

Industries
Energy, Utilities & Mining

Power Deals*

2009 Annual Review

Mergers and acquisitions activity within
the global electricity and gas market



*connectedthinking

PRICEWATERHOUSECOOPERS 

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Methodology and terminology

Power Deals includes analysis of all global cross-border and domestic electrical, gas and renewable deal activity. It is the latest in our *Power Deals* annual series. This year, we have expanded the range of data sources to provide the fullest possible account of deal-making for renewable power assets. The analysis is based on published transactions from the Dealogic 'M&A Global database' for all electrical and gas deals. For renewables deals, we have supplemented this with analysis on published transactions from a variety of databases (John S Herold; Mergermarket; Capital IQ; Thomson as well as Dealogic). This enables consistency with our companion *Renewables Deals* publication which looks specifically at renewable energy M&A. Analysis encompasses announced deals, including those pending financial and legal closure, and those which are completed. Deal values are the consideration value announced or reported including any assumption of debt and liabilities. We have considered Asia Pacific as a region including Australasia, except where otherwise explicitly stated. Throughout the report, the Russian Federation is treated as a geographic entity in its own right. All presented numbers of deals are inclusive of those deals with no reported value, unless specified. A full list of transactions throughout 2009 is available by visiting the *Power Deals* website at www.pwc.com/powerdeals.



Economic and regulatory uncertainty combined with a continuing difficult funding environment to reduce total 2009 power deal value back to levels last seen before the

M&A boom of 2005-2008. However, the number of deals remained at relatively high levels as companies and investors continued to look for deal opportunities but at smaller deal sizes.

Power Deals 2009 reviews deal activity in the power and gas utilities industry. The report is the latest annual review edition in our annual series on deal-making. It examines activity in all parts of the sector. In a companion report, *Renewables Deals 2009*, we look more closely at renewable power deals. Together the two reports provide a comprehensive analysis of M&A activity in the power and gas utilities industry world-wide.

This report examines the rationale behind the overall trends and the key individual deals. We also highlight, in a series of deal dialogues throughout the report, some of the critical issues for companies engaging in deal activity within the sector drawing on our global experience as an adviser to players in major deals throughout the sector in all key electricity and gas utilities markets.

Looking ahead, we see positive signs for deal activity marginally outweighing negative factors. We are, thus, cautiously optimistic about the prospects for power deal activity in the year ahead. We do not rule out major international moves as companies with strong balance sheets look for opportunities to grow worldwide scale.

In the US, the proposed First Energy Allegheny Energy US\$4.7bn combination, announced in February 2010, has the potential to trigger an end to that country's period of deal stalemate if it can get past regulatory hurdles.

We also see the possibility of greater joint venture and strategic alliance activity in the interface between power utilities and the engineering and technology industry as companies meet the challenges of developing and delivering major nuclear and renewable energy programmes.

Manfred Wiegand
Global Utilities Leader

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02 Report highlights

Small steps not giant strides are the order of the day

A still constrained funding environment combined with an uncertain regulatory climate, particularly in terms of carbon legislation, and reduced customer demand to create a tough deal environment in 2009. Only those companies with balance sheet strength were active players for bigger deals as small deals became the order of the day. Deal numbers dipped 10% but remained at relatively high levels. However, average power deal value (excl. renewables) plummeted from US\$428 million in 2008 to US\$262 million in 2009. Total deal value across the whole of the sector (including renewables) was barely half (56%) of its 2008 level and between a quarter and a third of the heights reached in the peak deal years of 2006 and 2007.

China and South America power through as US and Australia stall

Almost a fifth of worldwide power deal target value came from the Asia Pacific region in 2009, second only to Europe and eclipsing North America for the first time ever. The buoyancy in Asia Pacific deal-making came from China where the target value of all deals more than doubled -from US\$7.7bn in 2008 to US\$16bn in 2009 (or from US\$4.5bn to US\$8.9bn excl. renewables). South American bidder activity also shot up, rising year-on-year from US\$5.4bn to US\$13bn for all deals or more than fivefold from US\$1.3bn to US\$7.8bn excluding renewables. In contrast, North America's share of power deal activity fell sharply – down 61% from US\$52bn in 2008 to US\$20.1bn for all power deals in 2009. Australasia power deal activity also stalled – with a US\$2.5bn 71% all power deals fall. Regulatory and policy uncertainty created a deal vacuum in both the US and Australia.

Europe remains the big deal focus

For the second year running, Europe dominated the top 10 deal list. Seven out of the largest 10 transactions had European companies on both sides of the deal. European companies dominated power deal making in 2009 for the second year running, accounting for three-fifths (60%) of the value of all deals both by bidder and by target. European bidders featured in three out of every ten (29%) of non-renewable electricity and gas deals.

Outlook stays mixed

The coming year will be one of light and shade in power deal-making. Continuing uncertainty and reduced demand will continue to cloud short term deal outlook. Set against this, there are many positive deal drivers. Consolidation and network divestment will remain a key factor in central and eastern Europe. Chinese investor interest will be maintained. We also see the possibility of a reawakening of wider international ambition by key players. The speculation surrounding GDF Suez and International Power shows the potential for major international M&A moves. Finally, the challenges of the major capital programmes required to deliver future clean generation will spur greater partnerships across industry boundaries and we would not rule out cross-industry stake-building.

04 Deal totals: values fall back

The power deal spotlight continued to shift away from the very large deals of earlier years as companies focused their attention on smaller acquisitions. The overall market for power deal activity remained relatively buoyant with the number of electricity and gas deals only 10% down in the main non-renewables power deal sector despite the more constrained financial and uncertain economic climate. However, the focus on smaller deals meant values took a dive with total value back to levels last seen before the M&A boom of 2005-2008.

Indeed, total 2009 deal value for power deals (excl. renewables) slumped to 50% of its 2008 level and to between a quarter and a third of the heights reached in the peak deal years of 2006 and 2007. The value of all M&A activity in the sector, including renewable electricity deals, fell 44% year-on-year, from US\$233bn in 2008 to US\$131bn in 2009. Renewables deals accounted for around half the transactions and a quarter of the total US\$131bn power deals total value in 2009.

The sharp fall in deal value was felt right across the different segments of the industry but was mildest in renewables where total deal value was down 14% on 2008 levels. However, renewables accounted for the largest drop in deal numbers – 36%. Deal flow for non-renewable and other electricity assets proved the most resilient with an 8% year-on-year fall in numbers as buyers remained active, albeit for smaller acquisitions.

We look in detail at deal activity in the renewables sector in our separate report, *Renewables Deals*, but it is worth noting here that the renewables deal values were boosted by the presence of a few large hydro deals but deals for wind energy targets shrank to a third of their 2008 value and solar deal value almost halved.

Cross-border deals accounted for a significantly higher proportion of non-renewable deal value in 2009 – 48% of the US\$97.6bn total compared with their 38% share in 2008. However, US\$30.1bn of 2009's US\$47bn international deal was accounted for by the three largest deals, all of them European cross-border transactions with the largest of them – the US\$14bn Enel/Endesa deal – very much a legacy of previous years' deal moves. The underlying trend was a year-on-year decline in cross-border deals – with cross-border non-renewable electricity deals down nearly a third from 154 in 2008 to 108 in 2009 – as companies focused their attention away from bolder and more ambitious international moves in favour of smaller acquisitions for more familiar targets that could provide incremental additions and protection of market positions at home.

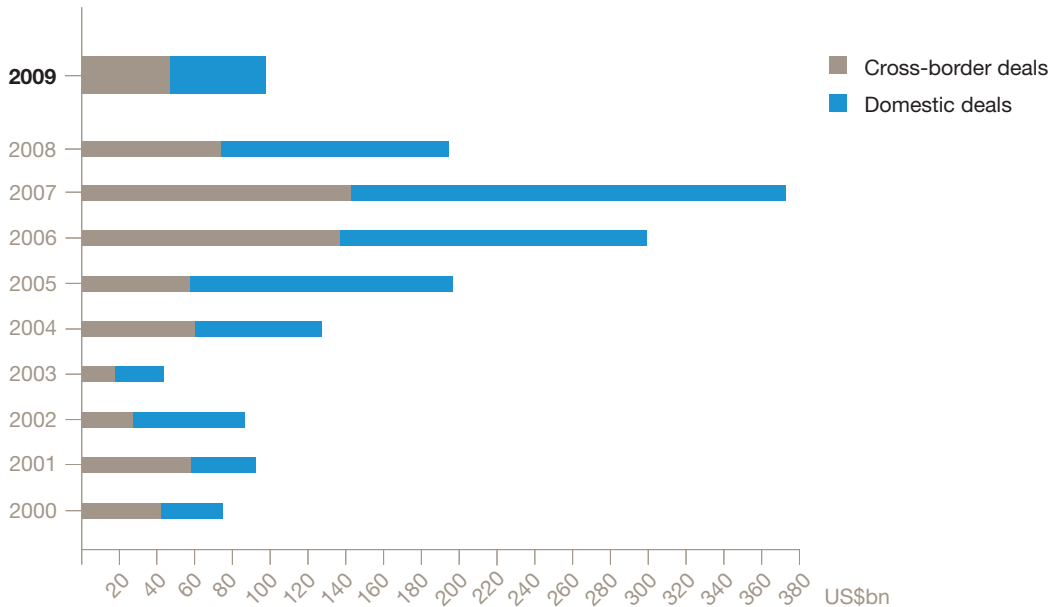
Our quarterly analysis of power deal activity during 2009 is indicative of how deal numbers remain relatively buoyant but deal value has dipped to a much lower level. After a first quarter that saw a total deal value of US\$38.5bn, quarterly deal values dipped and followed a trend around the US\$20bn volume mark for the remainder of 2009 (figure 4). This compares with quarterly volume that was typically around the US\$60-80bn range in 2007 and US\$30-50bn in 2008.

Figure 1: Total sector deal activity – 2008 and 2009

	2008		2009		Change in 2009	
	Number	Value	Number	Value	% number	% value
Power (excluding renewables)	660	US\$194.3bn	596	US\$97.6bn	-10%	-50%
of which: Electricity	541	US\$180.2bn	497	US\$88.9bn	-8%	-51%
Gas	119	US\$14.1bn	99	US\$8.6bn	-17%	-38%
Renewables	856	US\$38.9bn	550	US\$33.5bn	-36%	-14%
Total	1516	US\$233.2bn	1146	US\$131.1bn	-24%	-44%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

Figure 2: All electricity and gas deals by value (excluding renewables*)



Note: All power deals excluding renewables. Years 2000-2007 use different methodology. Comparisons between 2000-2007 and 2008-2009 are indicative rather than exact as data sources vary (see methodology).

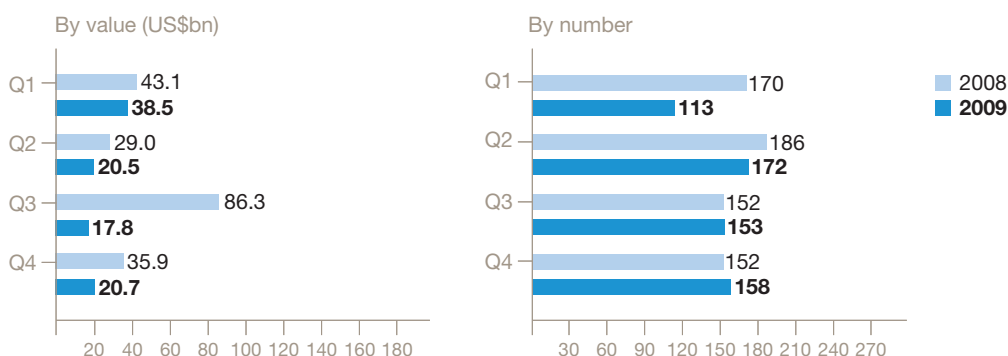
Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

Figure 3: Cross-border and domestic electricity (excluding renewables) and gas deals

	Number	Value	% number	2008 % value	Number	Value	% number	2009 % value
Domestic	458	US\$120.7bn	69%	62%	468	US\$50.6bn	79%	52%
Cross-border	202	US\$73.6bn	31%	38%	128	US\$47bn	21%	45%
Total	660	US\$194.3bn	100%	100%	596	US\$97.6bn	100%	100%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

Figure 4: Quarterly tracking of power deals (excluding renewables) by value (US\$bn) and number of deals



Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

06 Deal makers: the 2009 power players

The fall out from a wave of European mega deals, continuing power market consolidation and network unbundling in mainland Europe, positioning for the expansion of nuclear power in the UK, and ownership transfers in China formed the backdrop behind the biggest deals of 2009. For the second year running, Europe dominated the top 10 list. Seven out of the 10 had European companies on both sides of the deal.

The year signalled the end of the wave of mega deals that had characterised previous years with only one deal, itself a product of an earlier large deal, topping the US\$10bn mark compared with three such deals in 2008 and four in the M&A peak year of 2007. The single US\$10bn plus deal was the latest instalment of the long-running deal-making around Endesa. Back in 2007, Italy's Enel struck a power-sharing deal with Spanish 'construction company turned utility owner' Acciona to buy Endesa for US\$66bn. Acciona had built a 25% stake in Endesa as part of manoeuvring in Spain to thwart a bid from German company E.ON. Heavy gearing by Acciona led to the company exercising a put option to sell its stake for US\$14bn to Enel in February 2009. As part of the same transaction, Acciona bought US\$3.35bn of Endesa's renewable wind and hydro power assets.

However, while US\$10bn plus deals remained off the table, the European consolidation phase continued into 2009 with two multi-billion deals. Both involved Dutch targets - RWE's US\$9.9bn acquisition of the generation and supply side of Essent and Vattenfall's US\$6.2bn purchase of Nuon's production and supply business. Two years earlier a proposed US\$24bn merger of Essent and Nuon had collapsed, leading both of them to consider alternative consolidation partners. As well as the logic of consolidation, both deals were spurred by Dutch regulatory requirements that utility companies split their regulated network and unregulated production and supply businesses by 2011.

The Essent purchase strengthens RWE's presence in the Benelux region as well as reinforcing its position in north-western and central Europe although RWE is required to divest some of Essent's German ownership to avoid competition issues. It also adds considerably to its wind power portfolio. Before agreeing the deal with RWE, Essent had been pursued by Sweden's Vattenfall who, instead, moved for Essent's domestic rival, Nuon in the third largest power deal of 2009. Nuon had been seeking a foreign partner to compete more effectively in the consolidating European market.

Figure 5: **Top Ten – Cross-border and domestic electricity and gas deals (excluding renewables) 2009**
(Please refer to the Deal places section, pages 8 to 15, for more insights on the listed deals)

No.	Value of transaction (US\$bn)	Date announced	Target name	Target nation	Acquirer name	Acquirer nation
1	14.031	20 Feb 09	Endesa SA	Spain	ENEL SpA	Italy
2	9.912	12 Jan 09	Essent NV	Netherlands	RWE AG	Germany
3	6.197	23 Feb 09	Nuon NV	Netherlands	Vattenfall AB	Sweden
4	4.103	12 Aug 09	Thuega AG	Germany	Stadtwerke Hannover AG; Kom9 GmbH & Co KG; N-ERGIE AG; Mainova AG	Germany
5	3.486	11 May 09	British Energy Group plc	United Kingdom	Centrica plc	United Kingdom
6	2.989	29 Oct 09	New Brunswick Power Corp	Canada	Hydro-Quebec	Canada
7	2.909	12 Feb 09	Societa Italiana per il Gas SpA - ITALGAS (49.97%); Stoccaggi Gas Italia SpA - STOGIT	Italy	Snam Rete Gas SpA	Italy
8	1.847	11 May 09	SPE SA (51%)	Belgium	Electricite de France SA - EDF	France
9	1.675	10 Aug 09	Dynegy (specific generation assets)	United States	LS Power Group	United States
10	1.645	18 Sep 09	Hubei Energy Group Co Ltd	China	Hubei Triring Co Ltd	China

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*, based on published transactions from the Dealogic 'M&A Global' database, December 2009.

Their 49% initial stake gives Vattenfall immediate operational control with the remaining 51% to be acquired in three further stages over a six year period. Like the RWE/Essent deal, the expansion of renewable generation will be an important target for the combined entity with a declared ambition to expand wind capacity six-fold from 2009 levels.

The remaining four European deals in the top 10 and deals involving ownership transfers in China are discussed in the Europe and Asia Pacific sections later in this report. In a very thin year for North American power deals, the biggest American deal was the US\$3bn debt-induced sale of hydro and nuclear generation assets by Canadian New Brunswick Power to Hydro-Québec. The sale included the ageing Point Lepreau nuclear plant which was in the middle of a delayed and cost-overrunning refurbishment. Hydro-Québec did not assume any liabilities in respect of the refurbishment and the deal allowed New Brunswick to clear its debt. The sale attracted considerable local political and public attention and had been scaled back from an initial US\$4.5bn proposal. New Brunswick retains ownership of the transmission network, which runs into Maine in the US, distribution and some coal and oil assets. Under the deal, Hydro-Québec will be a long-term electricity wholesaler to New Brunswick, giving it access to the north east US market.

The wave of consolidation in Europe is once again reflected in the table of the most active bidders where the lead position in successive years has been taken by different leading European utilities companies. Following E.ON in 2007 and EDF in 2008, it was RWE's turn with a spate of deals announced in the first quarter of 2009. Aside from its Essent purchase, the largest RWE deal was a complementary US\$242 million strengthening of its position in Luxembourg. The deal steps up RWE's share to 19.8% in the integrated national electricity and gas company being created in Luxembourg through the merger of the Cegedel, Soteg and Saarferngas utilities. Aside from restructuring deals in Russia, the other notable multiple acquirer in 2009 was German utility Energie Baden-Wuerttemberg (EnBW) with seven deals expanding its coal and wind generation footprint, including a US\$1.3bn stake in E.ON's Lippendorf and Bexbach coal-fired power stations in Germany.

Figure 6: **The five most active bidders** (excluding top ten deals listed in Figure 5)

Rank	Bidder	Number of deals	Number of renewables deals	Total value US\$m
1	RWE AG	10	5	10,219.00
2	E4 Group OAO	8	0	10.04
3	Gazprom OAO	8	0	n/a
4	Infosant OOO	8	0	n/a
5	EnbW	7	2	1,270.00

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*, based on published transactions from the Dealogic 'M&A Global' database, December 2009.

Figure 7: **Financial and other power deal activity (US\$bn)**

	2003	2004	2005	2006	2007	2008	2009
Utilities	26.02	80.64	168.67	246.81	289.15	146.7	69.5
Financial and other	17.01	43.01	27.59	52.03	83.38	47.6	28.0
Total	43.04	123.64	196.25	298.84	372.53	194.3	97.6
Utilities	60%	65%	86%	83%	78%	76%	71%
Financial and other	40%	35%	14%	17%	22%	24%	29%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

08 Deal places: a focus on markets worldwide

European companies dominated power deal making in 2009 for the second year running, accounting for more than half (60%) of the value of all non-renewables deals both by bidder and by target. European bidders featured in three out of every ten (29%) of such deals.

While the total share of deal value and numbers attributable to European entities remained high, North America's share of power deal activity fell sharply. Fewer than one in seven deals involved North American bidders and North American targets accounted for only 13% of total worldwide deal value, down from 22% in 2008 which itself is down from just over a quarter in 2007.

Figure 8a : All power deals by continent (excluding renewables)

North America	2008	2009	% change
By target value of deals (US\$bn)	42.1	12.3	-71%
By bidder value of deals (US\$bn)	33.7	10.0	-70%
Number of deals			
By target	141	96	-32%
By bidder	145	84	-42%

South & Central America	2008	2009	% change
By target value of deals (US\$bn)	4.0	8.6	+113%
By bidder value of deals (US\$bn)	1.3	7.8	+501%
Number of deals			
By target	45	32	-29%
By bidder	24	28	+17%

Europe	2008	2009	% change
By target value of deals (US\$bn)	102.3	58.6	-43%
By bidder value of deals (US\$bn)	111.8	58.9	-47%
Number of deals			
By target	190	167	-12%
By bidder	193	174	-10%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

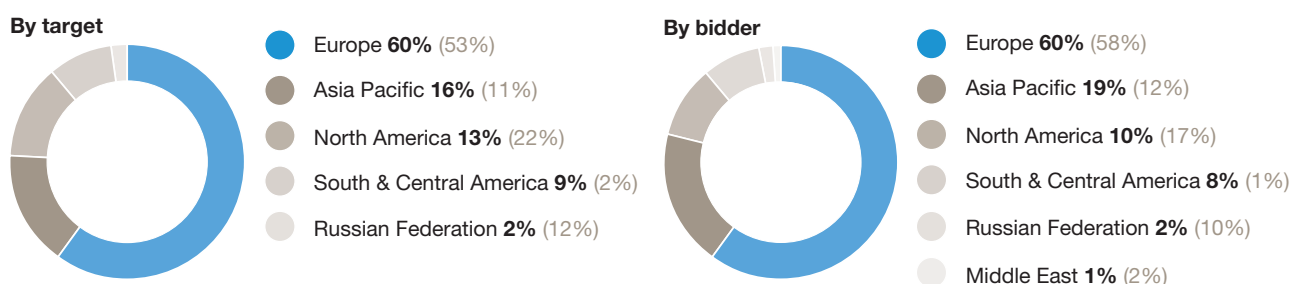
In contrast, Asia Pacific and South America's share of worldwide non-renewables power deal value advanced significantly in 2009. Together these two regions accounted for 25% of target value and 27% of bidder value, a big increase on the 13% bidder and target share they enjoyed in 2008. We discuss Asia Pacific deals later in this report. South American deals were largely concentrated in Brazil. The largest deal was the acquisition by Cemig, one of Brazil's largest state-controlled utilities companies, of a majority stake in the Brazilian subsidiary of Italy's Terna, in a move that marked the disengagement of Terna from Brazil's utilities sector.

Elsewhere, a big fall-off in deal value came in the Russian Federation where the year was dominated by a large number of small deals, almost all of them divestments and carve-outs, as the restructuring of the Russian electricity industry proceeded apace. The goal is for liberalisation of the market by 2011. The result was a large increase in the number of deals but a huge fall in total deal value – down from US\$23.9bn in 2008 to just US\$1.7bn in 2009.

Russian Federation	2008	2009	% change
By target value of deals (US\$bn)	23.9	1.7	-93%
By bidder value of deals (US\$bn)	19.9	1.7	-91%
Number of deals			
By target	84	131	+56%
By bidder	83	133	+60%

Asia Pacific	2008	2009	% change
By target value of deals (US\$bn)	21.7	16.0	-26%
By bidder value of deals (US\$bn)	23.4	18.5	-21%
Number of deals			
By target	193	163	-16%
By bidder	197	171	-13%

Figure 8b: **All transactions (excluding renewables) by continent by value of transactions – 2009 (total US\$103.6bn)**
(2008 percentages shown in parenthesis)



Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

10 Deal places: North America

Following a rally in the two preceding years, North American deal numbers went the same way as deal values in 2009 with a sharp fall downward. Gone were deals such as the Exelon's 2008 US\$13bn unsuccessful move for NRG Energy. Indeed, the sum total of all non-renewable power deals – US\$12.3bn – fell short of the value of this single 2008 deal. Private equity, which had been a major deal driver in earlier years, also continued to stay away. Companies held back from M&A as they faced a triple threat hanging over the sector – economic recession, funding and valuation difficulties and regulatory uncertainty.

The macro-economic and financial background is well documented. On top of this, US companies faced energy policy and regulatory uncertainty. The impetus of the opening period of the Obama presidency, with initiatives such as the 'New Energy for America' policy framework, has been followed by considerable wrangling in Congress over the exact content of the Energy Bill. Crucial issues which are necessary to drive investment and inform M&A decisions, such as the role of nuclear, incentives for clean coal technology and the exact nature of carbon legislation, have remained unclear. Against this background, deal making has stalled as companies face the challenge of placing a value on deals in an uncertain climate.

Uncertainty at a US federal energy policy level has been compounded by continued difficulties at state level where utility companies have faced a tough rate case environment. This was highlighted in January 2010 when the Florida Public Service Commission (PSC) rejected Florida Power and Light's (FPL) proposal for a base rate increase. It was FPL's first rate case in 25 years and dealt a serious blow to the company's investment plans. FPL responded by saying it would immediately suspend activities on projects representing approximately US\$10bn of investment over the next five years in Florida's energy infrastructure, including the development of two new nuclear reactors.

The regulatory hurdles in the way of US deals were also highlighted by the Maryland Public Service Commission's prolonged deliberations on EDF's 2008 US\$4.5bn bid for 49.99% of Constellation's nuclear business. Even though the deal concerns non-regulated assets, the commission made the deal contingent on the payment of a US\$100 rebate to customers of Constellation's regulated subsidiary, Baltimore Gas and Electric.

Figure 9: North America (by target) electricity and gas deals

	Value	Number	% change compared to 2008	
			Value	Number
Power (excluding renewables)	US\$12.3bn	96	-71%	-32%
of which: Electricity	US\$12.2bn	92	-68%	-21%
Gas	US\$0.1bn	4	-97%	-83%
Renewables	US\$7.8bn	143	-19%	-41%
Total	US\$20.1bn	239	-61%	-38%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

The result has been an environment in which companies perceive the risks are too high to be able to initiate big deals. Deal activity is down and the focus has been on smaller deals for targets that carry less risk and fit well with existing strategies. The only North American deal in the top 10 came in Canada with the US\$3bn debt-induced sale of hydro and nuclear generation assets by Canadian New Brunswick Power to Hydro-Québec (see Deal Makers section). Managing debt also spurred the largest US deal of 2009 – Dynegy's US\$1.7bn sale of eight power plants and a share of one in construction to LS Power. The deal helped relieve Dynegy's finances as it responded to operating losses and also implemented major cost reduction measures. Reductions in demand and lower gas prices have hit the company particularly hard. The deal also reduces LS Power's share in Dynegy from 40% to 15%.

The second largest US deal saw AES Corporation raise US\$1.6bn in capital with investment from the China Investment Corporation in return for 15% of AES. It also signed a letter of intent with CIC to raise an additional US\$571 million of equity for a 35% stake in its wind generation business. More than two-thirds of AES' revenue is generated outside of the United States with the company seeking to invest in high growth areas of the power sector, including renewable energy and emerging markets.

Against a background of falling gas wholesale prices, deals for North American gas assets virtually came to a halt in 2009 with a negligible level of activity. In common with other parts of the sector, renewable deal activity was down although deal value for renewable assets was down only 19% compared to a 71% fall in non-renewable power deal value. We review renewables deal activity in our companion report, *Renewables Deals*.

PwC deal dialogue:



Accretion/dilution analyses in today's environment

Companies need to be more careful than ever to set appropriate expectations about the impact of transactions on their future earnings per share. Purchase accounting can be a major unknown factor early in deal considerations and this factor is now more important as a result of the new accounting standard for business combinations.

Beginning in 2010, the accounting for business combinations is the same under IFRS and US GAAP. The new standards went into effect in 2009 for calendar year companies in the US and 2010 for IFRS calendar year filers. It has raised the level of work most companies are doing related to purchase accounting in the diligence phase of a transaction.

For example, a target company with extremely favorable (as compared to current pricing) fuel contracts may seem like a terrific buy. Purchase accounting, however, requires the fuel contracts to be recorded at fair value (contract price determined with reference to the contract and current pricing, along with other considerations), with that value amortized over the life of the contract. While the contracts certainly provide favorable cash returns to the buyer, those returns are offset by the book amortization.

Multiply this type of consideration by all of the assets and liabilities (tangible and intangible) of the target company that must be marked to fair value in purchase accounting and the magnitude of the task to understand the accretive or dilutive impact of the deal on earnings becomes clearer. Add the typical long time frame between signing and closing and a material item estimated at signing to be dilutive can swing in value resulting in an accretive impact at closing. The new accounting also has the value of stock given as purchase consideration set at closing, rather than at announcement date, meaning that the total consideration to allocate will move by closing.

Management teams are approaching purchase accounting and its related valuation exercises differently than in the past. In the early stages of due diligence, they are preparing an inventory of items that have the potential to significantly impact purchase accounting and are estimating the fair values. This requires collaboration among many team members (inside and outside the company) to consider the size of assets and liabilities and their relative lives. Valuation techniques become more and more critical, particularly as indicative approaches may be needed in the early phases due to lack of data to support the ultimate valuation approach. Companies should add scenario planning to the potential outcomes.

12 Deal places: Europe

Power deal making in Europe was more resilient during 2009 than in North America, although there was a substantial fall in activity. Consolidation remained a strong driver of transactions. Some of the key larger deals were the result of specific regulatory moves – unbundling of the power market in the Netherlands and encouragement of network divestment in mainland Europe. Reflecting the subdued and less ambitious nature of deal activity, there were very few deals by European companies outside Europe.

As we saw in the Deal Makers section, the largest deal – Acciona's US\$14bn sale of its 25% stake in Endesa to Enel – was a hangover from a long series of moves around Endesa dating from 2007. In terms of deal numbers, the fall in activity was greatest in the renewables sector where deal-making was somewhat clouded by a difficult funding environment and, despite clarity on 2020 renewable energy targets, continued concerns on return from investment. We examine renewable energy deals in our separate *Renewables Deals* report. Outside the renewables sector, power deal numbers fell 12% year-on-year and total value dropped by 43%, from US\$102.3bn in 2008 to US\$58.6bn in 2009. Back in the peak year of 2006, our *Power Deals* report recorded a total of US\$173.2bn bid value for European targets.

We discuss the three largest European deals – the Endesa sale, RWE's US\$9.9bn acquisition of the generation and supply side of Essent and Vattenfall's US\$6.2bn purchase of Nuon's production and supply business – in the earlier Deal Makers section. The largest of the remaining deals – E.ON's US\$4.1bn sale of Thüga, its holding company for minority stakes in municipal utilities, to a buyer consortium of the municipalities – represented an interesting reversal of a long period of power market consolidation and privatisation. Anti-trust laws prevented E.ON from further developing Thüga and the sale helps E.ON's funding of its foreign growth focus.

In November 2009, E.ON also announced the US\$1.3bn sale of its German power transmission grid, Transpower Stromübertragungs, to Dutch state-owned grid operator, Tennet. E.ON had opted to sell its long-distance grid in February 2008 in response to European Commission concerns about integrated ownership of transmission, supply and distribution. The Commission has since softened its stance, allowing utilities to retain grid ownership in exchange for handing over operating control to a separate body. Nonetheless, further continuing network spin-offs are expected.

Figure 10: **Europe (by target) electricity and gas deals (excluding the Russian Federation)**

	Value	Number	% change compared to 2008	
			Value	Number
Power (excluding renewables)	US\$58.6bn	167	-43%	-12%
of which: Electricity	US\$52.8bn	126	-44%	-13%
Gas	US\$5.7bn	41	-31%	-9%
Renewables	US\$12.8bn	241	-37%	-27%
Total	US\$71.4bn	408	-42%	-21%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

In the UK, Centrica paid US\$3.5bn for a 20% stake in nuclear power company British Energy. As part of the 2008 EDF purchase of British Energy, the two companies had announced a non-binding agreement for Centrica to purchase a stake of up to 25% at the same price as that paid by EDF. In the subsequent period, lower energy prices and concern about the cost of nuclear programme expansion made valuation difficult. In the event, Centrica took a smaller stake for a value of around 6% less than the original purchase price. Half of the purchase was in cash with the other half coming from the US\$1.8bn sale by Centrica of its 51% stake in SPE, Belgium's second-largest power producer, to EDF.

Gas deals continued to play a marginal role, accounting for 24% of deal volume and 10% of deal value. More than half of this gas deal value was accounted for by Eni's US\$2.9bn sale of its regulated gas storage and distribution assets, Stogit and Italgas, to Snam Rete Gas, in which it has a 50.03% share. The company said the move would unlock greater value by bundling the regulated assets together. At the time of the deal, Eni also confirmed it was considering a move for Dutch company Nuon in order to give Eni access to the Dutch market. As we discussed in Deal Makers, Nuon was eventually purchased by Sweden's Vattenfall.

PwC deal dialogue:

Running the regulatory ruler over deals

Financial and non-utility players took a significant step back from activity in the global power utilities M&A markets during 2009. Perceived tougher regulatory conditions, combined with the adverse credit crunch, impacted on being able to gear up to make acquisitions.

Regulators appear to be taking a tougher stance in allowed cost of capital and achievable cost performances from regulated activities. Understanding how regulators make such judgements and what arguments need to be mastered to obtain a fair regulatory determination are of key importance for deals in the regulated network space.

PwC deal dialogue:

The growing importance of JVs and strategic alliances

Joint ventures (JVs) and strategic alliances are likely to become increasingly important as utilities take up the challenge of delivering major nuclear and renewable energy programmes. However, whether it is a JV or a strategic alliance, it is always important to plan for a future which may turn out differently than presently forecast.

Typically, different parties will be contributing different components to a JV. For example, a company providing technology to the venture is in a very different situation from one signing an off-take arrangement and taking mark-to-market risks. Shareholders may have different appetites for, and capability to, manage exposures.

PwC has found that a strong platform for JVs is typically provided by an up front, detailed examination of risks and a careful assessment of which risks can be managed and mitigated and how variance in financial performance compared to forecast will be allocated amongst stakeholders.

14 Deal places: Asia Pacific

Almost a fifth of worldwide power deal target value (including renewables) came from the Asia Pacific region in 2009, second only to Europe and eclipsing North America for the first time ever. Total Asia Pacific power deals value was US\$22.8bn – nearly US\$2.6bn higher than that of North America. The buoyancy in Asia Pacific deal-making came from China where target non-renewable deal value nearly doubled – from US\$4.5bn in 2008 to US\$8.9bn in 2009 and total power deal value soared from US\$7.7bn to US\$16bn. This more than offset a near stalling of Australasian deal activity.

A common trend among the major state-owned generation entities in China is to transfer power plants to their majority-owned listed companies. This enables them to consolidate and integrate the power generation operation to achieve synergies, streamline operations through central management and, in some cases, gain funding for further expansion. The most notable example of this strategy was the largest deal in China – a US\$6bn ownership transfer concerning the Three Gorges hydro-electric scheme. This deal falls under our renewables classification and is discussed in our companion Renewables Deals report.

The largest Chinese deal, for non-renewable power assets, was a US\$1.6bn reverse takeover with Hubei Energy, the largest power generator in the central province of Hubei, injecting its assets into Shenzhen-listed Hubei Triring. Hubei State-owned Assets Supervision & Administration Commission (50.96%), Shanghai-listed China Yangtze Power (41.69%) and China Guodian (Group) Corporation (7.35%), sold the equity shares to Hubei Triring and received additional shares issued by Hubei Triring. The deal has enabled Hubei Energy's assets to be listed and, thereby, attract investor funds.

In the remaining US\$1bn plus deal, SDIC Huajing Power Holdings acquired SDIC Electric Power from its parent for US\$1.1bn in shares. The asset buyout not only gave a major boost to the proportion of installed hydropower capacity at SDIC Huajing Power Holdings, it also substantially turns SDIC's equity holding to an absolute controlling shareholder. The vast majority of deals for Chinese assets were from Chinese or Hong Kong buyers. The largest foreign investment was from German company Siemens who increased their stake in Shanghai Electric Group from 33.7% to 40% in a US\$104 million deal.

After China, which had a 67% share of total Asia Pacific power deals value, the Philippines and India accounted for the next largest regional shares with 15% (US\$2.4bn worth of deals) and 7.5% (US\$1.8bn) respectively. Both countries had one US\$1bn plus deal in 2009. In India, Jaiprakash Power Venture Ltd (JPVL) merged with Jaiprakash Hydro Power, an Indian listed company. The US\$1.2bn deal was a precursor to a planned private placement aimed at divesting a minority stake in the company. Bringing the unlisted JPVL onto the equity markets was part of a strategy to help attract would-be investors. In the Philippines, an independent power producer administrator (IPPA) contract auction resulted in San Miguel Corporation bidding US\$1.1bn for the right to manage the 1,000MW Sual coal fired power plant.

Figure 11: Asia Pacific (by target) electricity and gas deals

	Value	Number	% change compared to 2008	
			Value	Number
Power (excluding renewables)	US\$15.0bn	149	-19%	-15%
of which: Electricity	US\$14.4bn	124	-20%	-13%
Gas	US\$0.7bn	25	+13%	-26%
Renewables	US\$7.7bn	111	+32%	-41%
Total	US\$22.7bn	260	-7%	-28%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

The US\$8.3bn rise in Chinese target value stood in stark contrast to a US\$2.5bn 71% fall in Australasian deal value. In Australia, deal making has faltered due to uncertainty over the introduction of a carbon trading scheme by the government led by Prime Minister Kevin Rudd. Originally planned for 2010, the scheme was delayed until mid-2011 but the legislation is still bogged down in the Australian parliament. It is being reintroduced for a third time in February 2010 after being voted down in the Senate in December 2009. The opposition Liberal party has now joined the National party in opposing the scheme and, with an election due before April 2011, there is increasing uncertainty over whether the scheme will become operational at all. If and when uncertainty around the price of carbon is resolved, it will release a backlog of deals. Some power assets, and their owners, are effectively controlled by banks, who are reluctant to initiate asset sales due to the inherent lack of confidence regarding realisation values.

The other major uncertainty hanging over the Australian power market has been the continued on-off nature of New South Wales (NSW) electricity privatisation. The move was first considered as far back as the mid 1990s and formally emerged as government policy in 2007, but has got stuck in the political long grass since. Its delay has been a significant barrier to deal making. The NSW assets that are under consideration for privatisation include three of the five largest generators in the country and cover about 40% of domestic customers. As such it is central to consolidation and M&A realignment with a lot of other moves being contingent to who gets what in any NSW privatisation. The plan was revived in September 2009 with the NSW state government announcing proposals for a trade sale as well as a parallel process for a potential public float of some assets. But, with a state election looming and pressure on the incumbent ruling party, it remains uncertain whether this time the privatisation plans will become a reality. Nonetheless, Chinese and Japanese interest in power investment in Australia remains high, particularly for Japanese companies who have exhausted local growth opportunities.

Figure 12: Australasia vs the rest of Asia Pacific (by target) electricity and gas deals

	Australasia	Asia Pacific (excluding Australasia)	Whole region
Power (excluding renewables)	0.9	15.0	16.0
% change compared to 2008	-72%	-19%	-26%
Power (including renewables)	1.0	22.8	23.8
% change compared to 2008	-71%	-7%	-15%

Source: PricewaterhouseCoopers, *Power Deals 2009 Annual Review*

16 Looking ahead

The coming year will be one of light and shade in power deals making. The light will come from the strong balance sheets of many companies within the sector. The underpinning deal driver of consolidation remains a strong force. Major markets, such as those in central and eastern Europe, the US, Brazil and Argentina and parts of Asia Pacific, remain highly fragmented and will be places where companies will be seeking to scale up through consolidation.

Consolidation in western Europe has reached a more advanced stage but this could prove a platform for a reawakening of wider international ambition. The speculation surrounding Suez and International Power shows the potential for major international M&A moves. Within Europe, network divestment will continue to be a deal driver.

The continuing appetite among outside investors in the industry will also support the deal-making environment. Although we did not see players such as infrastructure investment funds feature in any major way on the deal list, they are not on the sidelines. In key instances, such as some of the larger European transactions, they were in the game but did not win those particular deals. Chinese international investors are already becoming important and their influence will grow.

However, some important considerations will keep deal-making in the shade. While some companies have balance sheet strength, others are more dependent on the capital markets to raise funds. The funding environment remains as tight for many companies as it was a year ago and will inhibit their deal ambitions. However, the strength of some and the weakness of others will also create opportunities for deal-making.

Until it clears, the cloud of regulatory uncertainty that has stalled deal-making in the US and Australia will continue to make deal strategies and valuations difficult. In Australia, much will again hinge on whether New South Wales electricity privatisation gets off the ground. If it does, that will deliver major deal value in itself and be the catalyst for other moves.

In the US, the stance of state regulators will remain critical. In the past, regulators have made the costs of proposed transactions so onerous that the deal economics of proposals such as the FPL-Constellation combination fell apart. The industry will keep a close eye on the response of the states to the proposed US\$4.7bn merger between FirstEnergy and Allegheny Energy announced in February 2010.

At a federal level, any resolving of the uncertainty that has clouded the Energy Bill will also encourage deal makers. But just how much of a green light it will be, will depend on how decisive and effective the final legislation is on key issues such as the development of nuclear power and clean coal technology.

The strategic context of deals will also shift. New imperatives are asserting themselves. For example, on the regulatory front in Europe, concerns about security of supply are diluting the emphasis placed on market competition. This is likely to herald a re-emergence of convergence between electricity and gas, as securing supply becomes critical, and will also be reflected in moves to develop tight gas assets.

Security of supply is also a strong imperative, alongside climate concerns, for the major scale-up of renewable power projects and new nuclear programmes. These need significant capital investment and alliances to deliver the required technological, engineering and construction platforms. Some joint ventures and alliances may themselves herald further consolidation in the power utilities sector.

The need for cross-industry partnerships will become still greater in order to deliver future generation ambitions, such as the Desertec initiative to create massive carbon-free power generation in the deserts of North Africa, and to provide new ways of delivering power to end users, such as powering electric cars.

These developments will, in turn, provide a spur to joint investments and ventures. We would not rule out direct cross-industry stakes, particularly across the interface between engineering and technology and power utilities. In combination with the possibility of a reawakening of international deal-making, the coming years could herald some landscape-changing moves.

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