ALLEN & OVERY

60% INCREASE IN VALUE OF GLOBAL PUBLIC M&A IN Q1 2011

GAS M&A TO PLAY INCREASING ROLE IN ENERGY SECTOR ACTIVITY

FURTHER CONSOLIDATION OF STOCK EXCHANGES EXPECTED

The Allen & Overy M&A Index

Q1 2011

Global M&A Trends – Q1 2011

Welcome to Allen & Overy's quarterly insight report on the state of the world's M&A markets.

In many sectors and in many regions, M&A activity experienced something of a lull in the first three months of the year.

We remain confident, however, that this is a temporary trend and that transactions will pick up progressively during the rest of the year. What we saw in quarter one was, we think, a hiatus rather than a reversal of the strong growth we saw in 2010, particularly in the last three months of the year.

Some regions continue to be very active. Asia remains a powerhouse of inbound and outbound transactions and Latin America shows every sign of matching, or at least coming close to, the extraordinary growth in activity seen last year. The U.S. also saw a return of real confidence.

Some sectors also remain buoyant, not least energy and natural resources, which continues to benefit from the insatiable demand from China, India and Korea for new sources of raw materials to fuel their rapid economic development.

Even in those regions and sectors that were more sluggish, deals were held up more by sentiment and a mismatch between buyers' and sellers' price expectations rather than by a shortage of opportunities or financing, both of which are in better supply today than they were 12 to 18 months ago. So the market would appear to be poised for greater activity in the months ahead and we should see transactions steadily increasing.

Macro-economic factors have had a significant impact on sentiment. Security worries in the Middle East and North Africa, a consequent rise in oil prices, continuing concerns about sovereign debt in the Eurozone and the impact of Japan's earthquake have all taken their toll on investor confidence.

None of these should in themselves push transaction activity into reverse. But while such worries continue, it is not surprising that strategic investors are content to bide their time while they get a better long-term view of deal values.

Some sectors, notably financial services, have other pressing issues to contend with as well. Regulatory uncertainty – which could persist for some years – plus continuing efforts to clear up an overhang of distressed assets and bad debt are still dampening deal activity, despite a busy fourth quarter in 2010. In time, however, these issues will spur on, rather than rein in, M&A activity.

Protectionism – an issue we highlighted in our last report – continues to be a worry, as governments around the world contemplate taking a more active approach to guarding strategically important assets from foreign ownership. Food security and the protection of agricultural land is an interesting new theme in this respect. Although we do not expect economic nationalism to sweep the globe, investors will need to keep a careful watch on it.

Another theme we highlight in this report is bribery and corruption. Governments and law enforcement agencies, particularly in the U.S. and UK, are getting increasingly hot on this issue, armed with new laws that extend their reach across jurisdictions. Pressure is growing on businesses to prove that they are behaving ethically in all their operations, and that includes when completing transactions.

Andrew Ballheimer
Co-head of the Global Corporate Practice, Allen & Overy

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Executive summary

The global picture – key findings

A number of key themes emerge from the statistics and analysis in this report:

– The imminent introduction of new UK **anti-bribery and corruption** regulations is part of a growing trend of activism by law enforcers to prosecute companies for unethical business practices. Investors must do the right due diligence and have the right cover when completing transactions.

– Regulatory change and the need to rebuild balance sheets and capital are continuing to delay transactions in **Financial Services**. In time, both will drive activity but we may have to wait many months for real regulatory certainty.

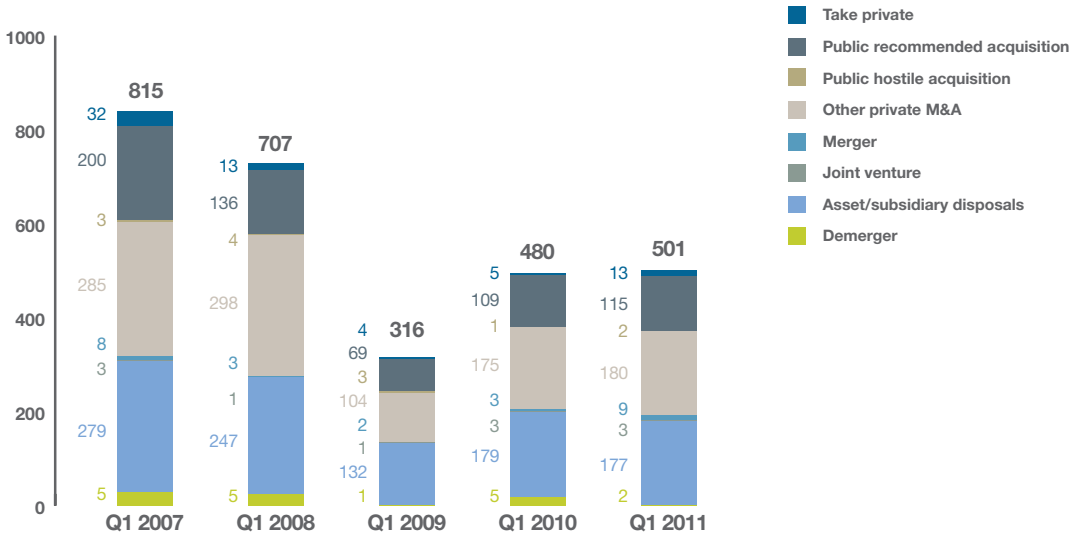
– Gas could be a considerable beneficiary of the current turmoil in the **Energy** sector, and a focus for future M&A transactions. Deal activity remains strong, although efforts by operators to dispose of downstream assets, particularly in Europe, are becoming protracted.

– Major players in the **Life Sciences** sector are taking longer than expected to migrate their operations to Asia amid fears about regulatory regimes and the protection of intellectual property rights. This is unlikely to be a permanent roadblock to deals.

– Only the U.S. has seen a strong resurgence in activity by **Private Equity** funds. Elsewhere growth has been subdued, despite debt financing once again being quite readily available. There have been relatively few megadeals, with activity in many markets focused on mid-cap companies.

– The **Asia Pacific** region continues to be a powerhouse of global investment, outbound and inbound. China is increasingly being challenged by India and Korea in the race to invest in energy and natural resources, within and outside the region. The earthquake in Japan could force recent heavy Japanese investment overseas into reverse, as investors focus on rebuilding at home.

Global deal types



– The **U.S.** is experiencing strong growth in activity. Confidence has returned to the market, which should experience a strong resurgence in transactions this year. A clear indication of this change in mood is the return of the cash-financed megadeal.

– The **Western European** M&A market is continuing to recover, but progress is uneven with Germany, France and The Netherlands noticeably busier than the UK and Italy. Deutsche Börse's proposed merger with the NYSE, which would create the world's biggest exchange, is part of a global trend towards stock market consolidation.

– Competition between strategic investors and PE funds has moved to a more level playing field in **Central and Eastern Europe**. But in most markets activity is focused on nitty-gritty sectors of the economy and the acquisition of distressed assets. Poland is more vibrant and has just recorded its biggest ever PE deal.

– Energy and natural resources continue to drive extraordinary growth in transactions in **Latin America**, forecast to increase by a further 40% this year. Inbound investment from Asia, the U.S. and Europe remains buoyant. But companies from within the region are becoming a force to be reckoned with in both intra and extra-regional investment.

– Astute investors continue to recognise that the **Middle East and North Africa** offers huge investment opportunities, despite the growing risks from political turmoil in key countries. Sovereign wealth funds continue to be lead outward investors, but they are also turning increasing attention to opportunities at home in infrastructure and health.

25%

overall value of deals up by 1/4 compared to same period last year

Global deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007	5	62,580	279	170,008	3	481	8	27,874	285	138,258	3	1,842	200	251,920	32	102,119	815	755,082
Q2 2007	8	30,946	338	316,569	6	6,625	4	25,224	374	206,471	2	5,013	219	444,964	49	182,767	1,000	1,218,579
Q3 2007	5	20,210	286	176,995	7	4,095	6	7,574	313	129,049	5	1,864	180	408,349	19	46,191	821	794,327
Q4 2007	10	29,915	336	209,951	4	1,823	3	2,876	324	156,284	9	4,054	201	235,561	18	30,964	905	671,428
2007 TOTAL	**28**	**143,651**	**1,239**	**873,523**	**20**	**13,024**	**21**	**63,548**	**1,296**	**630,062**	**19**	**12,773**	**800**	**1,340,794**	**118**	**362,041**	**3,541**	**3,439,416**
Q1 2008	5	120,042	247	126,903	1	118	3	11,331	298	142,464	4	2,356	136	124,843	13	15,759	707	543,816
Q2 2008	9	56,115	267	153,104	6	3,229	4	5,504	269	152,301	4	3,344	167	243,686	10	12,169	736	629,452
Q3 2008	8	29,186	249	163,170	4	1,616	2	1,757	223	100,720	4	64,472	143	307,298	8	2,193	641	670,412
Q4 2008	3	4,407	159	142,569	3	1,658	1	282	136	123,219	2	1,006	78	154,291	2	227	384	427,659
2008 TOTAL	**25**	**209,750**	**922**	**585,746**	**14**	**6,621**	**10**	**18,874**	**926**	**518,704**	**14**	**71,178**	**524**	**830,118**	**33**	**30,348**	**2,468**	**2,271,339**
Q1 2009	1	1,296	132	74,229	1	679	2	941	104	94,367	3	45,182	69	175,517	4	2,173	316	394,384
Q2 2009	4	10,089	178	183,071	1	128	3	8,984	93	42,519	3	2,543	97	119,508	1	117	380	366,959
Q3 2009	3	2,929	219	111,938	1	771	1	393	115	40,252	4	4,034	114	129,562	13	4,659	470	294,538
Q4 2009	7	25,544	232	128,572	3	14,851	6	4,562	186	144,496	3	24,035	122	183,140	12	7,907	571	533,107
2009 TOTAL	**15**	**39,858**	**761**	**497,810**	**6**	**16,429**	**12**	**14,880**	**498**	**321,634**	**13**	**75,794**	**402**	**607,727**	**30**	**14,856**	**1,737**	**1,588,988**
Q1 2010	5	8,317	179	207,842	3	2,888	3	2,933	175	76,123	1	259	109	119,320	5	3,481	480	421,163
Q2 2010	5	8,415	241	148,695	2	3,214	7	18,314	204	84,777	2	535	146	129,450	14	11,565	621	404,965
Q3 2010	6	17,977	233	170,785	1	189	9	17,177	215	93,837	7	7,410	123	158,638	11	16,935	605	482,948
Q4 2010	3	7,956	284	206,254			9	11,763	247	201,433	8	29,904	156	193,503	19	29,136	726	679,949
2010 TOTAL	**19**	**42,665**	**937**	**733,576**	**6**	**6,291**	**28**	**50,187**	**841**	**456,170**	**18**	**38,108**	**534**	**600,911**	**49**	**61,117**	**2,432**	**1,989,025**
Q1 2011	**2**	**15,020**	**177**	**184,233**	**3**	**3,417**	**9**	**41,091**	**180**	**84,592**	**2**	**4,977**	**115**	**190,254**	**13**	**8,681**	**501**	**532,265**
TOTAL	**89**	**450,944**	**4,036**	**2,874,888**	**49**	**45,782**	**80**	**188,580**	**3,741**	**2,011,162**	**66**	**202,830**	**2,375**	**3,569,804**	**243**	**477,043**	**10,679**	**9,821,033**

In focus

Bribery and corruption – a new factor in transactions

The corporate anti-bribery authorities are on the march.

New bribery and corruption laws and vigorous enforcement of existing law – particularly in the UK and the U.S. – mean that dealmakers now need to be very sure that any transaction they are contemplating does not open them to criminal prosecution, punitive fines and even jail terms. In the UK this is combined with hair trigger disclosure requirements.

As a result, litigation and M&A lawyers are working closer than ever before to guide clients through what is an increasingly complex maze to make sure transactions pass the ethical test.

Anti-bribery laws are not new, of course. It's more than 30 years since the U.S. Foreign Corrupt Practices Act (FCPA) was first introduced. What's changed is that U.S. enforcement agencies are now prosecuting cases much more vigorously.

Meanwhile the UK is about to replace existing anti-corruption laws with a new regime, under the UK Bribery Act 2010. Some commentators, alarmed at the scope of its provisions, have taken to describing it as the "The FCPA on steroids."

At its heart lies the provision that any company conducting even a small part of its business in the UK can be liable for prosecution for an offence if a bribe is paid on its behalf anywhere in the world. To avoid prosecution, it must demonstrate that it has put "adequate procedures" in place to protect against such acts.

That gives M&A teams an important new issue to factor into their planning. Due diligence must now carefully root out any potential bribery concerns, both past and present, in a potential acquisition target. They must also make sure the right indemnities and warranties are in place to safeguard them commercially.

Where problems are found, teams must think about negotiating a framework with regulators for dealing with any past issues that have come to light, demonstrating how historic matters will be tackled once the transaction is complete.

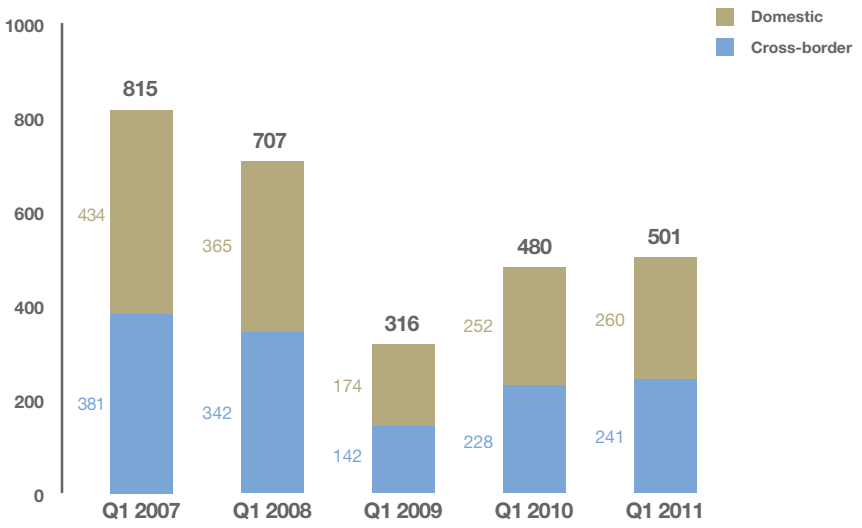
From the opposite angle, what does this mean for companies based in a jurisdiction with less far-reaching, but still substantial, anti-bribery laws, and thinking about doing a joint venture with, say, a U.S. or UK business? They are likely to come under increasing pressure from business partners to have policies and procedures in place that pass muster in the UK and U.S.

This advisory work necessarily requires lawyers to have a deep understanding of how laws, with an international reach, operate across borders. But it also demands specialist local market knowledge of the sort that can only come from on-the-ground exposure to the subtleties of different jurisdictions.

Some UK and U.S. companies argue that the new anti-bribery activism puts them at an unfair disadvantage in competing for international M&A deals. The authorities say they will look for opportunities to use domestic legislation against foreign businesses, so levelling the playing field.

How well that will work is open to question. The only appropriate approach for dealmakers is to take proper, detailed account of the new laws and make sure their transactions are in the best ethical shape possible.

Cross-border M&A



Sector analysis

Energy and Natural Resources – the balance tilts to gas

Stability is often an important pre-condition for transaction activity in the Energy and Natural Resources sector.

In the months ahead it seems fair to assume that stability will be in increasingly short supply thanks to security issues in the Middle East, the consequent sharp rise in oil prices, tax decisions in key regions and the economic and technological impact of Japan's nuclear crisis.

The comparatively big beneficiary, however, could be gas. Abundant reserves of natural and shale gas, soft prices and the fact that gas has relatively low carbon emissions, should all help to push gas consumption in the near and medium terms and this will, in turn, drive deals in the sector.

2010 was a year of high activity both in terms of deal volumes and values. That activity continued in the first quarter of this year with steadily growing, rather than stellar, activity both in acquisitions and disposals.

BP returned to the acquisition trail with an important USD7.2bn strategic upstream tie up with the Indian conglomerate, Reliance Industries, a deal which confirms the continuing importance of Asia in energy and natural resources transactions, both outbound and inbound.

Shell successfully completed the disposal of African downstream assets to Vitol/Helios for USD1bn, while Chevron sold the Pembroke refinery to Valero for USD730m.

But completing these large deals is by no means straightforward. The injunction halting BP's proposed tie-up with Russia's Rosneft to explore for oil in Arctic regions shows the complexities inherent in completing major transactions.

And while some big disposals appear to confirm an active marketplace, the reality may be slightly different. There is in fact a surplus of downstream assets on the market, particularly in Europe where the rapid rationalisation of refining capacity is being driven at high speed by tight refining margins and the building of more competitive and more capable plants in key emerging economies.

There are a lot of sellers for this capacity but a dearth of buyers and negotiating deals can be drawn out. Shell, for example, held protracted negotiations before agreeing the USD1.3bn sale of the Stanlow refinery in the UK to Essar.

Tax decisions are also presenting a hurdle to upstream deals in some regions. The UK Government's decision to put a windfall tax on North Sea producers sent the share prices of companies focused on that region into a spin and has been credited with forcing both Conoco Phillips and Noreco to pull proposed transactions.

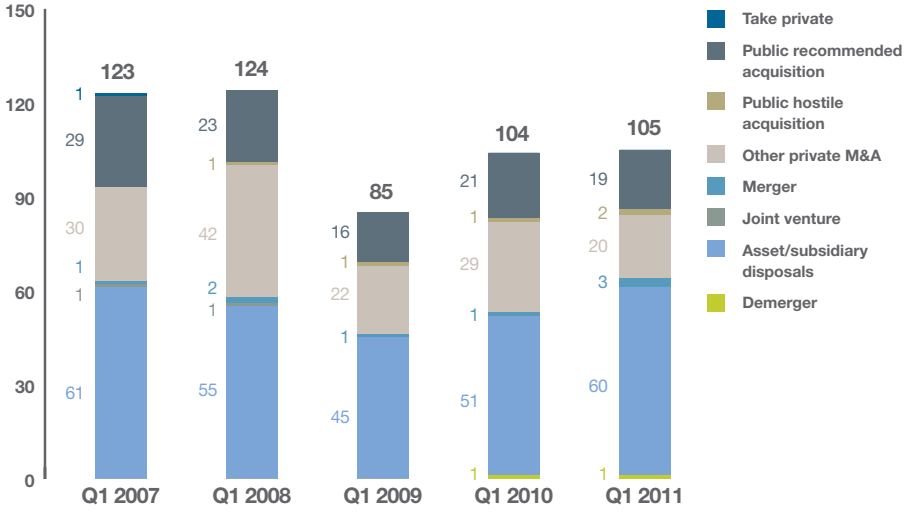
It's too early to know what the full impact of the Fukushima nuclear accident will be, although it's fairly safe to assume it will put a brake on what was expected to be a fairly rapid resurgence of nuclear power projects around the world. Japan itself will probably look to gas to take a greater share of its short and medium term power needs, auguring well for Asia Pacific Liquefied Natural Gas producers, most notably Australia.

Plentiful reserves of shale gas in the U.S., Canada and potentially Europe will also continue the decoupling of gas prices from the currently high cost of oil.

The reluctance of deficit cutting governments to subsidise renewable energy projects is also conspiring to push activity towards hydrocarbons, and gas – as a cleaner product – should gain a further advantage.

Elsewhere continuing safety fears about deep-water oil exploration, following disasters in the Gulf of Mexico and off Western Australia, has awoken worries in the industry about meeting tough new regulations on drilling new wells (particularly in deep waters) and the maintenance and decommissioning of oil and gas facilities over time. The effect of the resulting new laws and regulations on existing and new deals will take some time to assess.

Energy and Natural Resources deal types



Financial Services – holding fire

Fighting fires – many of them major conflagrations – has been the main preoccupation in financial services since crisis swept the sector in 2008.

Now, with many of those emergencies brought under control, holding fire seems to have become the order of the day as far as transactions are concerned.

After a spike of M&A activity in the sector in the last quarter of 2010 – which was almost twice as busy as the same period the year before – the first three months of 2011 were relatively quiet in terms of deal values and volumes.

The first quarter coincides with the bank reporting season and is traditionally subdued, so a dip in activity is far from unexpected. We do not see any reason to believe that the steady long-term growth in transactions has gone into reverse.

But the two fundamental drivers of M&A activity remain the same. The first is a raft of regulatory change so vast in its reach that it could take some years to work its way through the global financial system. The second is the need for individual institutions to reshape their balance sheets, capital bases and business models to get back on the path to secure, long-term growth.

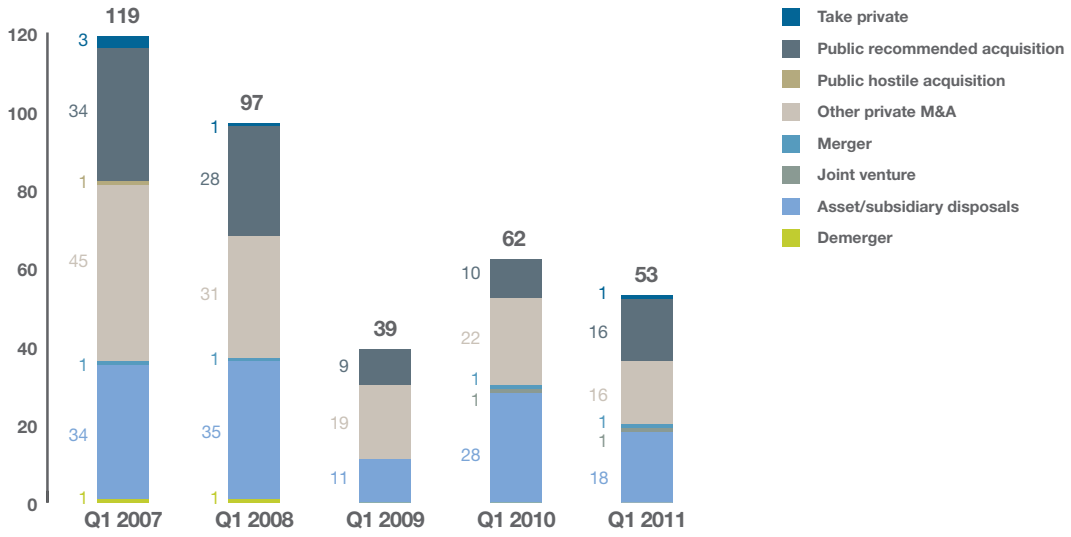
In this environment buyers are in short supply while so much regulatory uncertainty hangs over the sector. Sellers are there in abundance, but are also waiting to get a better fix on value and on risk once the regulatory picture becomes clearer and when, and if, the current turbulence on equity markets subsides. We are seeing a higher number of institutions weighing up deals only to withdraw and wait for better market conditions.

There is no shortage of cash available to do deals. Middle and Far Eastern sovereign wealth funds, for instance, have plenty of firepower to complete transactions. But they are currently in no hurry to spend their money and China, which suffered some significant investment set-backs at the start of the financial crisis, is probably more cautious than most.

Regulatory change will increasingly drive deals. We've recently seen the Spanish Government announce measures to consolidate and recapitalise the country's savings and loans banks. Elsewhere, nationalised and semi-nationalised banks have also been forced to offload distressed assets and toxic debts. Eurozone bailouts in Greece, Ireland and Portugal will also leave many international banks with exposures that will need to be cleaned up. There will be M&A activity around these assets in the relatively near future.

Further privatisations are also in the offing – we expect the UK Government to offload holdings in The Royal Bank of Scotland and Lloyds in the next 12 months, for example.

Financial Services deal types



Growing protectionism is, however, something of a counter-theme. The Italian Government has recently tried to block the sale of banking assets to foreign buyers. The UK Takeover Panel will introduce new "put up or shut up" bid disclosure rules this summer which, although a direct response to the political furore over Kraft's acquisition of Cadbury, could temper M&A activity across all sectors.

And it will be some time before the sector gets a clear view about future regulation. Issues such as "too big to fail" and the separation of retail and investment banking could take some years to settle, whatever the national route taken to resolve these issues. Little wonder buyers and sellers are biding their time.

Not surprisingly then it is those areas less pre-occupied with seismic regulatory change – particularly private banking, asset management and custodianship – that are the busiest doing deals. Following Henderson Group's takeover of Gartmore, Royal Bank of Canada's acquisition of BlueBay and the BofNY Mellon's buy-out of Insight, two or three other deals are now under discussion.

There is also a spike of activity around stock exchanges. Many major exchanges have lost their secondary regulatory oversight roles. They are now behaving more like conventional businesses and are looking to consolidate their respective IT platforms. This is driven by a desire to broaden revenue streams by diversifying beyond equities into other asset classes, such as derivatives. Deutsche Börse, NASDAQ OMX and IntercontinentalExchange and the NYSE Euronext, LSE and Canada's TMX, and Australia's ASX and Singapore's GSX are all in talks.

The UK continues to lead the way in enabling mutual societies to consolidate following the groundbreaking Butterfill Act – a lead other European countries may follow. The U.S. PE house, JC Flowers, is continuing to innovate in this area. Its joint venture with the Kent Reliance Building Society via an industrial and provident society could provide a springboard for further acquisitions.

30%

Financial Services – overall value of deals up by almost 1/3 against same period in 2010

Life Sciences – still waiting for the great move east

A pick-up in deal activity in the Life Sciences sector failed to materialise in the first quarter of 2011. Although we saw relatively steady activity – with volumes up a little, but values down slightly – it was not the strong growth the market had been anticipating at the end of 2010.

Undoubtedly a prime reason for this is that companies are making slower than expected progress in migrating their operations eastwards.

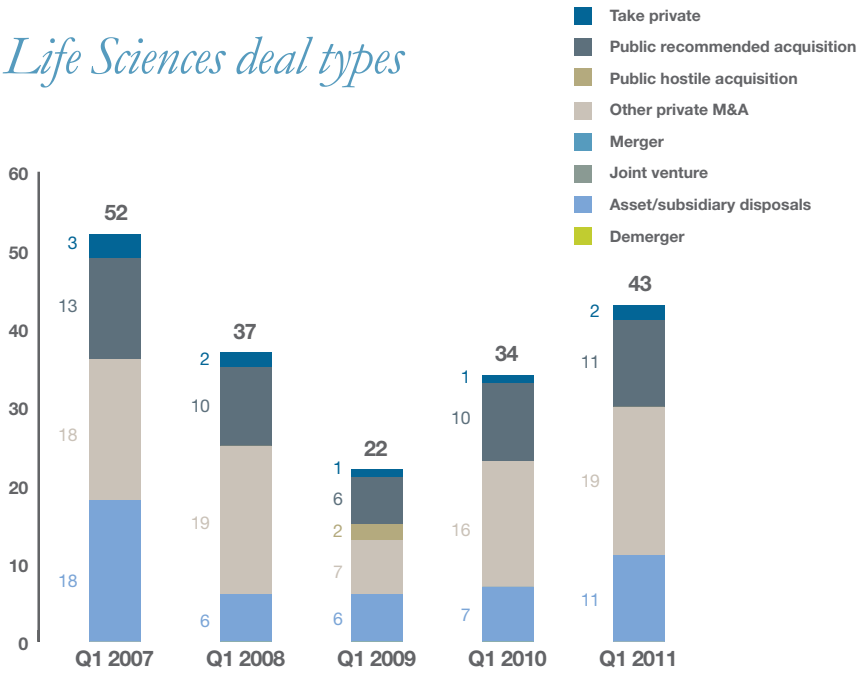
The U.S. remained the sector's busiest region for M&A in Q1 and there were some quite sizeable deals, notably in the medical technology sphere where, for instance, we saw Beckman Coulter accept a USD6.8bn takeover from Danaher. Western Europe saw some reasonable activity, particularly in the mid-market, but Asia Pacific, against predictions, remained pretty quiet.

We know from talking to clients that the move east still tops the agenda of many majors in the sector. They are anxious to tap the burgeoning healthcare markets of India and China, where spending on services and treatments by an emerging middle class promises huge growth. They also want to take advantage of lower cost research as well as manufacturing in these and other developing economies.

But it's clear that many companies have yet to finalise their strategies. They continue to be worried about transparency and government and regulatory policies in the region. There are also lingering concerns about leakage of valuable intellectual property rights should they team up with new, local partners.

We see this as a temporary hurdle rather than a permanent roadblock and deals in this region should pick up considerably in the months ahead. The greater their exposure to these markets, the easier it will be for them to decide how to deal with a lack of regulatory transparency often inherent here and to choose the right partners. For now the dealmakers are clearly taking their time.

Life Sciences deal types



Elsewhere consolidation continues to drive M&A activity in the sector. This is particularly true in medical technology and services, where there are more operators and greater scope for efficiencies through combining complementary businesses and product lines.

For the big pharma companies the trend is away from blockbuster solutions – so few new ones are in the offing. Instead they are looking to supply more specialist populations to fill their development pipelines. Some are also looking at diversification into consumer and over-the-counter products.

Most operators remain relatively sanguine about the outlook for the global economy, with few expecting it to dip back into recession. But pressure on national healthcare budgets remains intense. Even in the largely private U.S. market, public spending is still high and under pressure.

But some other tensions are also appearing. Both the UK and Japan have announced measures to boost R&D spending in the Life Sciences sector. Despite this we've seen Pfizer, Novartis and GSK all announce closures of research facilities in the UK and/or cuts in research spending.

It remains to be seen what impact the earthquake will have on corporate investment in Japan. Will Japanese companies continue looking for opportunities to acquire assets overseas or turn their attention to rebuilding at home? In the current uncertain circumstances, it would take a very brave forecaster to call the likely turn of events.

Private Equity – the U.S. leads a still wary market

The slowdown in buy-out investment activity in Q4 2010 has continued in Q1 2011. It feels as if there are a greater number of transaction opportunities around compared to the same period last year, but these are not, at the moment, being converted into executed deals.

Deal activity globally, in terms of volume, is at Q1 2010 levels, but, while deal values are holding up, we are not seeing many mega buy-outs. There were only nine deals globally around the EUR1bn or more level and only two in excess of EUR1.6bn, both of which were in the U.S.

The U.S. remains the most active market by quite some distance with about 40% of global share by volume.

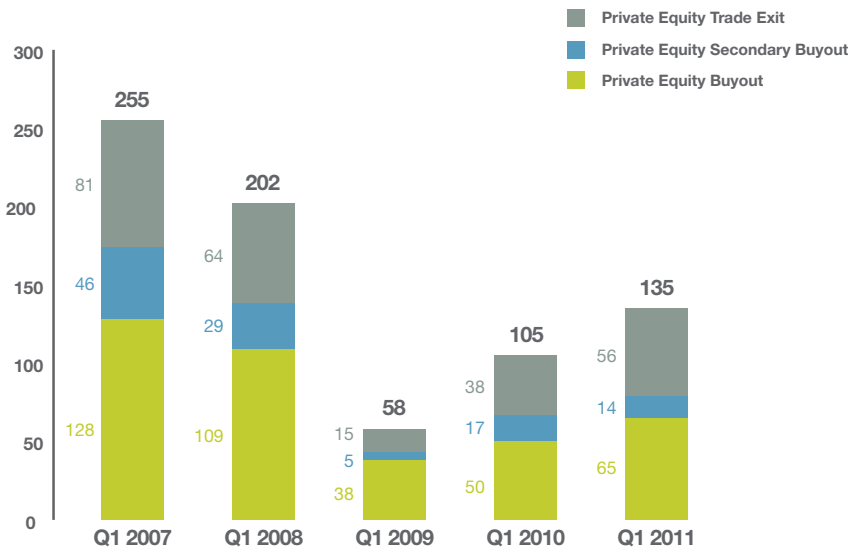
The UK is the next most active (accounting for around 20%) and ahead of the combined share of the rest of Western Europe and the Nordic countries. Germany and France had two deals each, the largest being a secondary buy-out at around EUR250m. The Netherlands saw good activity but this was concentrated on smaller deals. There were only three deals in Western Europe above EUR1bn.

There was modest activity in the CEE region. But Poland did see its biggest PE transaction to date at the end of March with the EUR425m acquisition of Emitel and the forthcoming, much bigger, sale of Polkomtel is attracting wide interest from the sponsor community. The SEE, CIS and MENA economies were similarly quiet. Conversely, Japan and Latin America (principally Brazil) have been very active with five deals each.

Debt financing is getting easier to raise, but it is clearly not being eaten up in a flurry of leveraged buy-out activity. For that reason we probably feel more confident now than before that debt will be available both to deal with a wall of debt maturity that needs to be negotiated and to finance new buy-out activity.

The buy-out funds have a significant amount of firepower available to do transactions. However, the top 15 global funds were only involved in nine deals globally in Q1, deploying, in aggregate, some USD8.5bn of capital (assuming 50% equity contribution). There remains a significant volume of equity capital available to be put to use alongside increasing liquidity in the debt markets.

Private Equity activity



123%

value of overall total buy-outs in Q1 is up over 123% compared to same period last year

Regional analysis

Asia Pacific – disasters and security cloud outlook

Asia remains a powerhouse of global M&A activity. The insatiable demand for energy and natural resources continues to drive outbound transactions within and outside the region, while inbound investors remain as keen as ever to tap the burgeoning consumer markets of the East and take advantage of lower cost manufacturing.

Although we do not expect that to change any time soon, M&A activity was actually more subdued in the first quarter of 2011 than expected.

That's a surprise, not least since the Q1 stats barely reflect the, as yet uncertain, global impact of the earthquake in Japan, escalating concerns about security in the Middle East or the potential impact of another sovereign debt crisis in Europe.

Equity markets have, of course, reacted more swiftly to these events and threats and it's clear investor confidence has been dented. If stock market volatility continues in the months ahead, it is bound to have a knock-on effect on any transactions that depend on equity funding. It could also cause buyers and sellers more widely to delay transactions.

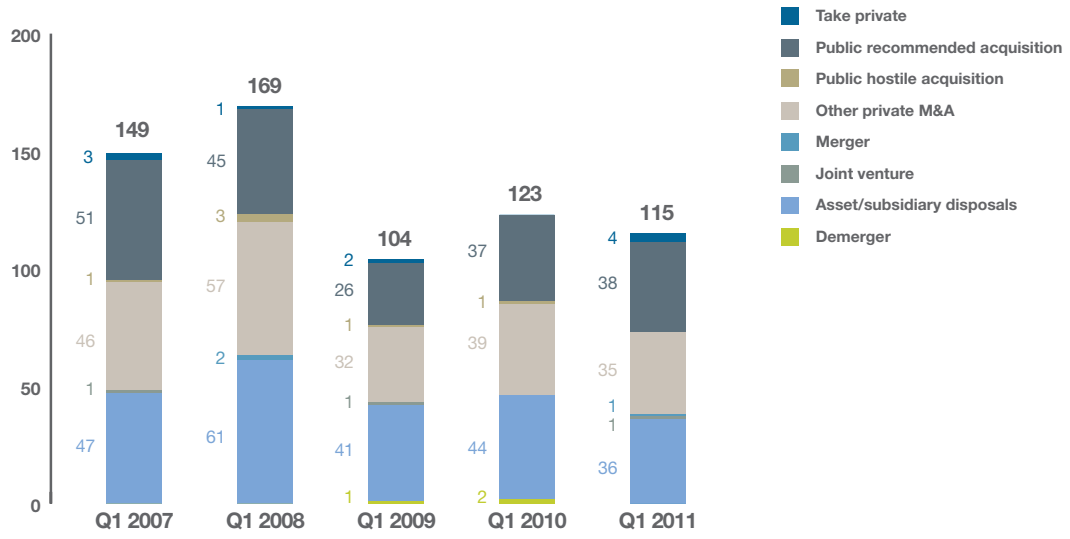
The region has not suddenly gone quiet, however. Indeed, ahead of the earthquake Japanese businesses, anxious to seek growth outside a moribund domestic economy, were very active in outbound strategic transactions.

One of the biggest deals, for instance, saw Nippon Steel and fellow investors take a USD1.8bn stake in the Brazilian mining group, CBMM and we saw deals around the world in a variety of other sectors including pharmaceuticals, industrial products and financial services. The question is, will this continue? Or will some Japanese companies retrench?

Elsewhere we've seen greater competition among outbound investors. In Australia, Indian, Korean and Thai investors have joined the race for energy and natural resources in earnest. Contested processes for assets are on a sharp increase, challenging the once popular view that Australia had become China's exclusive quarry for raw materials.

Food production and agriculture are proving to be a far more sensitive issue. A Private Member's Bill before the Australian Parliament would subject the sale of any parcel of farmland of more than 5 hectares to a national interest test. With food security

Asia Pacific deal types



becoming an increasingly vexed issue, this may point to an important new trend. Interestingly, a number of farm and dairy transactions in New Zealand have raised similar concerns.

Across the world stock exchanges are being forced to rethink their business models. Singapore's SGX and Australia's ASX are just two of the world's major exchanges looking to consolidate, announcing plans for an USD8.8bn merger. The move reflects both the emergence and rapid growth of start-up exchanges and the growing importance of exchanges in emerging markets. We are handling a growing number of enquiries by clients seeking to migrate listings.

Media is another sector where there has been increased M&A activity in Australia. In a delayed reaction to changes in media ownership laws, there has been a flurry of takeover activity and mooted transactions. These include Western Australian Newspapers' USD2bn acquisition of Seven Media to create Australia's largest media company, Southern Cross Media's USD741m takeover of Austereo and Foxtel's rumored pay-TV deal to buy Austar from Liberty Global.

Asia Pacific deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007			47	32,704	1	104			46	16,231	1	871	51	47,977	3	452	149	98,339
Q2 2007	3	8,073	62	28,281	2	1,451	1	430	57	19,201			48	30,634	8	9,443	181	97,513
Q3 2007			46	17,455	2	303	3	6,828	32	10,386	3	1,286	47	37,755	1	155	134	74,168
Q4 2007			69	30,056	1	168	2	2,619	68	31,224	2	1,428	57	35,887	5	4,181	204	105,563
2007 TOTAL	**3**	**8,073**	**224**	**108,496**	**6**	**2,026**	**6**	**9,877**	**203**	**77,042**	**6**	**3,585**	**203**	**152,253**	**17**	**14,231**	**668**	**375,583**
Q1 2008			61	20,738			2	4,011	57	26,679	3	2,183	45	26,941	1	1,362	169	81,914
Q2 2008			56	32,124	3	1,614	2	2,057	40	14,219			39	72,822	1	2,203	141	125,039
Q3 2008			54	37,558	2	1,037	1	1,082	40	13,144			31	8,811	2	366	130	61,998
Q4 2008	2	862	50	28,416	1	147			34	36,895	1	276	23	26,410	1	112	112	93,118
2008 TOTAL	**2**	**862**	**221**	**118,836**	**6**	**2,798**	**5**	**7,150**	**171**	**90,937**	**4**	**2,459**	**138**	**134,984**	**5**	**4,043**	**552**	**362,069**
Q1 2009	1	1,296	41	24,239	1	679			32	12,302	1	618	26	9,268	2	1,610	104	50,012
Q2 2009			56	51,538			1	1,209	24	12,762	1	133	30	17,721			112	83,363
Q3 2009	1	1,319	82	33,854			1	393	35	13,711			38	27,613			157	76,890
Q4 2009	4	14,910	83	41,865	2	1,057	3	1,341	42	16,148	1	789	45	48,005	3	412	183	124,527
2009 TOTAL	**6**	**17,525**	**262**	**151,496**	**3**	**1,736**	**5**	**2,943**	**133**	**54,923**	**3**	**1,540**	**139**	**102,607**	**5**	**2,022**	**556**	**334,792**
Q1 2010	2	809	44	28,130					39	15,495	1	259	37	25,210			123	69,903
Q2 2010	2	1,538	76	40,099					25	7,747	1	118	47	31,646	1	176	152	81,324
Q3 2010	1	526	57	27,889	1	189	2	1,034	35	15,566	4	1,725	43	61,626	2	2,451	145	111,006
Q4 2010			87	61,741			2	708	38	15,476	3	1,266	58	60,284	2	456	190	139,931
2010 TOTAL	**5**	**2,873**	**264**	**157,859**	**1**	**189**	**4**	**1,742**	**137**	**54,284**	**9**	**3,368**	**185**	**178,766**	**5**	**3,083**	**610**	**402,164**
Q1 2011			**36**	**19,768**	**1**	**168**	**1**	**204**	**35**	**13,387**			**38**	**30,674**	**4**	**1,871**	**115**	**66,072**
TOTAL	**16**	**29,333**	**1,007**	**556,455**	**17**	**6,917**	**21**	**21,916**	**679**	**290,573**	**22**	**10,952**	**703**	**599,284**	**36**	**25,250**	**2,501**	**1,540,680**

Central and Eastern Europe – PE and strategic buyers on more equal terms

After a period in the sidelines, Private Equity is making its presence felt again across the countries of Central and Eastern Europe. But in a significant new trend we are now seeing strategic investors competing with PE houses on much more equal terms for a range of assets across many sectors.

PE disappeared off the scene for a while in many CEE countries as the global financial crisis took hold. Funds are back in force now – though not quite at the level we saw before 2008 – and this time we are seeing some important new trends in deal financing.

No longer able to secure debt at sky-high multiples, they are less likely to be able to demand exclusivity in transactions or to gain an immediate upper hand in competing with strategic cash buyers.

In many parts of the region we are seeing PE houses far more willing to take part in auctions. And with debt funding now capped at more sensible levels, corporate buyers can now do deals on a more level playing field than in the past.

This could reflect the fact that PE houses are sitting on more cash after a period in the sidelines of major M&A activity. It might also reflect a scarcity of good transaction targets in key economies.

In that respect we are seeing something of a north-south divide. Deals in Hungary, the Czech Republic and Slovakia, for example, appear to be focused on nitty-gritty sectors such as energy, chemicals, food, media and retail. Strategic investors are taking the opportunity to buy distressed or semi-distressed assets, which means a high number of relatively small bolt-on transactions.

We have still seen some big deals by both strategic investors and PE funds. In Hungary, for instance, China's Wanhua acquired chemical company BorsodChem in a EUR1.2bn deal. In another substantial first quarter transaction, Invitel (owned by Mid Europa Partners, the regional PE house) and Liberty Global International acquired shares and assets in Fibernet, a Hungarian cable and telecommunication services provider.

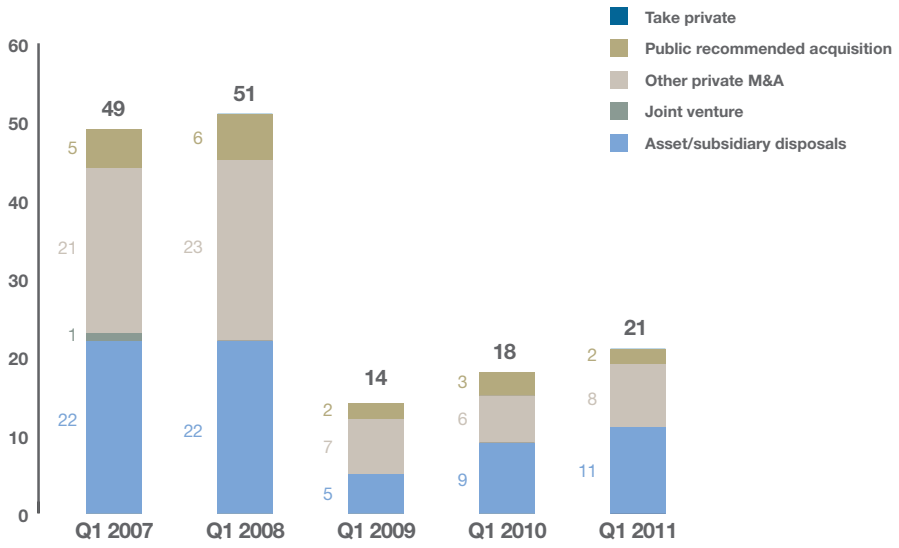
Three infrastructure funds operated by Macquarie have taken control of České Radiokomunikace, the Czech broadcasting infrastructure group, for EUR574m and Advent International acquired Provimi Pet Food from the PE house, Permira.

Political meddling in transactions is increasingly apparent in some countries. Though rarely critical, it is something bidders need to factor into their due diligence tests.

14bn

USD14bn worth of asset/ subsidiary sales in Q1 2011

CEE deal types



The situation in Poland is entirely different. Here the market for transactions remains very vibrant with a number of large landmark deals in the pipeline and a host of relatively big deals across all sectors including telecoms, consumer goods and financial services.

PE funds are extremely active here. The proposed EUR4bn sale of one of Poland's three biggest mobile operators, the majority state-owned Polkomtel, is reported to have attracted interest from Blackstone, TPG, Apax and CVC Capital. At the end of March, Emitel – a TV and radio signal transmission business – was acquired by Montagu for EUR425m, in what is the largest PE deal in Poland so far.

Across the region we are seeing increased interest from strategic buyers from across the world, including China, India, Russia, Western Europe and the U.S. This and growing activity by PE houses will underpin growth in transactions in the months ahead.

Global economic developments and security worries in the Middle East are causing concern, and any further Eurozone sovereign debt crises could cause instability. But the strength of the German economy acts as a bulwark for many CEE countries.

Events in Japan may have a more lasting effect. The nuclear industry across the CEE is in a period of renaissance. The Fukushima accident is causing some to wonder whether that is the sensible way to go – a debate that could have profound implications for long-term economic growth in the region.

21

deals worth USD27bn in Q1 2011

CEE deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007			22	8,928	1	125			21	6,145			5	4,642			49	19,840
Q2 2007			23	28,118	2	3,593			22	15,838			1	2,228			48	49,777
Q3 2007			25	23,695					15	4,636							40	28,331
Q4 2007			17	8,631	1	155			26	27,694			11	9,414			55	45,894
2007 TOTAL			**87**	**69,372**	**4**	**3,873**			**84**	**54,313**			**17**	**16,284**			**192**	**143,842**
Q1 2008			22	16,671					23	7,462			6	3,912			51	28,045
Q2 2008			24	13,820					18	9,410	1	141	4	3,490			47	26,861
Q3 2008			13	4,520	1	293			12	1,994			4	1,783			30	8,590
Q4 2008			3	1,875					12	3,476			3	595			18	5,946
2008 TOTAL			**62**	**36,886**	**1**	**293**			**65**	**22,342**	**1**	**141**	**17**	**9,780**			**146**	**69,442**
Q1 2009			5	3,671					7	2,068			2	2,109			14	7,848
Q2 2009			5	3,211					9	8,576			1	168			15	11,955
Q3 2009			11	6,198					5	826			7	2,244			23	9,268
Q4 2009			15	11,973					9	3,232					2	482	26	15,687
2009 TOTAL			**36**	**25,053**					**30**	**14,702**			**10**	**4,521**	**2**	**482**	**78**	**44,758**
Q1 2010			9	8,428					6	1,809			3	1,177			18	11,414
Q2 2010			16	16,211					8	2,758			6	2,775			30	21,744
Q3 2010			13	6,500					9	7,279			4	1,556			26	15,335
Q4 2010			9	7,965					16	20,509	1	562	6	17,442			32	46,478
2010 TOTAL			**47**	**39,104**					**39**	**32,355**	**1**	**562**	**19**	**22,950**			**106**	**94,971**
Q1 2011			**11**	**14,350**					**8**	**4,891**			**2**	**8,035**			**21**	**27,276**
			114	122,529	3	476			141	88,782			28	27,432				
TOTAL	**-**	**-**	**243**	**184,765**	**5**	**4,166**	**-**	**-**	**226**	**128,603**	**2**	**703**	**65**	**61,570**	**2**	**482**	**543**	**380,289**

India – new laws could fuel further growth

India's already buoyant and growing M&A market looks set to receive a further boost from a number of new competition laws and tax provisions. These will only enhance an already favorable environment for investment, which saw continued heavy activity in the first quarter with many deals done and many more in the pipeline.

Three key measures are expected in the coming months. The Government has issued notifications on how the Competition Act 2002 will apply to companies with assets of less than USD56m and turnover of less than USD166m. From 1 June, they will be exempt for five years from competition regulations, and there are further waivers for groups with minority voting rights.

In addition a new Telecoms policy framework is being drawn up to replace the current one created in 1999 and a new Direct Tax Code will come into effect on 1 April. Both measures should help to drive M&A activity.

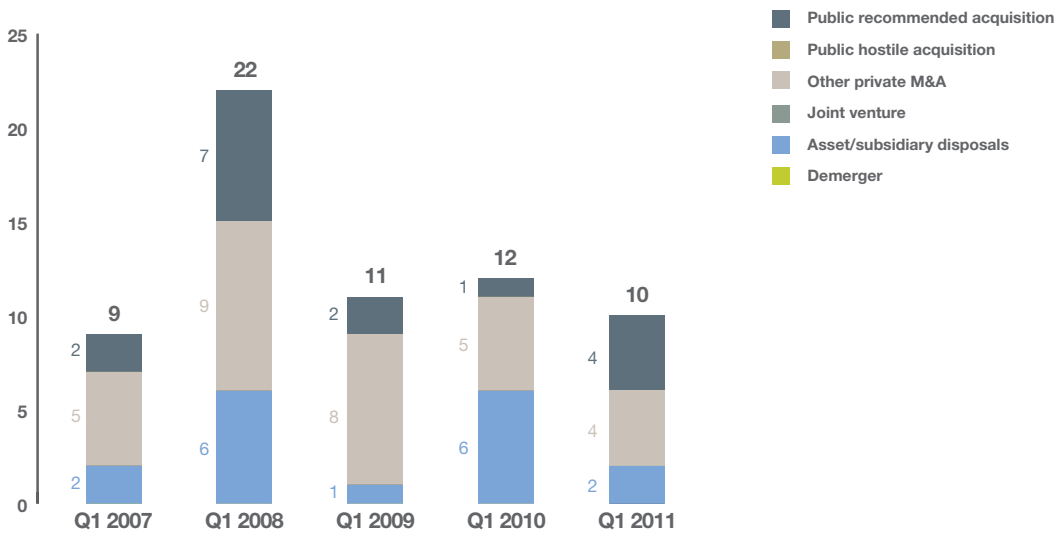
In the first quarter key sectors dominated deals, including infrastructure, mining, fast moving consumer goods, media and technology, pharmaceuticals and healthcare. We also saw some good activity in IT and the largest inbound telecoms deal to date. Private Equity has also been highly active.

Landmark transactions in the quarter included Sterlite Industries (India) USD546m takeover of the Lisheen zinc mine in Ireland from Taurus International. iGate acquired a USD1.22bn stake in Patni Computers, Hero Group bought Honda Motors' 26% stake in Hero Honda Motors for USD851m, and Japan's Nippon Life Insurance Company took a 26% interest in Reliance Life Insurance for USD680m.

189%

increase in value of Indian M&A in Q1 2011 compared to Q1 2010

India deal types



The need to secure energy and mineral assets, particularly gas and coal, continues to power outbound investment from India. But we also expect, longer-term, to see an increasing number of outbound deals in other sectors such as automobiles and heavy engineering.

Indian strategic investors have growing cash resources to do transactions and an unrelenting desire to improve know-how and intellectual property. For those relying more heavily on debt funding, domestic regulations prohibiting leveraged asset-financing are also likely to push investors to other markets.

For inbound investors, infrastructure is a growing area of interest. With the Indian economy growing at a phenomenal 9% a year, the need for investment in key areas such as renewable energy, mining, healthcare and IT is acute and should act as an increasing spur for transactions.

We therefore expect to see continued growth across most sectors although shipping and outsourcing seem unlikely to match the activity levels seen in recent years.

04

public recommended acquisitions in Q1 2011

India deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007			2	13,790					5	934			2	1,157			9	15,881
Q2 2007	2	5,854	2	1,509	1	190			6	1,686			5	1,642			16	10,881
Q3 2007									5	3,695			3	1,380			8	5,075
Q4 2007			5	954	1	168			7	1,917			4	761			17	3,800
2007 TOTAL	**2**	**5,854**	**9**	**16,253**	**2**	**358**			**23**	**8,232**			**14**	**4,940**			**50**	**35,637**
Q1 2008			6	1,471					9	1,809			7	3,659			22	6,939
Q2 2008			5	1,840	1	328			3	923			3	7,531			12	10,622
Q3 2008			1	227					5	1,203			1	116			7	1,546
Q4 2008			3	1,869					1	2,653			3	511			7	5,033
2008 TOTAL			**15**	**5,407**	**1**	**328**			**18**	**6,588**			**14**	**11,817**			**48**	**24,140**
Q1 2009			1	1,305					8	1,417			2	1,820			11	4,542
Q2 2009			3	555					1	239	1	133	3	864			8	1,791
Q3 2009			6	1,910					1	101			1	322			8	2,333
Q4 2009			5	4,290	1	650			9	2,393			1	252			16	7,585
2009 TOTAL			**15**	**8,060**	**1**	**650**			**19**	**4,150**	**1**	**133**	**7**	**3,258**			**43**	**16,251**
Q1 2010			6	2,980					5	824			1	387			12	4,191
Q2 2010			16	20,765					4	2,026			6	2,570			26	25,361
Q3 2010			3	373					3	734			4	12,085			10	13,192
Q4 2010			3	781					7	1,580			3	2,503			13	4,864
2010 TOTAL			**28**	**24,899**					**19**	**5,164**			**14**	**17,545**			**61**	**47,608**
Q1 2011			**2**	**7,391**					**4**	**1,195**			**4**	**3,533**			**10**	**12,119**
TOTAL	**2**	**5,854**	**69**	**62,010**	**4**	**1,336**	**-**	**-**	**83**	**25,329**	**1**	**133**	**53**	**41,093**	**-**	**-**	**212**	**135,755**

Latin America – strong growth maintained

Latin America witnessed spectacular growth in M&A transactions in 2010 with a near 55% increase in deals. Though this year may struggle to match that growth rate exactly, the trend is still expected to be upwards, with a further 40% growth forecast for 2011. Like last year, we expect activity to intensify as the year goes on.

Energy and natural resources are driving this extraordinary growth. Not surprisingly it is the fast growing Asian economies that dominate the scene as they sweep across the globe looking for the raw materials to power their rapid economic development. Oil and gas and minerals top their list of target assets, followed by key industrial products.

In 2011 Chinese and Indian companies are expected to be by far the biggest buyers of assets. This continues a trend started in 2010 where we saw, for example, the State Grid of China acquire a group of seven Brazilian power transmission companies; Sinopec acquire 40% of Repsol Brazil; and Bridas, owned by China's CNOOC, buy BP's 60% stake in Pan American, the second largest oil producer in Argentina.

Japan has also been active in the market – we saw Nippon Steel, for instance, join forces with South Korean investors to take a USD1.8bn stake in the Brazilian mining company, CBMM, in March. Indian businesses have yet to establish a strong foothold here, but they are now beginning to make their presence felt and we expect their interests in this market to grow rapidly.

There has been a noticeable shift in how deals are being financed. In 2010 the majority were funded by debt but that's now changing. Investors are both cash rich and, as their knowledge of Latin American markets increases, increasingly willing to share equity. This year we expect to see cash and equity deals outnumber those financed by debt.

Such powerful growth indicates the speed at which M&A deals are being done in the region. Chinese businesses can be expected to continue to execute quickly, so acute is their hunger for raw materials.

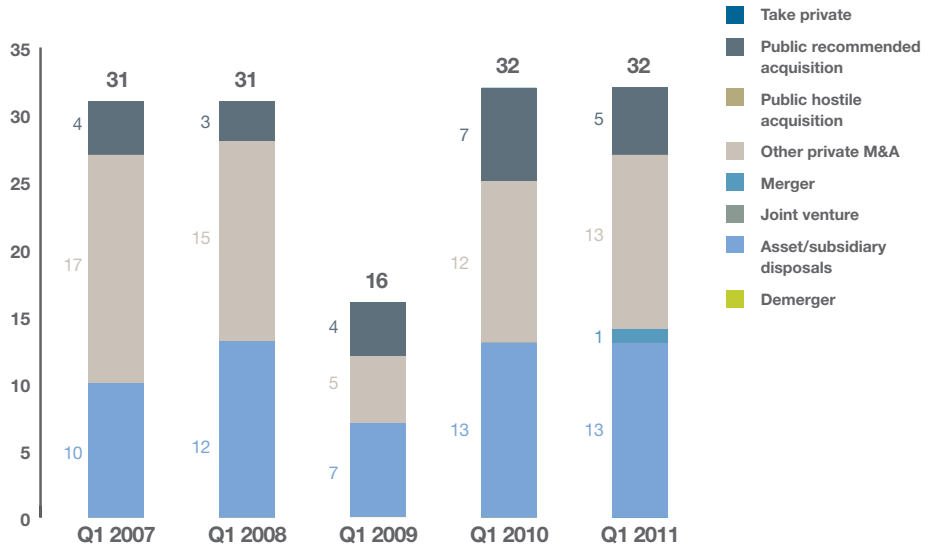
But interestingly, strategic investors from the U.S. and Europe and Private Equity houses are all taking a more cautious approach, spending far more on due diligence to establish that they are buying the right assets and achieving real value for money.

Inbound foreign investment still dominates the M&A scene, but last year we saw a stronger growth in activity within the region and this trend is continuing. Brazilian, Colombian and Mexican strategic investors are leading the field.

Notable intra-regional deals include the still ongoing airline merger of TAM and LAN; the Colombian ISA's acquisition of the highway concessionaire assets of Cintra Chile; the EPM acquisition from Ashmore of 100% of AEI El Salvador Holdings Ltd and Panama Distribution Group; and the Banco do Brasil purchase of a controlling stake in Banco Patagonia, an Argentinean bank. Financial institutions are expected to be an important focus for M&A within Latin America this year.

Leading regional businesses are also in the vanguard of outbound transactions targeting Europe, the U.S., Asia and Africa. The many recent deals have included Bimbo's near USD1bn acquisition of Sara Lee's North America Fresh bakery business; the Brazilian investor, Eike Batista's acquisition of 80% of

Latin America deal types



Canada's Ventana Gold Corp; and Grupo Alfa de Mexico's acquisition of three petrochemical plants owned by Eastern Chemical Company.

For 2011, Banco do Brasil is rumored to have an eye on the African operations of BES and Vale has made announcements of "opportunistic acquisitions" in Zambia and the Democratic Republic of Congo.

Taking advantage of strengthening local currencies and strong support from institutional investors, these companies are becoming global players in their own right, making strategic acquisitions right around the world. As a result capital flows into and out of the region are, for the first time, becoming more balanced, although net inward investment remains very much higher.

Key Latin American countries remain very open to overseas investment. Recently there has been growing talk of tightening controls on the sale of key strategic assets and businesses and there is a possibility that some governments and regulators might take a more protectionist stance on ownership. The Brazilian Government has been enforcing rules limiting ownership of land with greater zeal, affecting some planned Chinese investments in agriculture and mining. Apart from this there has been little active protectionism yet, and we have no reason to believe it will put a massive brake on transactions.

32

deals worth USD27bn in Q1 2011

Latin America deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007			10	3,134					17	6,068			4	1,461			31	10,663
Q2 2007			14	4,350					19	7,085			3	5,215			36	16,650
Q3 2007			22	10,849					15	4,691			4	1,748			41	17,288
Q4 2007	1	13,546	20	8,316	1	900			15	5,456	1	408	3	1,480			41	30,106
2007 TOTAL	**1**	**13,546**	**66**	**26,649**	**1**	**900**			**66**	**23,300**	**1**	**408**	**14**	**9,904**			**149**	**74,707**
Q1 2008			12	5,127			1	7,320	15	5,889			3	7,867			31	26,203
Q2 2008			14	8,591					11	1,758			8	10,530			33	20,879
Q3 2008			10	4,073					9	1,934			4	2,852			23	8,859
Q4 2008			13	12,337					4	839			5	23,886			22	37,062
2008 TOTAL			**49**	**30,128**			**1**	**7,320**	**39**	**10,420**			**20**	**45,135**			**109**	**93,003**
Q1 2009			7	6,766					5	1,919			4	1,827			16	10,512
Q2 2009			12	9,720					9	1,926			5	5,274			26	16,920
Q3 2009			12	11,483					5	2,893			4	10,291			21	24,667
Q4 2009			15	12,255					9	3,304			3	1,225			27	16,784
2009 TOTAL			**46**	**40,224**					**28**	**10,042**			**16**	**18,617**			**90**	**68,883**
Q1 2010			13	23,234					12	3,215			7	30,823			32	57,272
Q2 2010			15	9,955	1	2,831			12	5,541			5	4,127	1	938	34	23,392
Q3 2010			11	17,815					18	6,214	1	2,606	2	765			32	27,400
Q4 2010	2	5,058	19	27,574			1	1,407	22	10,172			2	1,350			46	45,561
2010 TOTAL	**2**	**5,058**	**58**	**78,578**	**1**	**2,831**	**1**	**1,407**	**64**	**25,142**	**1**	**2,606**	**16**	**37,065**	**1**	**938**	**144**	**153,625**
Q1 2011			**13**	**7,609**			**1**	**7,111**	**13**	**4,817**			**5**	**7,689**			**32**	**27,226**
TOTAL	**3**	**18,604**	**232**	**183,188**	**2**	**3,731**	**3**	**15,838**	**210**	**73,721**	**2**	**3,014**	**71**	**118,410**	**1**	**938**	**524**	**417,444**

Middle East and North Africa – the risk profile changes

Geopolitical turmoil has raised the risk profile of the Middle East and North Africa region and this, understandably, has had an impact on M&A activity in affected countries.

But it is important to understand the different dynamics at play in each country and recognise that many economies – particularly the UAE, Qatar, Kuwait and Turkey – remain strong and continue to attract both international and regional investment, across a range of sectors.

Astute investors from around the world, including Asia, the U.S. and Europe, recognize that fundamental economic factors remain strong. They see the current turmoil as an opportunity to buy assets at attractive values. Potential joint ventures with state-owned enterprises continue to be pursued as way to establish a strong foothold in the region and we are seeing an increase of activity in this area.

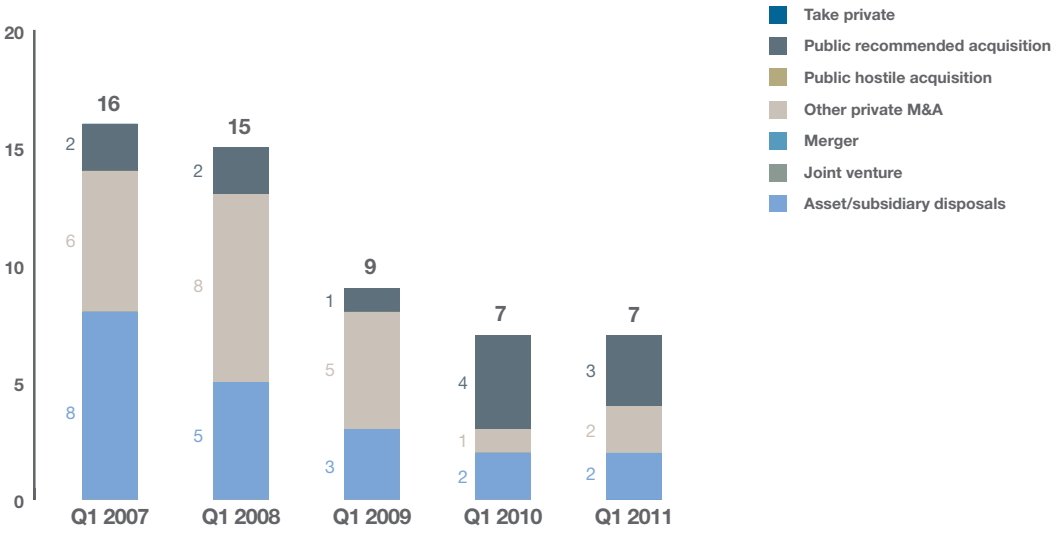
As a result, analysts continue to forecast an increase in M&A activity in 2011 compared to last year, largely fueled by mid-market deals and activity in the Natural Resources, Telecoms, Pharmaceuticals and Chemicals sectors.

Both liquidity restrictions, and a mis-match of value expectations between buyers and sellers, have impeded M&A activity over the last two years. But with debt financing becoming available again for the right deals and with sellers taking a more realistic view on price, the M&A market is improving.

The transaction that grabbed the headlines during Q1 was the proposed USD12bn sale by the Kharafi family of Kuwait of a controlling stake in Zain to Etisalat, a deal which signaled the return of big ticket deals in the region. Although the transaction looks like it will no longer proceed, the fact that Etisalat was able to raise bank financing for a regional deal of this scale is a clear sign that liquidity is returning to the market.

Despite the collapse of the Zain deal, the Telecoms sector remains active, with France Telecom SA and Agility, a Kuwaiti company, acquiring a 44% stake in Korek Telecom, the Iraq-based mobile telecoms services provider.

Middle East and North Africa deal types



The pharmaceuticals industry also saw an increase in transactions in the first quarter. Deals included Centurion Investment Company, a UAE-based investment group, taking a USD1.08bn, 40% stake in New Medical Center, with further deals in the pipeline.

Rising oil prices continue to be a spur to outward investments by regional investors. Sovereign wealth funds are taking the lead here and have been active over the last few months. Qatar Holding, for example, acquired a 6.2% stake in Iberdrola S.A, for USD2.8bn.

The fund also paid USD314m to take a 25% stake in the South American farmland venture, Adecoagro, following an initial public offering in the U.S. This transaction reveals a wider trend. Sovereign wealth funds are now keen to invest in agribusinesses. With food security becoming an increasingly pressing issue, some see this as a strategic investment. Others see it as a purely financial move, allowing them to take advantage of rising food and commodity prices.

Growing political unrest in the MENA region has persuaded sovereign wealth funds, and regional governments generally, to invest more heavily at home in sectors such as infrastructure, healthcare and education. However, funds are likely to continue investing outside the region as part of an ongoing strategy to lessen their dependence on hydrocarbons and diversify their sources of income.

Excessive leverage remains an issue in certain countries, particularly the UAE, and important debt restructuring work continues. Aldar Properties PJSC's USD4.46bn sale of real estate assets to the Abu Dhabi Government illustrates the need for certain companies to make disposals as they restructure debts. We expect this trend to continue more widely and to prompt greater M&A activity in the medium term.

Middle East and North Africa deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007			8	5,223					6	2,615			2	549			16	8,387
Q2 2007			10	2,506					5	2,476			3	759			18	5,741
Q3 2007			5	1,453	2	2,392			6	2,456			4	4,056	1	1,004	18	11,361
Q4 2007			9	17,977	1	600			7	3,242			2	295			19	22,114
2007 TOTAL			**32**	**27,159**	**3**	**2,992**			**24**	**10,789**			**11**	**5,659**	**1**	**1,004**	**71**	**47,603**
Q1 2008			5	3,407					8	2,576			2	2,889			15	8,872
Q2 2008			5	2,085					9	1,762	1	227	1	187			16	4,261
Q3 2008			5	1,237					4	693			1	302			10	2,232
Q4 2008			6	2,569	1	1,361	1	282	4	944							12	5,156
2008 TOTAL			**21**	**9,298**	**1**	**1,361**	**1**	**282**	**25**	**5,975**	**1**	**227**	**4**	**3,378**			**53**	**20,521**
Q1 2009			3	483					5	1,165			1	129			9	1,777
Q2 2009			2	829					2	244			2	647			6	1,720
Q3 2009			5	3,435					2	537			2	8,050			9	12,022
Q4 2009			5	1,177					9	4,261							14	5,438
2009 TOTAL			**15**	**5,924**					**18**	**6,207**			**5**	**8,826**			**38**	**20,957**
Q1 2010			2	750					1	100			4	2,354			7	3,204
Q2 2010			4	860					2	464			1	455			7	1,779
Q3 2010			5	1,633					3	1,410			2	762			10	3,805
Q4 2010			10	3,161					4	2,452			1	132			15	5,745
2010 TOTAL			**21**	**6,404**					**10**	**4,426**			**8**	**3,703**			**39**	**14,533**
Q1 2011			**2**	**1,800**					**2**	**1,389**			**3**	**3,046**			**7**	**6,235**
TOTAL	**-**	**-**	**91**	**50,585**	**4**	**4,353**	**1**	**282**	**79**	**28,786**	**1**	**227**	**31**	**24,612**	**1**	**1,004**	**208**	**109,849**

United States – a real recovery begins

The first quarter of 2011 was an eventful one for the North American M&A markets and showed, we believe, that, despite some headwinds, the nascent recovery we are experiencing is real and that confidence has returned to the market.

Deal volume was up 30% compared with the first quarter of 2010, with announced transactions having a total value of USD357bn. There were also a number of other positive developments, some of which reflected echoes from the doldrums of late 2008 and 2009 but which offer an insight into how the future is likely to shape up.

The most interesting development was the return of the cash-financed megadeal – namely AT&T's recently announced proposed USD39bn acquisition of T-Mobile's U.S. operations.

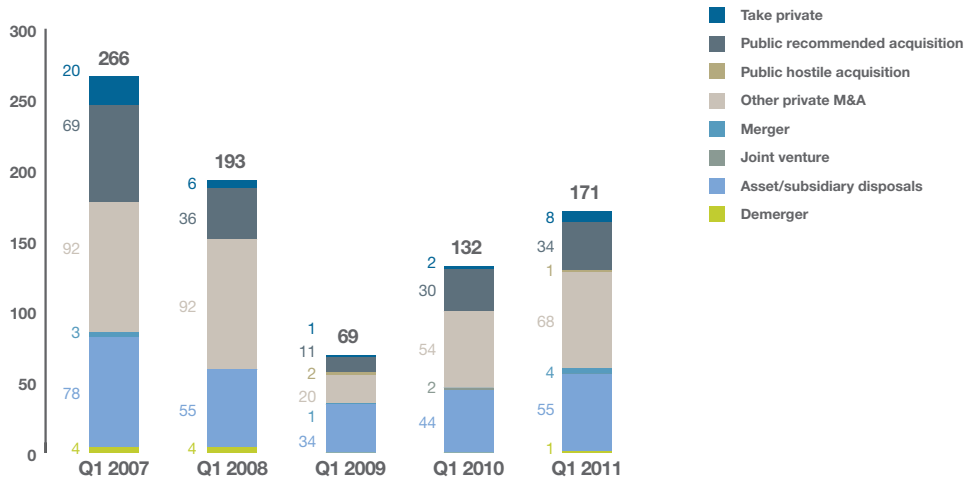
This transaction is significant in a couple of respects. It is the first transaction of this size, outside of the Pharma and Energy sectors, since late 2008 and, ultimately, represents a large bet on the U.S. consumer.

It is also notable that AT&T is financing the deal in part through a USD20bn bridge loan facility arranged by JPMorgan Chase, the largest single loan ever originated by the bank. JPMorgan was among the first of the large U.S. banks to stop lending at the end of the leveraged buy-out (LBO) boom. Given its reputation for being one of the more conservative lenders in the market, this financing package is a strong signal that – at least for the right credit and the right deal – real confidence has returned to the lending market.

Also interesting was Sanofi-Aventis' proposed USD20.1bn acquisition of Genzyme, concluded after a long saga of negotiations between the parties. It appears that disagreements between the two sides over valuation were solved, in part, through Sanofi's willingness to issue a "contingent value right" to Genzyme's shareholders. This will allow them to participate in any potential upside from one of Genzyme's most promising drug candidates.

Other noteworthy major deals include Deutsche Börse's proposed USD10bn merger with the NYSE and Berkshire Hathaway's USD9bn acquisition of Lubrizol.

United States deal types



The quarter also saw a number of significant IPOs, including HCA raising USD3.79bn, Kinder Morgan USD2.9bn and Nielsen Holdings USD1.56bn.

Each of these transactions is particularly interesting because they involve large, financial sponsor backed companies, bought out during the LBO boom years, coming to the public markets for the first time since the end of that boom. Of particular interest is that that they were all priced at valuations that imply substantial gains for their private equity backers.

These offerings, together with Apollo's USD565m IPO – which priced at the high end of its range and was over-subscribed – are signs that, despite relatively low private equity deal volume in the quarter, we aren't facing the end of private equity as we know it and that private equity activity should increase in the near term.

All in all, the quarter was an extremely positive one as market confidence survived both the continuing and spreading political turmoil in the MENA region, and its resulting impact on oil prices, as well as the devastating natural disaster in Japan. We believe that this confidence will survive through 2011, leading to a resurgence of M&A in the U.S. through the end of the year.

62%

USA responsible for over half of take private deals in Q1

United States deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007	4	62,472	78	46,178			3	8,674	92	44,406			69	98,466	20	87,136	266	347,332
Q2 2007	2	17,395	88	130,706	1	250	1	5,471	128	69,645	2	5,013	76	111,411	22	123,677	320	463,568
Q3 2007	2	3,587	66	50,412			2	393	126	44,228			58	105,340	7	37,810	261	241,770
Q4 2007	7	14,533	91	62,297			1	257	109	40,916	1	111	50	91,643	5	4,692	264	214,449
2007 TOTAL	**15**	**97,987**	**323**	**289,593**	**1**	**250**	**7**	**14,795**	**455**	**199,195**	**3**	**5,124**	**253**	**406,860**	**54**	**253,315**	**1,111**	**1,267,119**
Q1 2008	4	13,158	55	30,197					92	44,814			36	39,096	6	5,056	193	132,321
Q2 2008	7	32,122	56	34,298			2	3,447	82	70,199	1	1,180	51	109,839	5	3,632	204	254,717
Q3 2008	4	7,452	62	32,318					80	33,079	2	59,807	36	118,157			184	250,813
Q4 2008			21	16,940	1	150			25	8,793			15	45,240	1	115	63	71,238
2008 TOTAL	**15**	**52,732**	**194**	**113,753**	**1**	**150**	**2**	**3,447**	**279**	**156,885**	**3**	**60,987**	**138**	**312,332**	**12**	**8,803**	**644**	**709,089**
Q1 2009			34	10,155			1	661	20	19,948	2	44,564	11	119,007	1	155	69	194,490
Q2 2009	1	2,405	44	93,807	1	128	2	7,775	20	7,598			30	66,875	1	117	99	178,705
Q3 2009	2	1,610	44	24,524					34	10,223			34	52,465	7	3,381	121	92,203
Q4 2009	2	6,711	44	20,989	1	13,794	1	463	67	39,186			34	108,816	5	6,558	154	196,517
2009 TOTAL	**5**	**10,726**	**166**	**149,475**	**2**	**13,922**	**4**	**8,899**	**141**	**76,955**	**2**	**44,564**	**109**	**347,163**	**14**	**10,211**	**443**	**661,915**
Q1 2010			44	66,518	2	1,845			54	21,127			30	47,219	2	1,468	132	138,177
Q2 2010	2	6,586	49	31,365			3	9,981	89	40,965			49	68,041	8	9,342	200	166,280
Q3 2010	2	4,129	59	31,848			3	3,962	97	38,453	1	174	43	66,234	7	9,304	212	154,104
Q4 2010			73	33,836			6	9,648	89	100,438	1	17,864	38	43,332	14	23,779	221	228,897
2010 TOTAL	**4**	**10,715**	**225**	**163,567**	**2**	**1,845**	**12**	**23,591**	**329**	**200,983**	**2**	**18,038**	**160**	**224,826**	**31**	**43,893**	**765**	**687,458**
Q1 2011	**1**	**14,808**	**55**	**78,569**			**4**	**26,501**	**68**	**28,826**	**1**	**363**	**34**	**100,908**	**8**	**6,603**	**171**	**256,578**
TOTAL	**40**	**186,968**	**963**	**794,957**	**6**	**16,167**	**29**	**77,233**	**1,272**	**662,844**	**11**	**129,076**	**694**	**1,392,089**	**119**	**322,825**	**3,134**	**3,582,159**

Western Europe – continuing recovery, but progress is uneven and slow

Activity is returning to the West European M&A market but recovery is by no means consistent.

France, Germany and The Netherlands, for example, all showed good signs of growth in both large and mid-market deals. But in a generally quiet quarter, other markets, such as the UK and Italy, were noticeably more subdued, although we remain confident that the general trend remains positive.

A number of major transactions were completed in the quarter. In France these included EDF's sale of its stake in EnBW and GDF Suez's bid for International Power which is set to complete later this year. Sanofi-Aventis and Genzyme have also agreed to merge in a deal, which if successfully completed in the months ahead, would be the second largest biotech transaction ever.

In Germany, major transactions announced included the proposed merger of Deutsche Börse and NYSE Euronext to create the world's largest stock exchange, and Daimler's decision to join forces with Rolls Royce to submit a joint public offering for Tognum. In France and Germany we expect to see a significant resurgence of IPOs in the coming months.

Inbound and outbound Asian investment continues to be a major driver in The Netherlands, where some of the country's large multinationals increasingly see Asia as a second home market.

In China, AkzoNobel has invested USD320m in a new paint factory in the Ningbo region and DSM has built a new artificial resins plant. Meanwhile, KwikFit was acquired by the Japanese conglomerate, Itochu, and Draka, the cable giant, was taken over by Prysmian of Italy after a three way bidding war, which also involved China's Xing Mao.

The UK and Italy did see some big deal activity. Energy remained a busy sector with Shell continuing its disposal programme and BP completing its USD7.2bn strategic oil alliance with India's Reliance. Two PE Funds took a majority holding in SNAI, one of the big three gaming operators in Italy, for USD711m.

Across Western Europe small to mid-size deals continue to be the focus of real activity. At the bigger end, strategic buyers do not have a shortage of funding and bank support is improving.

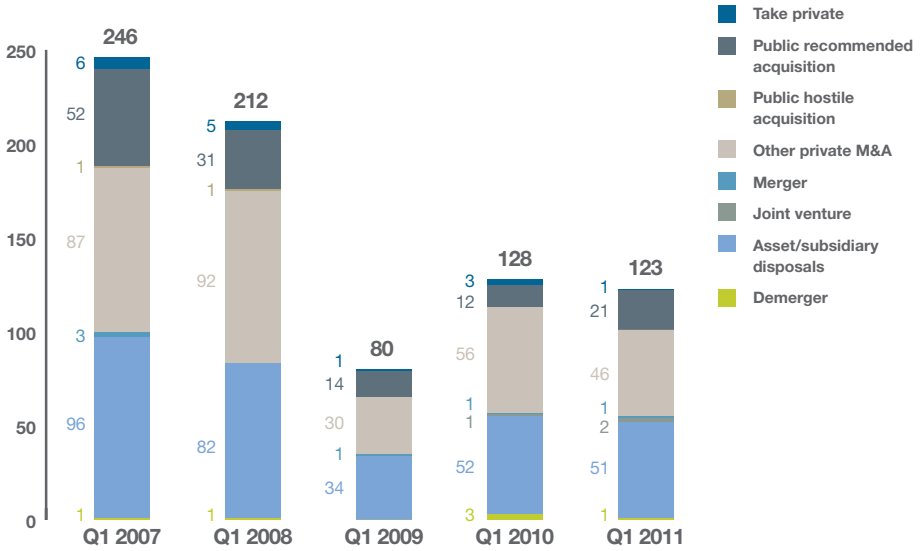
But there is a mis-match between buyers' and sellers' price expectations, leading many to delay deals. For some that could lead to friction with investors. Shareholders may look for a return of value if they suspect companies are sitting on cash rather than investing in growth.

Private Equity remains a very vibrant player in The Netherlands, particularly in the mid-market sector where, for instance, Bencis completed several deals in retail, manufacturing and multimedia, while NPM bought a private eye surgery clinic. PE activity in France remains well below levels seen between 2004 and 2007, but notable deals included General Mills' acquisition of PAI's 51% stake in Yoplait, the yoghurt maker.

Pension funds are beginning to enter the M&A market in their own right rather than through arm's-length investment funds. Their preferred targets tend to be investments that will provide steady returns over a number of years and infrastructure is expected to be increasingly on their radar.

The continuing uncertainty around the future of Parmalat has given rise to an increasingly vociferous debate about strategically important Italian businesses.

Western Europe deal types



Legislators have approved a Decree that allows Italian listed companies to call a shareholders' meeting, within six months of the financial year-end, to approve the accounts. The Italian Government has not been clear about the reasons for this proposal, but there is speculation that it is designed to give time for an Italian consortium to be formed to fend off foreign bids for Parmalat.

Reported amendments to the Decree being considered by the Government would increase the powers of Consob, the Italian securities regulator, and have wider implications for transactions. Consob would, it is said, have new powers to intervene against bidders, even if a foreign company, forcing them to move more quickly and preventing them from rebidding within 12 months should they withdraw.

These moves mirror changes already introduced in France. The UK Takeover Panel is also proposing a 28-day "put up or shut up" guillotine on bids. Such measures could make it much harder for bidders, particularly PE Funds, to arrange financing for deals and dampen activity.

Italy's previously vibrant renewable energy market has also been thrown into disarray by the sudden withdrawal of key feed-in tariff incentives for an unspecified time. This move is seen by some as a way of focusing interest on nuclear power, banned in Italy for the last 30 years. Given Japan's nuclear crisis, Italy's decision to reverse national energy policy and go nuclear looks awkwardly timed.

Western Europe deal summary

	Demerger		Asset/subsidiary disposals		Joint Venture		Merger		Other private M&A		Public hostile acquisition		Public recommended acquisition		Take Private		TOTAL	
	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)	Volume of deals	Value of deals (USDm)
Q1 2007	1	108	96	64,827			3	14,627	87	57,497	1	214	52	80,101	6	7,033	246	224,407
Q2 2007	3	5,478	120	112,325	1	1,331	2	19,323	126	69,245			56	259,660	12	45,291	320	512,653
Q3 2007	2	16,133	103	69,014	3	1,400	1	353	103	56,067	1	284	47	185,956	6	5,836	266	335,043
Q4 2007	1	1,525	109	75,229					93	46,873	3	1,838	51	69,927	6	20,816	263	216,208
2007 TOTAL	**7**	**23,244**	**428**	**321,395**	**4**	**2,731**	**6**	**34,303**	**409**	**229,682**	**5**	**2,336**	**206**	**595,644**	**30**	**78,976**	**1,095**	**1,288,311**
Q1 2008	1	106,884	82	44,898					92	49,057	1	173	31	40,661	5	6,971	212	248,644
Q2 2008	1	671	88	54,860	3	1,615			102	52,520	1	1,796	42	40,106	4	6,334	241	157,902
Q3 2008	3	20,970	85	69,345	1	286			73	47,790	1	3,025	47	152,796	5	1,589	215	295,801
Q4 2008			58	76,870					50	70,106	1	730	25	53,393			134	201,099
2008 TOTAL	**5**	**128,525**	**313**	**245,973**	**4**	**1,901**			**317**	**219,473**	**4**	**5,724**	**145**	**286,956**	**14**	**14,894**	**802**	**903,446**
Q1 2009			34	26,816			1	280	30	54,877			14	20,439	1	408	80	102,820
Q2 2009	2	7,522	53	22,779					19	9,257	1	2,128	22	14,595			97	56,281
Q3 2009			47	24,289	1	771			30	10,294	2	2,257	19	22,050	4	904	103	60,565
Q4 2009	1	3,923	60	37,366			1	2,029	42	76,351	2	23,246	28	17,372	1	106	135	160,393
2009 TOTAL	**3**	**11,445**	**194**	**111,250**	**1**	**771**	**2**	**2,309**	**121**	**150,779**	**5**	**27,631**	**83**	**74,456**	**6**	**1,418**	**415**	**380,059**
Q1 2010	3	7,508	52	60,709	1	1,043	1	144	56	32,353			12	4,389	3	2,013	128	108,159
Q2 2010	1	291	66	38,399	1	383	3	7,759	55	22,792	1	417	27	16,925	3	864	157	87,830
Q3 2010	2	12,877	76	78,468			4	12,181	46	20,386	1	2,905	17	15,882	2	5,180	148	147,879
Q4 2010	1	2,898	72	63,391					62	46,461	2	8,981	30	58,660	2	2,381	169	182,772
2010 TOTAL	**7**	**23,574**	**266**	**240,967**	**2**	**1,426**	**8**	**20,084**	**219**	**121,992**	**4**	**12,303**	**86**	**95,856**	**10**	**10,438**	**602**	**526,640**
Q1 2011	**1**	**212**	**51**	**58,373**	**2**	**3,249**	**1**	**220**	**46**	**27,862**			**21**	**30,378**	**1**	**207**	**123**	**120,501**
TOTAL	**23**	**187,000**	**1,252**	**977,958**	**13**	**10,078**	**17**	**56,916**	**1,112**	**749,788**	**18**	**47,994**	**541**	**1,083,290**	**61**	**105,933**	**3,037**	**3,218,957**

Definitions

Asset/subsidiary disposals

A disposal where the seller is a corporate selling a controlling interest (>30%) in one or more of its businesses. This excludes private equity exits and disposals made by high net worth private individuals and families. Includes government-related sales and disposals made by non-private equity financial investors, such as investment holding companies.

Cross-border

A transaction that is conducted across national boundaries. The deal involves parties from at least two different countries.

Demerger

A transaction where a company spins off one of its subsidiaries, resulting in the creation of a separate listed business independent from the activities or influence of the former parent. The shareholders ultimately hold shares in each company and neither the former parent company nor shareholders receive any cash as a result of the deal (as opposed to a flotation/IPO).

Domestic

A transaction conducted within a national boundary. The deal involves parties that are incumbent nationals of that country.

Insolvency-related

A transaction where a company has filed for bankruptcy or is subject to another insolvency process or procedure, and sells off part or all of its assets to generate the cash necessary to pay creditors.

Joint venture

A transaction that involves the pooling of assets between different companies, whereby the ownership of the new joint venture is shared between the parent companies involved. Does not include so-called joint ventures where a company's sole contribution is cash rather than assets.

Merger

A transaction that involves the combination of two or more separate businesses into one, with broadly equal holding and governance rights assigned to the respective shareholders of each company.

Other private M&A

Acquisitions or disposals not covered by the other classifications. Includes PE exits and disposals made by high net worth individuals and families.

Public recommended acquisition (excl. PE-related take privates)

A friendly acquisition where the parties involved reach agreement over the terms of the deal, normally prior to the acquisition being formally announced. The transaction requires approval from either the bidder, target or vendor shareholders in a public forum.

Public hostile acquisition (excl. PE-related take privates)

An acquisition of a publicly quoted target where the target management does not recommend the offer within two weeks.

Take privates (hostile and recommended)

An acquisition of a publicly quoted company by financial investors such as private equity houses or venture capital firms (as opposed to a trade buyer). The target company is subsequently delisted.

About the research

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