%	3%	21%	32	25	50	39		
TOTAL/WEIGHTED AVERAGE (by mkt.cap.)				0%	6%			-0.2%	6.4%	19.0%	27	21	66	52		

Source: Datastream and dataCentral

Company	P/E (Pre-Exceptional)				Adj. EV/EBITDA (Pre-Excp)*				Dividend yield (%)				Free cash flow yield (%)			
	12A	13E	14E	15E	12A	13E	14E	15E	12A	13E	14E	15E	12A	13E	14E	15E
Verbund AG	14.85	19.01	20.82	20.12	10.27	10.06	10.67	10.32	3.6%	6.0%	2.4%	2.5%	6.5%	5.9%	3.4%	5.8%
CEZ	7.05	7.83	10.32	12.59	6.14	6.03	6.91	7.50	7.2%	7.2%	5.8%	4.8%	4.2%	9.6%	7.3%	6.2%
Fortum Oyj	9.26	11.27	11.90	10.67	9.23	9.04	9.27	8.53	6.8%	6.8%	6.8%	6.8%	4.0%	5.2%	5.8%	9.5%
Electricite de France	8.99	9.96	8.56	8.02	10.78	9.85	9.70	9.61	6.6%	6.6%	6.6%	6.6%	-11.0%	-0.5%	-2.1%	-1.7%
GDF Suez	9.84	12.59	12.15	10.84	6.47	6.41	6.79	6.51	9.0%	9.0%	9.0%	9.0%	6.7%	7.1%	4.5%	8.6%
Suez Environnement	17.56	15.90	14.39	12.51	7.35	7.49	6.83	6.45	5.9%	5.9%	5.9%	5.9%	11.7%	5.7%	7.2%	9.6%
Veolia Environnement	89.73	37.27	17.05	11.08	8.68	11.61	9.35	8.43	6.6%	6.6%	6.6%	6.6%	-23.6%	-6.8%	-0.2%	0.5%
E.ON AG	5.87	10.19	10.40	9.24	7.00	7.68	7.74	7.40	8.5%	4.9%	5.3%	5.7%	3.4%	-0.8%	6.5%	9.1%
RWE AG	6.86	8.25	10.49	7.65	6.47	7.41	8.05	6.84	7.3%	7.3%	5.5%	6.6%	-18.7%	-0.1%	7.8%	12.1%
Public Power Corp.	65.23	21.80	7.05	7.72	7.16	6.52	5.13	4.71	0.3%	0.9%	2.8%	2.6%	-0.7%	5.0%	10.2%	9.2%
A2A	7.63	15.78	28.26	34.58	7.30	6.73	7.57	7.55	4.1%	3.8%	2.1%	1.7%	56.6%	31.8%	19.7%	17.9%
Atlantia	11.34	15.60	12.85	11.64	12.01	11.00	10.18	9.64	5.4%	5.7%	5.9%	6.2%	10.7%	3.0%	1.5%	3.0%
Enel Green Power	19.92	18.88	14.24	12.13	8.43	8.46	7.36	6.69	1.5%	1.5%	1.6%	2.1%	-1.7%	-3.1%	3.9%	5.5%
ENEL SpA	33.48	8.55	9.22	8.30	6.04	6.24	6.34	5.88	5.1%	4.7%	4.3%	4.8%	-0.1%	-1.4%	1.0%	5.1%
Hera	16.08	16.00	14.71	13.82	6.85	6.94	6.62	6.42	5.6%	5.6%	5.6%	5.6%	4.9%	9.9%	9.3%	13.2%
Snam SpA	14.20	14.30	14.90	13.70	9.16	9.54	9.45	9.30	6.6%	6.6%	6.6%	6.6%	-4.0%	3.4%	2.0%	1.0%
TERNA SpA	15.00	14.10	16.40	15.20	9.51	9.59	9.79	9.28	570.0%	550.0%	550.0%	550.0%	-0.1%	-1.1%	2.4%	5.5%
Enea	9.23	14.44	13.76	12.57	3.45	5.16	5.04	5.06	2.6%	1.1%			-18.4%	-20.8%	-7.2%	-6.5%
Polska Grupa Energetyczna	9.37	10.61	11.02	11.86	4.13	4.51	4.73	5.04	11.6%	4.2%	4.1%	3.8%	10.6%	5.1%	2.0%	1.1%
Energias de Portugal	9.54	10.63	10.24	8.58	8.79	8.55	8.09	7.30	7.0%	7.0%	7.0%	7.0%	-5.0%	7.1%	8.1%	11.4%
REN	10.01	10.42	9.19	8.77	7.43	7.57	7.29	7.24	7.2%	7.3%	7.4%	7.5%	-11.6%	-0.8%	1.3%	-2.2%
Acciona	19.08	33.75	28.58	22.63	8.64	8.35	8.12	7.78	5.1%	4.2%	2.5%	3.0%	7.2%	19.2%	15.9%	16.5%
EDP Renovaveis	28.39	26.06	18.37	15.55	9.05	8.16	7.10	6.08	1.0%	1.1%	1.9%	2.3%	-2.3%	-2.4%	0.1%	4.2%
Enagas SA	12.35	11.30	11.10	10.99	9.09	8.41	8.06	7.83	5.7%	6.6%	6.8%	6.8%	-1.4%	1.2%	10.2%	12.4%
Endesa SA	9.29	11.60	10.96	9.60	5.37	5.23	4.98	4.35					22.6%	15.4%	13.4%	14.4%
Gas Natural SDG SA	12.62	12.48	11.63	10.67	7.58	7.23	6.87	6.43	5.4%	6.0%	6.0%	6.0%	14.9%	13.3%	11.2%	12.7%
Iberdrola	9.23	12.44	12.31	12.17	7.93	8.36	8.28	8.05	7.0%	7.0%	7.0%	4.9%	2.7%	3.7%	3.1%	5.2%
Red Electrica de Espana SA	11.52	14.55	13.84	13.26	8.16	9.33	8.88	8.59	5.6%	4.5%	4.7%	4.9%	-0.3%	1.8%	4.8%	5.0%
Centrica PLC	15.85	13.93	13.10	12.39	7.56	7.04	6.56	6.08	4.2%	4.5%	4.8%	5.0%	8.3%	7.5%	9.7%	10.7%
Drax Group Plc	11.80	18.64	17.89	15.57	6.44	10.67	9.94	8.54	4.2%	2.7%	2.8%	3.2%	-0.1%	-8.2%	-2.4%	5.6%
National Grid PLC	16.43	15.49	15.86	14.68	10.66	10.09	9.95	9.75	4.7%	4.9%	5.1%	5.3%	0.4%	-3.4%	-1.8%	-2.2%
Pennon Group PLC	15.15	16.35	16.24	14.33	11.45	12.14	12.03	10.95	3.8%	4.0%	4.3%	4.6%	-2.1%	-6.4%	-9.2%	-4.4%
SSE PLC	14.23	14.05	13.87	12.71	9.45	8.67	8.51	8.03	5.0%	5.2%	5.5%	5.7%	-1.2%	2.1%	1.4%	2.1%
United Utilities PLC	21.68	19.11	18.49	17.26	12.06	12.18	12.30	12.07	4.2%	4.5%	4.7%	4.9%	1.1%	1.0%	-0.1%	1.2%
Continental Europe weighted Avg (by mkt.cap.)	12.57	12.53	11.79	10.78	7.74	7.80	7.75	7.37	6.3%	5.8%	5.6%	5.6%	2.0%	4.0%	4.7%	6.9%
UK weighted average (by mkt.cap.)	16.01	15.17	15.00	13.88	9.60	9.24	9.01	8.61	4.6%	4.7%	5.0%	5.2%	2.1%	0.6%	1.7%	2.4%
TOTAL/WEIGHTED AVG (by mkt.cap.)	13.32	13.09	12.48	11.44	8.14	8.11	8.02	7.63	5.9%	5.6%	5.5%	5.5%	2.0%	3.3%	4.1%	5.9%

Source: dataCentral



Notes

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Note

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Notes

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Appendix A-1

Analyst Certification

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DMBH is a market maker in the publicly traded equity securities of Polska Grupa Energetyczna. DMBH rating distribution versus Investment Banking service provision in the past 12 months as at 31st March 2013 is as follows: Buy (1) representing 46% of the DMBH coverage 0% of which are IB clients, Hold (2) representing 26% of the DMBH coverage 0% of which are IB clients, Sell (3) representing 28% of the DMBH coverage 0% of which are IB clients.

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AG, Enel Green Power, Verbund AG, Veolia Environnement, Snam SpA, Gas Natural SDG SA, EDP Renovaveis, Suez Environnement, A2A, Fortum Oyj, Endesa SA, TERNASpA, Hera, GDF Suez, Centrica PLC, Acciona, Atlantia.

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