

Oil and Gas Global Deals Q1 2011

‘Mega Deals’ continue to blaze a trail

April 2011



A flight towards scale and new frontiers in Oil and Gas

Key trends

There were 163 deals globally in the oil and gas industry in the first quarter of 2011, the lowest level of deal activity since early 2009 and down by around 20% on the levels seen in 2010 albeit, as shown below, higher than average deal sizes supported overall deal value. Although this could be symptomatic of greater caution in the industry on the back of slow economic growth and unrest in key oil states, it is evident that 'mega deals' are still very much on the agenda.

In value terms, \$94bn of transactions were completed in the first quarter, in line with prior year average levels. There were 16 deals over \$1bn in the period, down from 28 in Q4 2010.

The largest deal in the quarter was Berkshire Hathaway's \$8.9bn acquisition of Lubrizol, the petrochemicals group based in Ohio. This deal alone accounted for 56% of total deal value in the downstream sector.

Upstream deals continue to account for the majority of oil and gas transactions, with 128 deals worth \$63bn so far this year. The larger upstream transactions were centered on longer term plays in strategic territories and included BP's gas asset deal with Reliance in India and Petro China's joint venture with Encana in Canada, also for the development of gas assets. Both buyers have been active in recent months and we would expect this trend to continue. KNOC also followed their acquisition of Dana Petroleum with the purchase of a 24% stake in Texas shale assets from Anadarko.

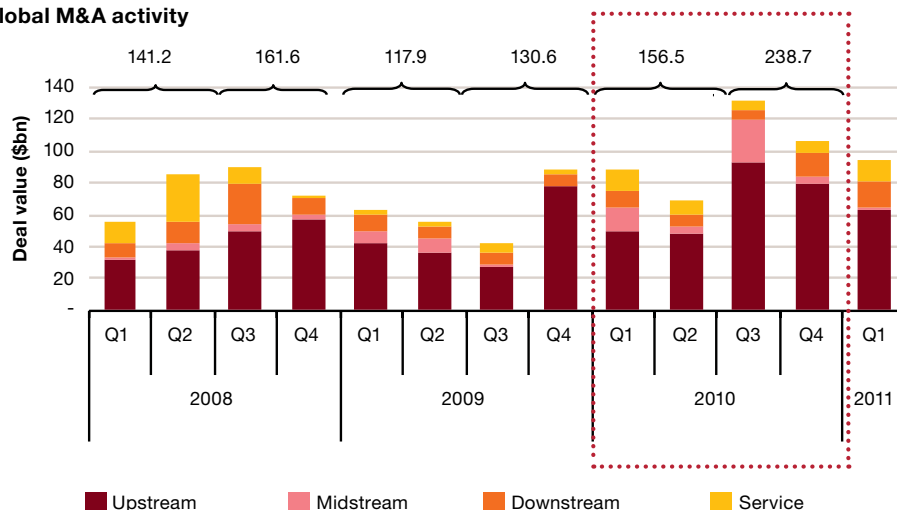
The oilfield services sector also saw a continuation of the big ticket deals that have been a feature of the M&A market over the last couple of years, with Ensco's \$8.7bn acquisition of Pride International resulting in the enlarged group becoming the second largest offshore drilling contractor globally. GE also completed their third deal in the service sector in recent months with their \$2.8bn acquisition of the well services division of Wood Group bringing their cumulative spending across this deal, Wellstream and Dresser, to over \$7bn. Valuation levels are also on the up in the services sector with multiples returning to pre-recession levels.

In the OFS mid market however, deal activity remains under pressure with financing the key constraint. Private equity has yet to make any meaningful return to the sector with the majority of recent deals being done by corporates with strong balance sheets.

So what is the outlook for the remainder of 2011? Barring any shocks to the oil price we would expect 2011 to be a strong year for the sector and current sentiment is positive. In the short term, upstream will continue to focus on deep water assets, US unconventional gas and emerging territories, although activity is also expected in the rationalisation of portfolios in more mature regions. Corporates in sound health will be the short term drivers of M&A as scale remains a key objective for many.

Oil and Gas global deals

Global M&A activity



Notes:

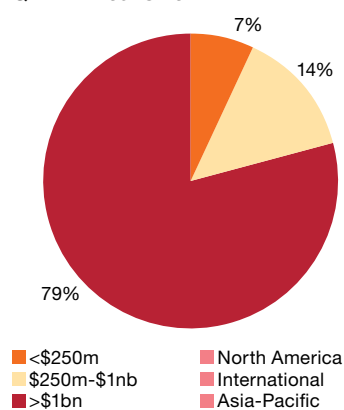
1. Source: John S. Herold, Inc. 'M&A database' March 2011, PwC analysis
2. Deals have been included as at announcement date.
3. The above includes all upstream, midstream, downstream and Oilfield Equipment Services deals as categorised in the John. S Herold database.

Oil & Gas global deals

Number of global deals

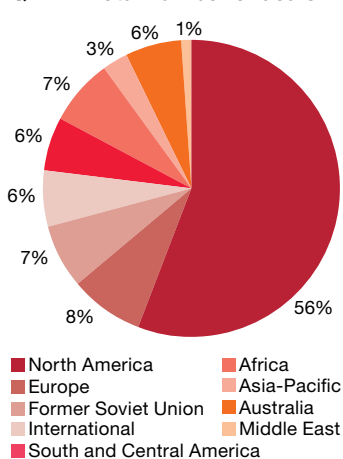
Period rank	Number	Value (\$ bn)	Average value (\$ bn)
Q1 2008	346	55.1	0.16
Q2 2008	328	86.1	0.26
Q3 2008	295	89.7	0.30
Q4 2008	192	71.9	0.37
Q1 2009	144	62.3	0.43
Q2 2009	208	55.6	0.27
Q3 2009	244	42.2	0.17
Q4 2009	251	88.4	0.35
Q1 2010	213	88.1	0.41
Q2 2010	228	68.3	0.30
Q3 2010	181	131.1	0.72
Q4 2010	195	106.6	0.55
Q1 2011	163	94.3	0.58

Q1'11 – Deal size

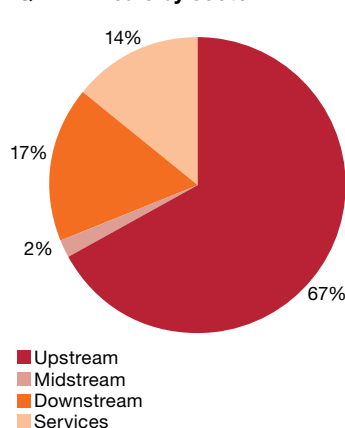


Source: John S. Herold, Inc.
'M&A database', PwC analysis

Q1'11 – Total number of deals

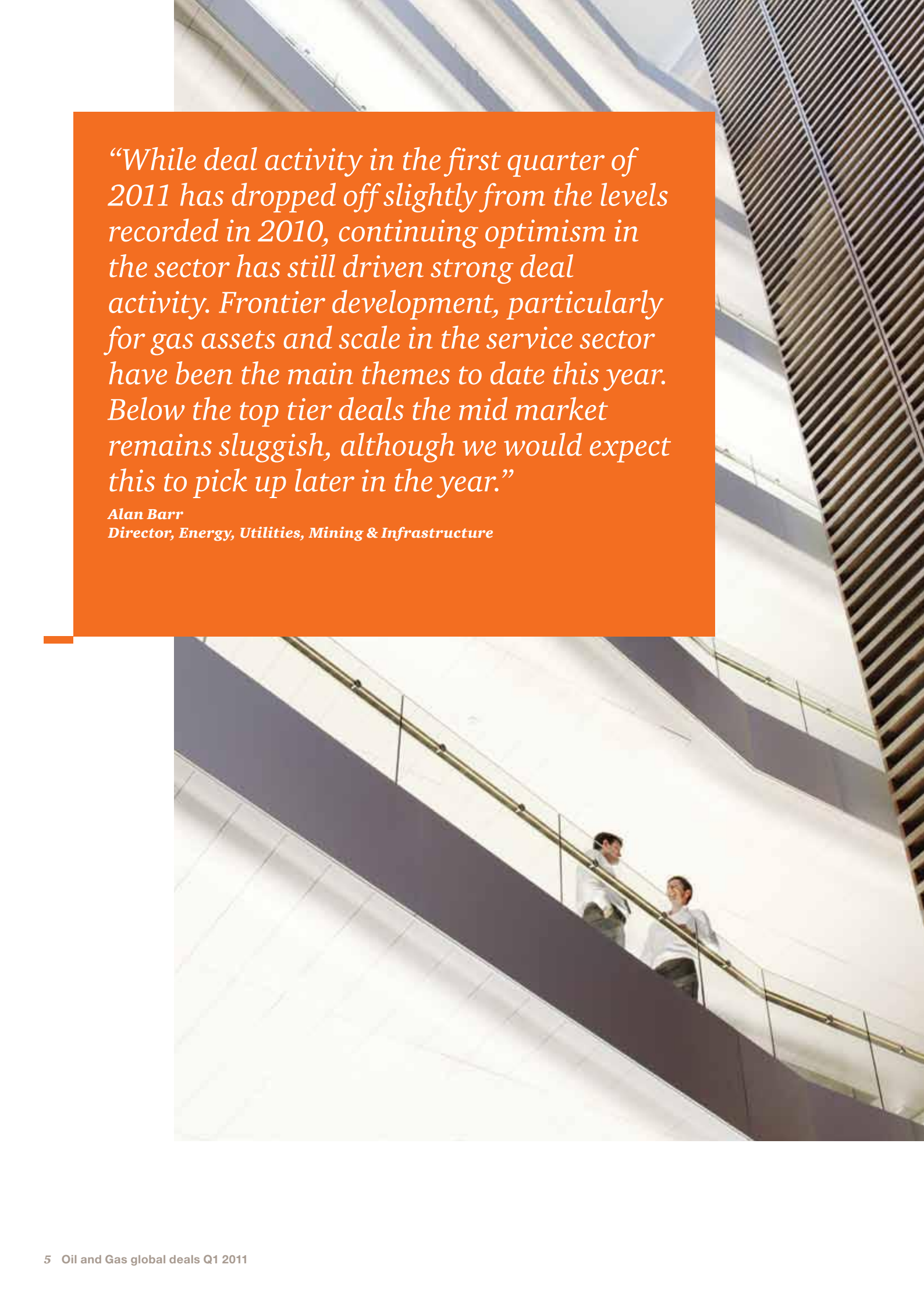


Q1'11 – Deals by sector



Top 10 global deals (Q1'11)

Rank	Buyer	Territory	Seller(s)	Territory	Value \$bn	Sector
1	Berkshire Hathaway	United States	Lubrizol Corporation	United States	8.9	Downstream
2	EnSCO plc	United States	Pride International Incorporated	United States	8.7	Oilfield Equipment Services
3	BP plc	Europe	Reliance Industries Limited	Asia	7.2	Upstream
4	PetroChina Company Limited	Asia	Encana Corporation	Canada	5.4	Upstream
5	International Petroleum Investment Co	Middle East	Total SA	Europe	4.8	Integrated - sale of CESPA
6	BHP Billiton Group	Australia	Chesapeake Energy Corporation	United States	4.8	Upstream
7	Total SA	Europe	Novatek OAO	Former Soviet Union	4.1	Upstream
8	General Electric Company	United States	Wood Group	United States	2.8	Oilfield Equipment Services
9	Holly Corporation	United States	Frontier Oil Corporation	United States	2.7	Downstream
10	Korea National Oil Corporation	Asia	Anadarko Petroleum Corporation	United States	1.6	Upstream



“While deal activity in the first quarter of 2011 has dropped off slightly from the levels recorded in 2010, continuing optimism in the sector has still driven strong deal activity. Frontier development, particularly for gas assets and scale in the service sector have been the main themes to date this year. Below the top tier deals the mid market remains sluggish, although we would expect this to pick up later in the year.”

Alan Barr
Director, Energy, Utilities, Mining & Infrastructure

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