Mergers and acquisitions activity within the global power, utilities and renewable energy market

Power & Renewables Deals
2014 outlook and 2013 review

US$141.0bn

Worldwide power and renewables deal value down 10% year on year

36%

Asia Pacific buyers account for the biggest share of activity

25%

Increase in renewables deal value

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Introduction

Welcome to our 2014 Power and Renewables Deals outlook. It is the latest in our annual series in which we look at mergers and acquisitions activity in the power utilities sector.

We start the report with a look at some of the main themes that will drive deal activity in the year ahead. Mergers and acquisitions activity is taking place against a backdrop of transformation in the sector. This is influencing deal activity and we are seeing shifts in ways of financing, shifts in participation in the sector as well as M&A strategies that reflect the changing business strategies that companies are deploying in response to transformation. Participation in the sector continues to widen with the attractions of contracted or regulated returns pulling in a wide range of buyers.

On the following pages we highlight the key developments that are likely to characterise 2014 M&A activity in the sector worldwide. We also look at the main deal hotspots which provide particular deal opportunities as well as reviewing who is doing what and where. We conclude the report with a look at activity in the main regions of the Americas, Asia Pacific and Europe.

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2014 deal outlook: momentum shifts towards the upside

The power utilities sector is experiencing a period of huge transformation. Technology, finance and politics are all sources of disruptive change hitting the industry and this has been among the factors weighing on deals in 2013. Many uncertainties remain as we move into 2014 but we also see some encouraging trends that lead us, on balance, to anticipate upward deal momentum in the year ahead. In this section, we look at the influences on deals and specific expectations for power and renewables deal activity. In the later regional sections, we examine the deal outlook in each region.

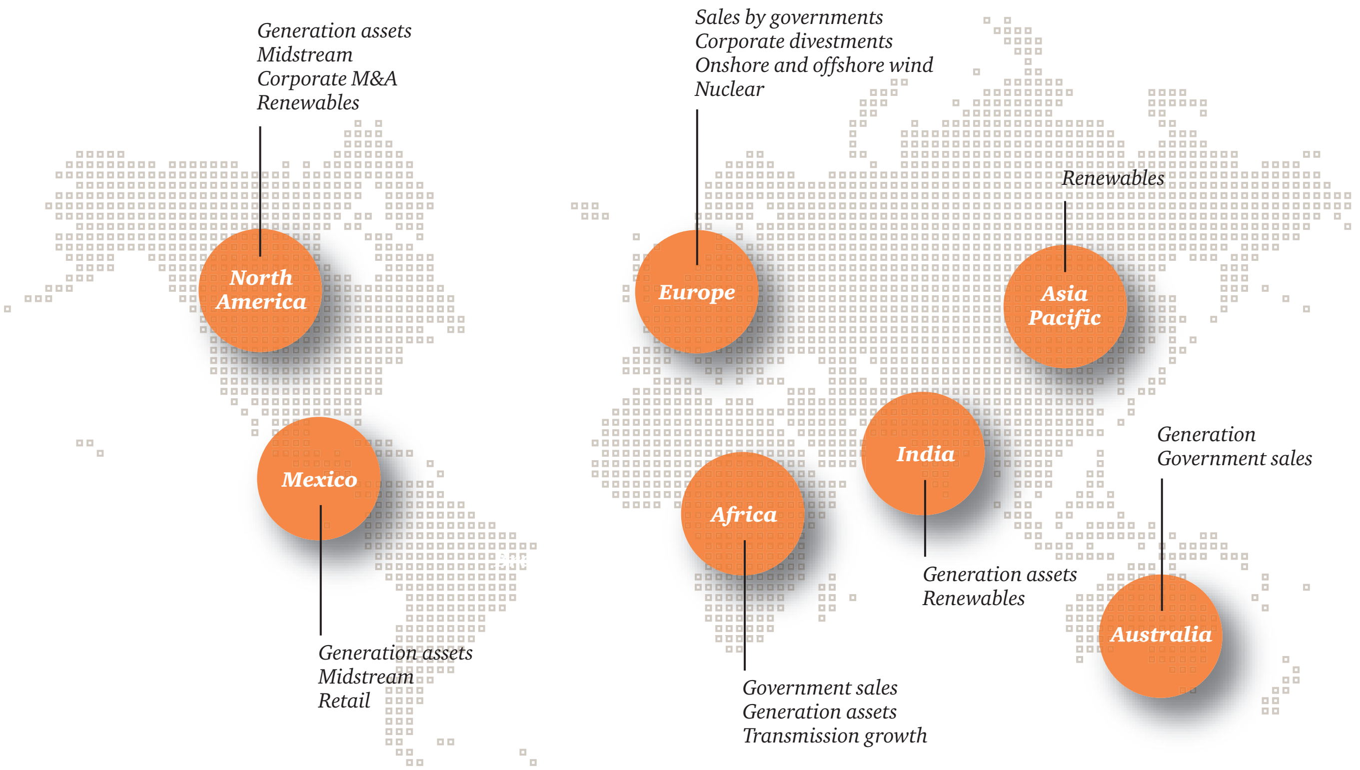
The role of governments and energy politics

Energy politics are intensifying with, in some cases, profound effects, particularly in Europe. In the UK power prices have become a political battleground and the focus of renewable energy growth has switched from onshore to offshore, partly in response to planning protests. Spain is experiencing a testing overhaul of many aspects of energy policy. Examples outside of Europe include price reforms in Brazil and discussions on renewables targets in Australia, which have given pause for thought among dealmakers. The 'trilemma' between security, affordability and sustainability has become an urgent issue. In Europe twelve leading company CEOs have called for a change of direction in current EU energy policy which they say has led to a "failure in competitiveness, a failure in security of supply and a failure in climate change." Uncertainty on energy reforms and priorities are a factor in investment and M&A caution. In some territories and on some issues there are reasons to expect 2014 will bring greater clarity and confidence, spurring deal activity. But in other cases, question marks remain.

The shift to growth markets

The balance shift to faster growing markets and away from developed markets, particularly Europe, will continue to be an important contributor to M&A activity. This trend is widening out to encompass a broader range of countries. Progress on the energy reforms passed by Mexico's lower house in Congress will be viewed with interest by international investors and corporates, eyeing the opening up of retail electricity sales. Also, increasingly, frontier markets are likely to be a focus for investment. GDF Suez, for example, is seeking to accelerate activities in countries such as Vietnam and recently signed a memorandum of understanding for the development of renewable power projects in Mongolia. Chinese power companies and Japanese trading houses are already very active in sub-Saharan Africa. Investment in such markets is often in the form of project development finance rather than through M&A. But reforms such as those in Nigeria could eventually lead to wider M&A involvement if international investors become sufficiently reassured about the new market and regulatory environment.

Figure 1: Global deals outlook and opportunities – areas of activity



Source: PwC, *Power & Renewables Deals*

The investor search for yield

The thirst of investors for yield continues unabated. The steady, long-term returns available from regulated assets in the power utilities sector are attractive to investors, particularly in a low interest environment. Network assets have been a focus in the last few years. Now, financial investor interest is moving beyond network assets into generation. Recently, for example, one of Japan's biggest pension funds, alongside Canadian pension interests and other investors, bought into the Midland Cogeneration Venture (MCV), a US$2bn electricity plant in Michigan, US. In the renewables sector, we have seen an increasing number of investment yield vehicles and holding companies designed to give investors access to portfolios of longer term contacted assets, renewables in particular. We see no letup in such investor interest in 2014. But outside of the renewables space, it is a crowded market with a shortage of the right kind of power utility assets becoming available with long-term regulated or contracted returns.

Value flows from co-investment structures

Corporates are exploring different options for how they can best realise value from assets. For example, European utility company E.ON's investment strategy talks about "less capital, more value" and states: "Our capital will serve as an enabler, allowing us to focus on processes that create the most value. We'll design partnerships that require less than full ownership and that enable each partner to contribute what they do best."[1] Co-investment structures often involve minority stakes with financial investors, in some cases, actually preferring not to take control. Indeed, because of that preference sellers are sometimes gaining more value than if they had sold a majority stake. Another approach is to structure deals so that the investment partner is the asset owner and the power utility company is the asset operator. For example, in December 2013 GDF Suez announced a deal whereby Crédit Agricole Assurances (CAA) takes a 50% stake in the GDF Suez subsidiary Futures Energies Investissement Holding (FEIH). The deal provides a route for Crédit Agricole Assurances to pursue infrastructure investments with GDF Suez remaining in charge of the development, construction and operation of present and future wind farms.

Changing gas economics creating opportunities

The advent of shale gas is changing the economics of the gas energy landscape. The impact on the power market is reaching far beyond North America. Declining US gas prices have increased the volume of exported coal and the dynamics of global liquefied natural gas (LNG) trade. The effect on lower European coal prices has made coal a higher margin fuel source than gas and left many gas-fired plants in Europe on the sidelines. In the US, lower gas prices have not automatically translated into profitability for gas-fired plant with other factors impacting plant economics, primarily general market oversupply. Uncertainty always brings deal opportunities for buyers anticipating that such assets will become more economic. In the US, we expect to see growing interest in any available gas generation assets. In Europe, we have seen some isolated deals with investors such as Macquarie snapping up power plant assets, although most owners have sat tight during the distress period, some with the help of refinancing. Longer term, gas could provide a sweet spot in the marketplace. We also expect continued interest in pipeline assets. In the US there is activity around master limited partnership (MLP)

1 E.ON website, investors section.

ownership of pipelines and spin-offs of pipeline assets into MLPs by exploration and production owners. Also, displacement of LNG cargoes from the US will create investment, and potentially M&A, opportunities in both the liquefaction and regasification sides.

Anticipating implication of competitive reviews

Energy is in the public eye in many countries and governments have either embarked on changes in policy or possible reforms are in sight. Power utility companies are used to managing political and regulatory risk. Part of this is making a judgment on whether it makes sense to make M&A moves to fit with business goals in advance of any reforms rather than wait and make changes in response to regulation. In the UK, for example, the political debate about energy pricing has been intense and the separation of retail from generation is an option favoured by the main opposition party. If the likelihood of such moves rises up the agenda, then it might increase the possibility of advance M&A moves by companies to migrate to different parts of the value chain and divest generation or retail.

Return of mega-merger potential in the US

Big deal activity between US corporates has been on the back burner as some of the leading players focused on integrations following a wave of mega deal activity in 2010 and 2011. But with much of the regulatory hurdles and bedding-down of the previous wave of deals completed, corporates will be returning to the deal table. The timing is now right for a pick-up of deals for smaller utility targets and possibly larger integration deals.

Natural resource players look to move downstream

There are signs of natural resource companies moving downstream to gain a presence in the power markets for their resource production. Gazprom has long shown an interest in diversifying into end markets and has minority ownerships as well as its own marketing operations in a number of European countries. Its 2013 US$3.8bn purchase of Moscow Integrated Power Company was a significant move downstream. In Asia, the world's largest coal distributor, China's Shenhua Group, took part in the early stages of the sale of Australia's Macquarie Generation before withdrawing. It already has power station interests in China but this would have been its first foreign downstream move. Shenhua Group sets itself a future goal of "building an internationally competitive and first-class coal and energy enterprise" and says it will "make full use of the group's advantage of the integration of mine, power (and other activities)."[2]

Asia Pacific go-abroad activity remaining strong

International moves by Japanese trading houses, Chinese state-owned enterprises and Aesean companies remain a strong feature of the power utilities sector. Targets in the Asia Pacific region, in North and South America and in Europe are on their radar. In all territories, caution is a watchword and companies are taking their time over deals. But we are seeing a notable flow of acquisitions (see regional sections) by Chinese state-owned enterprises like State Grid Corporation of China and China Southern Power Grid, and this is likely to continue to be the case in the year ahead.

Renewables deal flow trending upward

We see the underlying upward trend in renewables deals that characterised the last twelve months continuing into 2014. In Europe, the volatility that characterised government policy support in the last few years is subsiding with some of the key issues starting to be resolved, although country by country variances remain. In all of the main regions there is a flow of deals arising from completed projects as developers sell to recycle finance into new projects. Renewable power is a major source of yield for investors in the sector as evidenced by Berkshire Hathaway's US$2bn solar investment in the US (see later regional section). Despite some uncertainties arising from possible revisions to renewable energy targets in Australia, an increasing focus on renewables in countries such as India, Japan and China should enhance the long-term outlook for renewable assets in the Asia Pacific region as a whole. We are also seeing some signs of take-off in renewables investment in Africa.

Capital market conditions encourage sellers

Capital markets are providing a much better environment for both private placements and public offerings than even just a year ago. The appetite shown by investors, for example, for the private placement by the state of part of Italian power grid operator Terna and the successful public float of Infinis by private equity seller Terra Firma in the UK provided examples of an upturn in market conditions during 2013. Market volatility can't be ruled out but increased confidence is continuing into 2014 and is likely to encourage sellers, both private and state. Already, on the state divestment list, there is significant deal activity for power assets lined up in a number of countries including the UK, Australia, New Zealand and Poland.

Disruption and transformation of the power utility business model

The traditional power utility business model is under pressure. In parts of Europe, baseload power generation from gas and nuclear no longer makes economic sense for utilities. In countries from the US to Japan there is a big focus on electricity self-generation 'behind the meter'. Companies are increasingly recognising that to stay profitable and succeed in the period ahead, they will need to adapt their business models to a power environment transformed by changes such as decentralised power, technological changes and customer own-generation. The shift to growth markets is one response to this. Other responses include a greater emphasis on higher margin activities such as trading and the provision of energy services to customers with the latter reflected in a flow of smaller M&A deals by power utilities to strengthen their energy services positions. While not necessarily having a big impact on 2014 deals, the influence of these changes is being increasingly felt and is an important long-term consideration affecting deal strategies.

2 Shenhua Group company profile.

Deal flow: deals take a downward turn

Total worldwide power and renewables 2013 deal value was down 10% year on year, falling to US$141.0bn (figure 2). Deal numbers were also down, by 6%, and there was also a big fall in the total value coming from gas deals, down 38%. In contrast, both the total value and number of renewable power deals rose. Renewables deal value was up by 25% year on year, from US$17.5bn in 2012 to US$21.9bn in 2013.

The 2013 total remains firmly in the range established since the post financial crisis low of 2009 (figure 3). And, as in other years since the financial crisis, domestic deals dominated, accounting for 66% of the value of all non-renewable electricity and gas deals. But there was an upturn in international deals, with their share rising from 25% to 34% of total deal value. Nonetheless, much of the focus continues to be on deals closer to home as many companies in mature markets reign in all but the most strategic international expansion ambitions and concentrate on balance sheet constraints and the demands of capital investment programmes.

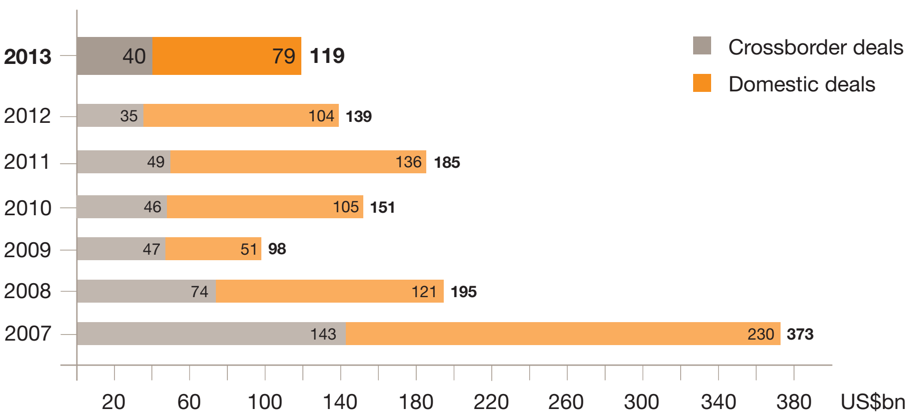
The upturn in deals for renewable power targets comes with the sector seeing a steady flow of deals as power utility companies seek to capitalise on renewable economics. The sector is also attractive to financial buyers because of the predictable returns that flow from completed projects with long-term contracts or regulated returns. But the total US$21.9bn of renewable power deal value was not enough to match the US$26bn total reached two years earlier, in 2011.

Figure 2: All electricity, gas and renewables deals by value (US$bn) – 2012 and 2013

		2012		2013		Change in 2013	
		Number	Value	Number	Value	% number	% value
Total deals		**1,062**	**US$156.3bn**	**997**	**US$141.0bn**	**(6)%**	**(10)%**
of which:	Electricity	399	US$91.7bn	374	US$90.1bn	(6)%	(2)%
	Gas	194	US$47.1bn	140	US$29.0bn	(28)%	(38)%
	Renewables	469	US$17.5bn	483	US$21.9bn	3%	25%

Source: PwC, *Power & Renewables Deals*

Figure 3: Electricity and gas sector deal activity (US$bn)



Source: PwC, *Power & Renewables Deals*

Deal makers: who's doing what

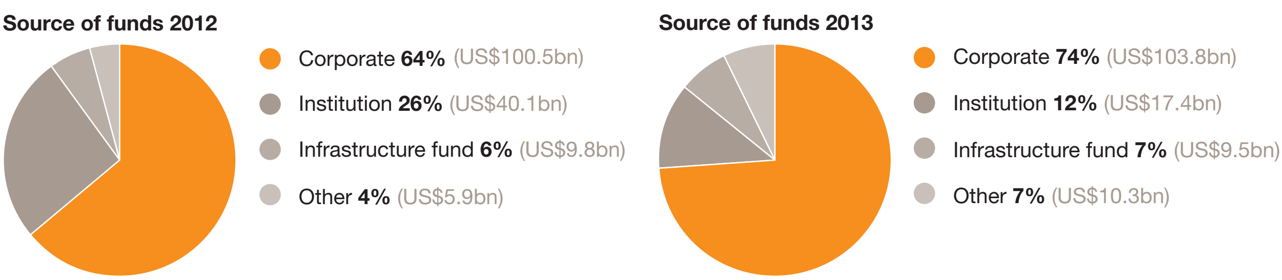
The diversity of M&A investment in the power sector continues. The share of corporate buyers was up significantly year on year, from 64% to 74% of deal value (figure 4). Acquisitions by buyers such as insurance funds, pension funds, sovereign wealth funds and others who are not corporates within the sector continue to remain significant.

These 'non-corporate' buyers are featured in many big deals. Although not so visible in the top five (figure 6), 10 out of the 30 deals in 2013 worth US$1bn or more had 'non-corporates' on the buy side, a 33% share. This compares with nine out of 31, a 26% share, in 2012.

On the face of it there are big year on year changes in the amount of deal value accounted for by buyers in the 'institution' and 'other' categories. Some of the fall in the 'institution' total is accounted for by fewer big deals involving state institutions on the buy-side. In 2012, US$12.5bn of the US$40bn 'institution' total was from the Japanese government's nationalisation of the Tokyo Electric Power Company. There was also the US$4.4bn Italian state development bank acquisition of a stake in Snam that year and other activity involving sovereign wealth funds.
The 'other' category tends to be volatile and was boosted in 2013 by four 'US$1bn plus' deals in 2013 compared with just one in 2012.

The top five deals table shows the wide geographic range of top deals. Chinese and American buyers are prominent with the former focused on targets in Australia and Hong Kong and US buyers focused domestically.
In addition, there is the privatisation of Moscow Integrated Power Company.
We discuss these deals and other deals in the regional sections that follow.

Figure 4: Institutional and infrastructure bidder activity
(Deal value shown in parenthesis)



Note: Corporate includes energy and power and utility companies; Institution includes pension funds, insurance funds, mutual funds, sovereign wealth funds and banks, etc.; Infrastructure fund includes specialised infrastructure funds and private equity funds; Other comprises sovereign state, market purchase, private investor, non-disclosed acquirers, management buy-out, etc.
Source: PwC, *Power & Renewables Deals*

A third of the 30 deals in 2013 worth US$1bn or more had 'non-corporates' on the buy side.

Figure 5: Who's investing and why?

Who	Level of activity	What are their aims?	Examples
Chinese state-owned enterprises	High	• Long-term growth • Leveraging supply chain • Funding development	State Grid, China Southern Power
Sovereign wealth funds	Medium	• Long-term strategic investment	Government of Singapore Investment Corporation, Qatar Investment Authority, Abu Dhabi Investment Authority
Infrastructure funds	Medium	• Stable long-term investment • Controlling positions preferred • Yield and growth	GIP, Hastings, First State Investments
Pension & insurance direct investors	High	• Stable long-term investment • Minority positions acceptable • Yield and growth	Canadian Ontario Municipal Employees Retirement System (OMERS), Allianz Capital Partners, Pension Fund Association (Japan), Borealis Infrastructure
Investment holding companies, investment banks and other institutional investors	Medium/High (Increasing)	• Stable long-term investment • Yield and growth	Berkshire Hathaway, Goldman Sachs
Japanese trading houses	Medium	• Financial investment and operations • Geographic diversification	Mitsubishi Corporation, Mitsui & Co, Marubeni Corporation
Domestic corporates (excl. China state-owned)	Low/Medium (Increasing)	• Consolidation and synergies	NRG Energy, Gazprom

Source: PwC, *Power & Renewables Deals*

Figure 6: Top five – power deals 2013

No.	Value of (US$bn)	Date transaction	Target name announced	Target nation	Acquirer name	Acquirer nation
1	10.4	29 May 13	NV Energy Inc	United States	Berkshire Hathaway Inc	United States
2	7.5	16 May 13	SPI (Australia) Assets Pty Ltd (60%) and SP AusNet Ltd (19.9%)	Australia	State Grid Corp of China	China
3	4.2	18 Oct 13	Edison Mission Energy	United States	NRG Energy Inc	United States
4	3.9	19 Nov 13	Castle Peak Power Co Ltd (CAPCO) (60%)	Hong Kong	China Southern Power Grid Co Ltd (30% / 30%); CLP Holdings Ltd	China
5	3.8	13 Aug 13	Moscow Integrated Power Co OAO – MOEK (89.9754%)	Russian Federation	Gazprom OAO	Russian Federation

Source: PwC, *Power & Renewables Deals*

Figure 7: Top five – renewables deals 2013

No.	Value of transaction (US$m)	Date announced	Target name	Target nation	Acquirer name	Acquirer nation
1	2,000	02 Jan 13	Power Station (Antelope Valley Solar Project)	United States	Berkshire Hathaway Inc	United States
2	900	26 Sep 13	PPL Montana hydroelectric facilities	United States	Northwestern Corp	United States
3	774	27 June 13	Kraftgarden AB (25.673%)	Sweden	Kymppivoima Oy; EPV Energy Ltd; Helsingin Energia Oy	Finland
4	719	10 Sept 13	London Array Ltd (Offshore Electricity Transmission Asset)	United Kingdom	Mitsubishi Corp; Barclays plc	Japan
5	615	8 Aug 13	Renova Energia SA (Stake%)	Brazil	Companhia Energetica de Minas Gerais – CEMIG	Brazil

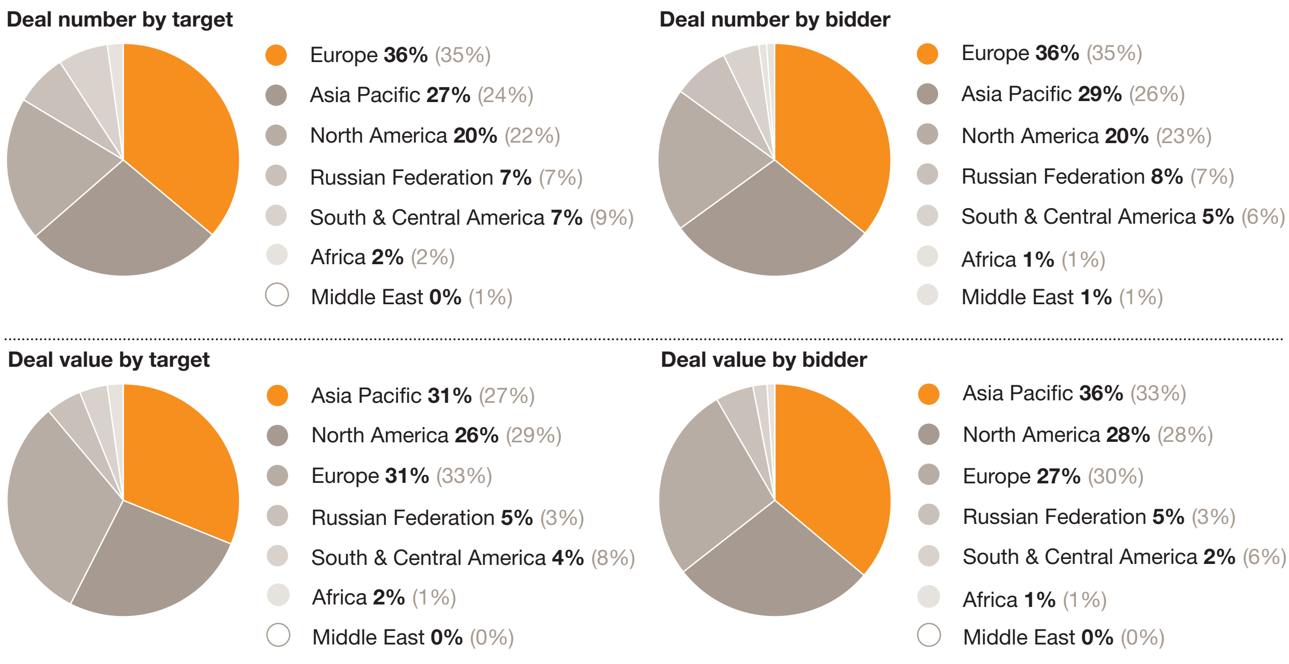
Source: PwC, *Power & Renewables Deals*

Deal places: regional analysis

Europe leads the way in terms of the number of deals but it is Asia Pacific buyers that are firmly in front as measured by the value of deals. Asia Pacific bidder activity as a share of all worldwide power deal value rose from 33% in 2012 to 36% in 2013 with the share of target value coming from the region rising from 27% to 31%.

A continuing predominant global trend is outbound activity by Chinese power companies, Japanese trading houses and Korean companies, both within the wider Asia Pacific region and further afield in the Americas, Europe and, increasingly, in Africa. Africa is a growing focal point for power deals as well as capital project investment. For example, Korea Electric Power Corporation was a buyer in Nigeria in 2013, acquiring a 70% stake in the Egbin power plant from the Nigerian government in a US$407m deal. The deal was part of the privatisation and wider reforms of the power sector taking place in Nigeria. African deal value trebled year on year between 2012 and 2013, albeit from a low base (figure 9). The region needs 250GW of new generation by 2030, much of which will need to come through commitments from and partnerships with other continents.

Figure 8: 2013 deal percentages by continent
(2012 percentages shown in parenthesis)



Source: PwC, *Power & Renewables Deals*

Figure 9: Deals involving African buyers or targets

Value of deals (US$bn)	2012	2013	% change
By target	1.0	3.3	223%
By bidder	0.8	2.1	151%

Number of deals	2012	2013	% change
By target	18	20	11%
By bidder	12	14	17%

Source: PwC, *Power & Renewables Deals*

The Latin American deal spotlight is likely to turn to Mexico in 2014.

Americas

Deal activity in the Americas has been steady rather than spectacular after some significant deals in earlier years. But after a period of bedding-down of deals and getting them through the various regulatory hurdles, we anticipate an upturn in deals in 2014. In North America, for example, a significant wave of power M&A took place in 2011 with US$107bn of targets in electricity and gas alone compared with US$30.0bn in those segments in 2013 and a further US$6.6bn in renewables.

With earlier deals under their belts, we expect the appetite of corporate buyers for larger deals to return in the year ahead. With companies under rate pressure and having spent a considerable amount of time taking cost out of their businesses, acquisitions are a timely route to finding synergy cost savings and maintaining earnings and dividend growth. We anticipate a return of mega-mergers in the US$5bn plus bracket and an upturn in the acquisitions of utilities in the sub US$5bn market capitalisation range.

A strong US deal outlook

This is likely to make for a strong US power and renewables deal market in 2014 when combined with a continued shedding of non-regulated assets by hybrid utilities, a continued need for regulated utilities to find cost savings, and a desire for yield driving renewable transactions including YieldCo IPOs and strong inbound interest. Inbound interest has come in the shape of Canadian, Japanese and Australian financial buyers searching for yield and Canadian power companies extending south. Inbound buyers have largely been frustrated in 2013 with a shortage of targets but we are seeing considerable continued interest. 2013 ended with the announcement of Fortis, Canada's largest investor-owned power utility, bidding US$2.5bn for Arizona-based UNS Energy Corporation.

The two biggest 2013 deals in each of the mainstream power and the renewables sectors both came from investments made by MidAmerican Energy Holdings, a subsidiary of investor Warren Buffett's Berkshire Hathaway investment company. "Consistent earning power" is a mantra for the Buffett investment strategy with the long-term regulated returns available in energy a favoured target. MidAmerican bought NV Energy in a deal worth US$10.4bn, adding 1.3 million Nevada customers to its existing 7.1 million customer base.

In a similar vein, Berkshire Hathaway demonstrated its view on the economics of renewable energy by acquiring two California solar projects from manufacturer and developer SunPower for US$2bn. Projected for completion by the end of 2015 and with a capacity of 579MW, the projects are described by MidAmerican as "the world's largest solar power development under construction."

Regulatory ups and downs

The experience of Entergy and ITC highlights the difficulties in the way of deals to separate and divest electricity networks in the US. The two companies had to terminate their pursuit of a spin/merger of Entergy's transmission business with ITC in the face of regulatory pressure. But a recent Federal Energy Regulatory Commission order (FERC 1000), designed to encourage a more coordinated build-out of new transmission lines, looks set to stimulate power utility companies to form transmission partnerships to compete on projects.

Gas pipeline assets continue to provide a number of deal opportunities, with acquisitions by master limited partnerships (MLPs) and some spin-offs. A move to extend MLPs to renewable energy projects is receiving bipartisan support and, if enacted, could spur investment in deals for wind and solar generation.

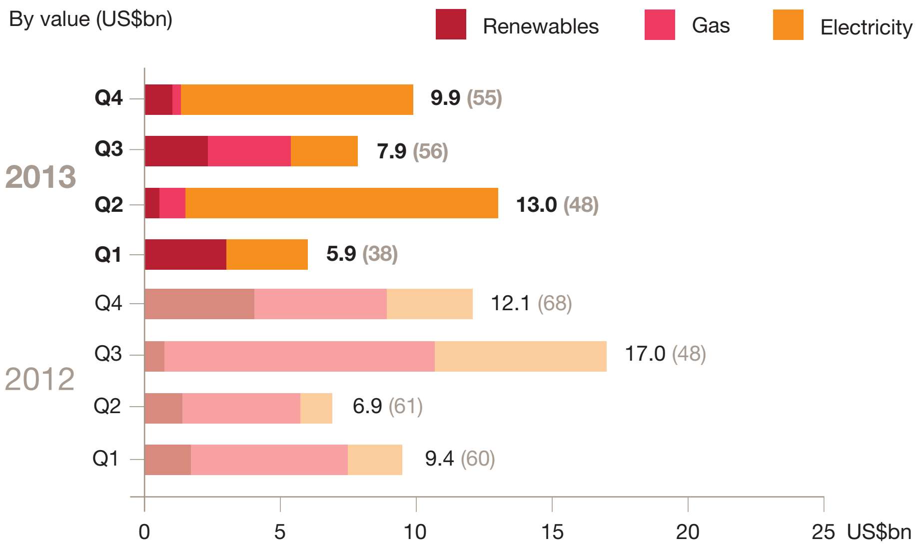
Latin American spotlight turns to Mexico

The trend in South America has also been steady after a significant recent deal peak in 2012. The total value of deals for South American power and renewables targets has halved year on year, down to US$5.8bn in 2013 from US$11.7bn in 2012 when the total was buoyed by big inbound purchases by State Grid Corporation of China and E.ON as well as deals by regional players. Inbound investment is likely to continue to be significant. State Grid, for example, has said it plans to invest US$10bn in Brazil in the period to 2015.

But electricity market price reform has slowed deal activity in Brazil. With elections ahead in 2014, dealmaking is likely to remain at a relatively low level. A market downturn has also put pressure on Brazilian power utility companies. One electricity distribution utility group, Rede Energia, has filed for bankruptcy and a sale is likely. The scope for consolidation is considerable, particularly in distribution.

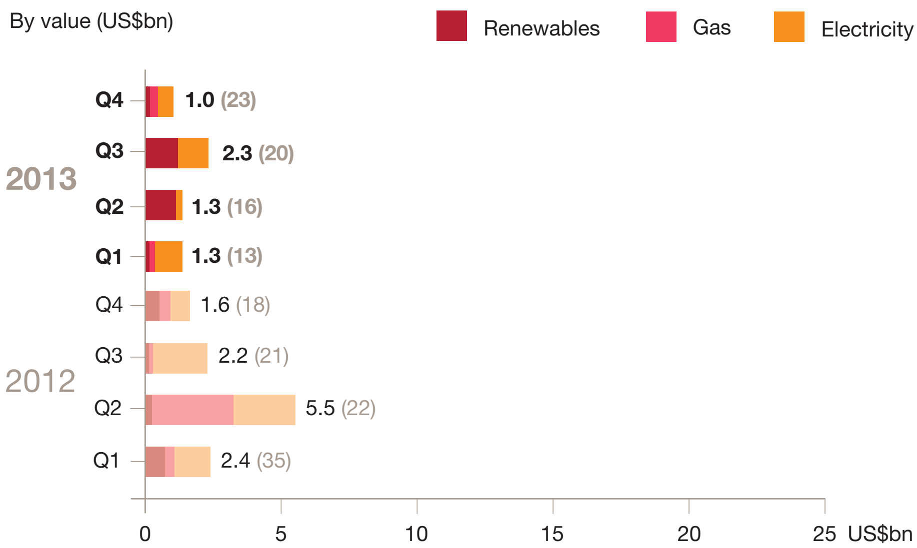
The Latin American deal spotlight is likely to turn to Mexico in 2014 where energy market reforms are set to stimulate interest from foreign investors. Foreign private investment is already significant with, for example, the presence of companies such as Spain's Iberdrola and Unión Fenosa and Japan's Mitsubishi. But electricity sales have had to be channelled through the state-run electricity monopoly. That is set to change with companies able to sell direct to customers.

Figure 10: North America quarterly tracking of deals – 2012 and 2013
(Number of deals shown in parenthesis)



Source: PwC, *Power & Renewables Deals*

Figure 11: South & Central America quarterly tracking of deals – 2012 and 2013
(Number of deals shown in parenthesis)



Source: PwC, *Power & Renewables Deals*

Looking ahead over the next year, we expect to see continued power deals momentum in the region.

Asia Pacific

Asia Pacific power and renewables dealmaking continues on an upward trajectory, driven by strong deal dynamics in many parts of the region and continued worldwide expansion appetite. Deals for Asia Pacific targets rose 6% year on year from 2012 to 2013 while target deal value was also up 6%, from US$41.7bn to US$44.3bn.

Three quarters of Asia Pacific 2013 target deal value stemmed from non-renewable electricity deals. But it was growth in the total value of gas deals, up from US$2.8bn to U$5.8bn year on year, and renewables, up from US$3bn to US$4.8bn, that drove the year on year increase. The number of deals involving Asia Pacific buyers rose by 4%, with total deal value staying fairly constant at US$50.2bn from US$50.9bn the year before.

Momentum set to continue

Looking ahead over the next year, we expect to see continued power deals momentum in the region. In Australia, for example, improved equity market conditions have encouraged the environment for IPOs and 'scrip for scrip' deals. And, in power and utilities, 2013 ended with the announcement of a predominantly scrip takeover of gas distributor Envestra by APA Group, Australia's largest transporter of natural gas.

The deal environment varies considerably in different countries in the region. Both India and Australia, for example, face difficult market conditions. In India, coal shortages and a hiatus in policy progress on important market issues are stalling deal potential. Elections in 2014 will create a further delay in any deal momentum. In Australia, the environment for deals is much more promising but power generation companies are having to manage difficult trading conditions arising from a softening of demand against a 20% renewable energy target and the increased impact of distributed generation, particularly solar PV.

The outlook for renewable energy dealmaking in Australia is somewhat clouded by the proposed cessation of the carbon tax; the impact of reduced energy demand; and an upcoming review and possible reduction of renewable energy targets. But there are indications that renewable energy investment by financial investors in other countries, such as Japan and India, is picking up. For example, Goldman Sachs extended its investments in Indian windpower during the year and was reported as planning to invest up to US$487m in renewable energy projects in Japan in the next five years. The Chinese Government's policy emphasis on clean energy may also spur renewables deal activity in China.

Government divestments

Capital recycling by governments is expected to be a contributor to deals in the coming period. As we move into 2014, the New South Wales government in Australia is in the final stages of selling the largest state-owned generator, Macquarie Generation, in order to raise funds for infrastructure investment. Initial interest in the sale came from the Chinese state-owned mining and energy company Shenhua Group, AGL Energy and Queensland-based ERM Power.

Following the 2013 sales of New South Wales state-owned Delta Electricity's Mount Piper and Wallerawang power stations to Energy Australia for US$438.5m and Eraring to Origin Energy, there are plans to sell Delta's power stations at Vales Point and Colongra during 2014. In Western Australia, the government is going into 2014 state elections on a promise of no asset privatisations but a number of contradictory reports have stated that some power sales are likely. Similarly, Queensland is expected to sell its state owned generation. Attention will also turn to New Zealand where the government is looking to partially privatise up to 49% of Meridian Energy via an IPO.

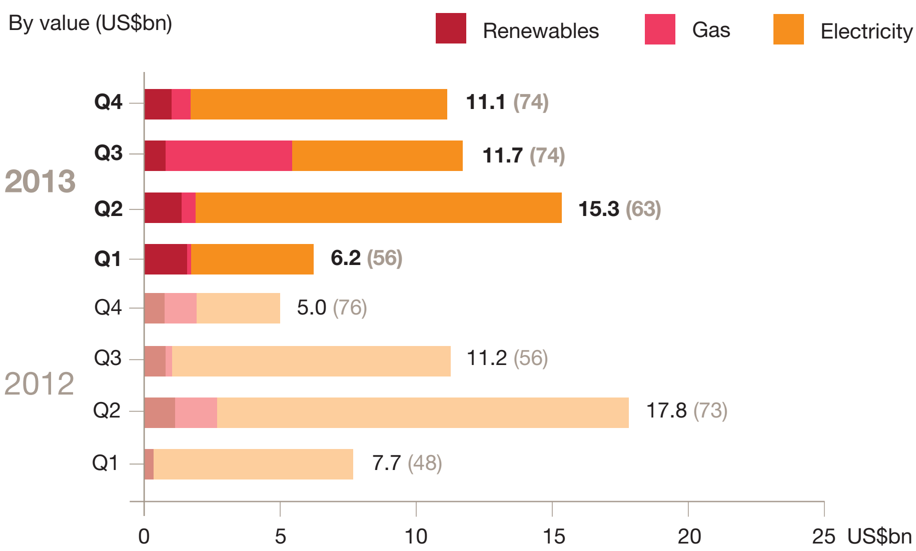
Earlier in 2013, the Indian government continued its divestment of NTPC Limited, the largest state-owned electric utility company in India, with a further 9.5% interest divested to the market in a deal worth US$2.1bn. It is expected that a number of Indian coal based power projects will partially divest as developers seek to raise funds to pay down debt or fund other projects.

International activity intensifies

Australian financial buyers, Japanese trading houses and Chinese and Korean power companies were all buyers of power and renewables assets inside and outside of the region in 2013. 'Out of region' targets were predominantly in Europe and North America but there were also smaller deals in South America and Africa. At the beginning of 2013, State Grid Corporation of China stated that it plans to invest US$30–50bn in overseas assets in the period to 2020.

The largest international transaction was State Grid's US$7.5bn purchase of a 19.9% stake in SP AusNet from Singapore Power International together with a 60% stake in SPI (Australia) Assets Pty Ltd, the latter locally known as Jemena. Both Jemena and SP AusNet operate gas transmission and distribution networks as well as electricity networks. It will be interesting to see whether State Grid might build on this foothold to gain experience in gas networks to sit alongside their core power transmission activity.

Figure 12: Asia Pacific quarterly tracking of deals – 2012 and 2013
(Number of deals shown in parenthesis)



Source: PwC, *Power & Renewables Deals*

The bigger 'out of region' targets for Asia Pacific buyers were predominantly in Europe and North America, with smaller ones in South America and Africa.

The headline deals and trend disguises a lot of big deal activity. Thirteen of the 30 'US$1bn plus' deals in 2013 were for European targets.

Europe

Power and renewables deal activity in Europe dipped in 2013. The number of deals for European targets was down 3% year on year while target deal value was down 16%, from US$52.1bn to US$43.7bn. We have separated out activity in the Russian Federation. Here target deal numbers rose slightly while target deal value was up from US$4.1bn to US$7.3bn. The increase in Russian dealmaking was led by the US$3.8bn sale of just under 90% of Moscow Integrated Power Company to Gazprom as part of Moscow City Government's privatisation programme and the US$1.3bn ownership restructuring of Russian Grids.

Europe no longer has the biggest share of target deal value among the regions. The trend away from Europe is, in part, a reflection of the constraints faced by many European power utility companies and the maturity of the market opportunity in Europe. Corporate buyer activity has been subdued and no European deals were big enough to feature in the 2013 power deals top five (p7).

Strong flow of 'US$1bn plus' deals

The headline deals and trend disguises much important European activity. Thirteen of the 30 '$US1bn plus' deals in 2013 were for European targets, many of them for network assets. Europe is continuing to provide a hunting-ground for acquisitions by insurance, pension fund and other financial investors. The largest 2013 deal for a European target was Fortum's sale of its Finnish power distribution grid, Suomi Power Networks, to a consortium of institutional investors led by First State Investments and Borealis Infrastructure, the investment arm of Canadian pension fund Ontario Municipal Employees Retirement System, in a deal worth US$3.5bn. Fortum is also preparing for a possible sale of its Swedish and Norwegian electricity distribution businesses.

There is a trend towards consolidation of European gas network assets and this gathered pace with the sales of TIGF in France by Total (US$3.3bn) and Net4Gas in the Czech Republic by RWE (US$2.1bn). The sales illustrates the appetite among insurance and financial investors for regulated network assets. For example, the Czech gas grid operator was bought by a consortium of Allianz and Borealis Infrastructure.

The major European power utility companies continue with their divestment programmes and balance sheet restructuring. The second largest 2013 deal saw GDF Suez and E.ON sell their 50/50 jointly held 49% indirect state in Slovak gas operator Slovensky Plynarensky Priemysel to Energeticky a Prumyslovy Holding in a US$3.5bn transaction.

Offshore power positioning

In the renewable power sector, two funds managed by Goldman Sachs and two Danish pension funds acquired a stake in Denmark's Dong Energy. The US$2bn deal will give Goldman Sachs and the two pension funds approximately 19% and 7% respectively of the company. In part it is a play on expansion of offshore wind energy in Europe and a future IPO is planned when conditions are right.

Asia Pacific investors continue to be active acquirers of European power assets. The two largest such recent deals saw Australian infrastructure fund manager Hastings buy Phoenix Gas, a gas distribution network serving Belfast in Northern Ireland, in a US$1.1bn deal; Japanese trading house Mitsubishi formed the Blue Transmission JV (a consortium of Japanese trading house, Mitsubishi and Barclays infrastructure funds) invested in a US$719m deal for subsea transmission cables from the London Array offshore wind project in the UK.

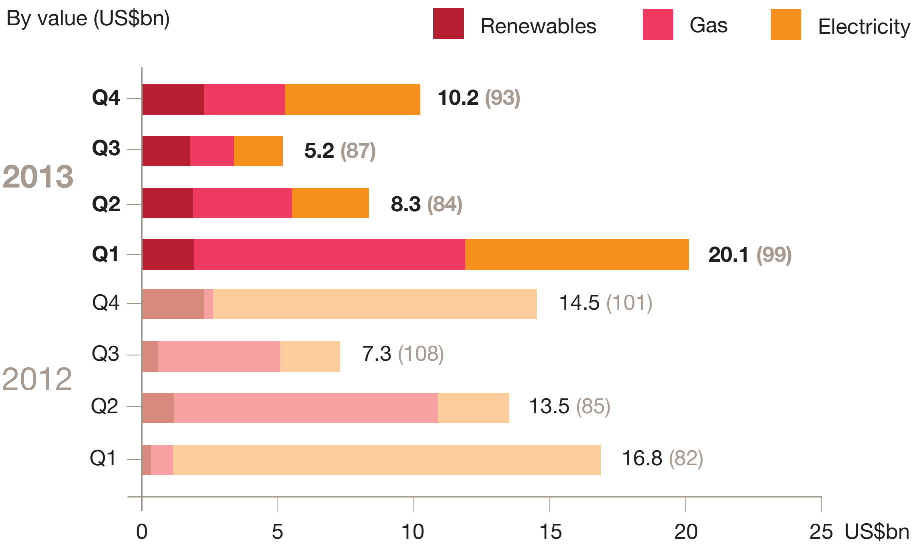
Potential for a deal bounce-back

The recent deal environment in Europe has not been helped by uncertain energy politics, a general election in Germany and intense price politicking in the UK, Spain and many other European countries. Some regulatory and policy issues are likely to remain uncertain but others, such as onshore and offshore wind subsidies in the UK, are nearing resolution. Governments are also moving to address the crucial issue of support for gas-fired generation in the market. Difficult and controversial electricity and gas policy reform in Spain is expected to be finalised in early 2014.

These policy moves are likely to spur dealmaking held back by earlier uncertainty. We have already seen moves in the UK offshore sector. The nuclear sector in the UK is likely to produce major deals. Toshiba-owned Westinghouse has announced the acquisition of Iberdrola's stake in the NuGen nuclear consortium. And the UK government's planned sale of uranium enrichment company Urenco, with other owners, the Dutch government and German utilities, RWE and E.ON, is likely to move forward if political, security and technical concerns can be overcome.

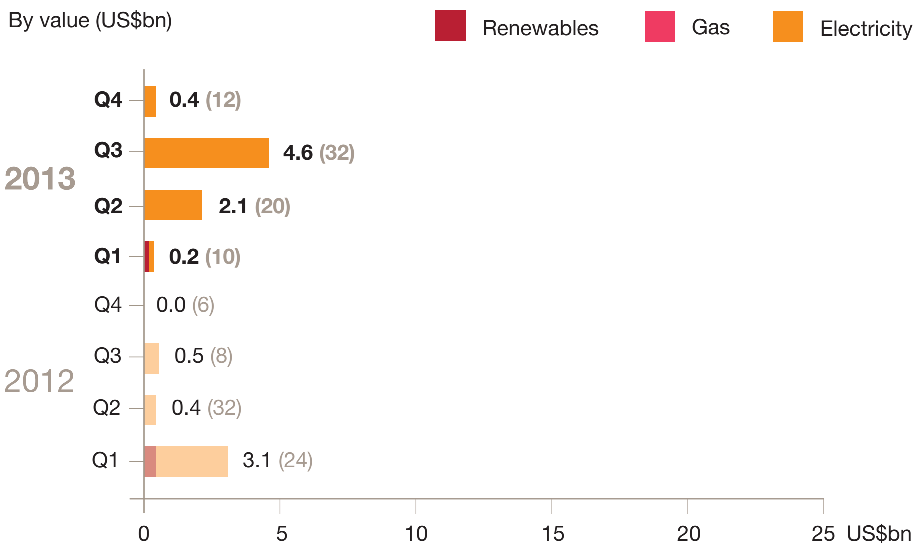
On the divestment front, all eyes will be on E.ON and the rumours about a potential sale of the company's power generation and other assets in Italy. The company is the fourth largest utility in the country and added to its footprint there when it took on a number of Endesa's assets after the Spanish company's takeover by Enel. It is widely reported as having started the process of looking for buyers as it continues the process of reorienting its operations towards growth markets.

Figure 13: Europe quarterly tracking of deals – 2012 and 2013
(Number of deals shown in parenthesis)



Source: PwC, *Power & Renewables Deals*

Figure 14: Russian Federation quarterly tracking of deals – 2012 and 2013
(Number of deals shown in parenthesis)



Source: PwC, *Power & Renewables Deals*

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Methodology

Global Power & Renewables Deals includes analysis of all global power utilities, renewable energy and clean technology deal activity. We include deals involving power generation, transmission and distribution; natural gas transmission, distribution, storage and pipelines; energy retail; and nuclear power assets. Deals involving operations upstream of these activities, including upstream gas exploration and production, are excluded. Renewable energy deals are defined as those relating to the following sectors: biofuels, biomass, geothermal, hydro, marine, solar and wind. Renewable energy deals relate to the acquisition of (i) operating and construction stage projects involved in the production of renewable energy and (ii) companies manufacturing equipment for the renewables sector. We define clean technology deals as those relating to the acquisition of companies developing energy efficient products for renewable energy infrastructure.

The analysis is based on published transactions from the Dealogic 'M&A Global database' for all electricity, gas utility and renewables deals. Deals are included at their announcement date when they are partially completed (pending financial and legal closure) or completed. Deal values are the consideration value announced or reported including any assumption of debt and liabilities. Comparative data for prior years and quarters may differ to that appearing in previous editions of our analysis or other current year deals publications. This can arise in the case of updated information or methodological refinements and consequent restatement of the input database.

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