

# Bloomberg

## E.ON Drops Endesa Bid After Asset Agreement With Enel

By Thom Rose

April 2 (Bloomberg) -- E.ON AG, Germany's largest utility, abandoned its 42.4 billion-euro (\$56.7 billion) bid for Endesa SA, clearing the way for Enel SpA of Italy and Acciona SA to buy Spain's biggest power company.

In exchange for pulling out of the race, E.ON will gain assets valued at 10 billion euros if Enel and Acciona successfully gain control of Endesa, the Dusseldorf-based company said today in an e-mailed statement.

The decision marks the second time in as many years that E.ON Chief Executive Officer Wulf Bernotat's takeover plans have been dealt a blow after his bid for Scottish Power Plc was rebuffed in 2005. Enel stands to acquire Endesa's 22 million customers and hundreds of power plants as the European Union opens the region's energy market to more competition from July 1.

"This is not a bad way out for the shareholders of Endesa because the offer by Enel and Acciona can now go ahead," said Pedro Real de Asua, who helps manage the equivalent of \$8.4 billion for Barclays Fondos in Madrid. "It's hard to see any more bidders joining the process."

Enel and Spanish construction company Acciona, which together control about 46 percent of Endesa, said they will bid at least 41 euros for the remaining shares, valuing them at 23.4 billion euros.

### Shares Jump

E.ON agreed to buy Viesgo from Enel in Spain, as well as 2.4 percent of Endesa's Spanish generation assets, pending the successful completion of the bid by Enel and Acciona. E.ON will also purchase two Endesa units, Endesa Italia and Endesa France/SNET. The purchases would make E.ON the fourth-largest utility in Spain and Italy and the third-biggest in France.

American depositary receipts of E.ON jumped as much as 7.5 percent on the announcement.

"This will push E.ON's expansion ahead a lot," said Christopher Kummer, the director of the Institute of Mergers, Acquisitions and Alliances at Webster University in Vienna. "Although it wouldn't get Endesa as a whole, at least it would get parts of it."

Acciona, an investor in wind-energy projects, holds 21 percent of Endesa's shares. Enel owns 10 percent and reserved a stake of almost 15 percent using swaps, regulatory filings show. E.ON, which didn't build up an Endesa stake before it made a bid, had received about 1 percent via the tender as of March 7.

### Opposition

Spain, France and Italy protected strategic industries such as energy and transport from foreign takeovers in the past year. Any buyer of Alitalia SpA must keep the airline's headquarters in Italy, its government said. France arranged a merger plan between Suez SA and Gaz de France SA to fend off a possible hostile bid by Enel, and Spain's government opposed E.ON's unsolicited offer.

Spain's government tried to block E.ON's offer and pitted itself against the European Union, which sued Spain as it tried to force open other utility markets in the region to cross-border takeovers. In February Spain's Gas Natural SDG SA dropped its bid for Endesa, which was favored by the government and had preceded the offer by E.ON.

Bernotat said on March 7 that he may consider options including buying additional shares on the market if a majority of shareholders didn't accept the offer. The day before, E.ON dropped a condition requiring Endesa to end anti-takeover measures including a cap on voting rights.

#### Legal Obstacles

The German company increased its bid for Endesa three times, first in September and later on Feb. 2 and on March 26, as it sought to win over the company's investors. E.ON's offer was blocked by legal proceedings until Jan. 16, when it was cleared by a Spanish court.

The offer period for E.ON's latest bid was set to end tomorrow in Europe and on April 6 in the U.S.

Bernotat aimed to acquire Europe's third-largest power company to enter territories with faster-growing energy consumption than his home market. German power use in the first three quarters of 2006 increased 0.6 percent from the year-earlier period, according to power industry organization VDEW. In Spain, the gain was 3.3 percent.

Under a Spanish law governing rivals in strategic industries, Enel's voting rights in Endesa could be limited since the company still owns Viesgo. The rights depend on a ruling by Spain's energy regulator. Enel on March 1 asked the regulator for full rights in both stakes.

#### Regulatory Approval

Spain's energy regulator must approve Enel's plan to increase its stake to more than 10 percent, according to Spanish law.

Spain's energy regulator said on March 15 that it planned to take at least another week to examine Enel's bid to raise its stake. The National Energy Commission said it's also still studying whether Enel should be allowed to exercise its voting rights on Endesa. On March 29 the commission requested additional information to help it make that decision.

Investors who buy 24.99 percent of a Spanish power company avoid additional regulatory hurdles that would be triggered by acquiring 25 percent or more. Those extra investigations are performed by the energy regulator and by Spain's stock watchdog.

Enel has earmarked about 13 billion euros for international expansion through 2011, according to a March 28 company presentation. That includes investment in Spain, France, Eastern Europe and Latin America. The company has set aside 27 billion euros for total capital spending and acquisitions through 2011, excluding the Endesa investment.

Enel has secured 10 billion euros in financing for Endesa, Chief Executive Officer Fulvio Conti said on March 13.

#### 'Spanish Solution'

Enel abandoned a bid for Suez SA after the French government opposed the transaction. Suez is now seeking to merge with Gaz de France SA. Enel, attracted by Suez operations across Europe and its mix of generation assets, including nuclear power, had arranged credit lines to finance a 50 billion-euro bid for the French company.

Spanish Industry Minister Joan Clos said on Feb. 27 that E.ON's bid might fail because it probably lacks support from a majority of Endesa's shareholders.

A "Spanish solution" to the contested Endesa takeover is more likely, Clos said in remarks to radio station Cadena Ser that were confirmed by one of his spokesmen. Endesa probably will become controlled by a stable group of Spanish investors formed around Acciona, he said.

Spanish investors own about 30 percent of the company, according to Endesa's Web site.

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