This EY report examines transactions and market trends in the global power and utilities sector in Q3 2014. It explores the outlook for utilities, investors and sector participants.

Contents
Q3 2014 activity and outlook .... 2
Global snapshot ....................... 4
Spotlight ................................... 6
emerging nations under transactional microscope
Transaction volume and value ... 7
Global contacts ......................... 8

Data source and industry scope
The analysis and perspectives within Power transactions and trends are based on global financial releases and Mergermarket data, as well as global engagements conducted by EY member firms over the period 2012 to 2014. They provide an up-to-date assessment of outcomes and trends in the global utilities industry.

“Power and utilities” covers electricity generation, networks and retail; gas networks and retail; and water wholesale, networks and retail organizations. It also includes renewable energy companies.

Deal activity outpaces 2013

Strong momentum behind merger and acquisition (M&A) activity in the global power and utilities (P&U) sector continued, driving deal value to US$38.6b – the highest third-quarter deal value since Q3 2010. At US$125b, deal value in the nine months to 30 September 2014 already equals 2013’s full-year deal value. This is a positive sign and reflects strong investor confidence in the sector. The trend is reinforced by EY’s 11th Capital Confidence Barometer survey, in which 63% of P&U respondents envisage increases in their deal pipelines over the next 12 months.

Europe continues to be the focal point for global M&A as regulated assets come to the market. Countries like Italy, Greece, Spain and Turkey are making assertive moves to kick off asset disposal and privatization plans in order to raise capital.

Led by independent power producers (IPPs), M&A activity in US generation continues to advance. Dynegy’s acquisition of 12.5GW of assets worth US$6.3b was warmly welcomed by investors, who are sensing a gradual improvement in wholesale electricity prices. As many power plants are retired due to age and environmental liabilities, competition is reduced and power prices bolstered in some regions, prompting investor interest.

Utility divestments are behind a strong deals pipeline in the renewables sector. Historically, Europe and the US have dominated deal activity in the segment, but now new M&A hot spots are emerging. In Sub-Saharan Africa, more capacity will come online this year in non-hydro renewable energy than in the entire period from 2000 to 2013, making it one of the most exciting new markets for renewable energy.

As we move toward 2015, the attractiveness of stable and contracted cash flows from both renewable and regulated businesses will continue to be the key force behind M&A in the sector. We expect the flow of capital to emerging nations to increase as utilities in developed economies look for growth and geographic expansion.

Matt Rennie
Global Transaction Advisory Services Power & Utilities Leader

Key findings, Q3 2014

• At US$38.6b, Q3 2014 saw the highest third-quarter deal value since Q3 2010.
• The quarter saw seven transactions in excess of US$1b, led primarily by IPPs in the US and network divestments in Europe.
• Financial deal value increased 37% compared with Q2 2014, predominantly involving investments in regulated network and renewable energy assets. Large integrated utilities dominated deal activity as they continue to undertake portfolio optimization and seek stable cash flows.
• Renewables deal value reached a three-year US$7.3b high, driven by heightened deal activity in the US. With record wind capacity under construction, the trend is likely to gain momentum.
• Deal activity in water and wastewater treatment jumped significantly. Led primarily by China, deal value more than doubled to US$3.2b, while deal volume increased 53% in the quarter.
Big-ticket privatizations and mergers make Europe an attractive destination for foreign investors

Weak electricity demand, limited near-term capex opportunities and depressed generation profits continue to make business conditions tough for European utilities in 2014. Coupled with increasing pressure to invest in energy infrastructure, this is pushing governments across Europe into asset sales programs and is driving consolidation in their home markets. In July, the board of Italian State lender Cassa Depositi e Prestiti (CDP) approved the sale of a 35% stake in Italian energy-grid holding company CDP Reti to China’s State Grid Corporation for US$2.8b. Greece is close to merging its two largest water utilities and Romania needs annual investment close to US$6.4b over the next 10 years to upgrade its energy system. It is planning initial public offerings of power utilities Complexul Energetic Oltenia SA and Hidroelectrica SA in 2015 as part of its asset-sale program. These announcements are likely to trigger heightened M&A activity in the coming months and will be closely watched by investors across the globe.

Chinese investors seize European sales opportunities and remain front-runners to acquire other prized assets

Since the beginning of the Eurozone crisis, Chinese investors, particularly China’s cash-rich state power groups, have been ramping up their foreign asset portfolios. European power and gas network assets now make an increasingly attractive asset class as their return is regulated by governments, giving investors a predictable source of income even when the economy is struggling. After acquiring a stake in CDP Reti, State Grid Corporation of China and other Chinese firms are said to be looking at Enel’s Romanian and Slovakian power assets, which the utility is seeking to divest. In March, the People’s Bank of China (PBOC) acquired stakes of about 2% in Eni and Enel, worth €1.5b and €825m, respectively. In May, Shanghai Electric Group bought a 40% stake in power engineering company Ansaldo Energia for €400m. And the trend is likely to accelerate as China looks to diversify its investment into hard infrastructure assets.

US generation deal activity continues to gather pace, led by merchant generators

For many integrated utilities, the US market is returning little to no value to their generation businesses. Integrated utilities are trading at an increasing discount to their sum-of-the-parts value, and their price-earnings (P/E) multiple discount continues to widen compared with that of regulated utilities. As a result, many integrated utilities are seeking alternative solutions for their generation businesses. IPPs are viewing this as an opportunity to boost their generation capacity and drive synergies. In August, Dynegy announced it would acquire 12,500MW of coal and gas generation from Duke Energy and Energy Capital Partners (ECP) in transactions totaling US$6.3b. The deals will almost double Dynegy’s existing portfolio to nearly 26,000MW. They will deliver nearly US$500m in tax savings, US$200m in related efficiencies, and cost savings of over US$40m per year. In July, Duke Energy Progress agreed to a US$1.2b deal to buy 700MW of generating capacity held by North Carolina Eastern Municipal Power Agency in four Duke power plants. The deal is likely to ease the debt that has forced towns and cities serviced by the agency to charge more for energy than Duke charges its retail customers. Appetite for generation assets remains high in the US as investors expect wholesale prices to improve.

Renewable deal activity surges on the back of heightened interest in the US; Chile looks to invest US$7b in wind and solar projects

Renewable asset transactions in the Americas, notably the US, dominated global clean energy transaction activity, contributing to more than half of the total US$7.3b renewable deal value. Key drivers are Environmental Protection Agency (EPA) regulations that are forcing coal plant retirements, state-level Renewable Portfolio Standard targets, continuous shedding of non-core assets by integrated utilities and desire for strong yields. The largest deal came from Energy Capital Partners, which acquired Waste Management’s waste-to-energy business, Wheelabrator Technologies, for US$1.9b. After declaring plans to spin off its competitive energy business, PPL Corp. announced it would sell 11 hydroelectric plants to NorthWestern Energy for US$880m. Increasingly, wind power prices are competing with natural gas in the US. With record capacity under construction, we predict several M&A opportunities in the segment. However, uncertainty over Production Tax Credits and natural gas prices could make growth uncertain post-2015. In September, Chile’s environmental regulator approved 6.1GW of solar projects, with total investment of US$7b. The country’s relatively stable operating environment and liberalized power market are likely to draw investors, particularly from Western Europe, where utilities currently face sluggish demand in their domestic markets.

Figure 1: Global P&U transaction snapshot

<table>
<thead>
<tr>
<th>Region</th>
<th>Generation</th>
<th>T&amp;D</th>
<th>Renewables</th>
<th>Integrated, water and others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>US$9.1b</td>
<td>US$0.8b</td>
<td>US$1.4b</td>
<td>US$10.9b</td>
</tr>
<tr>
<td>Europe</td>
<td>US$1.1b</td>
<td>US$4.1b</td>
<td>US$5.0b</td>
<td>US$1.2b</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>US$3.9b</td>
<td>US$5.1b</td>
<td>US$1.3b</td>
<td>US$2.1b</td>
</tr>
</tbody>
</table>

Source: EY analysis based on Mergermarket data

The global P&U transaction environment is poised to grow strongly in the coming quarters. As reduced electricity demand in Europe and volatile power prices in the US continue to plague the sector, utilities will continue to assess their asset portfolios for growth and expansion into emerging nations is likely to result in partnerships between large integrated utilities and local players.

The US utilities sector has experienced a flurry of deals. After the Exelon/Pepco and Wisconsin/Integrys Energy mergers, the New Jersey-based Public Service Enterprise Group (PEG) is also on the lookout for potential M&A partners. Such mergers enable operational and financial synergies to deliver necessary infrastructure build-outs. Meanwhile, NSource’s recent announcement that it will split off its natural gas pipeline business and join the utility trend in forming a Master Limited Partnership could signal potential M&A activity in the short term.

Several large divestments are expected in Europe. In addition to Enel’s divestments in Slovakia and Romania, Finland’s Fortum will put its Swedish power grid up for sale. Similarly, CEZ AS, the largest Czech power producer, is looking to buy a majority stake in Polish utility Energa SA, as part of its plan to grow through acquisition in central Europe.

European privatization programs are gaining momentum. Italy is planning legislation to remove hundreds of public utilities from the control of local authorities. Turkey, too, has invited bids to privatize more generation assets to increase competition within the sector.

The growing water and energy nexus is prompting governments to increase their focus on new investment in the water and wastewater treatment sector. Thirty US water and wastewater utilities plan to invest about US$23b per year over the next decade in upgrades, generating an estimated US$524b in revenue.

### Table 1: Global P&U deal activity by segment, Q2 2014-Q3 2014

<table>
<thead>
<tr>
<th>Segment</th>
<th>Q2 2014</th>
<th>Q3 2014</th>
<th>Q2 2014</th>
<th>Q3 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>105</td>
<td>128</td>
<td>38.6</td>
<td>58.1</td>
</tr>
<tr>
<td>Generation</td>
<td>20</td>
<td>31</td>
<td>11.3</td>
<td>11.1</td>
</tr>
<tr>
<td>T&amp;D</td>
<td>8</td>
<td>25</td>
<td>5.2</td>
<td>26.9</td>
</tr>
<tr>
<td>Renewables</td>
<td>45</td>
<td>47</td>
<td>7.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Integrated, water and others</td>
<td>32</td>
<td>25</td>
<td>14.7</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Source: EY analysis based on Mergermarket data

### Table 2: Top five global P&U deals in Q3 2014

<table>
<thead>
<tr>
<th>Announcement date</th>
<th>Target description</th>
<th>Target country/ territory</th>
<th>Bidder</th>
<th>Bidder country/ territory</th>
<th>Enterprise value (US$m)</th>
<th>Transaction rationale</th>
<th>Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 Sep 14</td>
<td>Enersis SA (60.6% stake)</td>
<td>Chile</td>
<td>Enel Energy Europe</td>
<td>Italy</td>
<td>10,214</td>
<td>Enables Enel to increase presence in Latin American utility market and grow revenues</td>
<td>Integrated</td>
</tr>
<tr>
<td>22 Jul 14</td>
<td>Energy Capital Partners (power plants)</td>
<td>US</td>
<td>Dynegy</td>
<td>US</td>
<td>3,450</td>
<td>Enables Dynegy to expand generation capacity and drive operational synergies</td>
<td>Generation</td>
</tr>
<tr>
<td>31 Jul 14</td>
<td>CDP RETI SpA (35% stake)</td>
<td>Italy</td>
<td>State Grid Corporation of China</td>
<td>China</td>
<td>2,814</td>
<td>In line with SGCC’s strategy to expand global presence and invest in infrastructure assets</td>
<td>T&amp;D</td>
</tr>
<tr>
<td>22 Aug 14</td>
<td>Duke Energy (11 power plants and a retail business)</td>
<td>US</td>
<td>Dynegy</td>
<td>US</td>
<td>2,800</td>
<td>Enables Dynegy to expand generation capacity and drive operational synergies</td>
<td>Generation</td>
</tr>
<tr>
<td>29 Jul 14</td>
<td>Wheelabrator Technologies</td>
<td>US</td>
<td>Energy Capital Partners</td>
<td>US</td>
<td>1,940</td>
<td>Enables Energy Capital Partners to strengthen its clean energy offerings</td>
<td>Renewables</td>
</tr>
</tbody>
</table>

Source: EY analysis based on Mergermarket data

### Transaction outlook
- The global P&U transaction environment is poised to grow strongly in the coming quarters. As reduced electricity demand in Europe and volatile power prices in the US continue to plague the sector, utilities will continue to assess their asset portfolios and divest non-performing and risky assets. Further, the desire for growth and expansion into emerging nations is likely to result in partnerships between large integrated utilities and local players.
- The US utilities sector has experienced a flurry of deals. After the Exelon/Pepco and Wisconsin/Integrys Energy mergers, the New Jersey-based Public Service Enterprise Group (PEG) is also on the lookout for potential M&A partners. Such mergers enable operational and financial synergies to deliver necessary infrastructure build-outs. Meanwhile, NSource’s recent announcement that it will split off its natural gas pipeline business and join the utility trend in forming a Master Limited Partnership could signal potential M&A activity in the short term.
- Several large divestments are expected in Europe. In addition to Enel’s divestments in Slovakia and Romania, Finland’s Fortum will put its Swedish power grid up for sale. Similarly, CEZ AS, the largest Czech power producer, is looking to buy a majority stake in Polish utility Energa SA, as part of its plan to grow through acquisition in central Europe.
- European privatization programs are gaining momentum. Italy is planning legislation to remove hundreds of public utilities from the control of local authorities. Turkey, too, has invited bids to privatize more generation assets to increase competition within the sector.
- The growing water and energy nexus is prompting governments to increase their focus on new investment in the water and wastewater treatment sector. Thirty US water and wastewater utilities plan to invest about US$23b per year over the next decade in upgrades, generating an estimated US$524b in revenue.
Global snapshot

North America

- Deal activity in North America reached US$13.6b, the highest third-quarter result in more than four years, with merchant generation assets receiving the most investor interest.
- The US contributed over 90% to the total regional deal value, driven by billion-dollar-plus IPP transactions. In addition to Dynegy’s US$6.3b worth of transactions, Calpine acquired an 809MW Fort River combined-cycle power plant in Massachusetts from Exelon for US$530m, equivalent to US$655/kW. The company announced recently that it would continue to spend on acquisitions. The mid-Atlantic and Northeast, where older plants are being retired, and Texas, where the population and state economy are growing, are likely targets.
- CenterPoint Energy, NextEra Energy, Hunt Consolidated and Berkshire Hathaway are among 10 companies exploring bids for Texas utility Oncor. The utility is currently majority-owned by Energy Future Holdings, which filed for Chapter 11 bankruptcy in April and is attempting to sell its 80% stake in Oncor as part of its efforts to restructure more than US$40b debt.

Latin America

- Deal value rose to US$11.5b in Q3 2014, up from US$2.9b in Q2 2014. This was primarily driven by Enel’s US$10.2b megadeal, a binding offer to Spanish unit Endesa to simplify operations. Enel intends to grow further in South America and plans to focus Endesa’s operations on the Iberian market. Its new business plan and reorganization could boost group net income by about 4.
- Colombian electricity utility Celsia ES acquired stakes in power-generating facilities in Panama and Costa Rica from GDF Suez for US$840m. The deal fits the company’s strategy of regional expansion to enable interconnection of power supplies.
- In Brazil, wind energy assets continued to exchange hands. However, in the face of drought, rising demand for power and delays in building new power plants and transmission lines, the cost of generating power in Brazil has soared, forcing the Government to arrange more than US$13b in emergency loans to stave off bankruptcy in the electricity sector. This may trigger distressed asset sales in the country in the near term. 5

### Table 3:

<table>
<thead>
<tr>
<th>Announcement date</th>
<th>Target</th>
<th>Target country/territory</th>
<th>Bidder</th>
<th>Bidder country/territory</th>
<th>Enterprise value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>22 Aug 2014</td>
<td>Duke Energy (11 power plants and a retail business)</td>
<td>US</td>
<td>Dynegy</td>
<td>US</td>
<td>2,800</td>
</tr>
<tr>
<td>29 July 2014</td>
<td>Wheelabrator Technologies</td>
<td>US</td>
<td>Energy Capital Partners</td>
<td>US</td>
<td>1,940</td>
</tr>
<tr>
<td>26 Sep 2014</td>
<td>PPL Montana's 11 hydropower plants</td>
<td>US</td>
<td>Northwestern Energy</td>
<td>US</td>
<td>880</td>
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</table>

Source: EY analysis based on Mergermarket data

### Table 4:

<table>
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<tr>
<th>Announcement date</th>
<th>Target</th>
<th>Target country/territory</th>
<th>Bidder</th>
<th>Bidder country/territory</th>
<th>Enterprise value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>17 Sep 2014</td>
<td>Enersis SA (60.62% Stake)</td>
<td>Chile</td>
<td>Enel Energy Europe S.r.l</td>
<td>Italy</td>
<td>10,214</td>
</tr>
<tr>
<td>13 Aug 2014</td>
<td>GDF Suez assets in Costa Rica and Panama</td>
<td>Costa Rica</td>
<td>Celsia S.A. E.S.P</td>
<td>Colombia</td>
<td>840</td>
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<tr>
<td>18 July 2014</td>
<td>Companhia de Gas de Minas Gerais - Gasmig (40% Stake)</td>
<td>Brazil</td>
<td>Companhia Energetica de Minas Gerais</td>
<td>Brazil</td>
<td>271</td>
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<tr>
<td>05 Aug 2014</td>
<td>Casa dos Ventos Energias Renovaveis (wind farms)</td>
<td>Brazil</td>
<td>ContourGlobal L.P.</td>
<td>US</td>
<td>80</td>
</tr>
<tr>
<td>17 July 2014</td>
<td>Renova Energia (25 wind farms)</td>
<td>Brazil</td>
<td>Companhia Energetica de Minas Gerais</td>
<td>Brazil</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: EY analysis based on Mergermarket data

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Dollar-plus transactions remained absent from the region. This is likely to change, however, as Australian generation and T&D privatizations hit the market. Australia-based Snowy Hydro acquired New Energy assets, including energy retailer Lumo Energy, ahead of possible privatization. 

Deal-making appetite in India. In August, Adani Power acquired a thermal coal power plant in southwest India from industrial conglomerate Lanco for US$984m. A wave of further deals in the power and infrastructure sector is expected as heavily indebted smaller companies sell assets to larger businesses with relatively healthier balance sheets, and these types of assets are in decline, but they remain attractive to investors nonetheless. With certain characteristics of regulated assets, notably their longer-term underpinning to value, they tend to be perceived as less risky.

### Europe

- Deal activity in Europe declined for the second consecutive quarter, with deal value dropping to US$8.2b compared with US$12.4b in Q2 2014. As several utilities near completion of their divestment programs, there is an absence of big-ticket deals in the region.
- Margin pressures could prompt consolidation in some of the fragmented markets across Europe, leading to improved efficiency and increased market power. Italy and Spain are among the markets beginning to consolidate.
- Turkey’s Privatization Authority (PA) announced that it would be receiving bids for the Soma B Power Plant and Orhaniye and Tuncbilek Thermal Power Plants until 24 November 2014.
- The region executed 19 renewable energy deals during the quarter, with Germany, Italy, Spain and the UK hosting the majority. Renewable subsidies are being cut, and these types of assets are in decline, but they remain attractive to investors nonetheless. With certain characteristics of regulated assets, notably their longer-term underpinning to value, they tend to be perceived as less risky.

### Asia-Pacific

- Asia-Pacific deal activity dipped to US$4.9b, compared with US$7.9b in Q2 2014, as billion-dollar-plus transactions remained absent from the region. This is likely to change, however, as Australian generation and T&D privatizations hit the market.
- Ahead of state elections in Victoria, New South Wales and Queensland next year, China is increasingly seeking infrastructure assets that will generate long-term returns. 
- Australia-based Snowy Hydro acquired New Zealand infrastructure investor Infratil’s Australian energy assets, including energy retailer Lumo Energy, ahead of possible privatization.
- Renewed economic optimism is helping to reignite deal-making appetite in India. In August, Adani Power acquired a thermal coal power plant in southwest India from industrial conglomerate Lanco for US$984m. A wave of further deals in the power and infrastructure sector is expected as heavily indebted smaller companies sell assets to larger businesses with relatively healthier finances. Additionally, the new Indian Government is accelerating plans to raise up to US$7b from the sale of stakes in three state-backed companies – Coal India, NHPC and ONGC.
- China’s domestic consolidation continued in Q3 2014, with the country hosting 70% of total deals in the region. In particular, the country’s water and wastewater sector is undergoing consolidation, China hosted 14 domestic water sector deals in the quarter with a cumulative deal value of US$1.3b. The M&A surge reflects the Chinese Government’s announcement of support for further consolidation in the sector.

### Deal activity trends – Q3 2014

- **Announcement date**: 31 July 2014
- **Target**: CDP RETI SpA (35% stake)
- **Country/Territory**: Italy
- **Bidder**: State Grid Corporation of China
- **Country/Territory**: China
- **Enterprise value (US$m)**: 2,814

- **Announcement date**: 12 Sep 2014
- **Target**: Trans Austria Gasleitung GmbH (84.47% stake)
- **Country/Territory**: Austria
- **Bidder**: Snam SpA
- **Country/Territory**: Italy
- **Enterprise value (US$m)**: 1,160

- **Announcement date**: 17 July 2014
- **Target**: Gode Wind II GmbH (50% stake)
- **Country/Territory**: Germany
- **Bidder**: Danish pension funds
- **Country/Territory**: Denmark
- **Enterprise value (US$m)**: 812

- **Announcement date**: 18 July 2014
- **Target**: Sociedad General de Aguas de Barcelona, S.A. (24.14% stake)
- **Country/Territory**: Spain
- **Bidder**: Suez Environnement S.A.
- **Country/Territory**: France
- **Enterprise value (US$m)**: 811

- **Announcement date**: 07 July 2014
- **Target**: STEAG GmbH (49% stake)
- **Country/Territory**: Germany
- **Bidder**: KSBG Kommunale Beteiligungsgesellschaft GmbH & Co. KG
- **Country/Territory**: Germany
- **Enterprise value (US$m)**: 789

### Table 5:

<table>
<thead>
<tr>
<th>Announcement date</th>
<th>Target</th>
<th>Target country/territory</th>
<th>Bidder</th>
<th>Bidder country/territory</th>
<th>Enterprise value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 July 2014</td>
<td>CDP RETI SpA (35% stake)</td>
<td>Italy</td>
<td>State Grid Corporation of China</td>
<td>China</td>
<td>2,814</td>
</tr>
<tr>
<td>12 Sep 2014</td>
<td>Trans Austria Gasleitung GmbH (84.47% stake)</td>
<td>Austria</td>
<td>Snam SpA</td>
<td>Italy</td>
<td>1,160</td>
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<tr>
<td>17 July 2014</td>
<td>Gode Wind II GmbH (50% stake)</td>
<td>Germany</td>
<td>Danish pension funds</td>
<td>Denmark</td>
<td>812</td>
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<tr>
<td>07 July 2014</td>
<td>STEAG GmbH (49% stake)</td>
<td>Germany</td>
<td>KSBG Kommunale Beteiligungsgesellschaft GmbH &amp; Co. KG</td>
<td>Germany</td>
<td>789</td>
</tr>
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</table>

Source: EY analysis based on Mergermarket data

### Table 6:

<table>
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<tr>
<th>Announcement date</th>
<th>Target</th>
<th>Target country/territory</th>
<th>Bidder</th>
<th>Bidder country/territory</th>
<th>Enterprise value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 Aug 2014</td>
<td>Lanco Infratech (thermal plant)</td>
<td>India</td>
<td>Adani Power Limited</td>
<td>India</td>
<td>984</td>
</tr>
<tr>
<td>12 Sep 2014</td>
<td>Lumo Energy Australia; Direct Connect</td>
<td>Australia</td>
<td>Snowy Hydro Limited</td>
<td>Australia</td>
<td>553</td>
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<tr>
<td>09 July 2014</td>
<td>Gullen Range Wind Farm</td>
<td>Australia</td>
<td>New Gullen Range Wind Farm</td>
<td>Australia</td>
<td>300</td>
</tr>
<tr>
<td>18 Sep 2014</td>
<td>Sound Global Ltd. (16.04% stake)</td>
<td>China</td>
<td>Sound Environment (HK)</td>
<td>China</td>
<td>293</td>
</tr>
<tr>
<td>22 Aug 2014</td>
<td>Jiangsu Huayuan New Energy Technology Co. Ltd.</td>
<td>China</td>
<td>Shenzhen Jiawei Photovoltaic Lighting Co. Ltd.</td>
<td>China</td>
<td>292</td>
</tr>
</tbody>
</table>

Source: EY analysis based on Mergermarket data
Spotlight: emerging nations under transactional microscope
Infrastructure build-out and increasing energy demand make emerging nations the new M&A hot spots

Burgeoning economic activity in the emerging markets puts them at the epicenter of global investment. High levels of population growth, low electrification rates and outdated or constrained infrastructure translate into a growing need for investment in power infrastructure across the value chain. At the same time, governments and regulators in India, Mexico, the Middle East and North Africa (MENA) and Eastern Europe are accelerating reforms to liberalize their energy markets.

This set of circumstances is encouraging investors across the globe to divert an increasing proportion of their investment portfolios into high-growth emerging regions. And while deal makers and investors from developed nations look to invest in emerging economies to yield attractive returns, utilities in the emerging markets look to acquire technology and management know-how from developed countries.

To address the immediate need to fund infrastructure build-out in emerging nations, a number of financial investors have come forward. The European Bank for Reconstruction and Development has committed €800m6 in investment to emerging market countries, with special focus on Tunisia, Jordan, Morocco and Egypt, where political disturbance has dampened growth and stability. The US has announced that it will invest US$500m in Ghana to improve energy access and attract private investors. Similarly, International Finance Corp. continues to invest in the power and water sector in the MENA region. While investment by donor agencies is not new to the region, it sends a positive signal to investors looking increasingly to venture into these emerging markets.

Data shows that it is not just financial investors who are turning their attention to the emerging nations. Utility majors such as E.ON and GDF Suez have acquired several assets in Latin American and Eastern European markets in the past few years. Enel recently concluded the acquisition of a 60.62% interest in Chile-based distribution company Enerisis for US$10.2b. Latin America is expected to make up about 40%-50% of Enel’s revenue. Liberalization of generation in Mexico is allowing private generators to sell electricity directly to users, which is driving investment and transactions in the country. Iberdrola and GDF Suez are planning to invest millions in Mexico to benefit from the market reform. Capital is also expected to flow from other developed nations, such as the US, to the emerging markets. The past quarter once again highlights interest from US-based financial investors in energy assets in the MENA region, with two investment firms acquiring assets in Israel and Saudi Arabia. Another US-based consortium committed US$212m to investments in Nigerian renewable energy.

While the emerging markets continue to host investments from a broad mix of investors, political, regulatory and macroeconomic instability dampen the influx of funds. This uncertainty has compelled several investors to pull out of emerging markets at an early stage. Reliance Power, for instance, called off its discussions with Jaiprakash Power Ventures Ltd. to acquire its hydropower assets due to lack of clarity on tariffs. Earlier, E.ON closed down its India office while GDF Suez put its investment ambitions in India on the back burner, primarily due to the slow pace of reform in the country.

Hot spots for M&A: which emerging markets are ripe for investment and where should deal makers look next?
Although Europe and the Americas have been a hotbed of M&A activity in the past, we expect the emerging nations to host more transactional activity going forward.

- **India** is selling stakes in Coal India, NHPC and ONGC to cap the country’s fiscal deficit. We are also watching out for the sale of distressed generation assets, including renewables, by large conglomerates.
- **Sub-Saharan Africa** will see more capacity come online this year in non-hydro renewable energy than in the whole of the 2000-13 period:
  - **South Africa**, **Kenya** and **Ethiopia** are expected to emerge as the largest markets in renewables between 2014 and 2016, enticing investors to tap into the growth opportunity.
- **Nigeria** is attracting buyers for its US$20b worth of transmission assets.
- **Market reforms and infrastructure development in MENA are expected to attract private and foreign investment:**
  - **Morocco** is seeking private investment for its US$27b plan to address its water deficit through to 2030.
  - **Israel** has a US$4b privatization plan, which includes selling stakes in its electricity and water companies.
  - **Algeria** is planning US$17.8b in investment between 2015 and 2019 to bolster water supply.
  - **Saudi Arabia** is un bundling its Saudi Electricity Company (SEC).
  - **Qatar** is establishing an independent regulator for its power and water sectors in 2014.
- **Latin America** is expected to host major transactions, driven by reforms in Mexico and lucrative big-ticket investment assets in Chile and Brazil.

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Q3 2014 recorded a 37% increase in financial deal activity, with value reaching US$6.4b compared with US$4.7b in Q2 2014. Desire for strong yields made renewable energy assets the dominant targets, generating 15 out of the total 27 financial deals in the quarter. Canada- and US-based private equity firms contributed more than 50% to the total financial deal value. Canada-based Axium Infrastructure acquired a 35.8% stake in a 1,101MW US wind portfolio from EDP Renewables and a 30% stake in a wind project from EDF EN Canada. Germany continued to receive significant investor interest. A consortium of Danish pension funds acquired a 50% stake in an offshore wind farm Gode Wind II GmbH from DONG Energy for US$812m.

Following the introduction of laws to ensure that Germany meets its ambitious renewables targets, the country's offshore wind parks are attracting fresh investment. Driven by attractive returns of over 9%, British investment firm Laidlaw Capital acquired its second German offshore wind park. The deal follows a German offshore wind acquisition by Canadian energy group Northland Power in September. Merchant generation assets in the US continue to exchange hands. Carlyle Group acquired a controlling stake in six power plants in Georgia from Arclight Capital Partners and Singapore's sovereign wealth fund GIC.

**Figure 3: Financial vs. corporate buyer deal activity**

Source: EY analysis based on Mergermarket data

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**Segment analysis**

**Portfolio optimization by large US and European utilities drives M&A activity**

**Generation: deal activity remains strong**

At US$11.4b, Q3 2014 generation deal value remained in line with the previous quarter. Unlike previous quarters in which Europe, led by Turkish privatizations and Russian generation sector consolidation, dominated the segment, the current quarter was dominated by US merchant generation asset deals. Dynegy and Calpine, along with private equity firms, aggressively acquired merchant assets to expand capacity. We expect M&A in the generation segment to continue its strong run, with several distressed assets in Europe and Asia Pacific yet to hit the market.

**Transmission and distribution: value dips to two-year low**

After hosting deals worth US$26.9b in Q2 2014, the segment’s deal value touched historic lows in the current quarter. The US, which contributed more than 70% to total deal value in Q2 2014, hosted just one deal this quarter. Divestments by Italy-based Cassa Depositi e Prestiti SpA generated transactions worth US$4b. Governments across Europe are currently looking to sell stakes in utility assets to free up capital to invest in growth infrastructure. This could emerge as a key driver for deal activity as we move into 2015.

**Renewables: deal value touches three-year high at US$7.3b**

Confidence in the renewables sector remained strong. The quarter saw 45 deals worth US$7.3b, an increase of 17% over Q2 2014. The Americas’ domination continued, with the region generating deals worth US$4b. We expect Brazil, Chile and the US to be the hot spots for M&A in the region, driven by the availability of operational assets and regulatory support. Despite several project cancellations in the past few months, the UK’s clean energy sector hosted five deals. The largest deal came from Abu Dhabi’s state investment fund, Masdar, which acquired a 35% stake in the £1.5b Dudgeon project from Statoil.

**Integrated, energy services, water and others: water sector deals drive deal activity**

Enel’s decision to buy a controlling stake in Chile-based Enersis from its Spanish unit Endesa for US$10.2b took the segment’s deal value to US$14.7b. However, the water and wastewater treatment sector emerged as the most active segment in the quarter. It hosted 23 deals, contributing 72% to deal volume in the integrated segment. Suez Environnement, which is reportedly on the hunt for acquisitions, generated the largest deal in the segment by acquiring a 24.14% stake in Spain-based Grupo Agbar for US$811m. China hosted 14 deals, reflecting continuing consolidation in its water sector.

**Figure 4: Q3 2014 deals snapshot by segment**

Note: Size of the bubble indicates average deal value
Source: EY analysis based on Mergermarket data
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The EY global power and utilities community comprises about 700 senior client-facing advisors at EY firms around the world. Please contact your local EY Power & Utilities leader for assistance.

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