ALLEN & OVERY

20% INCREASE IN FINANCIAL SERVICES ASSET/ SUBSIDIARY SALES SINCE 2009

GOVERNMENTS USING CURRENT LEGISLATION TO IMPOSE PROTECTIONIST MEASURES

ACCESS TO CREDIT ACTED AS A SIGNIFICANT HINDRANCE TO M&A IN 2010

The Allen & Overy M&A Index

Q4 2010 Insight Report

Global M&A Trends – Q4 2010

Welcome to Allen & Overy's analysis of global M&A trends in the fourth quarter of 2010.

The Allen & Overy M&A Index is written by Allen & Overy partners around the world and offers market insight and commentary on trends in global M&A. The report compares quarterly volumes and values of public and private M&A deal types across key sectors and regions. This edition, the last of 2010, also gives an opportunity for reflection on the transactional activity that took place during the course of the year as a whole, and allows us to voice some predictions for 2011.

The picture that emerges from the year's numbers is a broadly positive one, with 2010 heralding a gradual return to form in the international M&A markets. Even though fourth quarter activity was broadly in line with, but not much ahead of, that of the preceding three months, fears of a double-dip recession have gradually subsided and sentiment appears to be on the up. This is despite the sovereign debt problems that continue to loom over the Eurozone, which have served to undermine confidence but may, in time, present their own opportunities for M&A.

Private equity activity slowed in the last three months of the year after a bullish Q2 and Q3. We are finding that sponsors need to do deals after a long period of inactivity, but remain hampered by difficulties in accessing credit. Private equity buyers have been reluctant to spread their wings far beyond the mature markets of the U.S. and Western Europe, and it could be some time before we see them engaging in riskier buyouts in the emerging markets again.

We have witnessed some headline-grabbing deals in key sectors that have served to buoy investor confidence, but the macro-economic situation remains uncertain and there are a number of issues preventing the genuine resurgence of big deals. The year 2010 did not deliver the feared wave of new protectionist legislation that many had predicted would stand in the way of cross-border deals. The global rush to secure energy and power assets did drive some nations to use existing investment laws to prevent takeovers, however, and we saw some countries stretching the definition of "strategically important" assets to ward off unwanted acquisitions of precious national targets.

Globally, it continues to be the emerging economies of Brazil, Russia, India and China driving cross-border M&A, both inbound and outbound. The energy and natural resources sector remains the most attractive to bidders in all major markets, though activity levels are resurgent in technology, media and telecoms and in the life sciences arena. We expect to see more deals in the financial services industry in 2011 as the sector digests the fine print of new regulations over the course of the next 12 months and major players move forward with reorganisations and asset disposals.

The fourth quarter of 2010 saw the greatest volume of deals since Q2 2008, as the transactional markets enjoyed a slow and steady revival. Bank lending remains hard to come by, however, and the mismatch in seller and buyer price expectations that has stood in the way of deals for the last few quarters continues to act as a very real stumbling block.

We can look forward to the recovery gathering momentum in the year ahead, but it will be some time before M&A returns to anything like the levels we had got used to pre-credit crunch.

Sietze Hepkema,
Co-head of the global corporate practice,
Allen & Overy

Contents

Executive summary

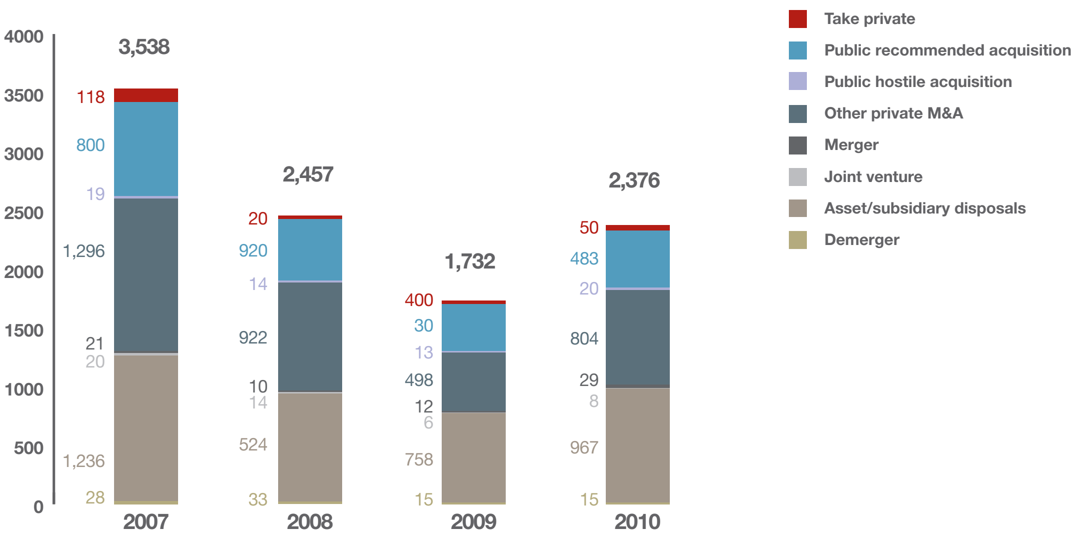
The global picture – key findings

A number of key themes emerge from the statistics and analysis contained in this report. These can be summarised as follows:

- **Restrictions on foreign investments** in strategic sectors were a key talking point of 2010, and whilst only limited new laws came into effect, countless governments made use of current legislation to impose protectionist measures more liberally.
- Cross-border deals into and out of **emerging markets** continued to dominate public M&A, driving up deal sizes. Asia Pacific is home to both targets and acquirers, and has seen a number of multi-billion dollar deals in Q4.
- The **energy and resources** sector has proved to be the most attractive for global purchasers throughout 2010, driven by the demands of the fast-growing economies of the developing Asia Pacific nations. Numerous coal and mineral transactions took place in Latin America, Australia, Indonesia, Canada and elsewhere.
- Outbound M&A activity from **India and China** has grown and looks set to continue to do so, particularly in power and resources, but also increasingly in the automobile, heavy engineering and industrial sectors, driven by consumer demand.

ACCESS TO CREDIT STILL ACTS AS A SIGNIFICANT HINDRANCE TO THE M&A MARKETS GLOBALLY, BUT WE HAVE SEEN THE GRADUAL RETURN OF BANK LENDING IN 2010

Global deal types



– In the developed markets of the **U.S. and Western Europe**, a few large strategic deals have taken place and activity has increased in the mid-market. Much of this has centred on the energy, pharmaceuticals, infrastructure and telecoms sectors.

– The **European sovereign debt crisis** has dented confidence in some major markets, but has so far done little to materially damage the return of transactional activity.

– **Financial institutions** continue to get to grips with a weighty amount of regulatory change, and we expect the application and digestion of those new rules to fuel further M&A in the sector in 2011.

– **Access to credit** still acts as a significant hindrance to the M&A markets globally, but we have seen the gradual return of bank lending in 2010 and expect that to continue throughout the year ahead.

THE EUROPEAN SOVEREIGN DEBT CRISIS HAS DENTED CONFIDENCE IN SOME MAJOR MARKETS, BUT HAS SO FAR DONE LITTLE TO MATERIALLY DAMAGE THE RETURN OF TRANSACTIONAL ACTIVITY

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	337	317,645	6	6,625	4	25,224	374	206,706	2	5,013	219	444,964	49	182,767	**999**	**1,219,890**
Q3 2007	5	20,210	286	176,995	7	4,095	6	7,574	312	128,949	5	1,864	180	408,349	19	46,191	**820**	**794,227**
Q4 2007	10	29,915	334	209,589	4	1,823	3	2,876	325	156,546	9	4,054	201	235,561	18	30,964	**904**	**671,328**
2007 TOTAL	**28**	**143,651**	**1,236**	**874,237**	**20**	**13,024**	**21**	**63,548**	**1,296**	**630,459**	**19**	**12,773**	**800**	**1,340,794**	**118**	**362,041**	**3,538**	**3,440,527**
Q1 2008	4	110,887	247	126,903	1	118	3	11,331	298	142,239	4	2,356	137	125,139	13	15,759	**707**	**534,732**
Q2 2008	7	55,170	267	153,104	6	3,229	4	5,504	268	152,101	4	3,344	167	243,686	10	12,169	**733**	**628,307**
Q3 2008	7	28,994	247	162,310	4	1,616	2	1,757	222	100,616	4	64,472	142	306,996	8	2,193	**636**	**668,954**
Q4 2008	2	3,671	159	142,569	3	1,658	1	282	134	122,720	2	1,006	78	154,291	2	227	**381**	**426,424**
2008 TOTAL	**20**	**198,722**	**920**	**584,886**	**14**	**6,621**	**10**	**18,874**	**922**	**517,676**	**14**	**71,178**	**524**	**830,112**	**33**	**30,348**	**2,457**	**2,258,417**
Q1 2009	1	1,296	132	74,229	1	679	2	941	104	94,367	3	45,182	68	175,250	4	2,173	**315**	**394,117**
Q2 2009	4	10,089	178	183,071	1	128	3	8,984	93	50,051	3	2,543	96	119,331	1	117	**379**	**374,314**
Q3 2009	3	2,929	216	110,902	1	771	1	393	115	40,535	4	4,034	114	129,562	13	4,659	**467**	**293,785**
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**	**758**	**496,774**	**6**	**16,429**	**12**	**14,880**	**498**	**329,449**	**13**	**75,794**	**400**	**607,283**	**30**	**14,856**	**1,732**	**1,595,323**
Q1 2010	5	8,317	177	207,509	4	11,138	3	2,933	173	75,706	2	6,803	109	119,123	5	3,481	**478**	**435,010**
Q2 2010	5	8,415	243	150,828	2	3,214	7	18,314	197	82,673	2	535	140	126,739	15	11,978	**611**	**402,696**
Q3 2010	5	17,451	234	169,994	1	189	9	17,177	210	92,794	8	7,641	121	158,390	11	16,935	**599**	**480,571**
Q4 2010			313	253,382	1	7,278	10	12,405	224	181,471	8	29,904	113	136,932	19	29,136	**688**	**650,508**
2010 TOTAL	**15**	**34,183**	**967**	**781,713**	**8**	**21,819**	**29**	**50,829**	**804**	**432,644**	**20**	**44,883**	**483**	**541,184**	**50**	**61,530**	**2,376**	**1,968,785**
TOTAL	**78**	**416,414**	**3,881**	**2,737,610**	**48**	**57,893**	**72**	**148,131**	**3,520**	**1,910,228**	**66**	**204,628**	**2,207**	**3,319,373**	**231**	**468,775**	**10,103**	**9,263,052**

2010: A new era of economic nationalism?

Are more countries applying foreign investment and other rules as a way of imposing a form of economic nationalism? Commentators have posed this question more often (and more vocally) in 2010 than for many years. So what does the evidence suggest?

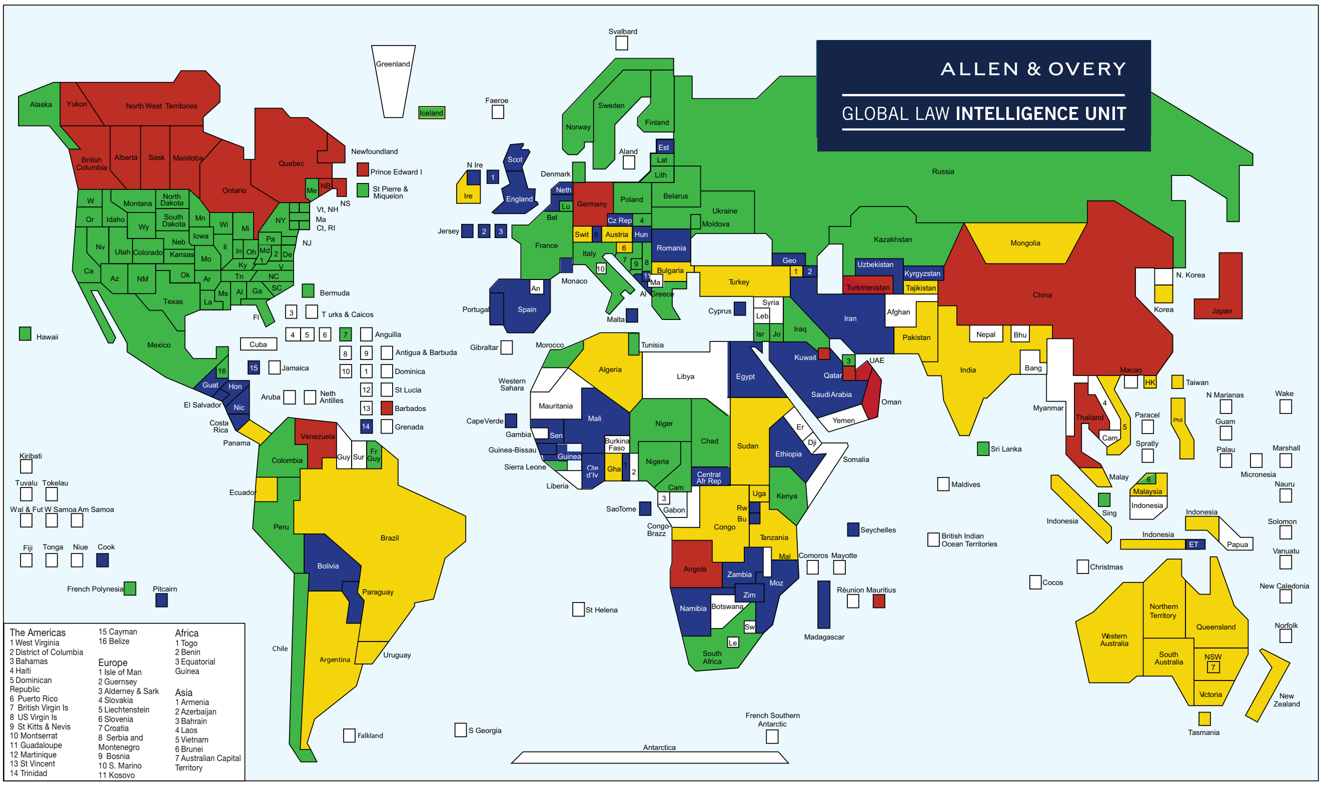
Despite a few high profile cases supporting the opposite view, there has been no discernible global trend in 2010 to suggest that foreign investment rules materially increased or were being used more frequently as a form of protectionism, although there are reasons to be watchful. These rules have existed in various forms for many years, although some countries have introduced or updated their rules in recent times: Germany, for example, amended its foreign trade law in 2008 to allow the Economics Minister to investigate or block certain foreign investments based on public order or security concerns. What is really changing is the context in which such rules are now being enforced. Nations today are more interconnected in trade and economic terms than ever before, as demonstrated by their joint responses during the financial crisis. Governments are aware of the repercussions of taking protectionist measures unilaterally. But the fragility of the global economy and the emergence of a 'two speed' recovery where certain domestic economies stagnate while others accelerate faster than ever means that the temptation to employ protectionist tools may prove hard to resist for some as we enter 2011. Indeed, in late December 2010 the EU industry commissioner, Antonio Tajani, urged the EU to establish an EU-wide authority to examine foreign investments in the EU, modelled on the Committee on Foreign Investment in the United States (CFIUS).

As the map on page 7 illustrates, very few countries can currently claim to be without global foreign investment restrictions. Many apply measures to their defence industries and other nationally strategic sectors, but an increasing number are going further.

In November 2010 the OECD, World Trade Organisation and the UN's Conference on Trade and Development published their fourth combined report on trade and investment measures in the G20 countries. They found those countries have largely continued resisting protectionist regimes, but cautioned against signs of intensifying pressures due to job losses, high unemployment and macroeconomic imbalances amongst countries.

As another year starts the debate will surely continue: will free market principles prevail or will countries increasingly sacrifice these in favour of national interests? Since the Great Depression the fluctuating fortunes of each nation have undoubtedly influenced these conflicting forces but the sheer scale of recent economic dislocation and the speed of change in the global economy makes these conflicts more significant than ever before.

Foreign investment approval map



Strict restrictions | Restrictions in some minor sectors | Unallocated

Restrictions in some key sectors | No restrictions

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NB: In relation to the European jurisdictions, the restrictions are considered for non-EU Investors

Canada

In November, Canada's Industry Minister rejected the USD40bn takeover bid for Potash Corp by BHP Billiton, for example, which would have been the biggest takeover in Canadian history. The government has the power to block a transaction that is not of 'net benefit' to the country based on factors such as economic activity, productivity and Canada's ability to compete in world markets. Just such a decision was made following heavy opposition at provincial level to the deal, which would have given BHP Billiton control of more than a fifth of the world's potash reserves.

France

In late December it was reported that the French Government had torpedoed an attempted takeover by America's Danaher of payment terminal manufacturer Ingenico, apparently because the company was 'essential' to France's electronics industry. President Sarkozy has previously vowed to prevent 'strategic' French companies from falling into the hands of 'foreign predators'.

U.S.

In the U.S. we have seen more investigations by the Committee on Foreign Investment in the United States (CFIUS) of investments by Chinese, Russian and Middle Eastern entities in 2010. CFIUS has extensive powers to block or unwind foreign investments that have the potential to impair national security. In November Huawei, a Chinese telecommunications supplier, was required to seek clearance retrospectively for a USD2m asset acquisition from 3Leaf Systems. This followed Huawei's previous attempts to buy various U.S. assets between 2008 and 2010, all of which were unsuccessful, allegedly due to CFIUS concerns about national security. The readiness of the CFIUS to scrutinise even very small foreign investments has raised doubts as to how much its decisions are influenced by industry lobbies as well as economic and political pressures.

Australia

In Australia, the Foreign Investment Review Board (FIRB) blocked several proposed investments by Chinese companies or approved them only subject to conditions, including Yanzhou Coal's bid for Felix Resources and Chinalco's bid for OZ Minerals Prominent Hill Copper/Gold mine. Recent amendments to the Foreign Acquisitions and Takeovers Act have focused on larger acquisitions involving foreign governments or the resources industry, and allow the FIRB to consider market concentration. Far from putting up barriers, supporters argue that these developments are designed to encourage foreign capital inflows.

China

In its own way, China too was perceived to be using barriers to protect against unwanted foreign investment flows in 2010. Apart from the requirement for specific approval from local authorities, some foreign investors, notably InBev in the brewery industry and Novartis in the pharmaceutical industry, have met difficulties in the PRC merger control process. Unlike its counterpart in the EU, the PRC Anti-Monopoly Bureau does not enjoy structural autonomy, but is part of the Ministry of Commerce, which also formulates trade policies. Recent proposed changes to the Anti-Monopoly Law provide that national security may be taken into consideration when assessing foreign investments and it is thought likely that, if implemented, the Chinese authorities will interpret the national security test extremely broadly.

Russia

In Russia, new laws did come into effect, limiting the ability of foreign acquirers to invest in certain sectors deemed strategic. State-owned companies – and particularly those from China and India – were actively seeking out oil, gas and coal assets in Russia in 2010. But the recently adopted Law on Foreign Investment in Strategic Sectors, which restricts investment by foreign sovereigns in certain oil and gas fields that are deemed to be of strategic importance, placed limits on acquisitions and in so doing severely hampered activity.

Sector analysis

Energy and natural resources

The year 2010 saw overall growth in global deal activity, and energy and natural resources transactions continued to dominate, accounting for a third of all deals. Oil, gas, coal, minerals and other commodities were the focus of these transactions, with increasing global flows of capital among OECD and emerging states and the strengthening presence of the BRIC community.

The pursuit of resource acquisition influenced deals to acquire production interests and to obtain hydrocarbons and other resources for the growing consumer markets of China and India. The year also saw moves by Russian oil and gas companies towards the Middle East (with interests in Iraq) and towards South America, with deals in Venezuela. Brazil has enjoyed such exploration success that foreign companies have moved to enhance their interests or to make new acquisitions with the challenge being the raising of funds for the extensive capital requirements to develop these resources.

Australia and Canada have also seen new entrants as international resources companies and state entities acquire interests in their unconventional oil and gas as well as more conventional minerals.

The flow of capital across continents reflects the participation of state-owned or state-influenced entities from emerging markets, as well as sovereign funds and the more traditional international energy companies. The nature of deals varies among this community with some deals being agreed at a state level with state funding and others following a more commercial path of corporate equity and bank debt, with investment protection.

The hunger of emerging consumer economies such as China and India for hydrocarbons and petroleum assets has met with the disposal programmes of assets and businesses by a number of the integrated resource companies seeking to raise funds for the extensive capital requirements of their committed developments. Examples here include CNOOC's acquisition of a stake in Argentina's Bridas Holdings and the purchase by Sinopec Group of deep-water oil assets in Brazil.

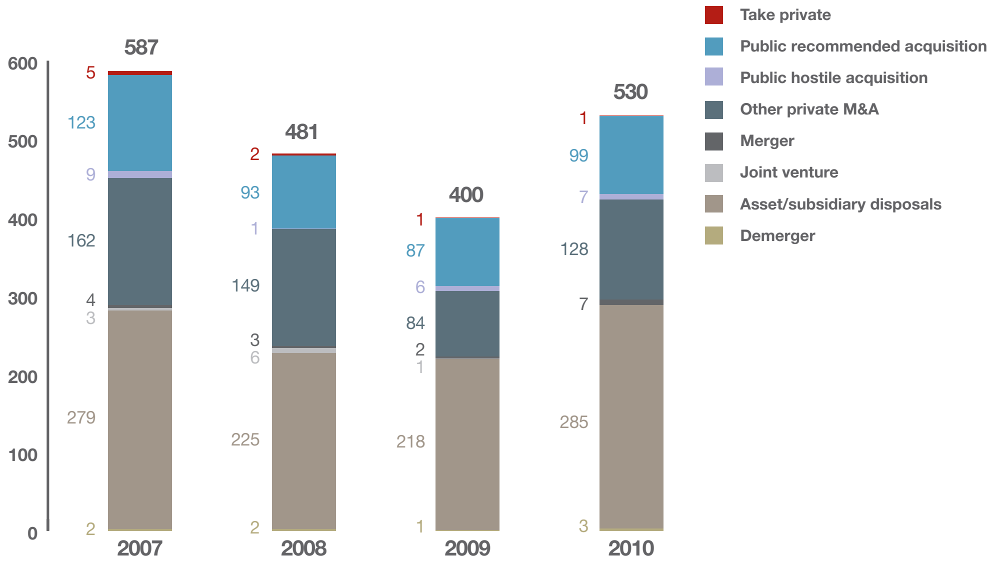
BP's disposal programme during the second half of last year impacted on deal values, with the sale of assets to Apache Corporation and the disposal of its interest in Pan American Energy for USD7bn.

Elsewhere the development of unconventional gas supplies, like shale gas and coal seam gas, is driving deal activity and generating interest among the service and equipment companies that have access to the technologies and techniques required.

The energy sector has seen continuing deal flows at all levels, but we see those deals getting more complex. The community of participants is broad and diverse, geopolitical issues remain ever-present, and commodity markets have broadly retained their volatility. The nature of political, regulatory and competition oversight in the context of many of these deals, and particularly the larger ones, often leads to extended timetables and the risk of commodity price change or political movement endangering the underlying economics of the transactions. As competition for assets and interests has risen, so has a preference for auctions and competitive disposal processes.

These trends seem to have moved some potential acquirers away from the traditional arena of agreed deals towards more hostile steps, such as BHP Billiton's bid for Potash and, on a smaller scale, the acquisition of Dana Petroleum by Korea National Oil Corporation. These hostile deals have the potential to enhance rather than limit such uncertainties, but we nevertheless expect increasing deal complexities to remain a feature of an active and competitive energy market in 2011.

Energy and natural resources deal types



Financial services

The volume and value of M&A in the financial services sector remained steady in the fourth quarter of 2010, as the sector stayed tentative about major acquisitions and a mismatch in price expectations put off the small rank of potential bidders for assets that were up for sale.

The vast majority of M&A activity continues to be driven by regulatory change on the sell side, and by cautious opportunism on the buy side. Government mandated disposals that occurred in the wake of the bank bail-outs are now largely complete, and we are now seeing the affected institutions moving out of non-core activities, streamlining operations and reorganising their balance sheets of their own accord.

The sovereign debt crisis that hit the Eurozone in 2010 has dented confidence, but the historical threat to financial institutions of their government's sovereign defaults has been, to date, averted by the European Central Bank's bond purchasing scheme and the EU's rescue fund. The spectre of further bank nationalisations and the disposal of 'bad bank' assets will, in due course, undoubtedly lead to further M&A as buyers are sought.

The burning issue for the financial services sector is where the buyers will come from for these assets, and to date we have seen interest from the few Western institutions that emerged relatively unscathed from the crisis, and from banks in the emerging markets. Buyers from the BRIC economies of Brazil, Russia, India and China are actively looking at opportunities. It is hard to call the extent to which these banks are ready to acquire overseas assets given the strength of their home markets, however. China's ICBC acquired a 20% stake in South Africa's Standard Bank in a deal that appears to have been successful, but previous investments in financial institutions in Western economies suffered badly in the aftermath of the credit crisis and those memories may yet linger for a while.

Within the sector, the hottest areas of M&A activity have been in asset management, private banking and custody. These markets are less capital-intensive and benefit from economies of scale, while also being non-core for some of the larger players. In Q4 we saw fund management group Gartmore call in Goldman Sachs to conduct a strategic review of its business following the departure of some key personnel, while the Royal Bank of Canada also agreed to buy the UK fixed-income money manager BlueBay Asset Management for GBP963m.

Overall, however, the transactional climate in the sector remains sticky, and a number of deals brought to the market have subsequently been withdrawn due to a lack of buyer interest. Our expectation is that that will change, and we see improvements in access to credit helping banks as much as other corporates return to the M&A market.

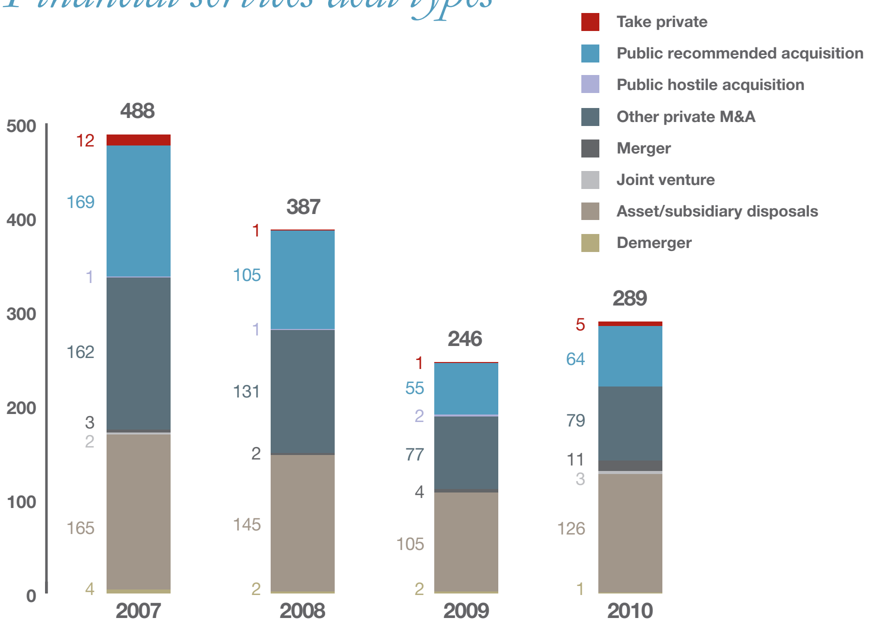
We are seeing more buyers from the Far East, and particularly from India and China, looking to the mature Western economies for acquisitions, so more cross-border deals are likely. The expected influx of Middle Eastern money has not materialised, however, with those sovereign wealth funds apparently content with the level of their equity investments put into the sector during the crisis.

Going the other way, investments into emerging markets still look unlikely, as U.S. and European banks continue to focus their attentions on business closer to home.

The year 2011 will be the year when the fine print of the many new regulations impacting on the banks will emerge, allowing financial institutions to make definitive calls on the shape that their businesses should take for the long term. New rules on capital requirements, compensation structures and much more will be thrashed out in the next 12 months, leading to decisions on further divestments from the big players that will drive the M&A market.

We expect transaction levels to slowly increase over the year ahead, in line with a sense across the industry of finally getting over the credit crisis, leading to the emergence of reshaped banks built for the future.

Financial services deal types



Life sciences

In 2010 the life sciences sector saw a steady increase in deal activity, but a decline in values compared to 2009. The M&A focus was on private company divestments, particularly in the first quarter, and private company acquisitions, both of which in volume terms were up considerably on 2008 and 2009, while still lagging behind the 2007 highs.

Unsurprisingly, given the decline in value, the number of public bids, both recommended and hostile, was down considerably on the four prior years, reflecting continued caution in dealmaking as companies looked at small to mid-size highly targeted acquisitions. We saw the re-emergence of joint ventures, something we could well see more of in 2011, as companies sought to achieve distribution efficiencies, reduce cost, spread risk and enter new markets.

In an industry that has very long-term horizons the challenges, particularly in developed economies, are well known: blockbuster drugs soon coming off patent; the cost of getting new drugs to market continuing to increase; the insurance companies and governments that bear a large part of the cost of medical care demanding cost savings; and an emphasis on prevention and 'wellness' strategies. Thus, especially in mature markets, M&A in 2010 was about plugging gaps, and boosting pipelines, through the acquisition of small biotechs, and the acquisition of specific product portfolios.

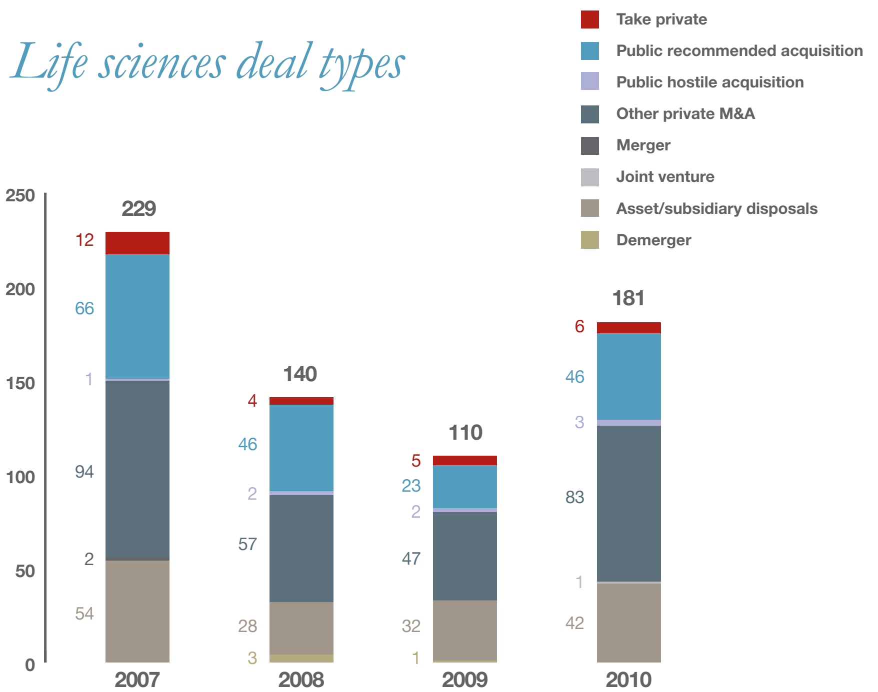
In large pharma we saw a move towards diversification and a desire to achieve reliable, rather than spectacular, income streams. These trends are likely to continue. Despite the emergence of new markets the U.S. will continue to dominate the sector in the immediate term, and although the impact of the new U.S. healthcare law is as yet unknown, we are likely to see a drive to contain costs. In the short term this will probably be reflected in increasing standardisation of data, records and procedures, which can deliver efficiency savings without hitting margins. Correspondingly, we are likely to see a consolidation of players in those areas.

On the growth side, the emerging markets are spending unprecedented sums developing their healthcare infrastructure. Historic under-investment, and increasing middle-class populations, have led to pent-up demand for healthcare infrastructure, service and products. Government and private money is being invested in hospitals, nursing homes, laboratories and research and development facilities in China, the Middle East, Turkey, India, Brazil, Russia and elsewhere, which will inevitably boost demand for pharmaceuticals, medical devices and related technology, services and personnel.

The gravitational pull of deal activity from developed to emerging markets that we have seen in 2010 is likely to accelerate in 2011, both in inward investment into those markets and in outward investment from those markets as indigenous firms seek to meet the needs of their domestic markets by acquiring and then expanding the capability of existing suppliers from elsewhere. This will present opportunities for joint ventures and 'hybrid' firms, as foreign companies entering those markets find it most efficient to work alongside a domestic partner.

But don't discount the developed economies: the governments of the UK and Japan have both recently announced tax and other incentives designed to stimulate private research and development spending in the life sciences sector, hoping to generate and retain the knowledge-based highly skilled jobs that are necessary for growth. Although the incentives on offer are unlikely to match the scale of investment being made in the emerging markets, the competition for life sciences expertise can only bode well for the sector in 2011.

Life sciences deal types



Private equity

The momentum built up over Q2 and Q3 2010 slowed in the fourth quarter, with volumes down. The U.S. and Western Europe continue to dominate private equity activity, accounting for around three quarters of deals by value and volume. The next biggest contributor is Asia Pacific, and there is very little activity in relative terms in CEE, MENA, India and Latin America. The geographical picture today is in fact very similar to that of 2007, at the height of the market.

In Western Europe, the UK continues to play a significant role, with deal activity high in Italy, France and the Netherlands. Germany remains underweight as it has done throughout the year, which is a surprise given the size and strength of its economy. Its Q4 position was improved by the EUR1.25bn secondary buyout of clothing retailer Takko in the days before Christmas.

Secondary buyouts account for about half of all Western European deal activity, but dominate in the UK, France and Germany. In the Netherlands, new money activity has been reliant on disposals by corporate sellers owned by PE funds, while mainstream corporate sellers remain thin on the ground.

What the figures don't show is that we have seen more high-profile broken auctions in Europe this quarter than previously. That suggests that the higher prices obtained for assets earlier in the year may not be indicative of a new norm, meaning sellers may need to readjust price expectations.

In our Q3 report we noted the high public-to-private activity in the UK, which we did not expect to continue. Our prediction proved to be correct with only one P2P deal in Western Europe this quarter, which was itself announced in Q3. In the UK the new takeover rules prohibiting deal protection measures and 'bear hugs' will have a significant impact on the way sponsors pursue targets. While the rules won't deter sponsors, they will exacerbate the current position that means P2Ps are more expensive at an early stage and carry higher deal execution risk.

In the U.S. there remain a healthy number of mega deals. Primary buyouts and P2Ps dominate the larger end of the deal table and are the most common deal types, with secondary buyouts relegated to a minor role.

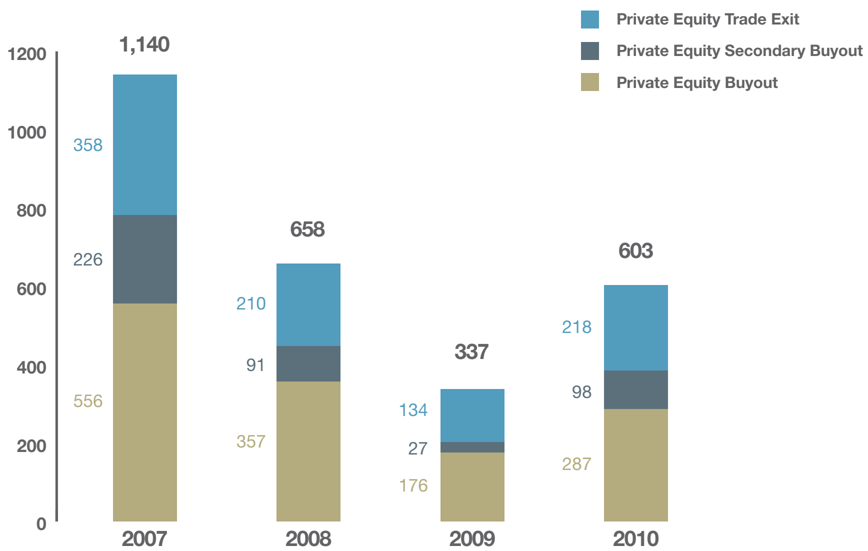
Overall, 2010 has seen a decent return to activity levels. Fund cycles have driven activity, with secondary buyouts the norm. The debt markets opened up again, with sponsors now confident that financing can be put together for deals at the EUR1bn-plus level, and perhaps much higher. There is a feeling that the recovery has stuttered in Western Europe, but the picture in the U.S. is healthier.

We expect more of the same in 2011. Corporates may go on the hunt for PE-owned assets, which we have started to see in recent weeks, and with more corporate M&A activity predicted, corporate sellers may come back to market.

The AIFM Directive has now been unveiled but we don't see this having a major influence on deal activity in the year ahead. It will increase cost to some extent, with additional disclosure and other requirements, but the asset-stripping rules will be more of an irritant than a prohibition.

Sponsors now have enough firepower at their disposal and debt packages can be constructed for the right assets. The issues for the year ahead will be the paucity of attractive assets, and valuations.

Private equity activity



Technology, media and telecoms

The year 2010 saw a steady resurgence in deal activity in the TMT sphere, with M&A volumes and values back up to 2008 levels. We expect 2011 to see still further positive trends, with the scarce resource of radio spectrum likely to drive telecoms M&A this year, affecting developed and developing markets differently.

All over the world, 4G may provide a viable alternative to expensive rollouts of fixed-line internet access. In Europe, the arrival of 4G and the release of 'digital dividend' spectrum is likely to affect markets, both with the cost of spectrum made available for 4G and the consequences for the operators who do not acquire licences. Nonetheless, it seems unlikely to result in the kind of industry restructuring that followed the 3G auctions 10 years ago. In developing markets, licensees with unused spectrum may present attractive targets, on the basis that a customer base can be acquired with marketing, but spectrum is finite.

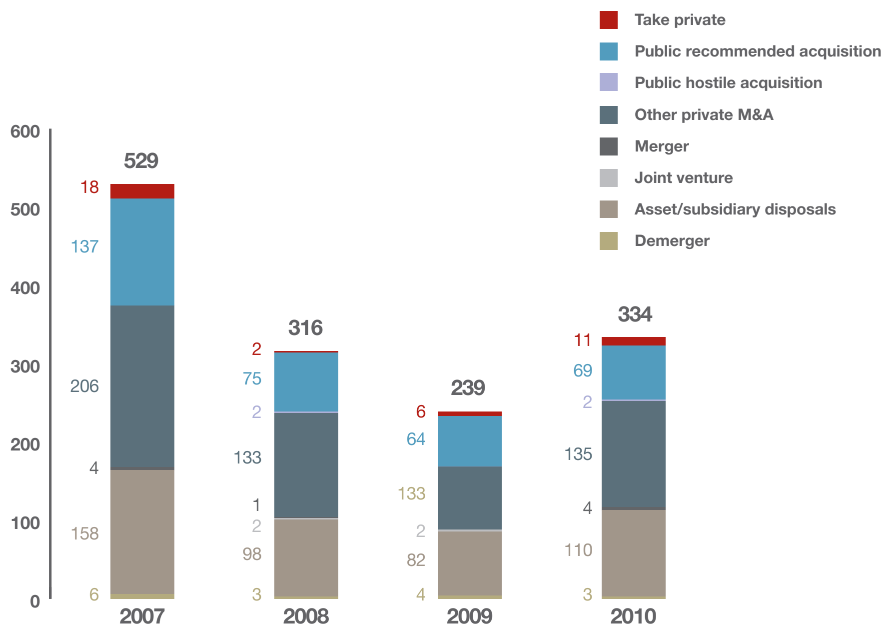
The telecoms sector in Q1 2011 will be influenced by turmoil in the Indian market, with the highly-politicised criticism of the awards of the new-entrant 2G licences. The furore has already resulted in the resignation of the former telecoms minister and many stakeholders are seeking to influence the effect on the licensees. Not only is the Indian market large in itself, with many operators highly leveraged, but the outcome could also result in significant losses for the listed international operators who have invested in India, with the effects being felt in several countries. The Etisalat Zain transaction is also due to complete in Q1 2011, creating a powerhouse in Middle East telecoms, and resulting in a change in ownership of one of the Saudi operators.

Some global operators may also look again at their emerging market portfolios, deciding whether their attentions are better focussed on South-East Asia, or India rather than on Africa. Where global coverage and the size of the subscriber base have been important metrics, some operators may decide that the constant management attention required by uncooperative host governments is too much of a distraction, but for others this is a sweet spot. In Africa, as Bharti begins to digest the Zain Africa acquisition and overhaul operating costs, competitive pressure on single-market operators will increase and may force consolidation. We may also see a turnover in the private equity investment cycle, such as the exit from TDC, which will test the equity markets.

At the cross-over between telecoms and technology, the equipment manufacturer field may reduce from its current five major suppliers. Certainly, China's Huawei is gaining ever greater market share, and the CEO of Nokia Siemens Networks has said there may be room for only three major players in this market. The smartphone/PDA/tablet market remains extremely competitive, and it is possible that there could be consolidation in this part of the equipment market as well, with perhaps Google or Microsoft making an acquisition, although that may not occur as early as Q1.

Media is likely to see traditional content owners looking with increased urgency at digital distribution, and possibly even seeking acquisitions of user-generated content distributors, to remain relevant. At the intersection of technology and media, the used-to-be-start-up Google may need to make significant acquisitions to maintain growth inorganically as it diversifies from search, and someone may yet work out how Twitter fits into a business plan.

Technology, media and telecoms deal types



Facts and figures

Q4 2010

USD781bn

2010 witnessed 967 global asset/subsidiary sales worth USD781bn

USD56bn

In 2010 there were 46 public recommended acquisitions in the life sciences sector worth USD56bn

66% increase

In total volume of mergers in Q4 2010 when compared with Q4 2009

USD21bn

There were eight joint ventures worth a total of USD21bn in 2010

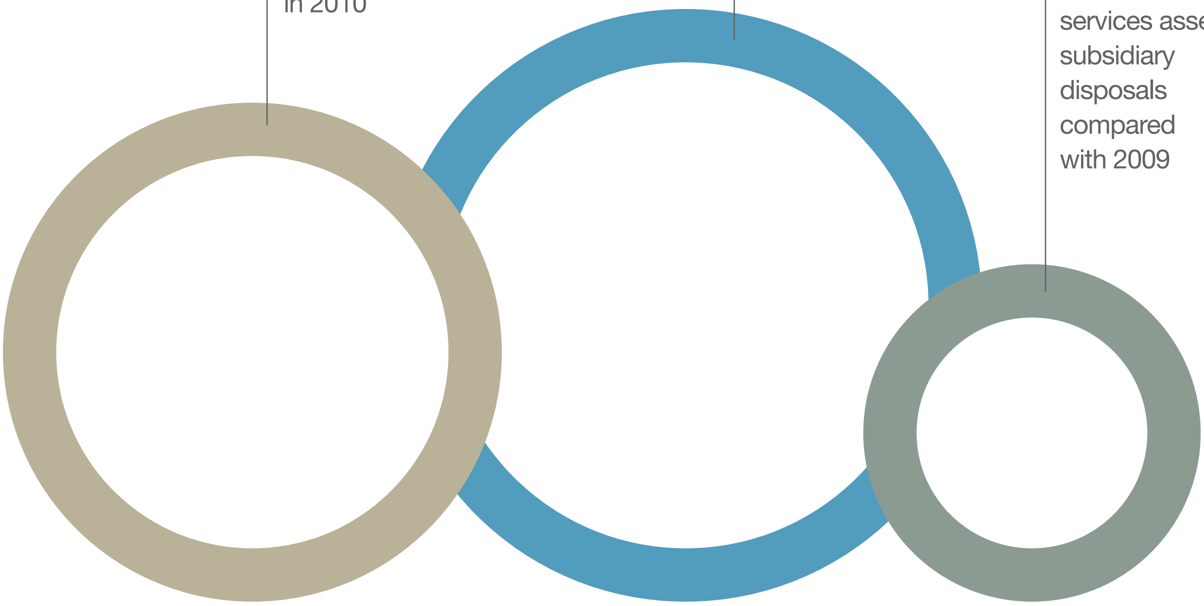
USD42bn

The value of total secondary buyouts has increased by USD42bn over the past 12 months

66%
Increase in the number of take privates over the last 12 months. The 2010 total was still less than half the total number seen in 2007 (118)

50%
The Asia Pacific region accounted for almost 50% of all hostile acquisitions in 2010

20%
Increase in total volume of financial services asset/ subsidiary disposals compared with 2009



Regional analysis

Asia Pacific

The last quarter of 2010 broadly confirmed the momentum of the first nine months in Asia Pacific, with some USD145bn of deals done and volumes greater than those of the three previous quarters.

Many of the cross-border trends from previous quarters continued: PRC giant Sinopec hoovered up 40% of Repsol's Brazilian unit for USD7.1bn and agreed to buy the oil and gas assets of Occidental Argentina for USD2.5bn. Units of PTT of Thailand bought a 40% stake in a Canadian oil sands project from Statoil for USD2.3bn and agreed to buy the South-East Asian coal assets of Straits Resources.

But not everything was about energy and resources assets. Financial services produced AMP and AXA's refreshed joint USD13bn bid for AXA Asia Pacific, South Korea's Hana's USD4bn offer for Lone Star's 51% stake in Korea Exchange Bank and the Singapore Exchange's USD7.2bn move for Australia's ASX.

Some major themes emerged for 2010 as a whole. First, strong GDP growth and strong currencies across much of Asia Pacific, coupled with a more benign economic environment than the U.S. and Europe, fuelled a boom in outbound activity. The hostile public offer by Korea's KNOC for the UK's Dana Petroleum marked a significant shift in tactics and a sign of confidence by Asian companies when buying assets in developed markets. So too did the all-cash EUR1bn offer by Tianjin Xinmao Scientific for Dutch cable company Draka, pitched at a 75% premium to Draka's pre-bid share price and 20% more than a competing Italian offer.

Secondly, the energy and resources sector was stoked by the increasingly urgent global scramble to secure the supplies needed to fuel the factories and power stations of the PRC, India and other fast-growing economies of the developing Asia Pacific nations. As well as the deals mentioned above, numerous coal and mineral transactions took place in Australia, Indonesia, Canada and elsewhere.

Thirdly, the relatively higher projected growth rates of the developing economies in Asia Pacific led to attempts at sizeable inbound deals, such as Prudential's ill-fated USD35bn tilt at AIA. New trading patterns – like those between Asia and Latin America and Asia and Africa – were also reflected in M&A activity as traditional distinctions between "emerging" and "developed" economies blurred.

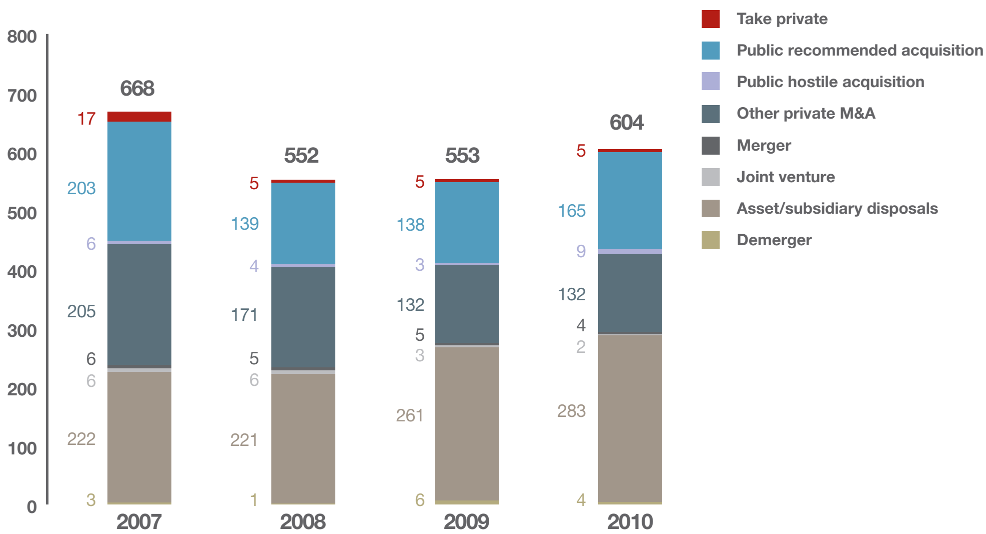
Finally, the striking dominance of Asian stock markets as the venues of choice for IPOs gave resilient funding for growing local corporates and an attractive exit route for private equity and other investors. Hong Kong saw two of the world's biggest issues – ABC and AIA – successfully launched.

These themes show no signs of changing in 2011 and may even accelerate in the context of what many believe will be a continued uptick in global M&A. The share of global M&A taken by so-called emerging markets rose sharply in 2010 and while each country's activity has different drivers, overall expectations and confidence remain relatively high. Consumer growth-led economies like the PRC will continue to scour the planet for raw materials, and will increasingly look for intangible assets, including brands and technology, to meet domestic market demands and enhance competitiveness. This means sectors including commercial aviation and defence, consumer goods, software/IT, pharma/biotech and perhaps nuclear power and alternative energy resources may be active.

A new band of Asia Pacific multinationals like Huawei will also continue to emerge. In 2007 the PRC had 24 companies in the Global 500, and by 2010 it had 46, overtaking the likes of the UK, France and Germany and now ranked third behind Japan and the U.S.

We also expect inbound M&A activity to continue, driven by intra-regional activity and by Western companies seeking growth or lower-cost manufacturing opportunities in Asia Pacific.

Asia Pacific deal types



Australia again saw solid deal activity in Q4 2010 in the mining and energy sectors. There was also a continuation in the build-up of momentum around food and agriculture as the country's position and strategic importance as a supplier of hard and soft commodities to its fast-growing Asian neighbours continued to attract foreign investment. Private equity sponsors investigated many opportunities, but after a few deals in the third quarter, including the competing private equity consortium bids for Healthscope, activity levels were low.

Government privatisations were prominent with both Queensland (forestry and infrastructure) and New South Wales (lottery, waste management and energy) selling high-profile and large assets.

The overriding theme to emerge was, again, the high level of cross-border deals. Australia's strong economy and position as a large and geographically proximate supplier of commodities to Asia is increasingly being recognised, not only by the more traditional investors like U.S., China and Japan, but by other nations such as Canada, Thailand and India. Singapore made a return to large investments in Australia with the Wilmar/Sucrogen and Singapore Stock Exchange/Australian Securities Exchange deals.

Going forward, we expect to see a continuation of this very strong level of cross-border activity in 2011. While inbound investment has been strong for a number of years, outbound investment by Australian companies in highly consolidated domestic industries should increase, with BHP's bid for Potash and ANZ's Asian strategy two examples.

We expect the use of 'stub equity' to reduce, reflecting limited investor demand for such instruments to date, although we believe such instruments still have a role to play in a limited number of situations. Mining and energy and agriculture and food are the two sectors likely to see good levels of M&A.

Private equity M&A is likely to be stronger, recognising the number of exits in the pipeline, the amount of money managers need to put to work in the near term, and the apparent thawing of credit markets as well as the hopes for IPOs.

Regulatory hurdles for M&A are, unfortunately, not getting lower. We believe the Foreign Investment Review Board will take a greater interest in agriculture, and we have already seen the Australian Competition and Consumer Commission become more interventionist, perhaps unsurprisingly given similar worldwide trends and so many Australian industries heavily consolidating. We expect the Takeover Panel to continue to ensure that there is a truly fair and open auction for public companies. If the IPO market is strong, it will become a real competitor to M&A deals.

Of course with a minority government there is the prospect that political and therefore regulatory uncertainty could cause some investors to pause for thought – we certainly saw that around the mining super profits tax and the uncertainty in that regard looks set to continue.

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			67	29,694	1	168	2	2,619	70	31,586	2	1,428	57	35,887	5	4,181	**204**	**105,563**
2007 TOTAL	**3**	**8,073**	**222**	**108,134**	**6**	**2,026**	**6**	**9,877**	**205**	**77,404**	**6**	**3,585**	**203**	**152,253**	**17**	**14,231**	**668**	**375,583**
Q1 2008			61	20,738			2	4,011	58	26,779	3	2,183	46	27,237	1	1,362	**171**	**82,310**
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	1	126	50	28,416	1	147			33	36,695	1	276	23	26,410	1	112	**110**	**92,182**
2008 TOTAL	**1**	**126**	**221**	**118,836**	**6**	**2,798**	**5**	**7,150**	**171**	**90,837**	**4**	**2,459**	**139**	**135,280**	**5**	**4,043**	**552**	**361,529**
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	23	12,419	1	133	29	17,544			**110**	**82,843**
Q3 2009	1	1,319	81	33,749			1	393	35	13,711			38	27,613			**156**	**76,785**
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**	**261**	**151,391**	**3**	**1,736**	**5**	**2,943**	**132**	**54,580**	**3**	**1,540**	**138**	**102,430**	**5**	**2,022**	**553**	**334,167**
Q1 2010	2	809	45	28,517					38	15,201	1	259	37	25,013			**123**	**69,799**
Q2 2010	2	1,538	75	40,267					24	7,640	1	118	46	31,242	1	176	**149**	**80,981**
Q3 2010			59	28,137	1	189	2	1,034	34	15,445	4	1,725	41	61,378	2	2,451	**143**	**110,359**
Q4 2010			104	85,351	1	7,278	2	708	36	14,777	3	1,266	41	36,043	2	456	**189**	**145,879**
2010 TOTAL	**4**	**2,347**	**283**	**182,272**	**2**	**7,467**	**4**	**1,742**	**132**	**53,063**	**9**	**3,368**	**165**	**153,676**	**5**	**3,083**	**604**	**407,018**
TOTAL	**14**	**28,071**	**987**	**560,633**	**17**	**14,027**	**20**	**21,712**	**640**	**275,884**	**22**	**10,952**	**645**	**543,639**	**32**	**23,379**	**2,377**	**1,478,297**

India

The volume and value of Indian deal activity in Q4 2010 has been dominated by the energy sector, and specifically oil and gas, infrastructure in ports and logistics, telecoms and pharma, particularly diagnostics and healthcare. The financial services sector also saw a reasonable level of activity.

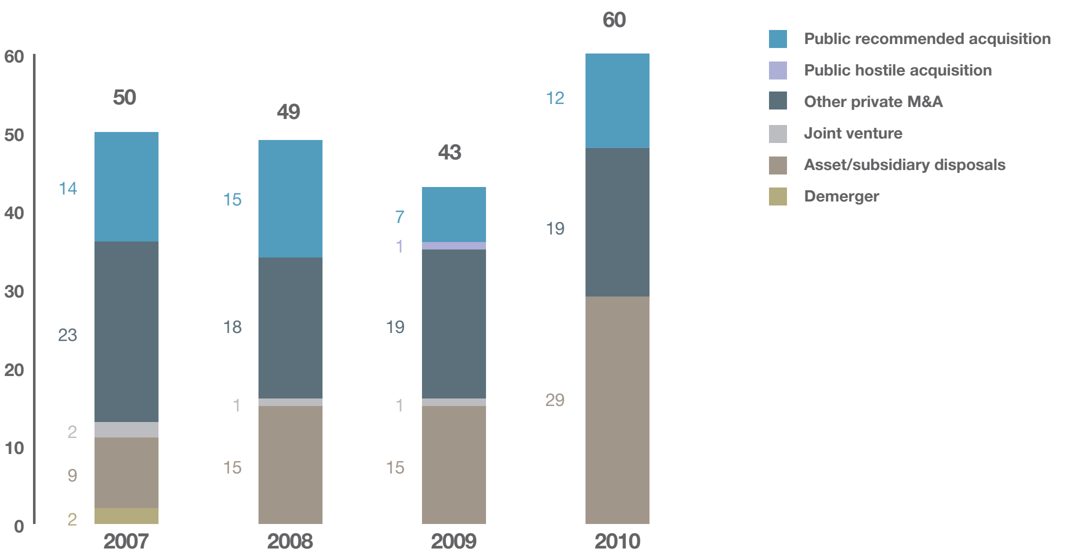
Major deals reported in the last quarter included Vedanta Resources acquiring a 51-61% equity stake in Cairn India for approximately USD8.5-9.6bn via debt and cash. GMR Infra also divested a 50% stake in InterGen to Chinese electricity company Huaneng Power for USD1.23bn, and Coal India is set to buy a stake in Australia's Peabody for about USD200m. Another key development saw Godrej Consumer Products complete five high-value acquisitions, including two deals in the latter part of the year, across Asia, Africa and Latin America.

In the infrastructure and energy space the activity has been driven by a combination of infrastructure deficits, the need to modernise, improvise and expand the existing infrastructure, and a long-term view of business opportunities. Activity in the telecoms sector has been driven by cash surpluses that some of the telecoms businesses have accumulated, and the need to expand telecom networks. As with the energy space, the pharma and healthcare sectors have been expanding with a view to future opportunities in the Indian market.

The new draft Direct Tax Code and the new goods and services tax law will take effect from 1 April 2011. There has been no change in status with regards to implementation of merger control provisions in the competition law. There remains an expectation that there will be further liberalisation of Indian foreign

THERE REMAINS AN EXPECTATION THAT THERE WILL BE FURTHER LIBERALISATION OF INDIAN FOREIGN INVESTMENT LAWS

India deal types



investment laws applicable to multiband retail, financial and other sectors, which are currently restrictive to foreign investment.

We expect deals in the next 12 months to occur in the power and energy sectors, and particularly within the renewable energy space. Inbound M&A activity is envisaged in traditional Indian sectors such as manufacturing, chemical, pharma and the engineering sectors, driven by domestic demand and room for expansion of existing businesses. In the event of further liberalisation in the retail and financial sectors, M&A activity is certain.

There could also be increased outbound M&A activity from India in the automobile, heavy industry and engineering sectors, and in the energy and resources sector. This would be driven by the enhanced cash flow of Indian corporates, the opportunities with regards to specific assets in other parts of Asia and central Europe, and the desire to acquire improved know-how and intellectual property. Outbound activity in the energy and natural resources sector will be fuelled by demand in the Indian market.

A fair number of overseas clients will see an opportunity in the rapidly expanding Indian economy, where expected growth in the next 12 months is 9% of GDP. The clear lack of good infrastructure and enhanced energy requirements continue to offer attractive opportunities to inward investors.

We anticipate a clear increase in appetite among Indian corporates for making acquisitions overseas in 2011.

WE ANTICIPATE A CLEAR INCREASE IN APPETITE AMONG INDIAN CORPORATES FOR MAKING ACQUISITIONS OVERSEAS IN 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			8	3,955			23	7,235
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**			**15**	**12,113**			**49**	**24,436**
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			7	3,367					5	824							12	4,191
Q2 2010			15	20,632					4	2,026			6	2,570			25	25,228
Q3 2010			3	373					3	734			4	12,085			10	13,192
Q4 2010			4	1,258					7	1,580			2	2,026			13	4,864
2010 TOTAL			**29**	**25,630**					**19**	**5,164**			**12**	**16,681**			**60**	**47,475**
TOTAL	**2**	**5,854**	**68**	**55,350**	**4**	**1,336**	**-**	**-**	**79**	**24,134**	**1**	**133**	**48**	**36,992**	**-**	**-**	**202**	**123,799**

Russia and the CIS

M&A activity in the Russian Federation came back strongly in the fourth quarter of 2010, with both deal volume and deal value increasing significantly. The drivers included the increase in the price of oil and other natural commodities, and a renewed confidence in the performance of the Russian economy, which is expected to grow by around 4% in 2010 and by 4.5% in 2011.

Furthermore, a strong foreign exchange position and easier credit and liquidity conditions made it easier for companies to raise financing, and as a result it is likely that the aggregate value of Russian M&A deals for 2010 will exceed USD35bn.

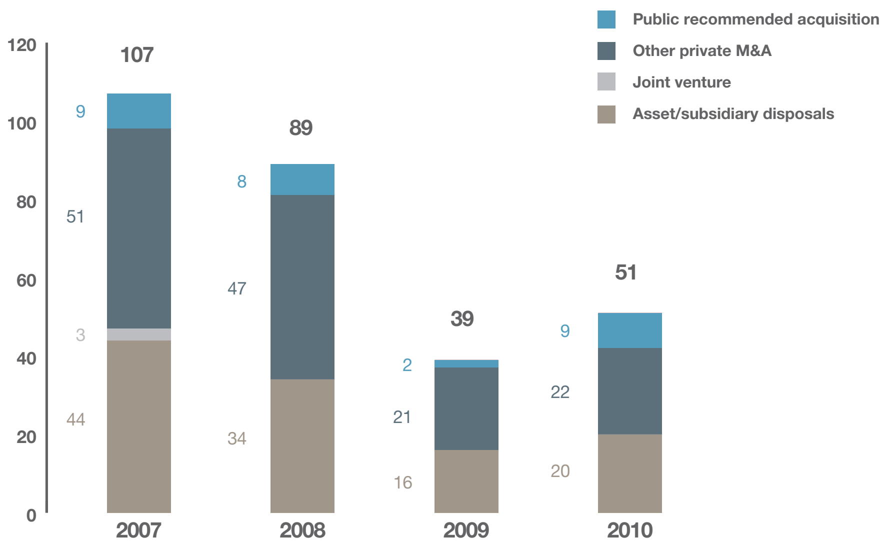
As usual, M&A in the energy and natural resources sector led the pack. However, high gold prices led to renewed interest in gold-mining companies. Potash producer Ural Kaly announced that it intends to take over Silvinit through a share swap in a transaction that is valued at approximately USD7.8bn and would represent one of the biggest M&A transactions in Russia.

State-owned companies – and particularly those from China and India – were actively seeking out oil, gas and coal assets in Russia in 2010. The recently adopted Law on Foreign Investment in Strategic Sectors, which restricts investment by foreign sovereigns in certain oil and gas fields that are deemed to be of strategic importance, placed limits on acquisitions by these state-owned companies and therefore hampered activity.

There were also benchmark transactions in the consumer, retail and telecommunications sectors, such as Pepsi's USD3.8bn acquisition of Wimm-Bill-Dann, and the X5 Group's USD1.65bn acquisition of supermarket chain Kopeika. Telenor and Alfa Group settled their long-running dispute over Russian mobile telephone operator Vimpelcom, creating a new joint holding company for their Russian and CIS telecommunications assets. The general consensus is that consolidation in these markets will fuel more M&A activity in the year ahead.

A STRONG FOREIGN EXCHANGE POSITION AND EASIER CREDIT AND LIQUIDITY CONDITIONS MADE IT EASIER FOR COMPANIES TO RAISE FINANCING

Russia and the CIS deal types



The year as a whole saw two interesting developments in the Russian M&A market. Firstly, we witnessed an increasing number of Russian companies starting to make acquisitions outside Russia. Rosneft acquired Ruhr Oel, and Vimpelcom was in discussions to acquire Weather Investments. Many other Russian companies – especially those in the banking and consumer businesses – also began acquiring assets in the 'near abroad', and this trend for outbound M&A is one that we expect to accelerate in 2011.

Finally, we saw companies owned by, or connected with, the Russian state start becoming active equity investors in Russian companies. Companies like Sberbank Capital and VTB Capital took stakes in a number of Russian companies, while Rusnano has been spearheading the Russian government's push to develop a high-tech sector by investing in start-ups and joint ventures. It will be interesting to see how this affects the market in 2011.

STATE-OWNED COMPANIES – AND PARTICULARLY THOSE FROM CHINA AND INDIA – WERE ACTIVELY SEEKING OUT OIL, GAS AND COAL ASSETS IN RUSSIA IN 2010

Russia and the CIS 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	2,677	1	125			11	3,244			3	4,073			**23**	**10,119**
Q2 2007			12	22,654	1	196			14	13,701							**27**	**36,551**
Q3 2007			18	18,996					9	2,741							**27**	**21,737**
Q4 2007			6	5,768	1	155			17	22,654			6	7,913			**30**	**36,490**
2007 TOTAL			**44**	**50,095**	**3**	**476**			**51**	**42,340**			**9**	**11,986**			**107**	**104,897**
Q1 2008			10	10,036					14	4,296			5	3,273			**29**	**17,605**
Q2 2008			16	11,594					16	7,830			2	440			**34**	**19,864**
Q3 2008			6	1,863					8	1,447							**14**	**3,310**
Q4 2008			2	1,601					9	2,609			1	132			**12**	**4,342**
2008 TOTAL			**34**	**25,094**					**47**	**16,182**			**8**	**3,845**			**89**	**45,121**
Q1 2009			1	2,500					6	1,784							**7**	**4,284**
Q2 2009			2	2,653					7	7,289							**9**	**9,942**
Q3 2009			4	2,483					4	466			2	653			**10**	**3,602**
Q4 2009			9	3,250					4	2,045							**13**	**5,295**
2009 TOTAL			**16**	**10,886**					**21**	**11,584**			**2**	**653**			**39**	**23,123**
Q1 2010			3	7,080					2	202			2	1,047			**7**	**8,329**
Q2 2010			8	14,662					5	2,301			4	2,541			**17**	**19,504**
Q3 2010			4	1,391					5	3,155			2	1,233			**11**	**5,779**
Q4 2010			5	13,321					10	13,018			1	6,127			**16**	**32,466**
2010 TOTAL			**20**	**36,454**					**22**	**18,676**			**9**	**10,948**			**51**	**66,078**
TOTAL	-	-	**114**	**122,529**	**3**	**476**	-	-	**141**	**88,782**	-	-	**28**	**27,432**	-	-	**286**	**239,219**

Middle East and North Africa

The year 2010 will not be remembered as a strong one for M&A in the MENA region, but in the fourth quarter signs of change began to appear. With sovereign wealth funds still active and a rise in telecoms transactions and IPOs in certain jurisdictions, 2011 is expected to see more deal activity.

The continuing impact of the global financial crisis is reflected in the M&A deal figures for Q4 2010. Deal value has experienced a 21% fall compared to the same period in 2009, and deal volume has fallen by 11%. These figures are, however, an improvement on the results for the previous quarters in 2010, which suggests that the decline of M&A activity in the region is coming to an end.

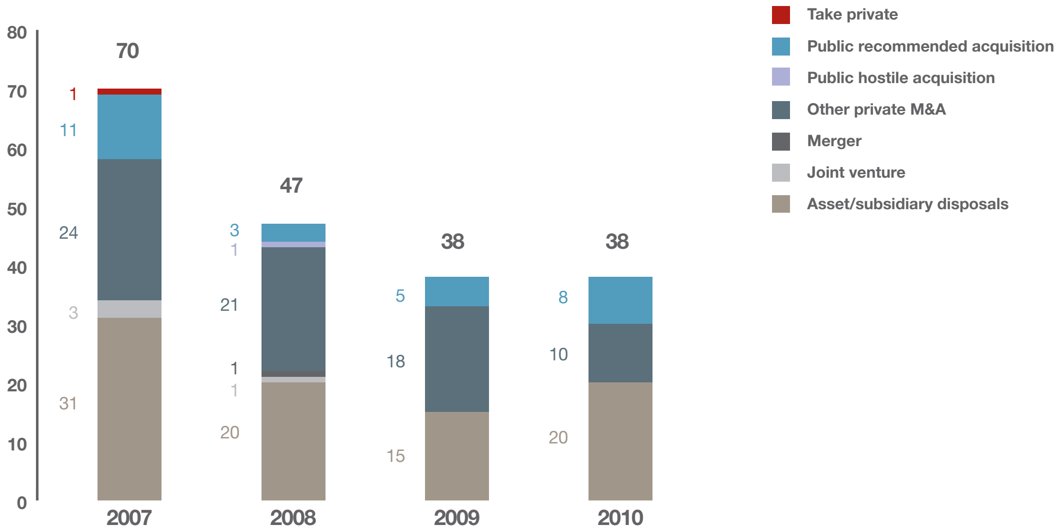
The majority of M&A activity in the last quarter has focused on investments by regional investors both locally and in Europe. The trend towards outbound investment illustrates the financial strength emerging from within the region and is likely to grow in the coming years.

Sovereign wealth funds continue to drive a notable portion of M&A activity, with the Libyan and Qatari sovereign wealth funds engaging in deals in the fourth quarter. Qatar Holding, a branch of the Qatar Investment Authority, announced its intention to acquire a 9.1% stake in Hochtief, a German construction company, for USD536m, for example.

The key regional transaction announced in the fourth quarter was the acquisition of a 50% stake in Orascom Telecom Tunisie by Qatar Telecom for USD1.2bn, a good example of the growing trend towards telecoms transactions in the region, which we expect to continue into 2011. The trend is further evidenced in the proposed acquisition of a controlling stake in Kuwaiti telecoms company Zain by Etisalat, the UAE's largest telecommunication provider, which has received extensive media coverage and is expected to complete in 2011. That will be one of the highest-value transactions that the region has seen in recent years if it goes ahead.

Another notable transaction in Q4 was the acquisition of a strategic stake in First Energy Bank, incorporated in Bahrain, by the Libyan Investment Authority and Tasameem Real Estate Co, highlighting the importance of sovereign wealth fund investment in the region.

Middle East and North Africa deal types



We have seen more outward investment by local investors in Q4, including the acquisition of a 20% stake in AerCap, a Netherlands aircraft leasing and management group, by UAE investor Waha Capita in exchange for aircraft leasing assets and cash in a deal valued at USD380m.

Capital-raising efforts by corporates in the region have continued, with a steady flow of IPOs launched primarily in Saudi Arabia (such as the successful IPO by Abdullah A M Al Khoadari Sons, a Saudi Arabian construction company). However, the market in Dubai felt the negative impact of the cancellation of the Axiom IPO on the Nasdaq Dubai in early December, which suggests it may be a while before the IPO market makes a full recovery.

In 2011 we expect the sovereign wealth funds to continue to lead the way, making investments both within the region and further afield. Petrochemical transactions are likely to continue to act as the backbone of M&A activity.

We expect international investment in the region to increase as local governments begin to recognise the need for tighter regulation and increased transparency in their legal and regulatory systems, making the region a more attractive prospect. Additionally, the possible sale of assets by Dubai state-owned businesses in connection with its ongoing debt restructuring will be a further driver of M&A.

PETROCHEMICAL TRANSACTIONS ARE LIKELY TO CONTINUE TO ACT AS THE BACKBONE OF M&A ACTIVITY

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			9	2,406					5	2,476			3	759			**17**	**5,641**
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			**31**	**27,059**	**3**	**2,992**			**24**	**10,789**			**11**	**5,659**	**1**	**1,004**	**70**	**47,503**
Q1 2008			5	3,407					7	2,251			2	2,889			**14**	**8,547**
Q2 2008			5	2,085					8	1,562	1	227	1	187			**15**	**4,061**
Q3 2008			4	1,113					3	366							**7**	**1,479**
Q4 2008			6	2,569	1	1,361	1	282	3	645							**11**	**4,857**
2008 TOTAL			**20**	**9,174**	**1**	**1,361**	**1**	**282**	**21**	**4,824**	**1**	**227**	**3**	**3,076**			**47**	**18,944**
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			9	3,061					4	2,452			1	132			**14**	**5,645**
2010 TOTAL			**20**	**6,304**					**10**	**4,426**			**8**	**3,703**			**38**	**14,433**
TOTAL	-	-	86	48,461	4	4,353	1	282	73	26,246	1	227	27	21,264	1	1,004	193	101,837

United States

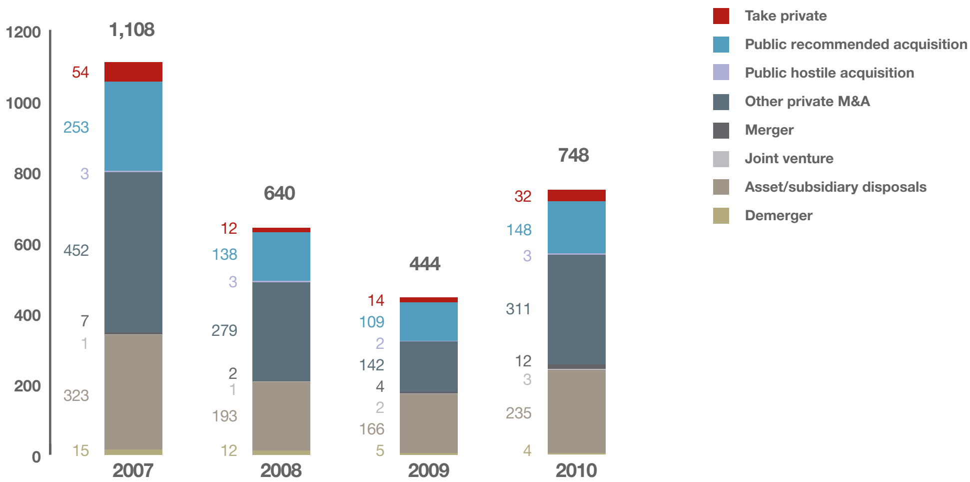
The U.S. economy continued its recovery in the fourth quarter of 2010, reflecting increased market optimism as U.S. equity markets gained more than 13% for the year. The booming equity markets coincided with increased domestic M&A activity. Transactions with a U.S. component grew 68% by volume, with 748 deals in 2010 compared to 444 the year before, representing the first annual increase since the market boom of 2007. Rising equity markets and deal activity, together with increased corporate confidence and accommodative credit markets, diminished concerns raised earlier in the year that the U.S. would slip into a double-dip recession.

On the regulatory front, the uncertainty created by the recent debate over healthcare reform and financial re-regulation has largely subsided as the market absorbed the recently enacted legislative changes. The resurgence of the Republican party in the 2010 midterm elections suggests that the re-regulation legislative initiatives sponsored by the Democratic party have peaked, and that the new Congress will take a more accommodative position with respect to business and financial interests.

Additionally, 2010 saw many companies accumulate robust cash reserves on their balance sheets. Contrary to some early predictions, however, such increased cash reserves did not result in a return to multi-billion dollar mega-deals in 2010. Instead, corporate executives targeted middle-market transactions that were seen as providing long-term growth opportunities while also being perceived to be less risky and easier to execute.

CORPORATE EXECUTIVES TARGETED MIDDLE MARKET TRANSACTIONS THAT WERE SEEN AS PROVIDING LONG-TERM GROWTH OPPORTUNITIES

United States deal types



THE RESURGENCE OF THE REPUBLICAN PARTY IN THE 2010 MIDTERM ELECTIONS SUGGESTS THAT THE RE-REGULATION LEGISLATIVE INITIATIVES SPONSORED BY THE DEMOCRATIC PARTY HAVE PEAKED

Divestments were particularly prominent in 2010, comprising nearly a third of the year's total deals and up considerably on both 2008 and 2009 levels. Private acquisitions were also busy, with take-privates up significantly, comprising more deals in 2010 than were seen in the last two years combined.

Concerns regarding stubbornly high U.S. unemployment, the European sovereign debt crisis, the dismal financial shape of many state and local governments, unfunded pension obligations and continued weakness in the U.S. housing market acted as a brake on truly transformative deals. We believe that this trend will continue in 2011 as American companies take a cautious approach to acquisitions.

GE's CEO Jeff Immelt noted in December that GE intends, in addition to paying dividends and initiating stock buybacks, to use its large cash reserves to grow its business via bolt-on acquisitions with low execution risk. We expect many other clients, and especially U.S. multinationals seeking growth opportunities, to follow the same cautiously optimistic approach. As a result, we expect that U.S. M&A activity will continue to increase steadily over the course of 2011.

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	127	69,525	2	5,013	76	111,411	22	123,677	**319**	**463,448**
Q3 2007	2	3,587	66	50,412			2	393	125	44,128			58	105,340	7	37,810	**260**	**241,670**
Q4 2007	7	14,533	91	62,297			1	257	108	40,816	1	111	50	91,643	5	4,692	**263**	**214,349**
2007 TOTAL	**15**	**97,987**	**323**	**289,593**	**1**	**250**	**7**	**14,795**	**452**	**198,875**	**3**	**5,124**	**253**	**406,860**	**54**	**253,315**	**1,108**	**1,266,799**
Q1 2008	3	4,003	55	30,197					92	44,814			36	39,096	6	5,056	**192**	**123,166**
Q2 2008	6	31,848	56	34,298			2	3,447	82	70,199	1	1,180	51	109,839	5	3,632	**203**	**254,443**
Q3 2008	3	7,260	61	31,582					80	33,302	2	59,807	36	118,157			**182**	**250,108**
Q4 2008			21	16,940	1	150			25	8,793			15	45,240	1	115	**63**	**71,238**
2008 TOTAL	**12**	**43,111**	**193**	**113,017**	**1**	**150**	**2**	**3,447**	**279**	**157,108**	**3**	**60,987**	**138**	**312,332**	**12**	**8,803**	**640**	**698,955**
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	21	15,473			30	66,875	1	117	**100**	**186,580**
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**	**142**	**84,830**	**2**	**44,564**	**109**	**347,163**	**14**	**10,211**	**444**	**669,790**
Q1 2010			43	66,198	3	10,095			53	21,004	1	6,544	30	47,219	2	1,468	**132**	**152,528**
Q2 2010	2	6,586	49	31,365			3	9,981	85	39,753			49	68,041	9	9,755	**197**	**165,481**
Q3 2010	2	4,129	58	30,848			3	3,962	95	38,158	1	174	43	66,234	7	9,304	**209**	**152,809**
Q4 2010			85	48,246			6	9,648	78	88,614	1	17,864	26	33,100	14	23,779	**210**	**221,251**
2010 TOTAL	**4**	**10,715**	**235**	**176,657**	**3**	**10,095**	**12**	**23,591**	**311**	**187,529**	**3**	**24,582**	**148**	**214,594**	**32**	**44,306**	**748**	**692,069**
TOTAL	**36**	**162,539**	**917**	**728,742**	**7**	**24,417**	**25**	**50,732**	**1,184**	**628,342**	**11**	**135,257**	**648**	**1,280,949**	**112**	**316,635**	**2,940**	**3,327,613**

Western Europe

M&A activity in the major Western European markets increased in Q4 2010, with a few large strategic deals taking place in France, the UK and Germany.

In France, highlights included the acquisition of Areva T&D by the Alstom-Schneider consortium for EUR2.29bn, Honeywell's EUR1.4bn takeover of Sperian Protection, Sanofi's offer of nearly EUR20bn for American Genzyme, and GDF Suez's acquisition of International Power, valued at EUR25bn. The last-named reflects the trend towards a growing energy and utilities sector, where a fifth of French transactions were focused in the quarter.

In the UK, large deal activity was more patchy, but included the bid for Brit Insurance by private equity sponsors, and the merger of equals between Ireland's Greencore Group and UK company Northern Foods. Germany saw much more of a return to high-end M&A, with an offer by Deutsche Bank for Postbank, a hostile takeover offer by ACS for Hochtief, and the acquisition by State of Baden-Württemberg of a 45% stake in EnBW from EdF for EUR4.67bn.

In the Netherlands, a logjam of top-end and mid-market private equity deals largely cleared in Q4. A number of highly anticipated transactions were completed, including KKR's exits from Hunkemoller, Bijenkorf and V&D as well as 3i's sale of Hyva. Although there were no mega-deals in the market, deal size did significantly increase.

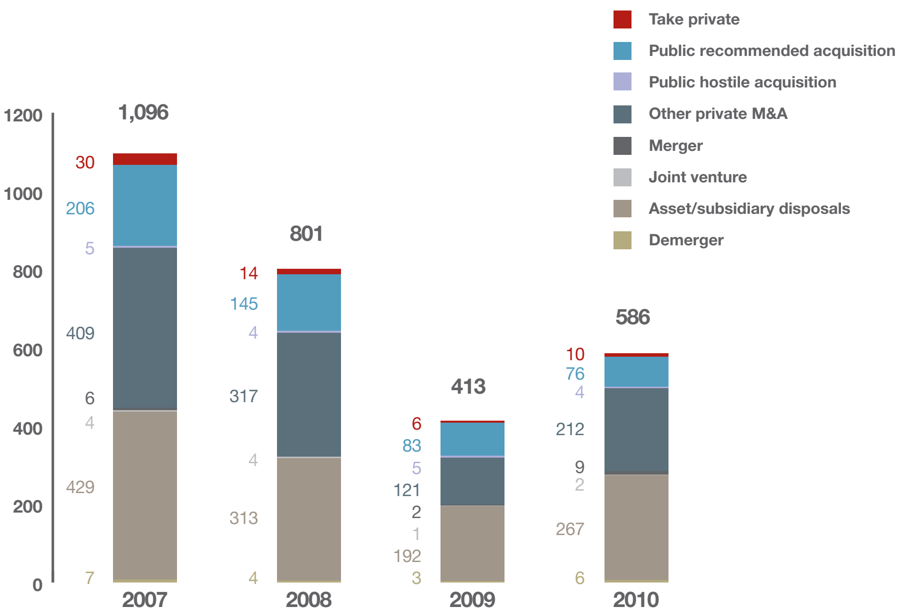
Across the continent, the volume of public and cross-border M&A has increased and is expected to continue to do so in 2011. Activity has focused around the energy, pharmaceuticals, infrastructure and telecoms sectors, and these and their related areas look set to be the focus going forward.

In France, Q4 saw investors turn to the stock market, where conditions have improved. Block sales through accelerated bookbuildings were a feature of Q4, as evidenced by Renault's USD4bn sale of part of its stake in Volvo, the sale by KKR and Wendel of part of their stake in Legrand and the sale by Areva of part of its stake in Safran.

The results of the UK Takeover Panel's review were announced in the last quarter of 2010. If the proposals are adopted, then 2011 will see inducement fees and other deal-protection mechanisms largely disappear, although we don't see this being a deterrent to a determined bidder. We may see a return to early share buying as a result, and private equity may have cost concerns

BLOCK SALES THROUGH ACCELERATED BOOKBUILDINGS WERE A FEATURE OF Q4

Western Europe deal types



in a public to private. A put up or shut up period will become one month from the offeror being publicly identified, the prolonged bear hug will go and the shorter period could impose a pressure on debt financing for the deal. Fuller information on offerors will benefit deal stakeholders, and the disclosure of fees will be of interest to a number of participants and watchers.

We expect the year ahead to see more large cross-border deals, with Western European bidders focused on the emerging markets, and an increasing trend for foreign bidders to invest in the region.

Chinese corporations seeking technology will be among the players driving UK deals, where we expect energy and resources deals to continue. In Germany, we see energy, pharmaceuticals and telecoms being active, and anticipate further dual-track sales processes. Refinancings, including by way of high-yield bonds, are also likely to increase, and customised and well-structured transactions following innovative approaches will be the most successful.

For the continent as a whole there is room for optimism, but we expect a slow and steady road to recovery.

THE PROLONGED BEAR HUG WILL GO AND THE SHORTER PERIOD COULD IMPOSE A PRESSURE ON DEBT FINANCING FOR THE DEAL

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	121	113,856	1	1,331	2	19,323	126	69,245			56	259,660	12	45,291	**321**	**514,184**
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**	**429**	**322,926**	**4**	**2,731**	**6**	**34,303**	**409**	**229,682**	**5**	**2,336**	**206**	**595,644**	**30**	**78,976**	**1,096**	**1,289,842**
Q1 2008	1	106,884	82	44,898					92	49,057	1	173	31	40,661	5	6,971	**212**	**248,644**
Q2 2008			88	54,860	3	1,615			102	52,520	1	1,796	42	40,106	4	6,334	**240**	**157,231**
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	**4**	**127,854**	**313**	**245,973**	**4**	**1,901**			**317**	**219,473**	**4**	**5,724**	**145**	**286,956**	**14**	**14,894**	**801**	**902,775**
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			45	23,358	1	771			30	10,294	2	2,257	19	22,050	4	904	**101**	**59,634**
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**	**192**	**110,319**	**1**	**771**	**2**	**2,309**	**121**	**150,779**	**5**	**27,631**	**83**	**74,456**	**6**	**1,418**	**413**	**379,128**
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	67	38,540	1	383	3	7,759	54	22,247	1	417	23	15,559	3	864	**153**	**86,060**
Q3 2010	2	12,877	77	78,573			4	12,181	45	20,034	1	2,905	17	15,882	2	5,180	**148**	**147,632**
Q4 2010			71	64,814			1	642	57	45,204	2	8,981	24	48,299	2	2,381	**157**	**170,321**
2010 TOTAL	**6**	**20,676**	**267**	**242,636**	**2**	**1,426**	**9**	**20,726**	**212**	**119,838**	**4**	**12,303**	**76**	**84,129**	**10**	**10,438**	**586**	**512,172**
TOTAL	**20**	**183,219**	**1,201**	**921,854**	**11**	**6,829**	**17**	**57,338**	**1,059**	**719,772**	**18**	**47,994**	**510**	**1,041,185**	**60**	**105,726**	**2,896**	**3,083,917**

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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