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Intersections
Second-quarter 2012 transportation and logistics industry mergers and acquisitions analysis

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To our transportation and logistics readers

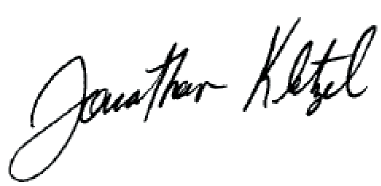
Welcome to the latest edition of Intersections, PwC's analysis of mergers and acquisitions in the global transportation and logistics industry. In this report, you'll find an overview of M&A in the sector during the second quarter of 2012, as well as expectations for deal activity in the near future.

PwC's Transportation and Logistics (T&L) practice is monitoring several trends expected to affect the values and locations of deals in the T&L sector:

- Deal flow was markedly robust during the quarter, with mega deals, those with a disclosed value of at least $1 billion, expected to top the total of such announcements for all of 2011.
- The United States demonstrated surprising strength in both deal volume and values, even when not considering the impact of the UPS/TNT deal announced during the first quarter.
- Eurozone deals decreased significantly in the wake of the economic downturn and ongoing sovereign debt issues. The number of European deals has actually increased, though, when excluding Southern European economies. The divergence within Europe is expected to continue as new airport deals in the United Kingdom come online and Russia's transportation sector continues to privatize.
- M&A activity in China has quickly slowed in the face of tighter credit and a deceleration in growth. However, the country's favorable prospects for growth and monetary stimulus are expected to drive long-term resilience.
- So far in 2012, the vast majority of mega deals have been focused on airports and roads, activity that is contributing to strong deal flow in South America. The outlook for these transactions remains very positive. The Brazilian government reportedly is considering privatizing more airports, in the wake of widespread interest in such projects generated during the auctions held earlier this year.

There are a multitude of potential drivers for future M&A in the transportation and logistics industry. While a return to the M&A peaks experienced during the leverage bubble is unlikely, the balance of risk and reward favors a strong second half for deals in the sector.

We're pleased to present the second-quarter 2012 edition of Intersections as a part of our ongoing commitment to provide a better understanding of M&A trends and prospects in the industry.



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Perspectives:
Thoughts on deal activity in the second quarter of 2012

Welcome to *Intersections*, our analysis of M&A activity in the transportation and logistics sector. We are pleased to share that deal flow was robust this quarter, with lots of activity at the top of the market. This is evidenced by the fact that mega deals, or deals with a disclosed value of at least $1 billion, are on pace to easily exceed the total of such announcements for all of 2011.

The United States, a bright spot in the current market environment, showed a surprising amount of strength in both deal volume and values, even when removing the impact of the first quarter $6.9 billion UPS/TNT announcement.

Eurozone deals were down significantly in the face of recession and ongoing sovereign debt issues. However, it is interesting that when excluding Southern European economies, several of which face the brunt of the continent's economic woes, the number of European deals has actually increased. We expect this divergence within Europe to continue, as new airport deals in the United Kingdom come to market and the transportation sector in Russia continues a trend toward privatization. Such transactions should fuel activity outside the Eurozone.

M&A in China has quickly slowed following tighter credit and a deceleration in growth. However, we expect to see more long-term resilience in China on the basis of relatively favorable growth prospects and monetary stimulus.

Deals for transportation infrastructure continue to be a bright spot. These announcements — mainly for airports and roads — constitute the vast majority of mega deals so far this year and are contributing to strong deal flow in South America. The outlook for these transactions remains very positive; advanced economies face long-term budget pressures, emerging markets need investment to meet their growth potential, and investor interest remains high. Several of these motivations could lead to additional infrastructure mega deals in Brazil. For example, reports indicate that the government is considering the privatization of more airports following interest generated during the auctions held earlier this year.

Looking forward we believe that there are a multitude of potential drivers for future M&A. Yet concerns over the durability of the economic expansion in the United States, ongoing turmoil in Europe, and decelerating growth in key emerging markets are creating barriers to a further rise in M&A totals. While we are not forecasting a return to the M&A peaks experienced during the leverage bubble, the balance of risks favors a strong second half for deals in the transportation and logistics sector.

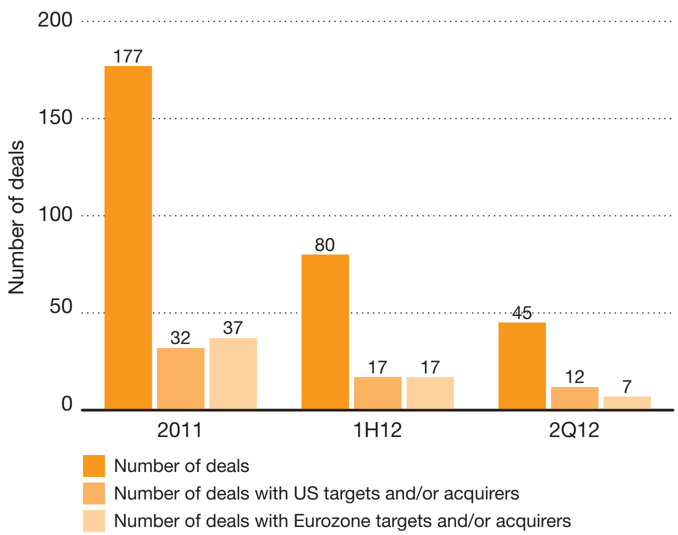
Quarterly transportation and logistics deal activity

Measured by number and value of deals worth $50 million or more (3Q09–2Q12)

	2009		2010				2011				2012	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Number of deals	30	44	41	42	42	62	48	46	48	35	35	45
Total deal value ($ bil.)	10.4	56.2	21.5	19.6	20.9	48.7	11.3	13.4	14.3	13.6	24.7	12.6
Average deal value ($ bil.)	0.3	1.3	0.5	0.5	0.5	0.8	0.2	0.3	0.3	0.4	0.7	0.3

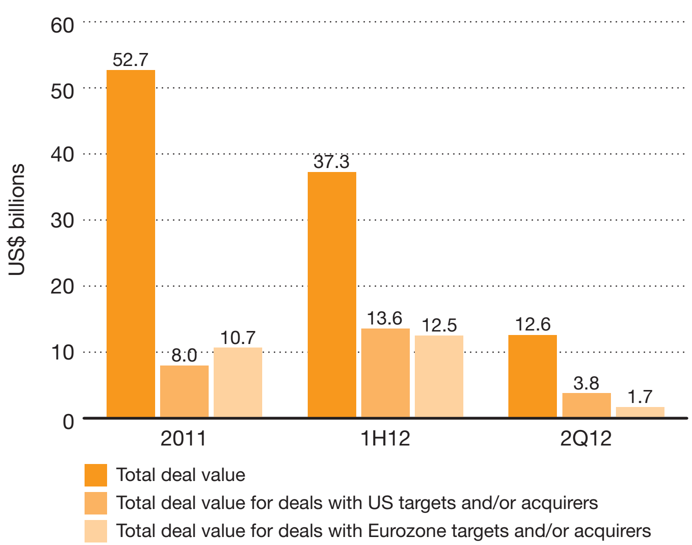
Deal activity by number of deals

Measured by number of deals worth $50 million or more (2011, 1H12, 2Q12)



Deal activity by total deal value

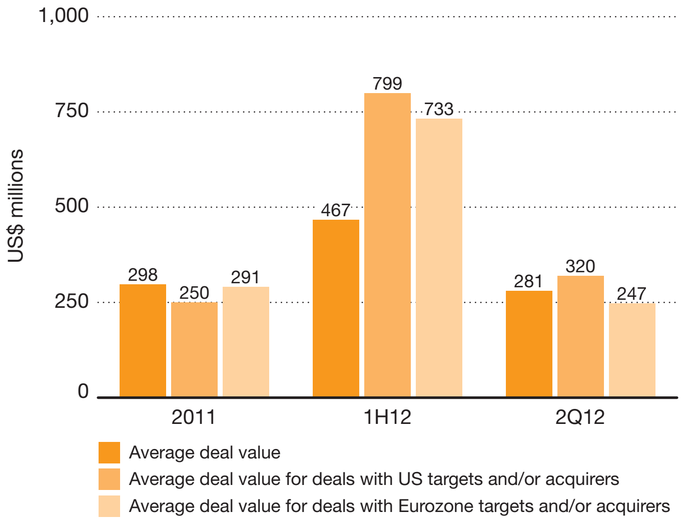
Measured by value of deals worth $50 million or more (2011, 1H12, 2Q12)



The second quarter was a robust period for transportation and logistics M&A. Specifically, the pace of deal volume (i.e., number of deals) accelerated from both the first quarter and 2011, as a whole, while deal value is on pace to approximate the level of 2011. The market was particularly active in larger deals, as a percent of all deals, and less so in smaller/undisclosed deals.

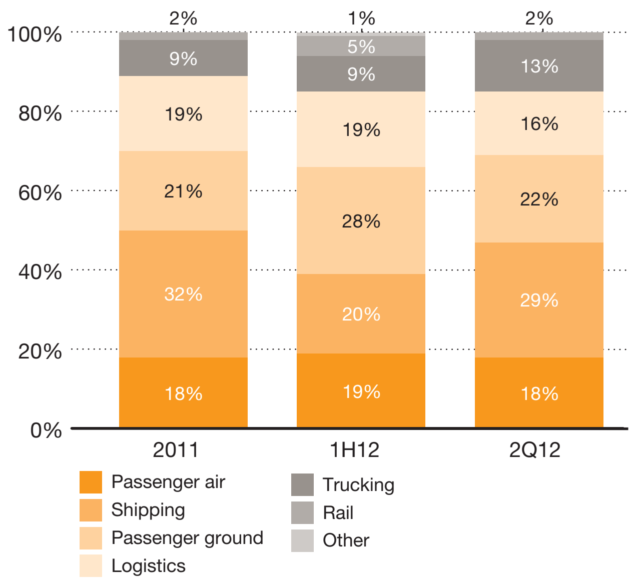
Some of the increase in total deal flow was driven by greater involvement from US entities. Deal volume involving US entities increased during the second quarter, though the total and average value was down compared to the YTD period due to the $6.9 billion UPS/TNT deal announced in February. The US economy, which faces many questions around the strength of its recovery, appears to be a source of relative calm as it concerns transportation M&A. US trucking and logistics industries were very active, and while the rationales (e.g., increase market share, expand services) were somewhat varied, it seems that many of these companies are choosing to address limited organic growth opportunities through M&A.

Deal activity by average deal value
Measured by value of deals worth $50 million or more (2011, 1H12, 2Q12)



These US results generally contrast with Eurozone deals, which have clearly been impacted by sovereign debt issues and recession. The pace of Eurozone deal value and volumes declined significantly in the second quarter. These results indicate that, despite growing concerns about recession in Europe, the durability of the expansion in the United States, and a slowdown in several emerging markets, the overall market for transportation and logistics M&A has proved resilient. These concerns are unlikely to abate quickly, contributing to our outlook for the second half deal totals that approximate the level of first half of the year, with risks more oriented to the downside. The depth of the recent recession, the slow process of deleveraging, and the need to implement austerity measures are all factors that could limit near-term economic growth in many developed economies. Due to the strong relationship between economic output and sector M&A, some resolution of these issues will likely be needed to drive announcements higher.

Deals by transportation & logistics mode
Measured by number of deals worth $50 million or more (2011, 1H12, 2Q12)



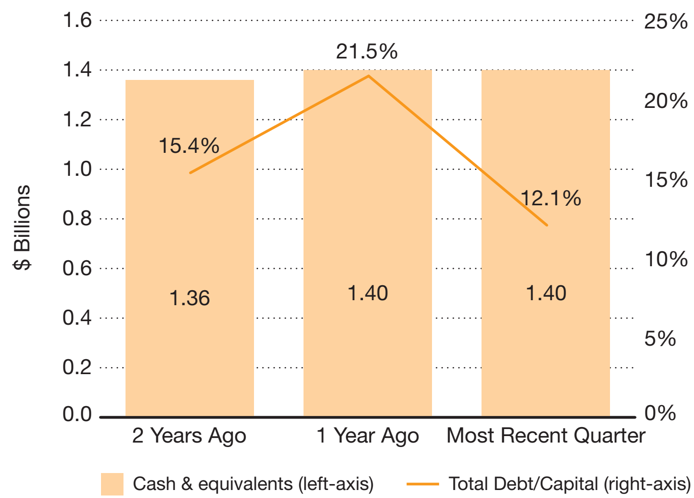
Note: Percentages may not sum to 100% due to rounding

The proportion of passenger air, shipping, and passenger ground announcements during the second quarter was similar to 2011. Passenger air is likely to remain active, though the recent wave of airline M&A and interest in transportation infrastructure assets means that the focus will likely remain on airport deals instead of airline M&A. Infrastructure deals, driven by budget pressures in developed markets and the need to support economic growth in developing markets, should contribute to some additional road concessions in the passenger ground mode. Road and airport concessions typically account for some of the largest deals in the sector, as demonstrated in the mega deal tables, given the size of these assets and should remain the primary driver of deal value in the sector during the second half of the year. The rationale for consolidation in shipping also remains strong as it would help address issues related to vessel overcapacity and financially weak competitors, though these are not as likely to represent the larger deals in the sector due to the relative size of many of the target entities.

Our research into debt and liquidity levels among the largest companies in the sector indicates that cash levels remain high and balance sheets have strengthened over the last two years. The improving financial strength of larger companies in the sector and shareholder pressures to put cash to work has supported the use of internal sources of capital (corporate funds) for new deals. In addition, modest deleveraging within the sector as well as a decline in yields across many economies over the last year is supporting the increased use of debt. Assuming that stock market valuations do not change substantially, this mix of financing likely will remain favored by larger transportation and logistics sector constituents. In addition, the high level of liquidity could encourage more cross-border M&A by US companies that prefer to invest funds generated from non-US operations into foreign acquisitions instead of paying the tax necessary to repatriate this cash.

Financial leverage and liquidity

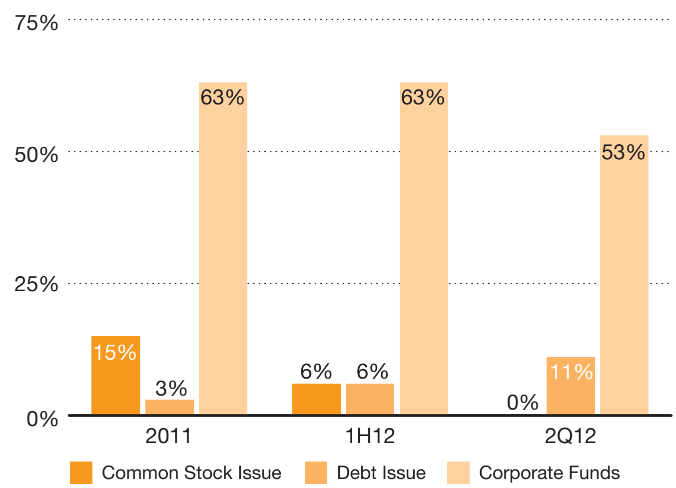
Measured by median of top 50 global public competitors (Y-2,Y-1,MRQ)



Source: Company Reports

Source of funds

Measured by percentage of deals worth $50 million or more (2011, 1H12, 2Q12)



Mega deals in 2011

Deals with a disclosed value of at least $1 billion

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil	Category
Oct	Freight One	Russian Fed	UCL Holding BV	Russian Fed	Completed	4.22	Rail
May	Abbot Point Coal Terminal	Australia	Mundra Port & Special Economic Zone Ltd {MPSEZ}	India	Completed	1.95	Shipping
Jun	Brussels Airport Co SA	Belgium	Ontario Teachers Pension Plan {OTPP}	Canada	Completed	1.75	Passenger air
Jul	Korea Express Co Ltd	South Korea	Investor Group	South Korea	Completed	1.65	Logistics
Dec	Lasalle Investment Management KK-Property Portfolio	Japan	Investor Group	China	Completed	1.57	Logistics
Jul	ConnectEast Group	Australia	Horizon Roads Pty Ltd	Australia	Completed	1.53	Passenger ground
Oct	Maersk LNG A/S	Denmark	Malt LNG Holding ApS	Denmark	Completed	1.40	Shipping
May	Daxinhua Airlines Co Ltd	China	Chongqing Shenyin Longsheng Investment Co Ltd	China	Pending	1.23	Passenger air
Sep	Puerto Rico Public-Private Partnership Authority{PPPA}-PR 22	Puerto Rico	Investor Group	United States	Completed	1.14	Passenger ground
Aug	GE SeaCo Ltd	Barbados	Investor Group	China	Completed	1.05	Shipping
Aug	Diamond S Shipping LLC	United States	Investor Group	United States	Pending	1.00	Shipping

Mega deals in 1H12

Deals with a disclosed value of at least $1 billion

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil	Category
Feb	TNT Express NV	Netherlands	UPS	United States	Pending	6.83	Logistics
Feb	Infraero-Guarulhos Airport Concession	Brazil	Invepar	Brazil	Pending	4.79	Passenger air
Feb	Cheniere Energy Partners LP	United States	Investor Group	United States	Pending	2.00	Logistics
Feb	Infraero-Brasilia Airport Concession	Brazil	Investor Group	Brazil	Pending	1.33	Passenger air
Apr	Edinburgh Airport Ltd	United Kingdom	Global Infrastructure Partners LLC	United States	Pending	1.30	Passenger air
Jun	Vela International Marine Ltd	Utd Arab Em	National Shipping Co of Saudi Arabia (Bahri)	Saudi Arabia	Pending	1.21	Shipping
Apr	Grupo Costanera SA	Chile	Canada Pension Plan Investment Board	Canada	Pending	1.15	Passenger ground
Feb	Infraero-Campinas Airport Concession	Brazil	Investor Group	Brazil	Pending	1.13	Passenger air
Mar	Brisa-Auto-estradas de Portugal SA	Portugal	Tagus Holdings Sarl	Luxembourg	Intended	1.07	Passenger ground

The pace of mega deals continues to exceed that of 2011, with three such announcements during the second quarter. This has led the number of mega deals during the first half of the year to almost reach the level of all of 2011. The theme of infrastructure, which has accounted for the majority of mega deals so far this year, continued into the second quarter.

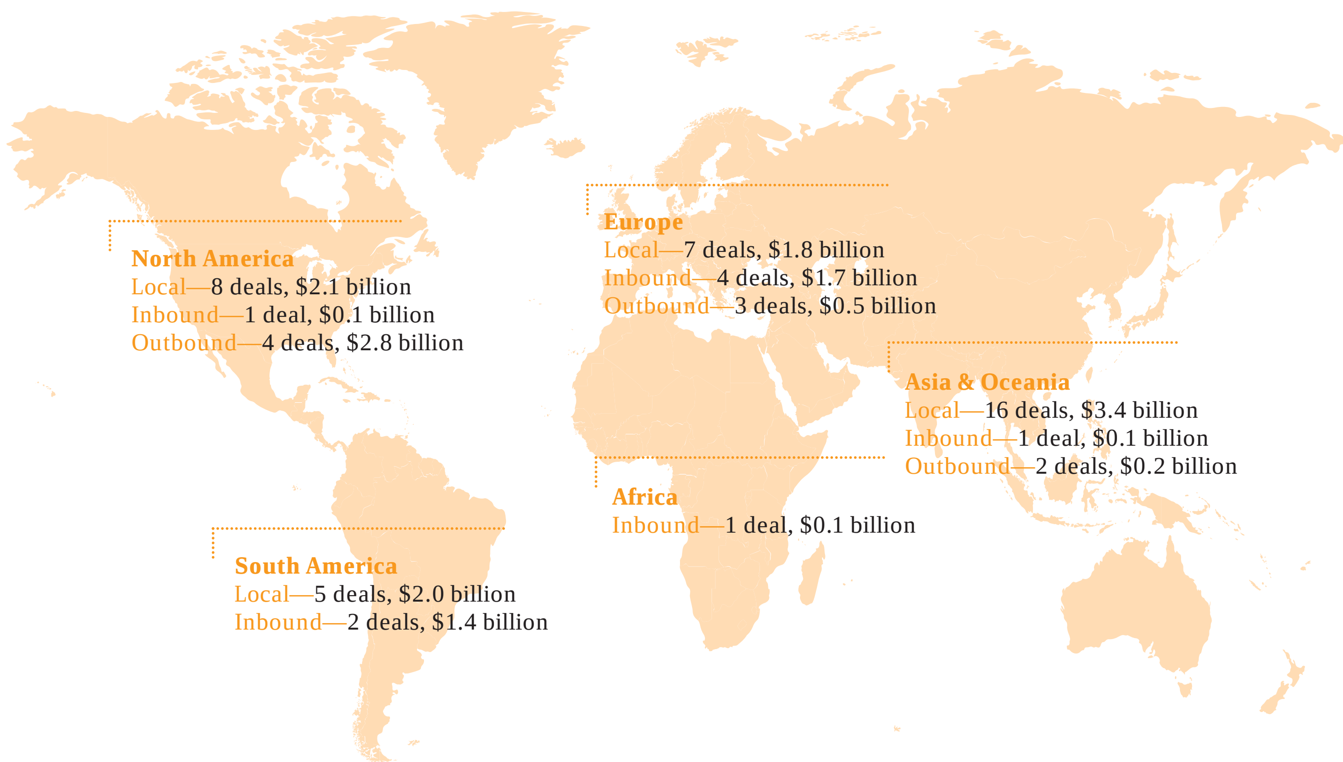
The largest deal of the quarter was the $1.3 billion purchase of Edinburgh Airport, the largest airport in Scotland, by Global Infrastructure Partners LLC, a joint venture between Credit Suisse and General Electric. Global Infrastructure Partners, which also owns London City Airport, had previously acquired Gatwick airport from BAA. These airport divestitures are the result of a decision by the UK Competition Commission that BAA must divest three airports. This ruling is expected to potentially lead to the sale of Stansted Airport later this year.

The second largest mega deal of the quarter was the $1.2 billion merger between National Shipping Company of Saudi Arabia, which announced plans to change its name to Bahri, and Vela International Marine, a subsidiary of state-owned oil company Saudi Aramco. The deal is expected to make Bahri the fourth-largest owner of very large crude carriers (VLCCs) globally and will involve a commitment for the combined entity to provide crude oil shipping to Saudi Aramco.

The final mega deal of the quarter was the $1.1 billion minority stake in Grupo Costanera SA (Chile), a unit of Atlantia SpA (Italy), by the Canadian Pension Plan Investment Board (CPPIB). Grupo Costanera is the largest urban toll road operator in Chile, with ownership of five major roads. This deal is subject to Atlantia acquiring Autostrade Sud América from partners SIAS and Mediobanca, and it is expected to help CPPIB diversify its exposure more into emerging markets.

Infrastructure investment has proved relatively defensive in nature, and it seems most likely that these targets will be the focus of future mega deals. For example, reports indicate that the Brazilian government continues to study further airport privatizations, potentially including assets in Rio de Janeiro, Belo Horizonte, and Recife International. In addition, there is the potential for the aforementioned BAA sale of Stansted Airport due to competition concerns.

Global transportation and logistics M&A activity in 2Q12
Measured by number and value of deals worth $50 million or more



On a regional basis, European deal flow was down significantly. European deals were not focused on any particular mode, but it is interesting that deals involving parties in Southern Europe (based upon the UN definition of the sub-region) continue to decline and have primarily led to lower regional totals. In fact, when excluding deals involving Southern European countries, the pace of European deals has actually accelerated. Clearly, uncertainty in this region has led to a more conservative approach to M&A.

Deal activity in South America continues to accelerate, fueled by infrastructure transactions in Brazil and, to a lesser extent, Chile. While many of these announcements have been local-market deals, recent changes in antitrust law may increase the attractiveness of the market to foreign acquirers. In addition, there is the potential for additional infrastructure deals in this country to drive future deal totals.

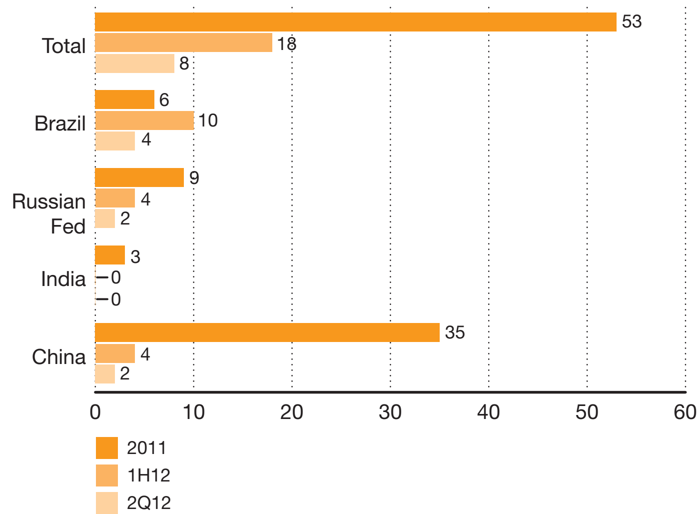
The pace of North American deals has not changed much during the second quarter, though the region does provide an interesting contrast with South America as there are fewer infrastructure deals involving North American companies, with M&A primarily focused on logistics, trucking, and shipping targets. There was a large decline in the number of deals involving parties in China—primarily among airlines and expressway operators—which contributed to a slight decline in totals for the Asia and Oceania region. This can be attributed to slowing economic growth as well as tightening credit, particularly for smaller acquirers. Yet other Asian countries, such as the Philippines, Malaysia, Indonesia, and Thailand, made up for much of this decline in Chinese deals. Many of these were local deals; however, this seems to portend a future in which these emerging and developing economies could begin to wield more power as cross-border acquirers.

While the Eurozone issues will likely continue to weigh on activity in this region, European activity could see something of a boost from the ongoing privatizations of transportation companies in Russia. The government has previously announced plans to divest stakes in Sovcomflot (largest shipping company), Aeroflot (largest airline by passengers), passenger and freight rail operator Russian Railways, and Sheremetyevo International Airport. It is possible that some of these transactions could be delayed due to political and market considerations. However, the potential for some of the Russian deals to proceed, in addition to more airport sales in the United Kingdom (e.g., Prestwick and Stansted) is likely to help boost future activity in this region.

The overall level of cross-border/local-market activity has remained approximately the same as in 2011, though this masks a subtle trend: Advanced economy acquirers are engaging in more cross-border deals while emerging and developing economy acquirers are focusing on their local markets. This trend is likely to continue as many advanced market investors look for higher returns to supplement relatively sluggish organic growth opportunities.

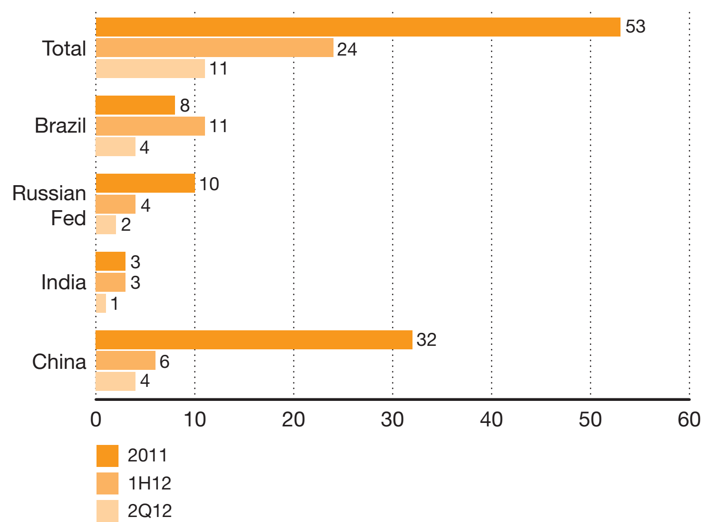
Distribution of BRIC deals by acquirer nation, measured by number of deals

Measured by number of deals worth $50 million or more (2011, 1H12, 2Q12)



Distribution of BRIC deals by target nation, measured by number of deals

Measured by number of deals worth $50 million or more (2011, 1H12, 2Q12)



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Deep transportation and logistics experience

PwC provides advisory, assurance, and tax services for more than 93% of the transportation and logistics companies listed on the Fortune 500. Our transportation and logistics practice is composed of a global network of approximately 4,900 industry professionals who service nearly 300 public and private companies around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues and our commitment to delivering economic value through specialized resources and international leading practices. Our highly skilled team encourages dialogue regarding complex business issues through active participation in industry conferences and associations such as the Air Transport Association, American Trucking Association, American Railroad Association, and European Logistics Association.

Quality M&A deal professionals

PwC's Transaction Services practice consists of more than 6,500 dedicated deal professionals worldwide. The depth of their industry and functional experience enables them to advise clients regarding factors that could affect a transaction across the deal continuum. From initial due diligence and evaluation to preparation for Day One and post-close merger integration, our teams are committed to capturing value throughout the deal process and achieving our clients' objectives. These functional areas include, but are not limited to, sales and marketing, financial accounting, tax, human resources, information technology, risk management, and supply chain. Teamed with our transportation and logistics industry practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as an industry point of view.

Local coverage, global connection

In addition to global transportation and logistics resources, our team is part of a large Industrial Products group that consists of more than 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and knowledge in the most effective and timely way.

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Methodology

Intersections is an analysis of mergers and acquisitions in the global transportation and logistics industry. Information was sourced from Thomson Reuters and includes deals for which targets have primary NAICS codes that fall into one of the following NAICS industry groups, NAICS industries, or national industries: scheduled air transportation; nonscheduled air transportation; rail transportation; deep-sea, coastal, and Great Lakes water transportation; inland water transportation; general freight trucking; specialized freight trucking; urban transit systems; interurban and rural bus transportation; taxi and limousine service; school and employee bus transportation; charter bus industry; other transit and ground passenger transportation; support activities for air transportation; support activities for rail transportation; support activities for water transportation; other support activities for road transportation; freight transportation arrangement; other support activities for transportation; postal service; local messengers and local delivery; general warehousing and storage; refrigerated warehousing and storage; other warehousing and storage; and process, physical distribution, and logistics consulting.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between July 1, 2009, and June 30, 2012, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), withdrawn, seeking buyer, or seeking buyer withdrawn. The term deal, when referenced herein, refers to transactions with a disclosed value of at least $50 million unless otherwise noted.

Regional categories used in this report approximate United Nations (UN) regional groups as determined by the UN Statistics Division, with the exception of the North America region (includes North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom, plus Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong. International Monetary Fund classifications were used to categorize economies as advanced or developing and emerging

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