

Record M&A Activity in Global Electric and Gas Industry Expected to Continue

PricewaterhouseCoopers' "Power Deals" Report Reviews 2005 Deal Volume and Trends. Press release of 22 March 2006

The M&A market in the global electricity and gas industry is entering a new blockbuster deal era. Following a record-breaking year in 2005, due largely to the rise of 'super-regional' utilities and consolidation in Europe, the sector is set for further escalation in deal volumes and values this year, according to PricewaterhouseCoopers' "Power Deals" report on M&A activity in the industry.

During 2005 new records were set for the number of deals, the total value of deals, the value of a single deal and the number of mega-deals valued at over US\$10 billion. With 527 deals valued at a total of US\$196 billion and five deals each exceeding US\$10 billion, 2005 far out-ran 2004's high levels of activity.

"The electricity and gas M&A activity surpassed the exceptional momentum that had already built up and is continuing to gain speed in 2006," said Manfred Wiegand, Global Utilities Leader at PricewaterhouseCoopers. "We are seeing a new era of 'blockbuster deals.' Companies are consolidating and extending their regional footprints to attain non-organic growth in a tight sector facing high fuel prices and security of supply concerns. We are also seeing greater involvement of financial players in the market with the rise of infrastructure funds creating a new asset class."

European activity is fuelling the huge surge in total deal activity as utility companies move fast to consolidate in the EU in advance of the anticipated customer choice resulting from liberalized rules in 2007. But, while the biggest surge came in Europe, total deal numbers and value also rose virtually across the board. There is a global trend toward domestic consolidation, with domestic deals accounting for 71% of all deals in 2005. Global activity, however, is still notable with a growing breed of infrastructure funds

building global portfolios of primarily network assets.

"The run up to the 2007 full-market opening in Europe will continue to feed consolidation momentum in the EU," said Wiegand. "Around the globe, increased competition is driving companies to turn to M&A activities to deliver growth horizontally and vertically. High wholesale power, gas and carbon prices also are creating new platforms for deal activity, pushing up generation asset values and bolstering the rationale for deal prices. As we look ahead, we can expect to see greater integration of upstream and downstream entities and more moves by the mega-players. The attitude of the competition authorities will be critical to future deals."

According to Power Deals 2005:

Total number of deals in 2005 rose 15% from the year before – up from 459 to 527. Total deal volume climbed from US\$123 billion to US\$196 billion, hitting a level nearly five times greater than that recorded in 2003. A minimum of US\$10 billion in deal value was the requirement to make the top five. All five mega-deals, with total value of US\$78 billion, were consolidation moves through acquisition of complementary portfolios in core markets. Last year, only one deal topped the US\$10 billion mark.

Increased gas prices are leading to a greater focus on nuclear, clean coal and renewable assets. While the value of electricity deals increased 80% in 2005, the total value of gas deals decreased 20%. Security and supply concerns are reinforcing the drive to diversify and bulk up in assets, particularly in Europe. In all territories, gas and carbon dioxide prices will play an important role in determining deal strategies.

Key regional markets:

Europe and Russia – Power deals in Europe accounted for 58% of all targets and 44% of all bidders in the total worldwide power deals market in 2005. The value of all deals for European electricity assets trebled (up 202%). The leap was even more dramatic for purely domestic deals where the value of European electricity assets targeted rose fourfold. Average (mean) target electricity and gas deal size in Europe was also up by 111% from US\$258 million to US\$542 million.

Mark Hughes, European Utilities Leader, Corporate Finance and Advisory Services at PricewaterhouseCoopers, said:

“European power deal activity has been intense over the last 12 months. European utilities are bulking up to meet the challenges of competition, rigorous investment requirements and the need to enhance purchasing power in a world thirsty for fuel. Looking ahead, the courtship of Russia and Europe presents some intriguing possibilities. The interdependency of Russian fuel sources and western European end markets, combined with the need for investment, point to a strong likelihood of key players striking deals to secure both supply and markets.”

Alexander Chmel, Partner of PricewaterhouseCoopers Russia, commented on the prospects for electric power market transactions in Russia as follows:

“According to our report, Russian electric power industry will be attractive to companies in the long-term perspective. If the pace of the reform does not slow down and the idea of shifting utilities involved in competitive operations (for instance, generation) into private business is realised in practice, the scope for major transactions in Russian power industry will improve significantly in the middle-term perspective, i.e. in 2006 and 2007. Russian and foreign companies are assumed to equally participate in such transactions, and Russian investors are likely to realise their plans of creating vertically integrated fuel and energy complexes”.

North America – Power deal activity in North America continued at very high levels in 2005, accounting for one-third of all power deals

worldwide with the value of total North American M&A targets rising by 5.8% to US\$62 billion. Most of the activity was in electricity, although the total value of North American gas assets, targeted in domestic deals, more than doubled, up from US\$3.1 billion to US\$6.4 billion.

John McConomy, US Power & Utilities Transaction Services Leader at PricewaterhouseCoopers, observed:

“With Wall Street expecting earnings-per-share growth of 5-6%, but organic growth expectations in most territories down around the 2% mark, it is not surprising that utility companies were hard on the acquisition trail having squeezed out most of their organic growth potential. Looking ahead, the power sector remains very fragmented with huge scope for consolidation. Despite the repeal of the Public Utility Holding Company Act, however, regulatory developments will continue to hold the key to the pace of future moves in the US market.”

Asia Pacific – The value of total deals for Asia Pacific power assets continued to grow in 2005 even after an exceptional rise in 2004. Total deal value rose to US\$17.2 billion in 2005, up from US\$15.1 billion in 2004 and US\$6.2 billion in 2003. The value of domestic electricity assets targeted in the region rose nearly three-fold, from US\$4.2 billion to US\$11.3 billion with deal numbers nearly double their 2004 level.

Derek Kidley, Australasia Energy and Utilities Leader for PricewaterhouseCoopers, commented:

“The region has led the world with the emergence of Australian-based infrastructure funds buying up power network assets across the globe. This trend is set to continue. Looking ahead, the climate for deals in the region remains positive with a number of factors maintaining momentum. Power utilities are hungry for gas to meet their huge peak energy needs during the hot summer air-conditioning period. Many are looking beyond contracts to satisfy this need through asset plays. The region faces a huge investment challenge in both generation and networks to meet increasing energy demand.”

Notes to Editor:

1. Top 10 Cross-border and domestic electric and gas deals 2005

No.	Value of transaction (US\$m)	Date announced	Target name	Target nation	Acquirer name	Acquirer nation
1	28,267	5 Sep 2005	Endesa SA	Spain	Gas Natural SDG SA	Spain
2	14,310	9 May 2005	Cinergy Corp	United States	Duke Energy Corp	United States
3	13,871	9 Aug 2005	Electrabel SA/NV (49.92%)	Belgium	Suez SA	France
4	11,195	19 Dec 2005	Constellation Energy Group Inc	United States	FPL Group Inc	United States
5	10,334	13 May 2005	Italenergia Bis SpA (82%)	Italy	AEM SpA/Electricite de France SA – EDF	Italy
6	9,400	24 May 2005	PacifiCorp	United States	Berkshire Hathaway Inc	United States
7	8,300	3 Oct 2005	Texas Genco LLC	United States	NRG Energy Inc	United States
8	7,246	24 Oct 2005	Electricite de France SA – EDF (10.36%)	France	Market Purchase	International
9	5,583	9 Jun 2005	Gaz de France (20.55%)	France	Market Purchase	International
10	4,882	5 Jul 2005	ENEL SpA (9.3%)	Italy	Market Purchase	International

Source: PricewaterhouseCoopers, *Power Deals Annual Review 2005*, based on published transactions from the Dealogic 'M&A Global' database, December 2005.

2. Cross-border deal activity is defined as acquisitions across territory, with domestic acquisitions referenced as within home markets.

3. Methodology: Power Deals is based on published transactions from the Dealogic 'M&A Global' database, December 2005. Analysis encompasses announced deals: including those pending legal and financial closure, and those that are completed. All values and deals mentioned include assumed debt. Further information and a full list of transactions is available by visiting the www.pwc.com/energy.

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